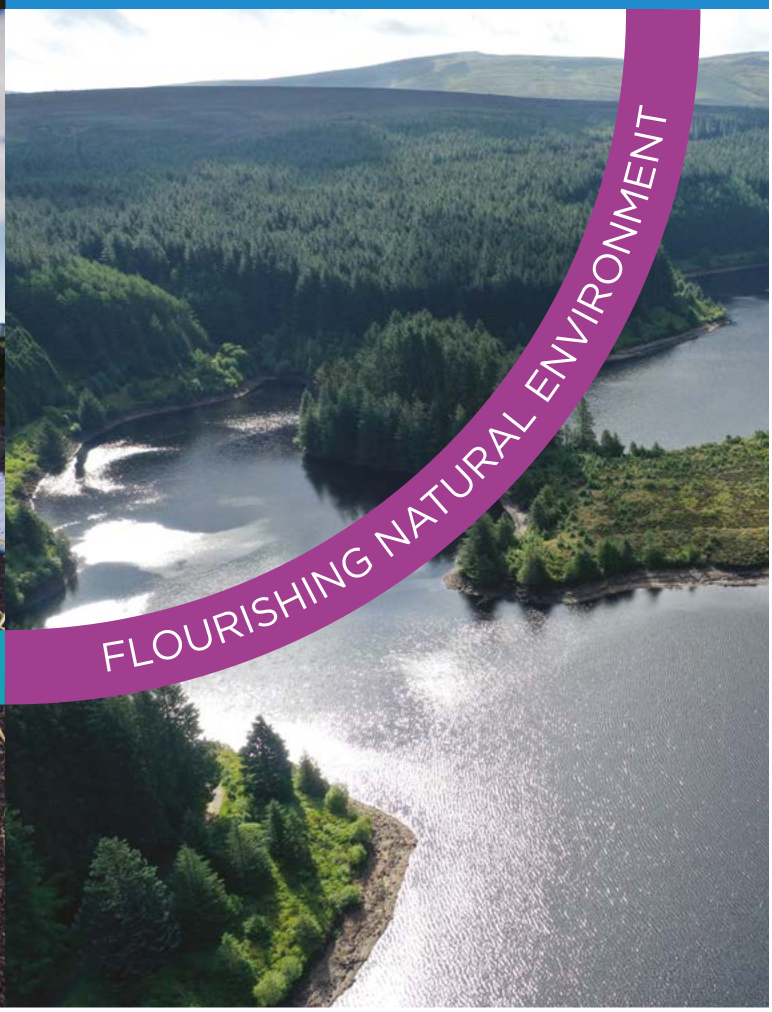
niwater

Delivering what matters

ANNUAL INTEGRATED REPORT & ACCOUNTS 2022/2023



Northern Ireland Water

Annual Integrated Report and Accounts
For the year ended 31 March 2023

Laid before the Northern Ireland Assembly under Article 276 of the Water and Sewerage Services (Northern Ireland) Order 2006 by the Department for Infrastructure on 18 September 2023.

About this report

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

Reporting what matters

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

We listen to our stakeholders through multiple communication channels and have drawn on this regular engagement to develop a matrix approach on reporting what matters (page 22). We either include the important matters in this report or sign post the reader to other reports and information sources.

We believe this approach meets the requirements of company law, the corporate governance arrangements within our Partnership Agreement,* IFRS and the International <IR> Framework, and that we go beyond those requirements where we feel it is particularly helpful to do so and where it can be done while still keeping it an easy read.

Integrated Report

This Annual Integrated Report and Accounts has been prepared and presented in accordance with the International <IR> Framework published by the IFRS Foundation. Integrated reporting is about telling a simple and concise story of how organisations create and sustain value over the short, medium and long-term. The Board, which is responsible for the integrity of this report, has considered the preparation and presentation of this report and concluded that it has been prepared and presented in accordance with the Framework.

* NI Water seeks to emulate best practice corporate governance arrangements as set out in the 'UK Corporate Governance Code' and the Partnership Agreement draws on the same but also draws on 'Corporate Governance for Central Government Departments: Code of Best Practice Northern Ireland' (Governance Code). However, it should be noted that the Company's commercial freedoms are restricted by the constraints of the public expenditure system and the provisions set down in the Partnership Agreement and consequently NI Water is not in a position to comply with all aspects of the UK Corporate Governance Code, nor is it required to.

Tell us what you think of our report

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

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

Dr Leonard J. P. O'Hagan CBE DL
Chair of the Board
29 June 2023

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

Cautionary note

This document contains links to other websites. Any information contained on these websites has not been subject to audit. Refer to the Independent Auditors' Report on page 209 for details on which areas of this report have been subject to audit.

NI Water staff members at the Marvel of Cleaning Water event at Silent Valley, County Down.

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Strategic Report

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

NI Water staff at the Balmoral Show, Belfast, County Antrim.

Welcome

Delivering what matters

Every aspect of life in Northern Ireland relies on the services we deliver. Our business is essential to support a healthy and thriving population, a growing economy, and a flourishing natural environment. Our focus is delivering high quality drinking water and recycling wastewater safely to the environment today and tomorrow.

However, we have reached a tipping point. Delivery of our essential services is dependent on a solution being found to the funding of water and sewerage infrastructure.

This is a critical time for the water sector. We face multiple strategic challenges such as an aging water and sewerage infrastructure, climate change, declining biodiversity, economic and political uncertainty. Public expectations are also shifting with a call to clean up our rivers and seas. These pressures are amplified by public expenditure cuts which are putting delivery of our services at considerable risk.

Northern Ireland is unique within the UK as being the only part where the regulated water utility is unable to fully implement the economic regulator's final determination due to public expenditure constraints. This is an unsustainable position in the face of such pressures.

Our PC21 Business Plan (2021-27) sets out how we can meet these challenges and enable Northern Ireland to thrive from its water and sewerage infrastructure. This report provides an update on delivery in the second year of PC21.

World class on tap

Delivery of great tasting, clean and safe drinking water is central to what we do and underpins public health. Being able to rely on and have confidence in the quality of water that we supply is a fundamental expectation of our customers. We are proud to deliver a world class product to our customers. Overall drinking water quality compliance in the 2022 calendar year is above the PC21 target of 99.83%.

Working together with partner organisations through projects such as Source to Tap can improve the water quality before it even reaches the water treatment works. This collaborative approach benefits the natural environment and biodiversity and can reduce our operating costs, especially when resources are pooled with stakeholders to access funding.

Climate change necessitates increased resilience of water supply. Warmer and drier summers and freeze-thaw conditions in the winter create surges in the demand for drinking water and increase bursts, causing leaks such as occurred in December 2022. We are deploying a range of new technologies such as satellite imagery to improve our leakage performance over the remainder of PC21.

As a society we need to place more value on water; to reduce pollutants entering our waterways and the millions spent on removing them through water treatment; to work with nature rather than against it to support sustainable economic growth; to be ready for more extreme weather conditions; to better design our homes to use less drinking water for flushing the toilet and washing the car. This can help in further driving down leakage, our carbon footprint, increase water resilience and reduce the volume of water returned to our sewers.

Drains and cranes

Productivity is a key driver of economic growth and improved standards of living. Decades of low productivity is the biggest economic challenge facing Northern Ireland, restricting the money available to invest in public services.

Our infrastructure is essential for the local economy to reach its full potential and drive higher productivity. NI Water invests to meet the needs of current and future generations, which requires long-term planning as some of our assets have lives extending over 100 years. However, underfunding of our PC15 Business Plan (2015-21) has already resulted in curbs to economic development with new housing and businesses being unable to get connected to our sewerage system in our cities and over 100 towns. Our PC21 Business Plan sets out a step change in investment to start tackling development constraints. If you want to put up the cranes, you must invest in the drains.

Nurturing nature

Society is becoming much more connected to our natural environment and more aware of the role it plays. Nature provides us with a range of ecosystem services, which filter our fresh water, absorbing and retaining carbon, protect us from flooding, provide recreation, attract tourists, and support our overall health and wellbeing. NI Water relies on fresh water as the key input to provide its services.

We have a big challenge to ensure that we leave the natural environment in a better state for future generations. No river water bodies in Northern Ireland have achieved good or high overall status, with NI Water being one of the primary polluters along with agriculture and urban run-off.

Most of the urban areas of Northern Ireland, including road surfaces, are served by combined sewers that carry both wastewater and surface water - such a system would never be built today. Heavy rainfall can cause the sewers to become full of water and the sewage to discharge directly into the rivers or streams, bypassing the treatment works. Our PC21 Business Plan includes ambitious infiltration and storm water removal targets aimed at reducing risk of property flooding and enhancing our natural environment. The £1.4bn Living With Water Programme will improve strategic drainage infrastructure in the greater Belfast area through a combination of traditional and nature based solutions. A similar approach is being explored for Derry/Londonderry, which NI Water plans to support.

We recognise the need to improve how we measure wastewater compliance. The current regulatory monitoring programme provides an incomplete picture of environmental compliance and protection across our network and at the treatment works. We are working closely with NIEA to get a better understanding of our wastewater compliance through a multi-year programme of reform involving improved monitoring and inspection activities.

Our Climate Change Strategy was published in May 2023 and sets out our transition path to a zero carbon and climate resilient business. We have challenged ourselves to go further and faster than the already stretching net zero targets set in law. The strategy positions us to play a strategically important role in building the green economy and restoring biodiversity.

Making it happen

Delivering what matters is dependent on a solution being found to the funding of water and sewerage infrastructure. It is unacceptable for a critical national infrastructure provider, with decades-long investment horizons, to be held hostage to in-year and year-by-year funding fluctuations. The long-term success of NI Water can only be realised if we move from a 'stop-start' approach to delivery because of underfunding and lack of visibility on funding, to multi-year funding in line with that determined by the independent Utility Regulator, supported by a mechanism to deal with financial shocks.

Over 2022/23, we engaged with the NI Audit Office's review on funding our infrastructure which is due for publication in Summer 2023 and welcome the wider focus being brought on funding from the NI Fiscal Commission and the NI Fiscal Council. The approach to funding our infrastructure ultimately rests with the Department for Infrastructure Minister and the NI Executive. Government, as our sole Shareholder, needs to properly fund our critical national infrastructure.

We are pivoting our business to play a strategically important role in building the green economy and restoring biodiversity. NI Water is collaborating with all our stakeholders to make these urgent changes to deliver infrastructure fit for the challenges in the 21st century.

Water is our most precious resource.
Let's value it, protect it, and enhance it.

Dr Leonard J. P. O'Hagan CBE DL
Chair of the Board
29 June 2023

About NI Water

It costs around £680m each year to deliver water services in Northern Ireland. Thousands of assets at a value of around £3bn, are operated and maintained to provide these services. This includes over 43,000km of water mains and sewers - one and a half times longer than Northern Ireland's entire road network and long enough to circle planet earth.

Households and businesses — **910k**
Our customers rely on the services we provide

Water treatment works — **24**
We clean the water, making it safe to drink

Water mains length — **27,000 km**
We distribute the drinking water to our customers through water mains

Pumping stations — **351**
We use pumping stations to get the drinking water to our customers

Service reservoirs — **286***
We store the drinking water in service reservoirs

743k — **Households and businesses**
We collect wastewater from our customers

16,500 km — **Length of sewers**
We collect wastewater from our customers using a network of sewers

1,350 — **Pumping stations**
We use pumping stations to get the wastewater to our treatment works

1,027 — **Wastewater treatment works**
We treat wastewater and return it safely to the environment

66 — **Sludge management centres**
Sludge is de-watered before being incinerated

*Number of service reservoirs in service and scheduled for regulatory sampling in line with the drinking water regulations.

STRATEGIC REPORT

How we create value

Our Purpose

To provide the water for life we all rely on to thrive

Our resources

Financial
(financial efficiency and resilience)

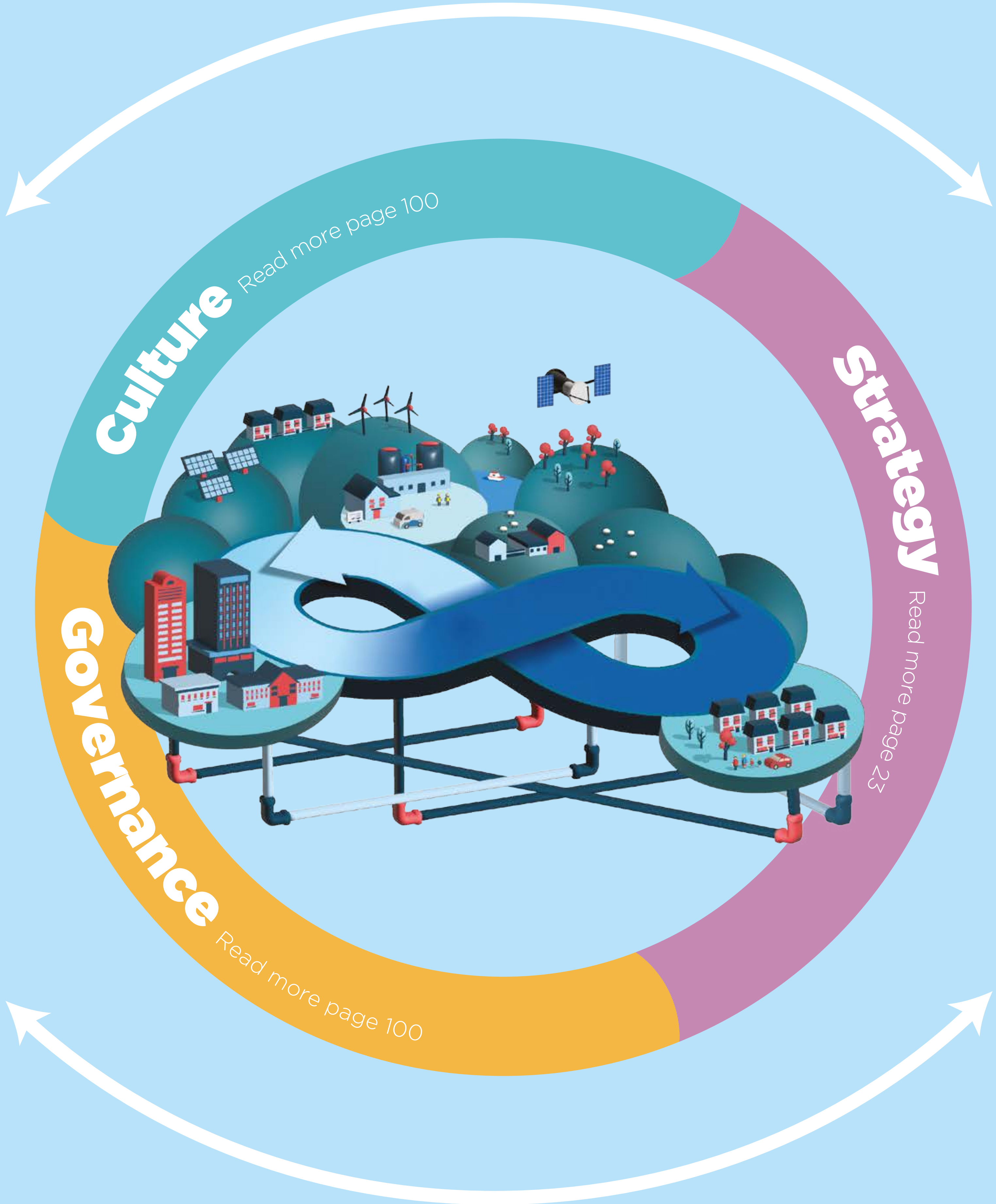
Natural
(plants, animals, water, soils and the eco-system services they provide)

Social
(stakeholder relationships)

Human
(talent, health and wellbeing)

Manufactured
(pipes, treatment works, plant and equipment, IT and offices)

Intellectual
(knowledge and processes)



Our Vision

To grow value and trust by being world class

Where we add value

Customer
Read more page 26

Water
Read more page 32

Economy
Read more page 42

Nature
Read more page 50

People
Read more page 68

STRATEGIC REPORT

Business performance

We have completed the second year of this six-year PC21 Business Plan (2021-27), which sets out the step change in investment required to address the most critical needs and enable Northern Ireland to thrive from its water and sewerage infrastructure. This plan also sets out the performance improvements we are committing to deliver for our customers and continuing to drive efficiency and innovation.

We continue to engage with our Government Shareholder and other stakeholders to secure the funding across PC21, supported by financial resilience. The Government's current approach to funding NI Water is undermining the delivery of our vital services.

Our performance is summarised below and is set in the context of economic and political uncertainty, climate change, and continued pressures on Government funding.

NI Water has been underfunded through the PC15 regulatory settlement (2015-21). We have draft public expenditure limits from Government for 2023/24 which are below the levels required and have no visibility of funding for the final three years (2024/25 to 2026/27) of PC21. Such a position would not be tolerated in any other part of the UK.

The absence of a functioning NI Executive prevents the setting of multi-year public expenditure budgets.

Delighting our customers

We are embracing new ways to meet rising customer expectations. Since increasing the operational hours of our social media platforms and introducing web chat, our social media base has continued to grow. Monthly web chat usage has also increased during 2022/23, and feedback from customers for these channels has been very positive. Our customer base for web self-serve also continues to expand. In 2022/23 we launched the web self-serve for developers. This transforms the way we interact with our customers, with around a quarter of our customers now choosing to contact us through a digital channel.

Our focus is on minimising the need for customers to contact us and for those customers that do make contact, ensure we resolve their issue first time. We made changes to our high-volume call handling process resulting in a significant reduction in unwanted repeat water contacts. Over 2022/23 we delivered against both our target for unwanted customer contacts, and our target for First Point of Contact Resolution of 84%. We introduced early warning text notifications for metered non-domestic customers experiencing high water consumption and continue to deploy robotics to automate manual processes in areas such as leakage management. These improvements will help increase our Net Promoter Score, which was below target in 2022/23.

Caring for vulnerable customers and maintaining our cyber security are vital elements to our customer service. We are in the process of attaining the internationally recognised consumer vulnerability and Just a Minute (JAM) accreditations. Our Cyber Resilience Programme is helping us keep at the forefront of an ever-changing threat landscape and be aware of new methods of attack as they develop.

P26 Read more about delivering an exceptional customer experience.

Clean and safe water when you need it

We are committed to providing great tasting, clean and safe drinking water which complies with statutory standards and obligations and meets the expectations of our customers in relation to water quality. Overall drinking water quality compliance in the 2022 calendar year is above the PC21 target of 99.83%.

NI Water is one of the largest landowners in Northern Ireland and our largest land holdings tend to be in upper areas of drinking water catchments where peatbogs and heathland dominate. We have been working closely with partners in our drinking water catchments to improve water quality, enhance biodiversity and sequester carbon. We are supporting the implementation of the High Mournes Management Plan to manage the Mournes landholdings sustainably, so that the public can enjoy recreation for years to come, as well as protecting this vital water source for NI Water. We continue to liaise with The Woodland Trust through riparian planting in some of our river catchments to stabilise the riverbanks and prevent erosion from affecting raw water quality.

Our cross-border partnerships also play an important role in catchment management. The €4.9m Source to Tap INTERREG VA project in the cross-border Derg and Erne catchments finished during 2022/23. Every £1 invested through the project's land incentive scheme is expected to deliver £3.36 worth of future benefits through reduced water treatment costs and improved ecosystems. We are working on an EU submission for Peace Plus funding known as 'The 'IDEALS' Project' to build on the success of the Source to Tap project.

All our raw water is currently sourced from lakes and reservoirs that are above ground and then treated to provide drinking water. We are also tapping into alternative sources of water in underground aquifers such as the Moneymore borehole in County Derry/Londonderry. This will not only improve the resilience of supply but will lower carbon emissions and energy costs because of reduced pumping and the use of solar energy. We are assessing the use of other ground water sources to be used to help provide additional resilience in other areas.

Our interruptions to supply strategy has helped us deliver the best performance in relation to minimising water supply interruptions for customers. Key activities within the strategy include post interruption reviews to establish key learnings; utilising water tankers in response to interruption to supply events and engagement with stakeholders.

Our leakage teams work around the clock, locating and repairing leaks. In 2022/23, we were making good progress with reducing leakage. However, in December 2022 the UK and Ireland experienced a major freeze thaw weather event which had a very significant impact upon NI Water's and customer's pipework. This resulted in leakage being around 6.3 million litres per day higher than the 2022/23 target of 156 million litres per day. We are deploying a range of new technologies such as satellite imagery to improve our leakage performance over the remainder of PC21.

P32 Read more about supporting a healthy and thriving population.

Sustainable economic growth

The public expenditure made available from Government for investment in wastewater services has been below the investment required to provide increased capacity to facilitate growth or achieve water quality targets. Our PC21 Business Plan sets out the investment required to start to address the wastewater capacity constraints in over 100 towns and cities across Northern Ireland. We continue to promote the need for multi-year funding of the PC21 Final Determination, supported by a financial risk mechanism, through liaison with key stakeholders. We are preparing for the Utility Regulator's PC21 mid-term review and continue to support the NI Audit Office's review on funding, which is due for publication in Summer 2023.

In June 2022, NI Water commenced a £1.2bn major project framework, which will deliver large water and wastewater infrastructure projects. The framework provides us with access to some of the most innovative providers within the supply chain and is a major boost to local companies. One of the first major projects on the framework is the upgrade work at Belfast wastewater treatment works, which commenced in 2022/23.

Following approval by the Utility Regulator, NI Water increased its non-household water and wastewater tariffs by 13.4.% on average from 1 April 2023. Measured customer bills increased by 12.7%, while unmeasured and trade effluent bills increased by 13.7% and 15.5% respectively. This compares favourably with other utilities across gas and electricity sectors. When setting tariffs, NI Water seeks to strike a balance between the conflicting priorities of minimising the impact on customers whilst at the same time ensuring that enough revenue is generated. NI Water is facing considerable budgetary pressures, which are likely to continue through 2023/24, primarily due to the impact of rising power prices and other unavoidable increases affecting other material costs such as chemicals. Whilst any increase is unwelcome, we have worked hard to ensure our water and sewerage services continue to provide good value for money to our customers.

P42 Read more about supporting a growing economy.

STRATEGIC REPORT

Flourishing natural environment

Every day we recycle wastewater from Northern Ireland's homes and businesses before safely returning it to the rivers and sea. Traditional treatment works are carbon intensive, requiring a lot of energy, concrete and chemicals to ensure treated wastewater can be safely released back to the environment. We are committed to a more sustainable approach to wastewater treatment.

Our PC21 Business Plan includes ambitious infiltration and storm water removal targets aimed at reducing risk of property flooding, enhancing our natural environment, and facilitating economic growth. This programme is underway with investigation work starting in the form of initial studies and modelling to enable the future programme to be delivered. A major storm separation scheme is underway at Ravenhill Avenue, Belfast, removing around 88,200m^2 of storm water from the combined system. This represents 4% of the 2,187,240m^2 of storm water to be removed from the combined system over PC21. The £1.4bn Living With Water Programme will improve strategic drainage infrastructure in the greater Belfast area through a combination of traditional and nature based solutions. A similar approach is being explored for Derry/Londonderry, which NI Water plans to support.

We recognise the need to improve how we measure wastewater compliance. The current regulatory monitoring programme is based on pre-announced rather than unannounced regulatory sampling at the treatment works and the reported wastewater compliance doesn't incorporate flow compliance for the wastewater treatment works or the sewer network. This provides an incomplete picture of environmental compliance and protection. A Wastewater Regulation Compliance Reform Group has been established with senior management representation from NI Water and NIEA. This working group will act as the interface between NIEA and NI Water on the delivery of wastewater regulation reform over PC21. It is recognised that the outcome of the proposed regulation change will result in new evidence, which will highlight non-compliance across our wastewater infrastructure.

We deal with around 11,500 blockages of our sewers each year. The most common cause of these blockages is the flushing of items which do not dissolve down the toilet such as wet wipes and the disposal of fats, oils, and grease (FOG) down the sink. Our customer campaigns continued the messages around bag it and bin it, with focus on 'hot spots' and promotion of 'wet wipes' messaging to reduce the amount of blockages.

At NI Water, we're committed to delivering a net zero, climate resilient future for all our customers. Our Climate Change Strategy was published in May 2023 and sets out how we can harness the huge and largely unseen potential for NI Water to address climate change. Several of the approaches we are taking will benefit our society and economy more broadly as it seeks to decarbonise and exploit the benefits of green growth through a just transition. We have challenged ourselves to go further and faster than the net zero 2050 targets set by law. NI Water is committed to achieve net zero for the energy we use by 2030 and net zero for all our emissions by 2040, as measured against our 2020/21 adjusted baseline. We can also play a strategically important role in helping society to decarbonise by planting one million trees; building more renewables on our land; kick-starting our hydrogen economy; and providing sources of warmth for district heating schemes.

P50 Read more about protecting and enhancing the natural environment.

Happy, safe and healthy people

We want to create a great place to work and ensure that NI Water is fit for the future by attracting, developing, and retaining top talent. Our people strategy is focused on driving performance for our customers through building capability, ensuring we have the right people with the right skills performing their roles to the best of their ability.

Whilst many organisations are experiencing the 'great resignation', our staff turnover remained consistently low at around 5%, while average tenure has remained high at over 15 years. Nearly 10% of our workforce was promoted in 2022/23. Our employer brand remains strong in the marketplace, with over 250 new recruits in the last two years. We continue to grow and diversify our entry level academy to seed our organisation with top talent to support succession planning. Over 30 higher-level apprentices and graduates will join in 2023/24, bringing our academy numbers to over 100, or just under 10% of the workforce. We are also investing in our leaders and managers through a management development framework that will develop world class management capabilities.

Health and safety is an integral part of NI Water's day-to-day business. Our Health, Safety and Facilities Transformation Programme (2021–2025) sets out several priorities for health and safety. A significant amount of work was undertaken during 2022/23 to progress the programme, including investment in facilities and above ground buildings and related assets. The focus over 2023/24 will continue to be on facilities, along with arrangements for staff returning to offices and driver safety.

We use a range of listening strategies to gather the voice of the employee and ensure that action is targeted in the right place. These include employee surveys, frontline focus groups, cultural ambassador network, monthly polls, and employee workgroups. Feedback received has helped inform a variety of corporate strategies including our health and wellbeing strategy and the new hybrid working strategy. We have engaged a new expert culture and engagement partner to help design and deliver a new holistic listening strategy. We were delighted to be the inaugural winner of the Diversity and Inclusion award at Belfast Chamber Business Awards in October 2022 and became the second public sector organisation in Northern Ireland to achieve the Silver Diversity Charter Mark.

NI Water is committed to creating a legacy for communities. Our Cares Challenge volunteering scheme is one of the largest in Northern Ireland and has delivered over 11,500 employee hours to help good causes. Employees have volunteered across a wide range of areas, including painting residential care homes, tree planting and conservation work. We continued to spread the message on the value of water for health, the economy and nature through our unique education programme, which included over 200 school visits and over 60 community visits during the year. Through our lead role in the local Water-Aid Committee, we are supporting WaterAid's Deliver Life project in Malawi. The project aims to improve the health of women, girls, and children by providing access to clean water, decent sanitation, and good hygiene in their communities.

P68 Read more about helping our people and communities to thrive.

Sara Venning
Chief Executive
29 June 2023

External environment

The water industry structure in Northern Ireland is shown below:

Role of Government

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

Utility Regulator

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

Local Councils

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

Northern Ireland Environment Agency

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

Drinking Water Inspectorate

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

Consumer Council for Northern Ireland

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

Supply Chain

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

Customers

We provide water services to around 910,000 households and businesses and wastewater services to around 743,000 households and businesses.

STRATEGIC REPORT

Listening to you

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

We are all ears

Customer Research/ Annual Omnibus Survey
1,600
Domestic customers (face to face)
Business customers (computer assisted telephone interviewing).

1,000
Domestic customers surveyed annually to gauge NI Water's reputation.

23,000+
Facebook fans.

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

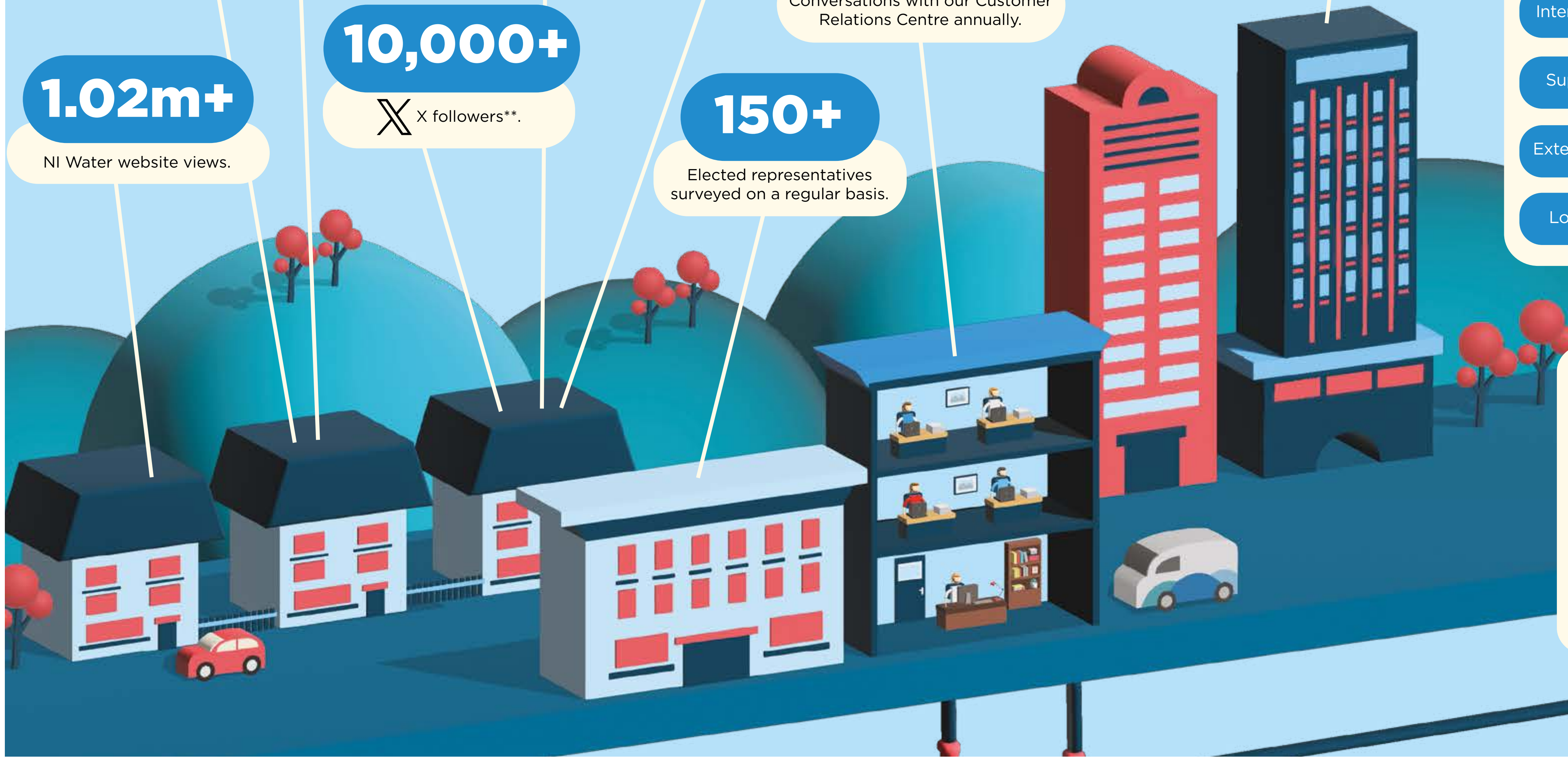
6,900
Customers who have contacted NI Water surveyed annually (telephone/sms/on-line).

172,000
Conversations with our Customer Relations Centre annually.

10,000+
X followers**.

1.02m+
NI Water website views.

150+
Elected representatives surveyed on a regular basis.



Stakeholder groups

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

Water Stakeholder Steering Group

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

Output Review Group

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

Stakeholder subgroups

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

Department for Infrastructure / An Roinn Bonneagair · The Consumer Council · Utility Regulator · NIEA Northern Ireland Environment Agency · DRINKING WATER INSPECTORATE

Customer priorities*

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

Summary

From our ongoing engagement, we understand that our customers:

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

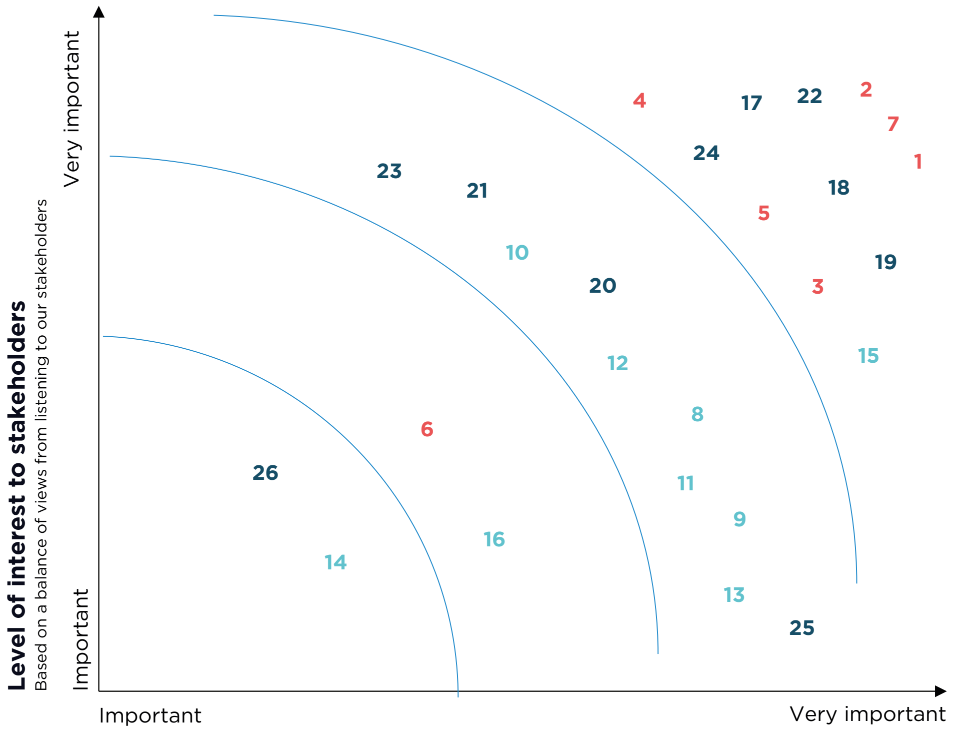
*https://www.consumercouncil.org.uk/sites/default/files/original/Connecting_with_Consumers_Report.pdf

**X, formerly known as Twitter.

Reporting on what matters

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

In defining the strategic relevance of a matter to NI Water, we have adopted the integrated reporting framework definition of materiality, which states: "A matter is material if it could substantively affect the organisation's ability to create value in the short, medium or long-term". Value, in this context, may be created internally (for the Company and our employees) or externally (for our Shareholder, customers, communities, suppliers, the local economy and the natural environment). Value can be financial or non-financial. Our assessment of the level of interest to stakeholders is based on our ongoing engagement with stakeholders, as well as the extensive insights gathered from engagement with stakeholders on our Strategy and PC21 Business Plan. Read more on stakeholder engagement and decision making on page 123. We have aligned these issues with our principal threats and opportunities on page 76.



Effect on our ability to create value
Based on the potential effect on our ability to create value over the short, medium and long-term. Value can be created for NI Water and or our stakeholders. Value can be financial or non-financial.

External matters
1. Funding and governance
2. Climate emergency
3. Cyber security
4. Local economy and development constraints
5. Natural resources
6. Land management and access
7. Energy cost shocks and wider supply chain inflation

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

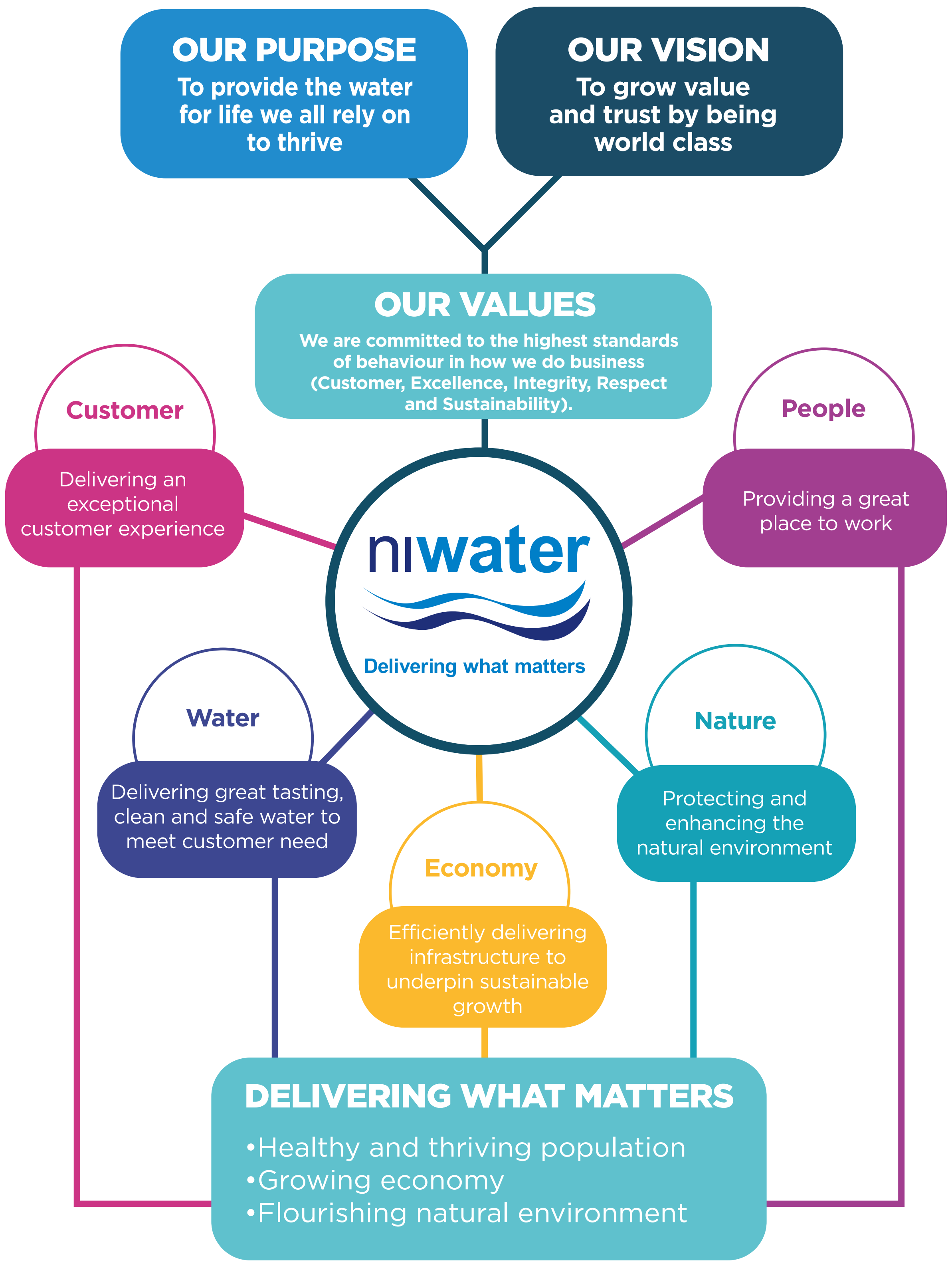
Internal and external matters
17. Trust, transparency and legitimacy
18. Customer experience
19. Drinking water quality
20. Leakage and water efficiency
21. Supply interruptions and low pressure
22. Affordability
23. Sewer flooding
24. Impacts on natural environment
25. Diverse, inclusive and talented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

Business strategy

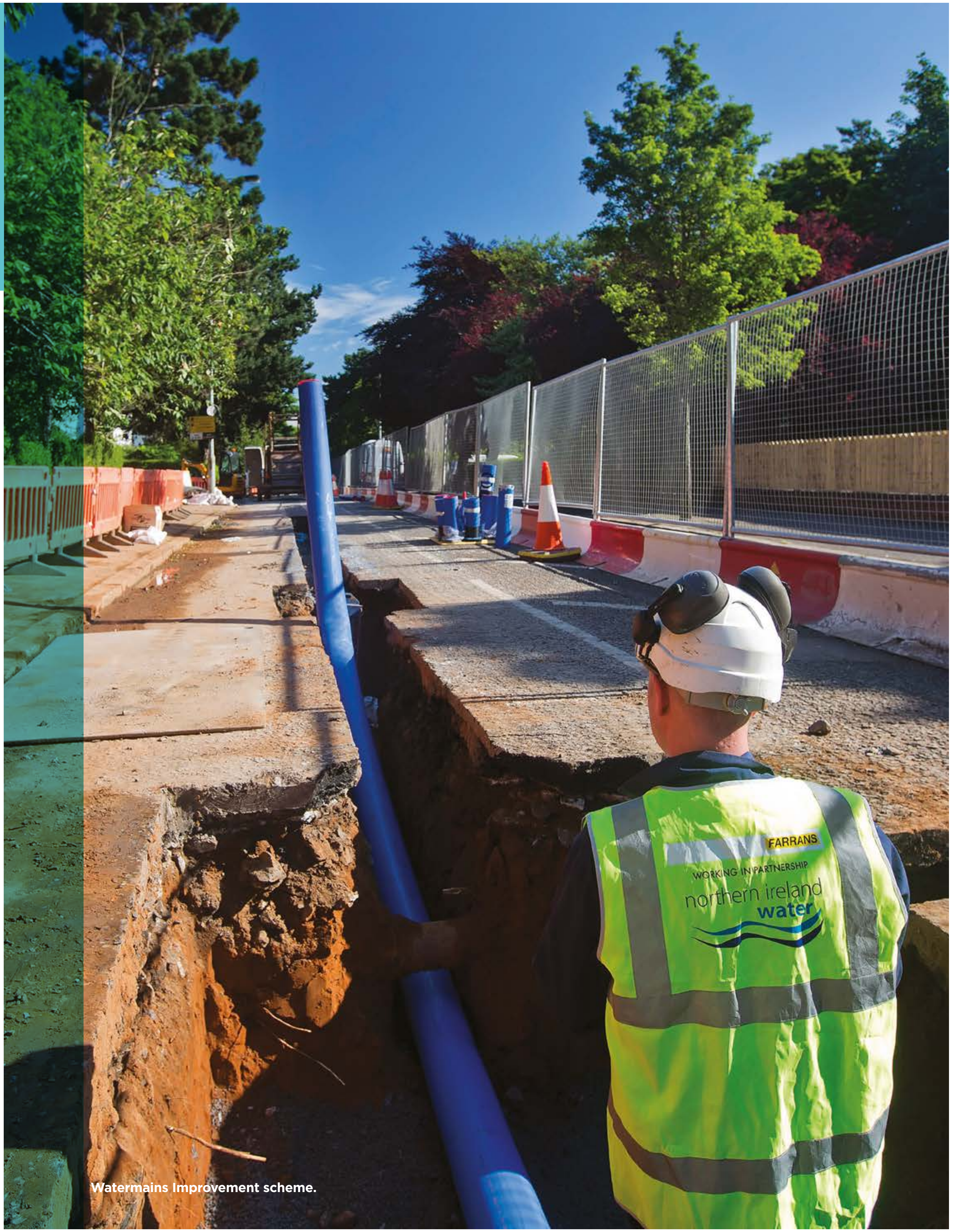
Our strategy helps deliver a healthy and thriving population, a growing economy and a flourishing natural environment – in short – delivering what matters. The strategy centres around five strategic priorities, which set out how we will deliver our purpose and vision.

Read more at www.niwater.com/ourstrategy/

www.youtube.com/watch?v=i8GCuvWp5wI



Delivering our strategic priorities



Watermains Improvement scheme.

The world in which we operate

Our global world

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

Customer Delivering an exceptional customer experience

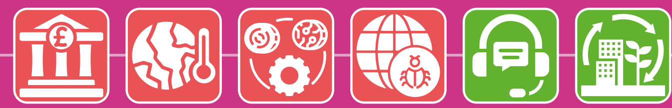
Leakage detection.

Strategic areas of focus

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

Sustainable development goals

Principal threats/opportunities



Page 76 Read more about principal threats and opportunities.

Strategic performance indicators

Customer	Unit of measurement	Target 2022/23	Actual 2022/23	Pass/ Fail	Target 2023/24
Reduction in customers reporting service failures	Number	66,100	57,327	Pass	65,200
First point of contact resolution	%	84	84	Pass	84
More customers singing our praises (Net Promoter Score)	Number	42	36	Fail	42

STRATEGIC REPORT

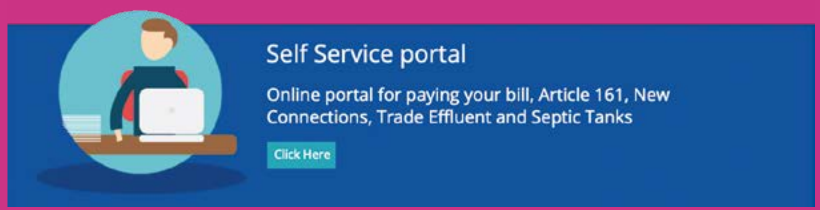
Right place, right time, right channel

Our social media and digital channels provide us with fantastic platforms to keep our customers informed of the challenges we face delivering great tasting, clean drinking water and recycling wastewater safely back to the natural environment. Our Website, Facebook and X accounts allow us to reach out to our customers when there is an incident impacting the services we provide and to change how they think about water to help reduce the pressure on our infrastructure and nature.

Facebook and web chat boost

In our ambition to deliver an exceptional customer experience, we are embracing new ways to meet rising customer expectations. Since increasing the operational hours of our social media platforms and introducing a web chat to our service update page, our social media base has continued to grow, now surpassing 33,000 followers. Monthly web chat usage has also increased by over 100%. Feedback from customers for these channels has been very positive with both web chat and social media registering high consumer advocacy scores.

We expanded our customer base for web self-serve. In 2022/23 we launched the web self-serve for developers, providing them with a service to submit applications, track progress and pay online. This is a major step change for the business and transforms the way we interact with our customers. Analysis of our range of social media offerings in comparison to other utilities is encouraging with around a quarter of our customers now choosing to contact us through a digital channel.



Right first time

We have introduced a comprehensive programme of initiatives to minimise the need for customers to contact us and for those customers that do make contact, ensure we resolve their issue first time.

During 2022/23, we commenced an end-to-end water quality journey review and made changes to our high-volume call handling process resulting in a significant reduction in unwanted repeat water contacts. Over 2022/23 we delivered against both our target of 66,100 for unwanted customer contacts, and also against our First Point of Contact Resolution target of 84%. Our Net Promoter Score (NPS) of 36 compares favourably with other utilities and UK water companies, although it is below the challenging target of 42 set by the Utility Regulator. We also introduced early warning text notifications for metered non-domestic customers experiencing high water consumption.

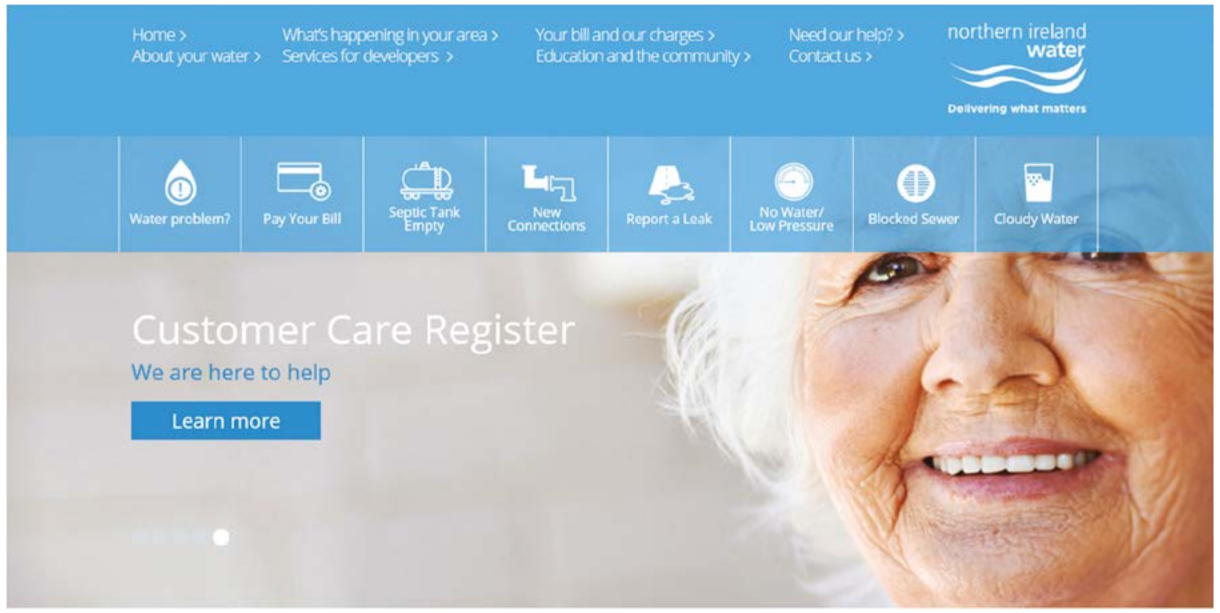
We expanded the use of robotics to automate manual processes, focusing on how we manage leakage defects that are identified by our contractors and continued with our programme of improvement initiatives focusing on septic tank and billing journey improvements.

During 2022/23, we introduced social media and web chat services until 11pm, seven days a week. We offer a range of telephony and self-service channels to suit our customers' needs, including our waterline service, which is available 24 hours a day.

In the UK Customer Satisfaction Index Results for the first six months of 2022, NI Water was named in the top 20 most improved organisations and listed as the second highest performing water company for overall customer satisfaction. In the complaint handling section of the measure, NI Water was ranked second highest out of all 279 registered companies.

Voice of the Customer packs are circulated monthly to business areas to provide an understanding of what is working well and to highlight areas for improvement.

Over 2023/24, we will undertake several customer journey reviews based upon customer feedback, along with our annual omnibus survey to gain the opinions and thoughts of the 'silent majority' of customers that use our services.



Caring for you

Our Customer Care Register offers a range of free additional services for those customers who need extra help, such as an alternative water supply when supplies have been interrupted for a prolonged period. We continue to work with Health Trusts, Councils, and other Utilities to promote our Customer Care Register. A further 128 customers have been added to the register, with a total of 2,822 customers/organisations registered. We continue to engage with the Utility Regulator, CCNI and other utilities on the Consumer Protection Programme Best Practice Framework, which will standardise the approach to consumer vulnerability across the Northern Ireland utility sector. We are also liaising with the British Standards Institution and the NOW Group regarding the process for attaining the internationally recognised consumer vulnerability and Just a Minute (JAM) accreditations.

You can join our Customer Care Register at **www.niwater.com/customer-care-register/** to get the extra free services you or anyone in your household would like to receive. Alternatively, telephone Waterline on 03457 440088.

Getting smarter

In response to customers feedback requesting a modern, interactive web-based platform where they can submit applications for our services, track progress, make payments and digitally sign documents without the need for paper or telephone contact. We launched a digital application process for new connections to our network, wastewater adoptions and applications for trade effluent.

Launch of self-service portal at NI Water's Intelligent Operations Centre.

Working smarter by automating work scheduling for all our frontline staff

In 2022/23, we implemented an automated scheduling solution known as 'Click Schedule'. This major milestone marks the first time that all mobilised teams, across the Customer and Operations Directorate, are enabled in a common work scheduling solution. Robotics were used to automate the input of this information into Click Schedule. A comprehensive round of testing and scheduling simulations over several weeks followed, to ensure jobs were scheduled to the right operatives, with the required skills in the right priority.

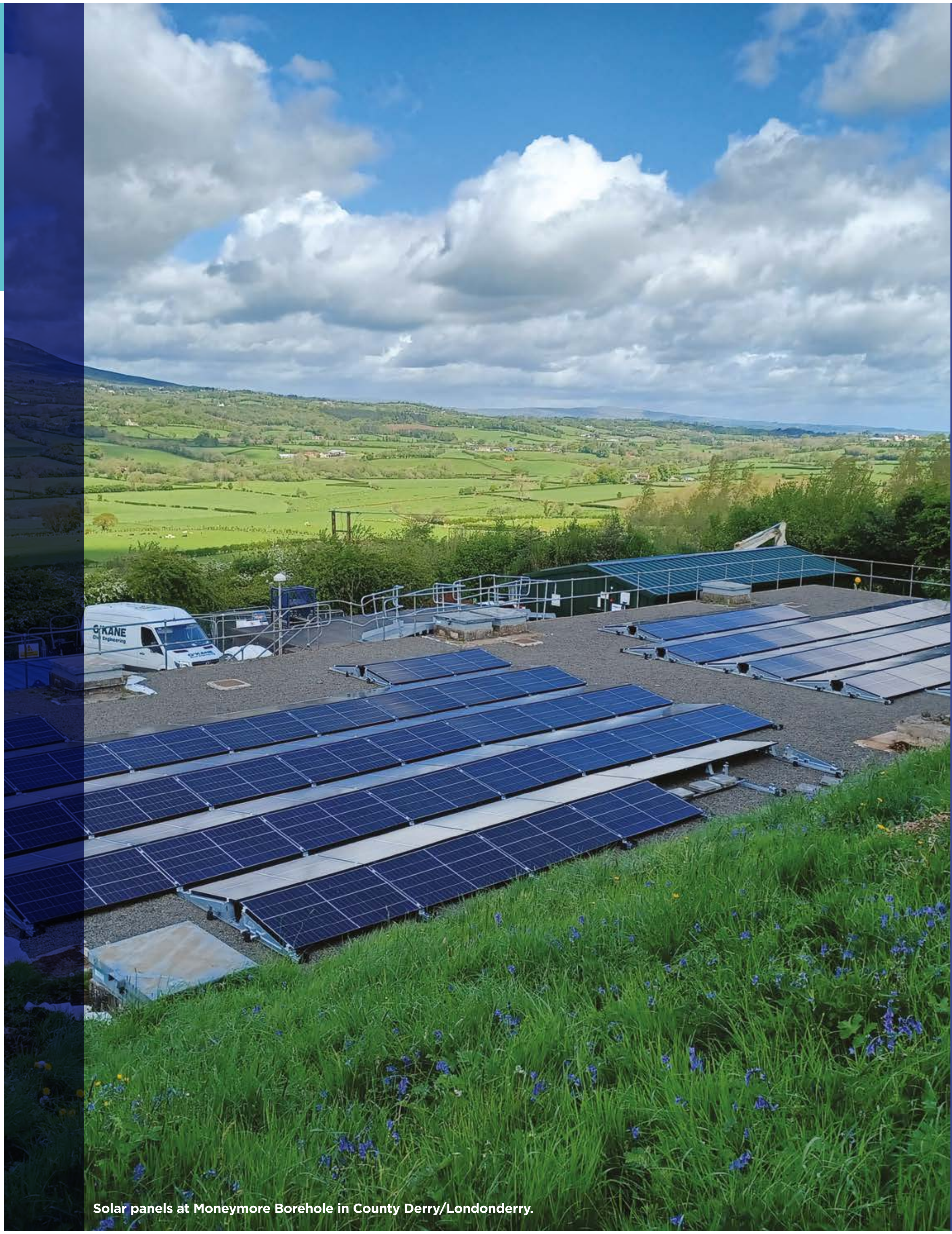
In the months following implementation, we observed a range of potential benefits of automated scheduling, including clear visualisation of schedules in a structured, graphical format; improved situational awareness, prioritisation and scheduling of work orders. Additionally, NI Water will benefit from a deeper experience of how future scheduling products can be effectively implemented for our asset-focused teams alongside our customer-focused teams.

NI Water staff training on the new automated scheduling solution, Click Schedule.

Protecting you

Cybercrimes are increasing in both frequency and in their disruptive potential. These crimes could lead to an interruption in the delivery of our essential services, damage our computer control systems, or lead to a data breach. During 2022/23, we delivered bespoke security training and awareness for staff working with our operational technology assets. Our education campaign involved issuing simulated phishing emails to our staff. The campaign proved to be extremely successful in lowering user's click-rate as well as increasing cyber awareness. We also undertook an exercise with our cyber insurers to simulate the support that can be drawn upon during an actual incident. Further improvements have been made to our operational technology used to run the NI Water sites as part of the cyber resilience programme, supported by collaboration with the National Cyber Security Centre.

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



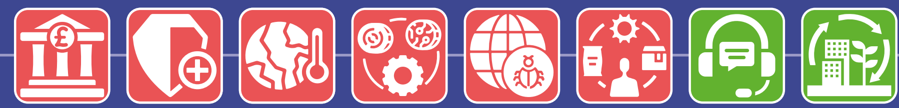
Solar panels at Moneymore Borehole in County Derry/Londonderry.

Strategic areas of focus

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

Sustainable development goals

Principal threats/opportunities



Page 76 Read more about principal threats and opportunities.

Strategic performance indicators

Water	Unit of measurement	Target 2022/23	Actual 2022/23	Pass/ Fail	Target 2023/24
Water quality compliance*	%	99.83	99.91	Pass	99.83
Leakage	Ml/d (Million litres/day)	156.00	162.30	Fail	154.00
Reduction in supply interruptions in excess of: ** • 6 hours • 12 hours • 24 hours	%	0.687 0.087 0.009	0.145 0.000 0.000	Pass	0.666 0.084 0.010

* Calendar year target.
** The >12 hr target is a Final Determination target. The >6hr and >24hr targets feed into the Supply Interruptions Overall Performance Score, which is also a Final Determination target.

STRATEGIC REPORT

This 10-hectare peatland plot along the shores of Lough Bradan Reservoir, County Tyrone, has been restored using the innovative 'cell bunding' technique.

Improve at source

NI Water is one of the largest landowners in Northern Ireland and our largest land holdings tend to be in upper areas of drinking water catchments where peatbogs and heathland dominate. The peat bogs in our water catchments are amongst nature's superstars, providing a range of eco-system services. They provide a natural form of water purification by naturally filtering water, protect against floods by storing water, help reduce greenhouse gas emissions by removing and storing carbon and provide an important habitat for many species thus enhancing biodiversity. They can only do this effectively if they are not degraded.

Peatland resoration at Lough Bradan

Large areas of our peatlands are planted in commercial forestry in agreements dating back decades, which can create problems for both water quality and biodiversity. We have been working closely with Forest Service, Department of Agriculture, Environment and Rural Affairs (DAERA) in our drinking water catchments to negotiate back areas of commercial forestry planted on peat where there might be long-term benefits to water quality. In 2022/23, Forest Service offered to release some areas in Lough Bradan and at Spelga reservoir catchments, back to NI Water for restoration. It is intended that the conifers on these sites will be felled, and we will then install a range of measures to re-wet and return the land to natural peatland conditions. This rewetting will eventually improve water quality by reducing colour and turbidity fluctuations in the nearby reservoirs as the peatland starts to recover. Over time it will also help enhance biodiversity and sequester carbon.

Pressures arise on our water resources from various sectors with agriculture being one of the major pressures. NI Water continues to engage with the farming community through several channels. We regularly attend DAERA Farm Business Development Group meetings (farming education group meetings), Environmental Farming Group Meetings and other events held by DAERA or The College of Agriculture, Food and Rural Enterprise (CAFRE) for farmers and present on local water treatment, water quality protection and pesticides best practice. We continue as active members of the Water Catchment Partnership to promote the message to always use best practice when using pesticides to protect our drinking water supplies.

Collaborating with the agriculture sector to improve water quality remains a key focus area for NI Water.

The High Mournes Management Plan has been completed and is now being implemented by the High Mournes Working Group to holistically plan and deliver land management activities in our Mournes landholdings. A more sustainable and more suitable grazing contract is being rolled out for the areas we lease to farmers in the region going forward. Following from this there are a range of measures to be addressed to manage the Mournes sustainably, so that the public can enjoy recreation for years to come, as well as being a vital water source for NI Water.

We liaise with The Woodland Trust to improve water quality, offset carbon, mitigate flooding and enhance biodiversity through riparian planting around our Faughan, Burntollet and Glenedra river catchments where trees have been planted along watercourses above Caugh Hill and Carmoney water treatment works intakes to stabilise the banks and prevent erosion from affecting raw water quality. We are also engaging in large-scale tree planting on our landholding. An application has been approved by DAERA Forest Service on our behalf to draw down Forest Expansion Scheme funding to plant more than 90,000 trees in the Annalong Valley within the 2022/23 planting season and areas have been secured around Stoneyford reservoir to plant over 100,000 trees which is important for habitat as well as future water supply provision.

We are exploring a Peace Plus project to build on the success of the Source To Tap INTERREG VA Project and deliver raw water quality improvements in a number of priority catchments. We have plans to undertake further peatland restoration projects in Dungonnell, Lough Bradan and Spelga catchments.

Collaborative work is ongoing in the Mourne Mountains, County Down, to maintain paths and restore natural habitats.

Successful completion of Source to Tap

The project's land incentive scheme delivered:

234
Water Environment Management Plans

€1.16m
On-farm interventions

118
Farms

Weed-wiping
146 acres on **73** farms

76 Pesticide Storage Units

Livestock Exclusion Fencing
55.69 kilometers on **79** farms

Alternative watering facilities
63 farms

Clean & Dirty Water separation
21 farms

Farmer innovation projects
18 farms

Enough water for all

Planning for the long-term

The Water Resource and Supply Resilience Plan sets out how NI Water intends to sustainably maintain the balance between supply and demand for water over the long-term, and the operational and management options and activities available to respond to short-term critical events such as droughts and freeze-thaw issues. This has identified a number of water resource zones that are likely to be in deficit in the future and the next stage in plan development is the options assessment to identify the required mitigations to resolve these potential supply/demand issues.

Several new projects and operational interventions were completed in 2022/23, which have improved current supply/demand and resilience issues.These were driven by both the outputs of the last plan and a review into hot weather incidents. This includes among other activities, a new borehole at Moneymore, the construction of two new filters at Clay Lake water treatment works to improve performance and intake improvements at Lough Fea water treatment works.

Further work is continuing including the progression of the strategically important Castor Bay to Ballydougan project, which will facilitate transfer of additional flow from Castor Bay to Ballydougan.

The new Water Resource and Supply Resilience Plan will be published for public consultation in 2023/24, and once finalised, will support the PC27 Business Plan submission.

Aerial view of Moneymore Borehole in County Derry/Londonderry.

Tankering 10 million litres of water

Extreme weather, hot or cold, can have a major impact on assets, causing increased leakage within our network and on customer properties. Our changing climate is bringing more frequent and severe weather events such as heavy rainfall, heatwaves and extreme cold. These events can affect the quality and quantity of our water sources, placing pressure on our water treatment works.

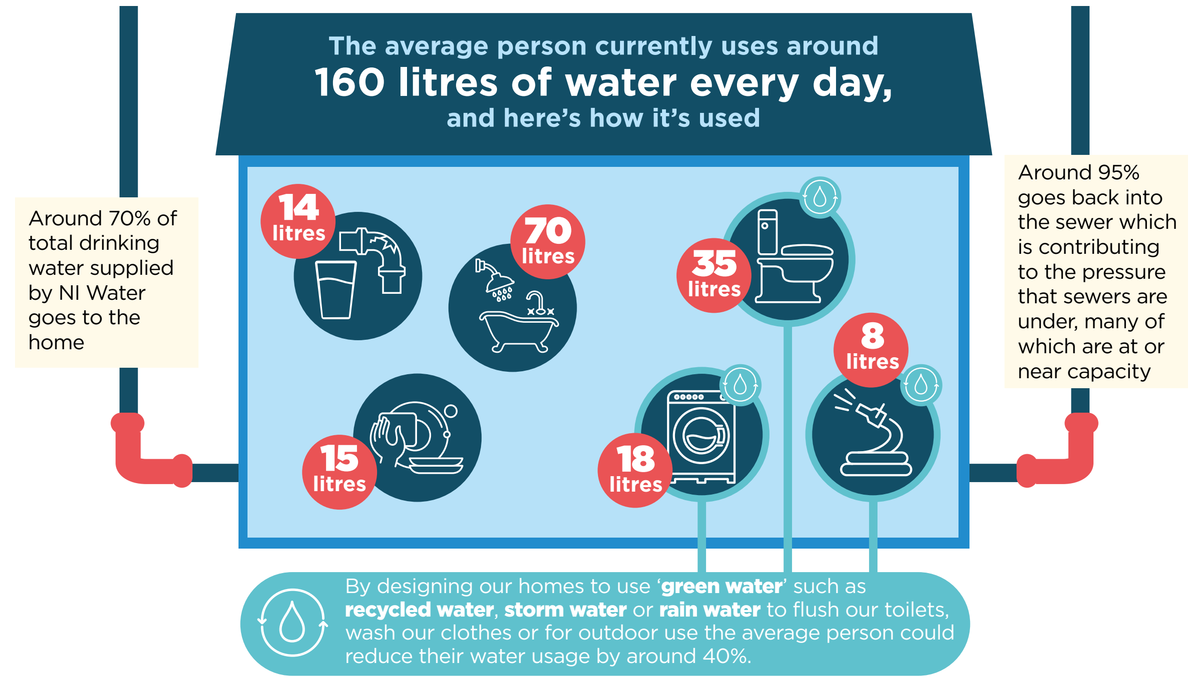
The recent freeze/thaw in December 2022 is a reminder that our water system is vulnerable to climate change. This major operation started when the freezing weather changed to a thaw resulting in thousands of burst pipes on the water supply network and customer properties. After nearly a week of intense and focused work to repair bursts, ramp up water production, tanker additional supplies to vulnerable service reservoirs, while making appeals through the media for help to identify leaks and conserve water, demand moved back to normal levels. As well as a maximum daily water production of 740 million litres of water, we moved almost 10 million litres of water through 550 tanker runs – keeping our customers in supply.

NI Water tanker being filled with treated water before being moved across Northern Ireland.

Using less drinking water

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

Find out more at www.niwater.com/water-saving/



Pumping £5m into the North West

We completed a £5m Improvement Scheme at the River Faughan raw water pumping station in Campsie. The project involved the upgrade of the existing River Faughan raw pumping station by replacing ageing assets to ensure a reliable water supply to Carmoney water treatment works, including the replacement of the station's weir gates to provide extra security and resilience.

Head of Water Capital Delivery at NI Water said: "We are delighted to announce the completion of this major water improvement scheme, which will greatly benefit the local water infrastructure and resilience of the water supply for the North West, securing a reliable water supply to Carmoney water treatment works, which supplies water to around 110,000 customers in the North West. This will be particularly important during the winter months and other unplanned events, to provide our customers with an improved, more reliable service."

Deputy Mayor of Derry City and Strabane District Council added: "I was pleased to have the opportunity to tour the site and witness the improvements first hand. This new multi-million-pound facility is good news for the Council, as it will enhance the water infrastructure and the security of the water supply for customers in the area supplied by Carmoney water treatment works."

Deputy Mayor of Derry City and Strabane District Council and NI Water and Contractor staff at River Faughan raw water pumping station, County Derry/Londonderry.

Tasty, clean and safe

Delivery of great tasting, clean and safe drinking water is central to what we do. It underpins the public health and economy of Northern Ireland.

World class on tap

The water we supply for domestic use or food production must comply with the standards in the Northern Ireland Water Quality Regulations, which incorporate European Union standards and more stringent UK national standards. The standards are strict and generally include wide safety margins. They cover: bacteria; chemicals such as nitrates and pesticides; metals such as lead; and how water looks and tastes. To make sure that your water supply is clean and safe, we take samples for testing. Sampling and analysis are carried out 365 days per year to ensure that our drinking water is tasty, clean and safe. Our sampling programme covers raw waters, water at various treatment stages, treated water going into supply from our treatment works, drinking water in the distribution system and at the customer tap. Samples are analysed by our scientists based in laboratories at Belfast and Altnagelvin. Overall drinking water quality compliance in 2022 was 99.91%, above the target of 99.83%. We publish a Drinking Water Quality Report each year, which is available on our website.

We are engaging with the DWI on potential changes to the Drinking Water Directive post Brexit. We have put in place a monitoring programme of sampling and analysis for the potential new parameters to assess the implications of these new requirements, should new drinking water regulations come into force.

Tackling lead pipes

Replacing **11,000** lead communication pipes in PC21

1,864 replacements in 2021/22

1,873 replacements in 2022/23

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

A review of our website and our lead leaflet was undertaken in 2022/23 to improve the information on lead and lead pipe replacements for our customers. A media campaign to highlight the risk for lead pipework in customer properties and to encourage customers to replace lead pipework is planned for 2023/24.

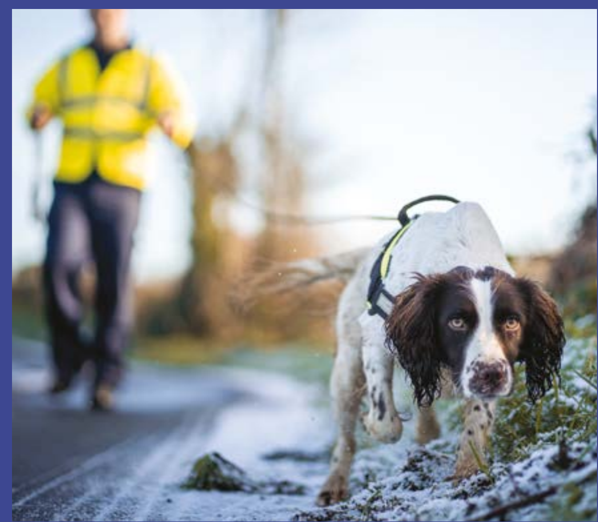
We continue to engage with stakeholders concerning the potential options for consideration in relation to addressing lead in private supply pipes, including the potential for the establishment of a new grant scheme, to enable private customers to access funds for replacement of their private supply pipe. These stakeholder engagements will help inform a submission to the Minister on options to remove lead from customers private supply pipes.

Find out more about reducing the risk of lead at: www.niwater.com/lead-pipes/

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

Drive down leakage

NI Water's leakage teams work around the clock locating and repairing leaks, saving water, a precious resource for hygiene and hydration.



Detecting leaks using a dog.

In 2022/23, we were making good progress with reducing leakage. However, in December 2022 the UK and Ireland experienced a major freeze thaw weather event which had a significant impact upon NI Water's and customer's pipework. This resulted in leakage being 6.3 million litres per day higher than the 2022/23 target of 156 million litres per day.

Our teams work 24/7 using highly skilled leakage detection and repair techniques. A variety of leakage detection methods are used to find leaks whether they are on water mains or within customer properties. Some of these techniques involve using a listening stick, a tried and tested way of detecting a leak as well as other methods such as satellites, ground microphones, acoustic loggers, drones, and dogs. The combination of traditional and new approaches to leakage management should help improve our leakage performance over the remainder of PC21.

Innovative satellite leak detection technology.

Eye in the sky

Much of the areas we serve are rural, with pipes located across fields and hills. It can therefore be extremely challenging to locate leaks when they do occur and hence the need to find new innovative ways of finding and addressing leakage. One of the innovative technologies being used to detect leaks is satellite imagery. Potential leaks are detected with the assistance of specialist satellite mounted technology which identifies water spreading from underground pipes. Leakage detection teams are then able to undertake follow-up work to determine if there is a confirmed leak.

If there is a leak on your property, then please get it fixed as just over a quarter of leakage is within the boundary of a customer's property. If you see a leak on the footpath or on the road, you can help by letting us know. You can report it by visiting https://www.niwater.com/report-a-leak-or-burst-pipe/ or by calling our dedicated Leakline number on 0800 028 2011, open 24 hours a day, every day. Calls are free of charge.

Always on

Every week we are repairing bursts that occur on our water network of 27,000 km of water mains. Many of these bursts can result in interruptions to customers' supply or customers experiencing low water pressure.

Every minute counts

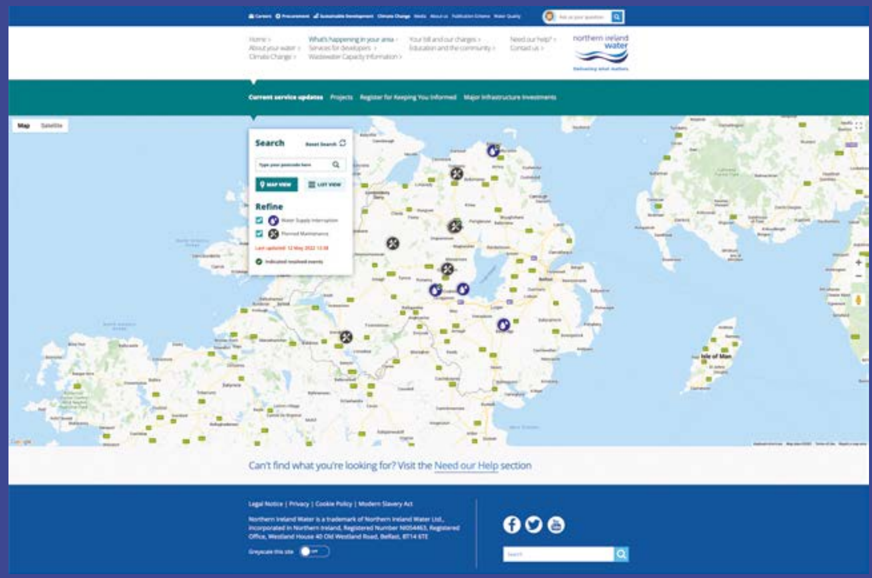
Our 'every minute counts' ethos helps to focus on ways to improve our performance and explore innovative solutions to minimise the time customers are off supply and keep them in supply with water.

Implementation of our interruptions to supply strategy is delivering real benefits for customers. In 2022/23, we had the best performance in relation to minimising water supply interruptions. We sought to improve our performance by undertaking post interruption reviews to establish key learnings; utilising water tankers in response to interruption to supply events and engagement with internal and external stakeholders. We now use emergency restoration trailers containing specialist equipment such as flexible hoses, pumps, cross-connections to increase our response capability. We have also purchased a new custom-made pumping trailer that has the capability to pump directly into the water network in an interruption scenario. Both types of trailers have been used at events this year, helping to maintain supply to customers.

NI Water's new custom-made pumping trailer.

We have continued to invest in the SMART networks programme to maintain a CALM network and increase visibility on all our water assets. Creating a calmer network reduces transients that can cause bursts and interruptions. We will be improving controls at water base stations and using our new digital tools as well as data analytics through our SMART network to monitor and control our field operations.

Visit https://www.niwater.com/current-service-updates/



Economy Efficiently delivering infrastructure to underpin sustainable growth

Ballygowan wastewater treatment works, County Down.

Strategic areas of focus

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

Sustainable development goals

Principal threats/opportunities

Page 76 Read more about principal threats and opportunities.

Strategic performance indicators

Economy	Unit of measurement	Target 2022/23	Actual 2022/23	Pass/Fail	Target 2023/24
Increase/(decrease) in customer tariffs*	%	6.6	6.6	Pass	13.4
Number of economic constraint areas removed (cumulative over 2021-27 period)	Number	0	0	Pass	0
Number of serious development restrictions removed (cumulative over 2021-27 period)	Number	4	6	Pass	4
Bathing water quality**	Excellent	Majority excellent or good ***	21	Pass	Majority excellent or good ***
	Good		3		
	Sufficient		1		
	Poor		1		

* Non-domestic customers only.

** Bathing water at 26 sites is monitored weekly from May to September each year.

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

STRATEGIC REPORT

Funding world class economic infrastructure

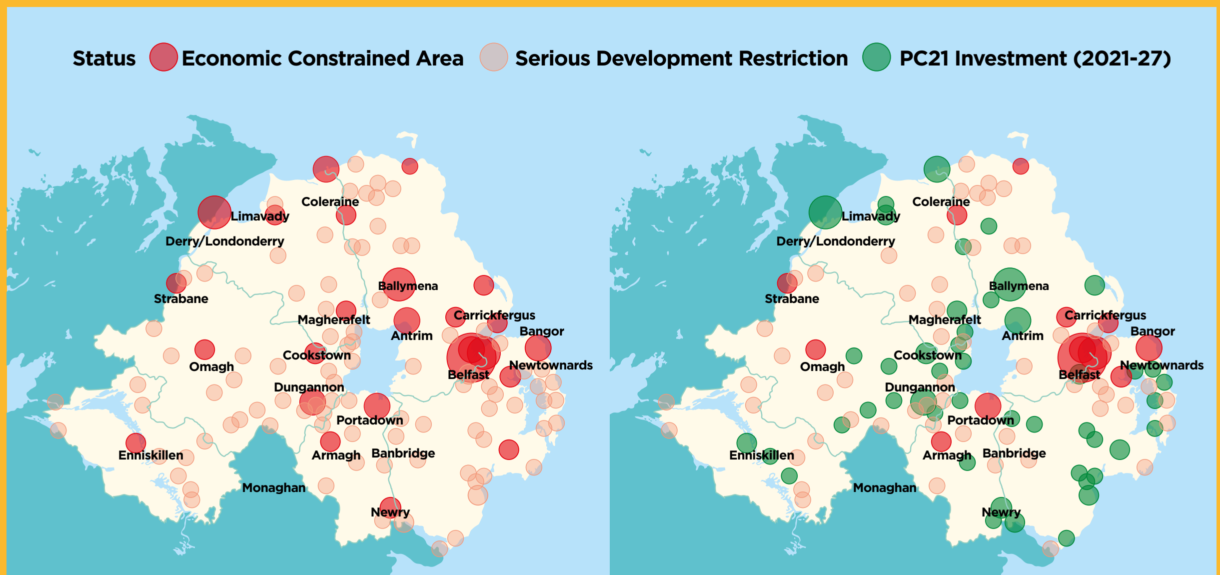
Largely unseen, our infrastructure is the foundation for all economic activity in Northern Ireland as almost every new home and business requires a connection to the public water and sewerage system. We share the government's ambition for Northern Ireland to have the infrastructure that enables everyone to lead a healthy, productive and fulfilling life; supports sustainable economic development; and protects our environment. But this ambition can only be realised if we move from a 'stop-start' approach to delivery as a result of underfunding, to multi-year funding in line with that determined by the independent Utility Regulator, supported by a mechanism to deal with financial shocks.

Unlocking development constraints

The public expenditure made available from Government for investment in wastewater services has not been able to keep pace with the investment required to provide increased capacity to facilitate growth or achieve water quality targets. Many of our sewerage networks and wastewater treatment plants are having to operate at or beyond their design capacity, limiting opportunities for new connections and constraining economic development in over 100 towns and cities across Northern Ireland, including Belfast and Derry/Londonderry. Our PC21 Business Plan sets out the investment required to start to address the wastewater capacity constraints. We anticipate that it will take a sustained increase in investment over the next 12 to 18 years to solve the problem of development constraints.

During 2022/23, we continued our engagement with local councils and other stakeholders on wastewater capacity constraints. We also revised wastewater system capacity information across all Council areas and engaged with Council's local development planning teams. We are developing decision support tools such as Esri ArcGIS and Power BI to help prioritise and target investment on wastewater capacity constraints. One of the key strategies that NI Water has adopted is the introduction of a restructured pre-planning process to help mitigate where possible site restrictions and facilitate connections to our network.

We are identifying innovative wastewater technologies and optimising existing wastewater processes. This may result in some economic growth in the catchments served by wastewater treatment works across Northern Ireland, which are currently operating at or near their capacity. We have assessed a priority wastewater treatment works at Armoy, County Antrim for process optimisation and potential application of innovative technologies. Going forward, we will conduct innovative technology pilot trials at a test centre situated in Ballykelly (North West) and at other identified wastewater treatment works, which are currently constrained.



Development constraints across Northern Ireland at the end of year two of PC21 (2022/23).

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

£1.2bn framework to boost local economy

In 2022/23, we commenced a £1.2bn Major Project Partnership Framework, which will deliver large projects on water and wastewater infrastructure across Northern Ireland. This framework will include upgrades to major water and wastewater treatment works, pumping stations, and network mains. It will run for an initial four-year period. The framework provides further resilience for NI Water to provide our customers with the best financial, sustainable and environmental outcomes, and provides us with access to some of the most innovative providers within the construction supply chain. One of the first major projects on the framework will be upgrade work at Belfast Wastewater Treatment Works, which commenced during 2022/23.

NI Water staff at the launch of the £1.2bn project partnership framework.

Pumping £9m into Fermanagh and Tyrone

NI Water completed a £9m investment at Killyhevlin water treatment works. This will improve the security of the water supply of around 36 million litres of water per day for the 50,000 customers in Fermanagh and Clogher Valley, particularly during periods of extreme weather. This major upgrade involved the construction of a new clear water storage tank on the existing site, as well as a new pumping station to allow for a future increase in water supply.

Killyhevlin water treatment works Enniskillen, County Fermanagh.

Efficient and affordable service

We continue to promote the need for multi-year funding of the PC21 Final Determination, supported by a financial risk mechanism, through liaison with key stakeholders. Securing government commitment to fund the PC21 Final Determination and provide NI Water with the ability to manage financial shocks remains the highest priority for PC21.

We are preparing for the PC21 mid-term review and received the Utility Regulator's approach in 2022/23. We will make a written submission to the Regulator at the end of September 2023, setting out proposed changes to funding, price limit requirements and revised output targets. The Regulator will publish their decision in December 2023.

The NI Audit Office is undertaking a review on the funding of NI Water's infrastructure and plans to publish its report by Summer 2023. We welcome this review and are assisting the NI Audit Office with its enquiries. Further details are available at https://www.niauditoffice.gov.uk/publications/work-progress-funding-ni-waters-infrastructure

Our Achieving Customer Excellence programme is the major vehicle to deliver operational cost and capital expenditure efficiencies and wider benefits. We are optimising the pace at which NI Water transitions to renewable energy, building the capability and capacity to sustainably deliver in asset investment, digitally enabling the Intelligent Operations Centre to better predict and prevent issues and optimise running of our assets. This is supported by a powerful 'cost to serve' tool giving operators a deep understanding of production line cost performance and developing and extending our capability to continuously drive improvement, value and transformation.

Read more on our governance model and funding at page 80.

Lighting up the way

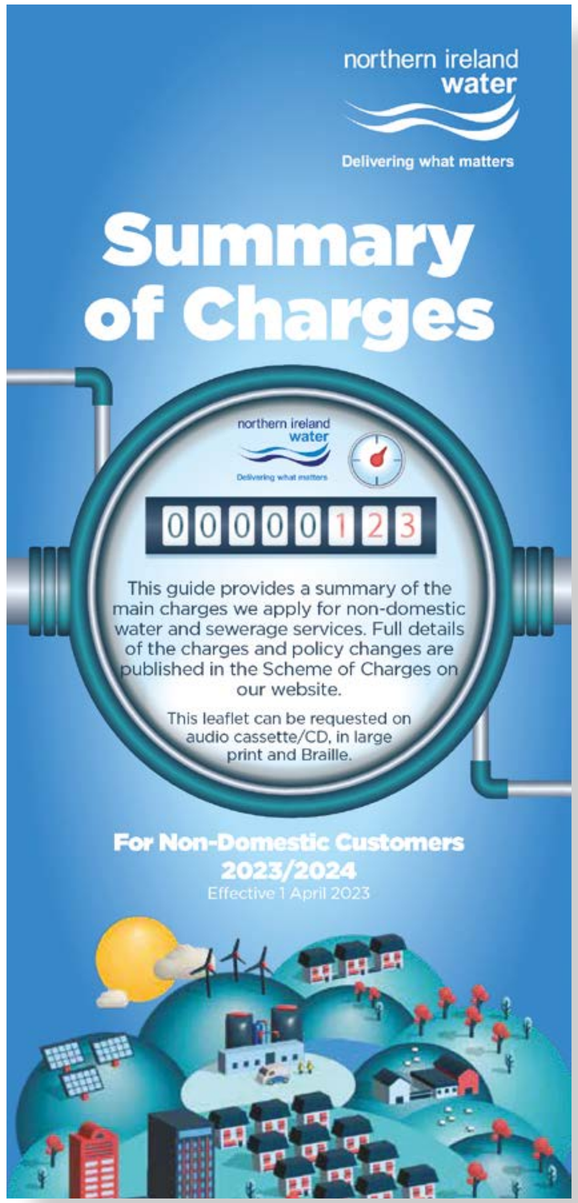
Drumaroad water treatment works is one of our largest sites and produces water for around 25% of our population served. Drumaroad was selected as part of a wider initiative to review sites in terms of energy usage and performance. The LED installation on site will assist in realising energy efficiency of around 107,000kWh/year as well as improving the lighting inside and outside the building, which will result in a safer working environment.

Energy efficiency LED lighting at Drumaroad water treatment works, County Down.

Read more about our ambition on renewables at https://www.niwater.com/climatechange/strategy/

Customer tariffs

We are aware how challenging the environment can be for local businesses within the economy right now. In previous years, we have been able to limit the non-domestic price increase to strike a balance between generating sufficient income and minimising the impact on business customers. Whilst NI Water has again absorbed as much cost as possible, the company is facing significant financial pressures from rising energy prices and other cost increases.



We have worked hard to ensure most of our customers will see their bills rise by less than inflation. Specific bill changes operate according to a formula agreed with the Northern Ireland Utility Regulator. It is well documented that NI Water needs to receive full funding to ensure we continue to deliver a water and sewerage service that represents good value for money. The revenue from bills will help support necessary investment in our infrastructure, benefitting the local economy and environment. However, even with full funding and bill increases, historic underinvestment will take in the region of 12 to 18 years to remedy.

From 1 April 2023, non-domestic water and sewerage charges increased by 13.4% on average. Measured customer bills increased by 12.7%, while unmeasured and trade effluent bills increased by 13.7% and 15.5% respectively. This compares favourably with other utilities across gas and electricity sectors.

Find out more at https://www.niwater.com/siteFiles/resources/pdf/WaterCharges/202324/202324SummaryofChargesLeaflet.pdf

Sustainable growth

Every aspect of life in Northern Ireland relies on the water and wastewater services we provide, so it is important that any investment we make in our infrastructure is built with the future in mind. In order to improve our long-term resilience, we need to ensure our infrastructure can withstand pressures such as climate change, growth in the economy and the need to protect and restore nature. We believe that our future infrastructure investment can support not only the transition to a more sustainable and resilient business but also help create an affordable, low carbon green economy for Northern Ireland.

Advances in our investment management processes are helping us focus on financial efficiencies in delivering or capital investment programme. These processes are also helping us choose more integrated sustainable solutions to address climate change. Our Investment Planning and Costing tool allows estimates of standardised costs and recommend lowest whole life cost solutions to be calculated for PC21 projects. We are expanding our carbon accounting to capture whole life carbon and land carbon.

Pilot projects are being undertaken over the remainder of PC21 to examine the use of a multi-capitals approach to support our decision making. This approach incorporates the social and environmental costs and benefits not presently captured in market prices.

We are working closely with NIEA on the review of consenting methodologies and source apportionment techniques, which will contribute towards ensuring discharge standards at our wastewater treatment works are proportionate, whilst delivering on the best environmental outcome for the investment delivered by NI Water. We have established an Investment Group, which provides a forum with NIEA to facilitate negotiation of discharge standards, enabling open and transparent decision making, supported by appropriate scientific evidence.

Read more about wastewater compliance on page 54.

Greening our fleet

To reduce our carbon footprint, NI Water's fleet of 600 vehicles will need to move away from their reliance on diesel. By 2027 we aim to replace 200 of the existing fleet with ones that are powered by alternative fuels. As many of these will be electric vehicles, work began during 2022/23 to install electric charging points at key sites. It is planned that further investment in PC21 will move us close to our aim to install chargers at up to 55 sites. These chargers will be for fleet use only. Consideration will be given to enabling staff and visitors to pay to use the charging equipment. Electric vehicles are not only essential in decarbonising NI Water's fleet, but they also present us with the opportunity to financially benefit from returning electricity to the grid at times of higher grid demand.

NI Water's Education Officer and pupils from St Peter's Primary School, Belfast at one of the rapid electric charging points recently installed at Belfast Wastewater Heritage Centre, County Antrim.

Belfast wastewater treatment works, County Antrim.

Nature Protecting and enhancing the natural environment

Pupils from Loughries Primary School helping to plant the new reed bed at Loughries wastewater treatment works, County Down.

Strategic areas of focus

- More resilient network
- Sustainable solutions
- Keep it clear
- Towards net zero

Sustainable development goals

7 AFFORDABLE AND CLEAN ENERGY

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

Principal threats/opportunities

Page 76 Read more about principal threats and opportunities.

Strategic performance indicators

Nature	Unit of measurement	Target 2022/23	Actual 2022/23	Pass/ Fail	Target 2023/24
Reduction in pollution incidents - sewage (high and medium)*	Number	11	9	Pass	10
Wastewater compliance (% population equivalent served)**	%	94.65	99.19	Pass	94.65
Reduction in number of properties at risk of out of sewer flooding (cumulative over 2021-27 period)	Number	0	7	Pass	20
Reduction in carbon footprint. Relates to reduction in carbon emissions measured in tonnes of carbon dioxide equivalent (tCO_2e)	%	***	***	***	***

* Calendar year target.

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

*** Annual targets to be set in 2023/24 aligned with our new Climate Change Strategy.

STRATEGIC REPORT

More resilient network

Reducing sewer flooding

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

Climate change has contributed to an increase in the intensity and frequency of rainfall. Heavy rainfall can cause the sewers to become full of water and the sewage to back up in the system. Many of our traditional systems include 'combined sewer overflows', which were designed to prevent out of sewer flooding/damage to properties by discharging this excess water directly into the rivers or streams, bypassing the treatment works.

Find out more about climate resilience at https://www.niwater.com/climatechange/strategy/

Our PC21 Business Plan includes ambitious infiltration and storm water removal targets aimed at reducing risk of property flooding, enhancing our natural environment, and facilitating economic growth. This programme is underway with the commencement of investigation studies and modelling. NI Water reports the area of surface area removed through direct capital investment, such as storm separation or Sustainable Urban Drainage System projects.

We have removed 93,098m^2 of impermeable surface area by the end of 2022/23. This is lower than the cumulative target of 729,080m^2 at the end of 2022/23. However, the removal of incidental storm separation is expected to increase in line with the increase of our wastewater infrastructure programme throughout PC21. A major storm separation scheme will be completed at Ravenhill Avenue, Belfast removing around 88,200m^2 of storm water from the combined system. This represents 4% of the 2,187,240m^2 of storm water to be removed from the combined system over PC21.

Investigation work will take place over 2023/24 on storm removal to enable NI Water to meet its targets for PC21. This work will be linked to capital schemes addressing unsatisfactory intermittent discharges from sewer overflows and wastewater treatment works, out of sewer flooding and new development. It is anticipated that the PC21 mid-term review will confirm changes to the PC21 discharge programme.

We are forecasting to remove 57 properties from the register of properties at risk of flooding over PC21. Seven properties were removed from the register by the end of 2022/23 in excess of the target. It is forecast that the Ravenhill Avenue scheme will contribute to us achieving our target in 2023/24 by removing a further 11 properties from the register in 2023/24.

NI Water break ground on the new £4.8m Ballyronan wastewater treatment works, County Derry/Londonderry.

NI Water break ground on the new £4.8m Ballyronan Wastewater Treatment Works

The new £4.8m wastewater treatment works at Ballyronan, County Derry/ Londonderry will deliver important environmental benefits, such as enhancing the water quality in Lough Neagh and has been designed to accommodate development in the area for the next 25 years. The existing treatment works, which was constructed in the 1970s, remains in operation while the new infrastructure is being installed at the same site.

NI Water Project Manager said: "This major investment includes the installation of state-of-the-art, fully enclosed, treatment tanks, along with advanced electrical and mechanical systems to provide a robust wastewater treatment solution. This will help enhance the water quality in Lough Neagh, bringing many benefits to the local community well into the future."

Chair of Mid Ulster District Council's Development Committee, added: "I was delighted to have the opportunity to tour the site and witness the start of this major £4.8m investment first hand. This new multi-million pound facility is good news for Council, as it will enhance wastewater services for customers in the Ballyronan area and beyond, whilst accommodating future development in the area."

STRATEGIC REPORT

Completing the picture on wastewater compliance

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

A Wastewater Regulation Compliance Reform Group has been established with senior management representation from NI Water and NIEA. This working group will act as the interface between NIEA and NI Water on the delivery of wastewater regulation reform over PC21. It is recognised that the outcome of the proposed regulation change will result in new evidence, which will highlight non-compliance across our wastewater infrastructure.

The Group is developing a plan for the reform programme and reviewing the wastewater Statement of Regulatory Principles and Intent. This will take account of the regulatory approach for recognised underinvestment, a no detriment approach to dealing with development constraints and reform of wastewater compliance assessment. Compliance assessment methodologies will be developed over 2023/24, along with clear messages on the impact of these changes. Identification of investment needs for compliance reform will also be considered as part of the PC27 Business Plan.

We continued our wastewater regulatory monitoring programme over 2022/23. This sampling programme is helping to build up performance data, providing insight to treatment works' performance. We plan to establish an independent wastewater compliance team, which will assist with providing assurance on the management of wastewater assets.

Event and duration monitors are being installed on prioritised combined sewer overflows, with 279 monitors in beneficial use. We are validating the data from these monitors and establishing reporting processes for PC27. The monitors will enable examination and optimisation of long-term spill performance trends by helping to understand unusual spills that require either immediate interventions or long-term investment planning. This work is supported by GIS mapping and reporting tools. We are also focussing on the delivery of capital upgrades at works, unsatisfactory intermittent discharges from sewer overflows and wastewater treatment works, and completion of the prioritised programme of drainage area plans.

Living with Water Programme (LWWP)

Living With Water is a new multi-agency approach to the provision of drainage and wastewater infrastructure, which promotes holistic and integrated solutions that achieve multiple benefits at reduced cost and disruption. Open spaces and watercourses can be used to enhance the environment, promoting recreational opportunities and by sustainably managing water to help reduce flood risk. This is commonly referred to as blue/green infrastructure. In addition to blue/green infrastructure it is recognised that significant investment is also required in more traditional infrastructure, like sewers, pumping stations and upgrades to our wastewater treatment works.

The £1.4bn Strategic Drainage Infrastructure Plan for Belfast was published by the DfI in 2021/22, with several significant flood alleviation projects carried out in Belfast over 2022/23. A similar approach is being explored for Derry/Londonderry, which NI Water plans to support. We are also working with the DfI to develop the NI version of the Water UK 'Drainage and Wastewater Management Plan Framework' to help sustainably manage our drainage infrastructure.

Find out more at https://www.infrastructure-ni.gov.uk/topics/living-water-programme

Sustainable solutions

Every day we recycle wastewater from 743,000 homes and businesses before safely returning it to the rivers and sea. Traditional treatment works are carbon intensive, requiring a lot of energy, concrete and chemicals to ensure treated wastewater can be safely released back to the environment. We are committed to a more sustainable approach to wastewater treatment and have deployed a number of innovative approaches such as lower energy technologies and nature-based solutions.

Sparking innovation at Ballykelly wastewater treatment works

NI Water recently completed a project at the new Ballykelly wastewater treatment works to situate a new solar panel system. This system has now been upgraded with the addition of NI Water's first battery energy storage system - the first of its kind for NI Water.

The primary treatment on the site utilises the well-established activated sludge process as a robust and effective treatment solution. The works effluent then passes by gravity through an integrated constructed wetland, which is a nature based zero energy treatment process.

The wetlands on the site use a mix of native reed bed plant species and solar UV radiation to treat the wastewater effluent. The treatment process has been developed through previous NI Water projects at Stoneyford and Castle Archdale and the large size of the wetland ponds introduces a habitat for wildlife and insects as well as a net carbon sink, while enabling effective wastewater treatment. Around 400 trees will be planted in the wetland, contributing to NI Water's tree planting goal.

Battery and solar panel system at Ballykelly wastewater treatment works, County Derry/Londonderry.

The solar PV system enables the works to operate during the daytime on locally generated renewable energy for most of the year. In a first for NI Water, excess solar energy is stored in the new 134kWh onsite lithium-ion battery storage system. Also, during winter months, it can be used to store cheaper off-peak energy for use during the daytime. The battery energy system was specified and designed in house and will be an excellent learning and development opportunity for NI Water to harness this emerging technology on future projects.

The project scooped a 2022 International Green Apple Environment Award and was named Infrastructure Project of the Year at the 2022 ICE Sustainability Awards and the CEF Construction Excellence Awards.

NI Water and contractor staff receiving the Infrastructure Project of the Year award at the CEF Construction Excellence Awards in 2022.

Boosting biodiversity

As part of our corporate commitment to the All-Ireland Pollinator Plan, we engaged the help of over 60 NI Water colleagues in 2022/23 to map areas within our wastewater assets base. Our volunteers visited around 30 sites and mapped over 20 sites on the mapping portal. This work has allowed us to meet and exceed our pollinator plans for the year. The volunteers also contributed to another citizen science project, which counted the number of pollinators in an area at one time. These data sets help us understand the environment better on our landholding.

We engaged with DAERA farm business development groups to get best pesticide practice message to farmers, reaching around 70 farmers. This is supplemented by our rush control videos, in conjunction with our partners at CAFRE and DAERA, on how farmers can keep pesticides out of raw water. We held rush control events to raise awareness of the adverse effects on water quality caused by the MCPA herbicide. These events involved a farm visit and technical discussions around pesticides, followed by information on ocal water quality.

By continuing our negotiations with Forest Service to obtain more land for peatland restoration, we will be able to help improve designated site habitat condition in Areas of Special Scientific Interest (ASSIs), Special Areas of Conservation (SAC) and Special Protections Areas (SPAs) such as the Garron Plateau, in the water catchment for Dungonnell water treatment works, County Antrim. We are also partnering with the Mourne Heritage Trust in our Mournes landholding on path erosion to improve the current unfavourable habitat condition in the Eastern Mournes ASSI.

All-Ireland Pollinator Plan
www.pollinators.ie

National Biodiversity Data Centre
A Heritage Council Programme

Keep it clear

We deal with around 11,500 blockages of our sewers each year. The most common causes of these blockages is the flushing of items which do not dissolve down the toilet such as wet wipes and the disposal of fats, oils and grease down the sink. These combine to form a solid mass in the pipes underground, meaning less waste can pass through the pipe. If enough waste cannot pass through, it leads to flooding in homes, business or our natural environment.

Our customer campaigns over 2022/23 have focussed on the 'Bag it and Bin it' messages. This included a focus on fats oils and greases along with what should and should not be put down the loo and sink. Our campaigns benefitted from a partnership with the Education Authority's 'Period Poverty' campaign, providing an opportunity to highlight the importance of binning sanitary items.

Wet Wipe Monster is 'Flushing Out' the wet wipes!

NI Water's Wet Wipe Monster is taking on blockages and 'flushing' out the worst monsters in Northern Ireland's blocked sewers. NI Water's Head of Environmental Regulation explains, "We are hoping our Wet Wipe Monster will help us spring clean our sewers and 'flush' out the worst offenders in a bid to reduce blockages. The main enemy of sewers is the build-up of baby wipes, cotton buds and sanitary products. These form together into a ball of 'rags' causing blockages and out of sewer flooding. The Wet Wipe Monster message is simple, 'only flush Paper, Poo and Pee'!"

Find out more at https://www.niwater.com/fats-oil-and-grease-fog/

NI Water Wet Wipe Monster with one of our staff and pupils from Parkhall Primary School, County Antrim.

Towards a zero carbon and climate resilient business

Addressing climate change is critical to the water sector given the impact on the quality and quantity of water sources, the carbon intensity of our sector's supply chain, and the exposure of our assets to extreme weather events. We will mitigate emissions from our activities, reduce emissions where we can from our construction and the wider supply chain, and adapt our assets to extreme weather events.

At NI Water, we're committed to delivering a net zero, climate resilient future for all our customers. Our Climate Change Strategy was published in May 2023 and sets out how we can harness the huge and largely unseen potential for NI Water to address climate change. Several of the approaches we are taking will benefit our society and economy more broadly as it seeks to decarbonise and exploit the benefits of green growth through a just transition. We have challenged ourselves to go further and faster than the net zero 2050 targets set by law. NI Water is committed to achieve net zero for the energy we use by 2030 and net zero for all our emissions by 2040, as measured against our 2020/21 adjusted baseline. We can also play a strategically important role in helping society to decarbonise by planting one million trees; building more renewables on our land; kick-starting our hydrogen economy; and providing sources of warmth for district heating schemes.

We know that we can't do this alone. Climate change is a systematic problem for Northern Ireland and requires systematic solutions. We also need holistic solutions that address the changes of the global energy crisis and growing pressures on public sector funding that we experience as a government owned company. To do this, we will need support from all of our stakeholders, a positive policy and regulatory environment from government and regulators, innovation from our supply chain, reduced water use from our customers, and collaborative planning from councils and other partners.

Taskforce on Climate related Financial Disclosures

Large sections of the UK economy are transitioning towards mandatory climate change reporting against the Taskforce on Climate related Financial Disclosures (TCFD). This is in accordance with the Companies (Strategic Report) (Climate -related Financial Disclosure) Regulations 2022.

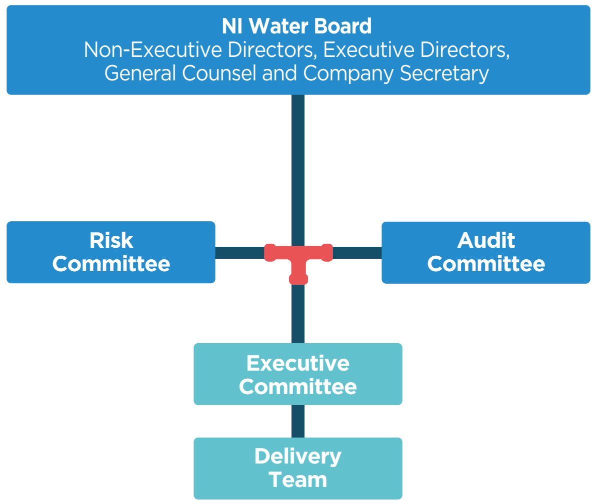
NI Water is transitioning towards TCFD compliance by 2023/24 and have further developed our disclosures over 2022/23. The TCFD framework focuses on four key elements, supported by 11 recommended disclosures:

TCFD elements	TCFD recommended disclosures
Governance	**a.** Board oversight
	b. Management role
Strategy	**a.** Climate-related risks and opportunities
	b. Impact on the organisation's businesses, strategy and financial planning
	c. Resilience of the organisation's strategy
Risk Management	**a.** Risks identification & assessment processes
	b. Risk management process
	c. Integration into overall risk management
Metrics and Targets	**a.** Climate-related metrics in line with strategy and risk management process
	b. Scope 1, 2, 3 greenhouse gas metrics and the related risks
	c. Climate-related targets and performance against targets

Our progress against the disclosures in the TCFD framework is shown below:

Governance

We are committed to best practice climate governance to ensure robust oversight and successful delivery of our Climate Change Strategy.



Board

The NI Water Board takes overall responsibility for overseeing the management of risks associated with and sets the risk appetite for climate change. Climate change is one of NI Water's Principal Risks and the Board receives regular updates on the management of climate change risks throughout the year. Find out more about our Principal Risks on page 76.

The Board also provides leadership on climate change. The Board has been actively involved in the development of the Climate Change Strategy, which was approved by the Board in 2022/23.

The Audit Committee and Risk Committee supports the Board on climate risk management and climate reporting and received quarterly updates on these areas and the development of the tools to support the TCFD disclosures. Refer to the reports by the Committee Chairs at page 108 and page 110.

Executive Committee

Responsibility for the management of climate risks rests with the Executive Committee. The Director of Asset Delivery is the designated Senior Responsible Owner for climate change and is supported by designated senior managers and their teams across relevant areas of the business. The Executive Committee receives regular updates on the climate strategy and the management of climate risks. This included a series of workshops to review progress on the development of NI Water's Climate Change Strategy, the Climate Risk Model and building momentum on the Power of Water Report.

NI Water actions and action owners from across the business have been identified to ensure traction and delivery of the Climate Change Strategy.

NI Water has engaged climate change subject matter specialists to supporting NI Water on the implementation of the detailed action plan which accompanies this strategy. Delivery risks have been identified and will be managed by the Delivery Team. These risks will be reported to the Executive Committee, Risk Committee, Audit Committee and Board.

The Executive Committee received quarterly updates on the management of climate risks over 2022/23.

Strategy

Focusing on climate is not new for NI Water. Since our formation in 2007, we have made significant improvements in water resilience for customers, delivering higher levels of leakage detection, sustained investment in water mains and water efficiency initiatives. We have been developing a Water Resilience and Supply Plan from 2012 and have been partners in the Living With Water Programme to improve strategic drainage infrastructure from 2014. Since 2015, we have reduced our operational carbon emissions by well over 50%, through alternative fuel projects to reduce fossil fuels used in our treatment processes, delivering solar farms, restoring peatland, and planting new woodlands.

Corporate Strategy

Our Corporate Strategy sets the overall strategic direction on climate action in the medium term across PC21 (2021-27) and over the longer-term (2021–2046). Getting to net zero for emissions and ensuring we are resilient to climate change are essential elements within our Corporate Strategy through our strategic priority on nature. We set out our goal to fully exploit innovative approaches to energy and new technology to reduce our carbon footprint and ultimately become carbon neutral. The long-term corporate strategy also recognised the need for a sustained step change in levels of investment to improve asset resilience. We recognised the need to develop a Climate Change Strategy to provide the targets that support this ambition, and begin to identify, co-ordinate and prioritise actions on net zero and climate resilience and align with the TCFD recommendations.

Climate Change Strategy

Our Climate Change Strategy sets out our approach to building a net zero and climate resilient business. The Strategy sets out:

- our pathway to net zero emissions for the energy we use by 2030;
- how we will achieve net zero for all our emissions by 2040; and
- what we will do to ensure resilience of our services to climate change by 2050 and by 2090.

Read more about our Climate Change Strategy at https://www.niwater.com/climatechange/strategy/

Risk management

The climate risks we face span transition risks and physical risks. Addressing these helps us to protect our customers where we can from the worst impacts of climate change and presents us with an opportunity to invest for sustainable outcomes, such as the new low carbon energy sources outlined in our Power of Water Report.

Transition risks

Transition risks are about the risks of transitioning to a net zero economy. Limiting warming to 1.5°C means organisations face transition risks from the imposition of government policy and regulation, such as the introduction of carbon taxes, climate litigation, reputational exposure, and shifting consumer preferences, as well as from the 'green premium' on new technology. Transition risks can lead to additional funding pressures and the stranding of assets which are no longer useable under new policy and regulation.

Physical risks

With every small increase in average global temperatures there are changes to the climate, which can lead to more severe weather events and degradation of the natural environment. These are the physical risks of climate change. We have already seen the impact of global warming across our region through increased flooding, storms, prolonged periods with no rainfall and more frequent periods of intense rainfall. All of these factors create challenges across our business.

By 2050 Northern Ireland is expected to experience a temperature increase of between a 1.9°C, in a middle emission scenario, and 2.4°C, in a high emission scenario. By the 2090s the temperature is projected to be significantly higher of between 3.3°C and 5.2°C. Climate hazards have potential to cause major disruption to our water and wastewater service.

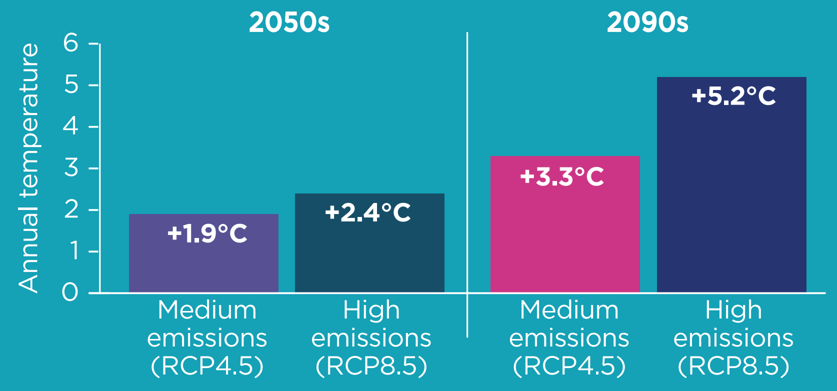
We have summarised the hazards under the following areas:

- Warmer and drier summers causing a surge in water demand and risk of drought; and
- Intense rainfall, rising sea levels and severe storms overwhelming our sewers and leading to internal flooding of homes and pollution of water courses, putting our low-lying coastal sites at risk of flooding, and causing damage to our infrastructure.

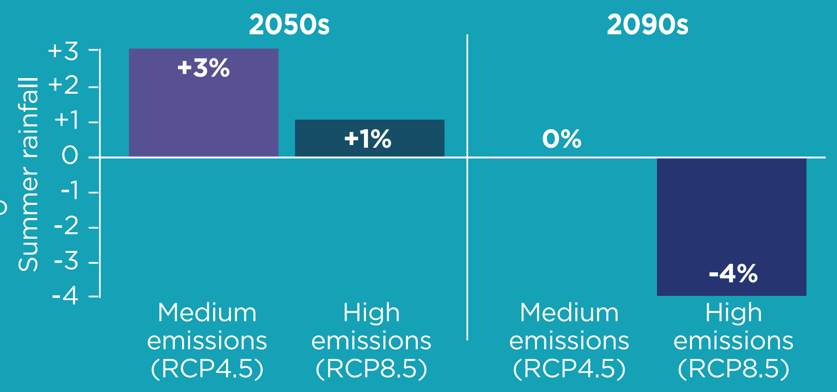
We recognise that other hazards exist such as extreme cold, which can also cause a surge in water demand. These hazards also pose indirect risks to us by impacting on infrastructure that we are dependent on such as the road network, on our people or on our supply chain.

As an operator of critical national infrastructure, we must be ready for climate change. We are moving our business to a higher state of readiness by planning for two degrees of temperature rise by 2050 and preparing for four degrees by 2090. As part of this, we will ensure that our business continuity plans, major incident plan and commercial insurance programme are aligned with this Climate Change Strategy.

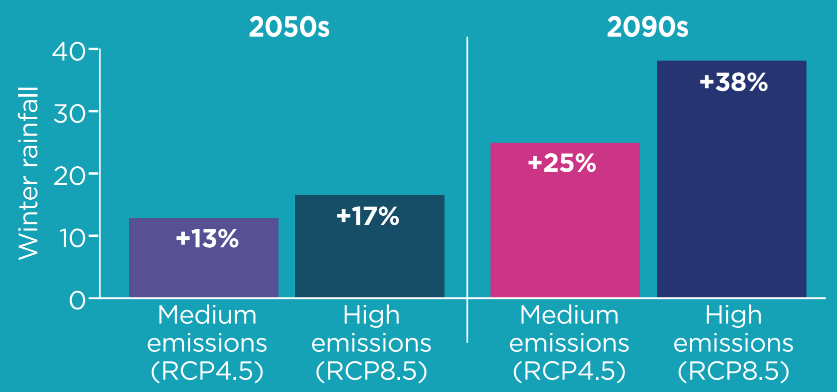
Annual temperatures are set to increase on average by between 1.9°C - 2.4°C by 2050*



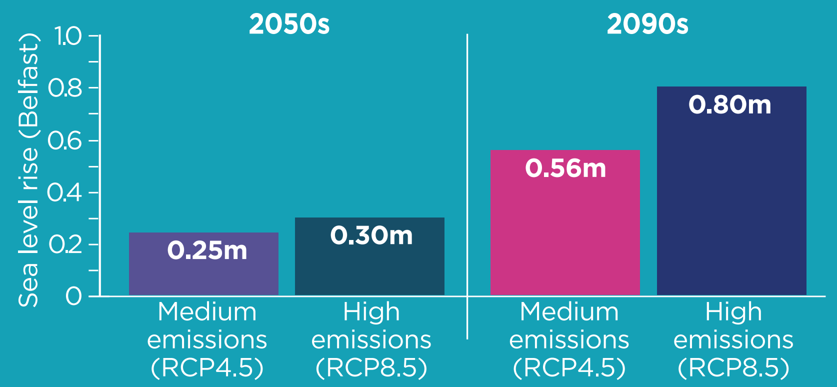
We can expect hotter drier summers, and while overall summer rainfall is projected to decrease, downpours will be more extreme**



Winter rainfall is projected to increase creating warmer wetter winters**



Projected sea level rise has the potential to impact our coastal towns and cities including Belfast



Climate change and sea level rise projections based on the 90th and 95th percentile respectively (compared to the 1981-2000 average).

*UKCP18 key results, available at https://www.metoffice.gov.uk/pub/data/weather/uk/ukcp18/science-reports/UKCP18-Key-results.xlsx.
**CCRA3 2021, Summary for Northern Ireland available at https://www.ukclimaterisk.org/wp-content/uploads/2021/06/CCRA-Evidence-Report-Northern-Ireland-Summary-Final.pdf.

Opportunities

Investing to mitigate the transition and physical climate risks we face brings a wealth of new opportunities. Our Power of Water Report underlined the potential for NI Water's assets to act as catalysts for transforming the energy system by both producing clean, renewable energy and support flexibility of supply. NI Water and its customers will benefit from our renewable transition in the stability of costs and mitigation of emissions, but this can only be fully achieved with collaboration across institutions and stakeholders in Northern Ireland. Taking the opportunities to mitigate these risks will have wider benefits in reducing inequalities, improving air quality, and creating new jobs and opportunities.

Risk scenario modelling

We have developed a Climate Risk Model to assess the financial impacts of physical and transition risks. The model points to illustrative trends for physical and transition risks over the next three decades. These show transition risks peaking over this decade before being overtaken by physical risks.

The model has helped inform the development of our Climate Change Strategy, particularly in relation to the timing of our targets and actions for net zero and climate resilience. The Model has also helped us identify information required to improve our understanding and climate decision making.

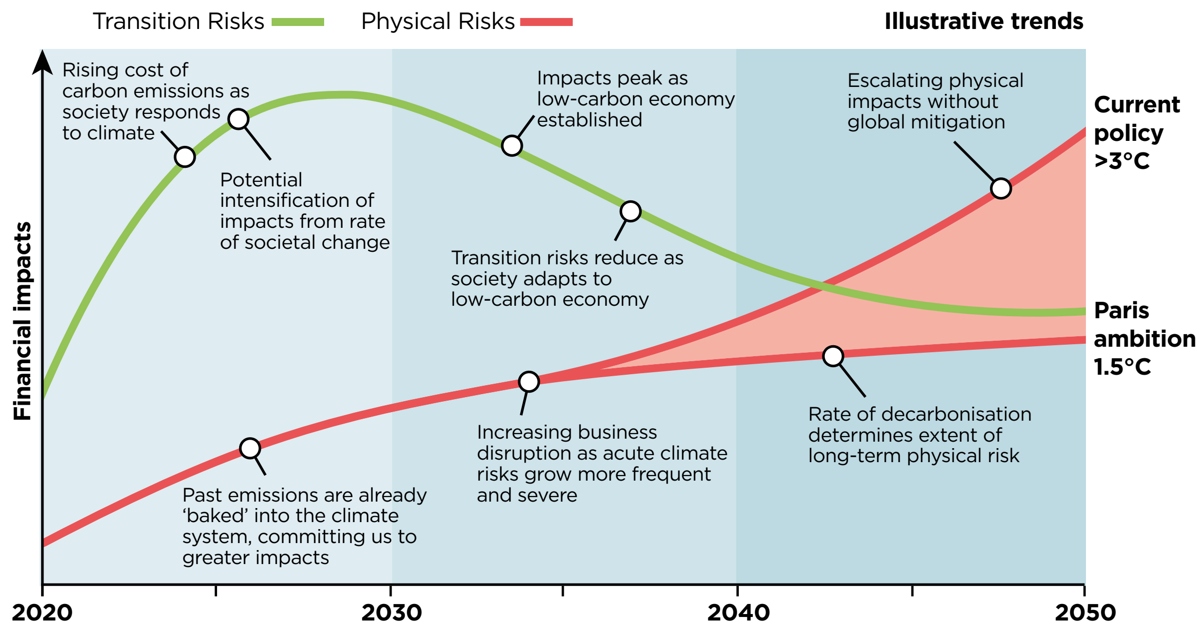
The model points to illustrative trends for physical and transitional risks over the next three decades. These show transitional risks peaking over the next decade before being overtaken by physical risks. These trends reflect that companies and their owners face significant risks from both action and inaction.

The magnitude of the short-term financial impacts over the PC21 period excludes the costs to transition NI Water to net zero. This aligns with the approach taken for the PC21 Business Plan and will likely result in a material increase in the financial impacts once factored in for PC27 (2027-33) and future Price Controls.

The modelling exercise identified several areas for development, which have been incorporated into the Climate Change Strategy action plan:

- transition (policy) risk – more granular assessment of scope 3 supply chain emissions as part of setting of science based targets;
- transition (technology) risk – quantifying the cost to decarbonise the business by 2040 and funding via the Price Controls; and
- physical risk – assessment of granular asset level impacts to inform long-term asset resilience as part of our long-term resilience planning for clean water (updated for latest climate change projections by 2023/24) and wastewater (to be developed by 2023/24).

We are undertaking a re-run of the model over 2023/24 to inform our TCFD disclosures.



Illustrative trends for physical and transitional risks over the next three decades.

Our principal risk on climate change is being aligned with the analysis on physical and transitional risks and the Climate Change Strategy. This will further support the embedding of climate risks through our corporate, directorate and programme/project risk and resilience management systems.

The long-term viability assessment has been updated for the latest analysis on climate risks. Find out more at page 116.

The Directors have considered in the Section 172(1) statement how their decisions support the long-term climate resilience of the business and the consideration of the climate impact of its operations. Find out more at page 123.

We have also considered the impact of climate change on the financial statements across areas such as provisions, impairment, contingent liabilities and accounting judgements and estimates. Find out more at page 145.

Metrics

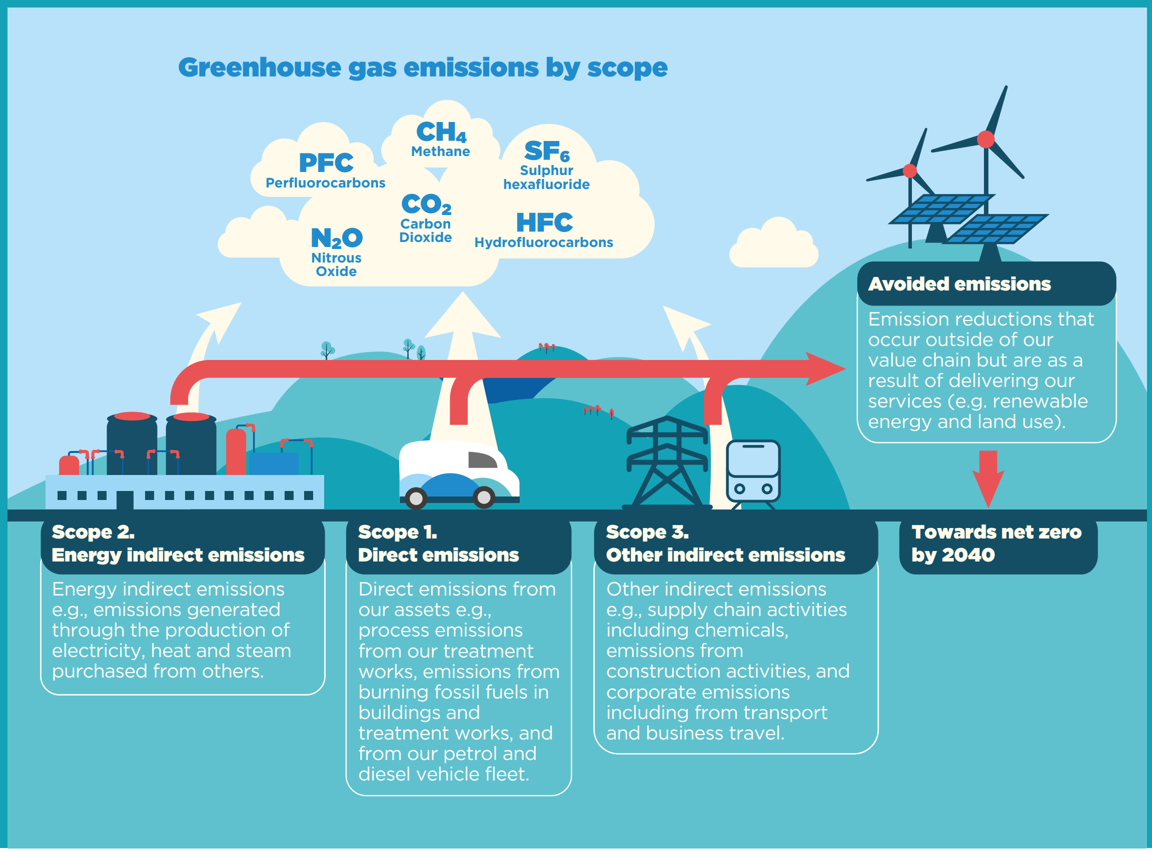
We account for our greenhouse gas emissions annually using the UKWIR Carbon Accounting Workbook, designed specifically for water companies to measure and report their emissions. The emissions are split into different categories known as scopes.

The Workbook is used to prepare the disclosures in our Annual Integrated Report and is aligned to the UK Government Environmental Reporting Guidelines, including the Streamlined Energy and Carbon Reporting Regulations.

We report a fourth category of emissions in our Annual Integrated Report. This category is known as 'avoided emissions' and relates to emission reductions that occur outside of our value chain but are as a result of delivering our services (e.g., renewable energy).

For the first time ever, we augmented our existing 2020/21 reporting by estimating our full scope 3 emissions, so we have a better understanding of our total annual emissions footprint. This is important as it allows us to set a baseline, which we can now use as a reference point in future years to compare how we have progressed in decarbonising our business.

We have already made sizeable reductions in our greenhouse gas emissions since we began reporting. But we know there is much more to do, and we are playing our part in the water industry's drive to improve the accuracy of our reporting.



Our baseline is made up of 2020/21 emissions from our activities, and subdivided into scopes 1, 2, and 3. The reported emissions for our 2020/21 baseline and the subsequent two years (2021/22 and 2022/23) are shown below:

NI Water greenhouse gas emissions	2022/23 tCO_2e Market based***	2022/23 tCO_2e Location based****	2021/22 tCO_2e Market based***	2021/22 tCO_2e Location based****	2020/21^ tCO_2e Market based***	2020/21^ tCO_2e Location based****
Scope 1 direct emissions*						
Direct emissions from burning of fossil fuels	1,912	1,912	1,783	1,783	1,850	1,850
Process emissions from our treatment plants	7,185	7,185	10,927	10,927	8,180	8,180
Transport: Company owned or leased vehicles	2,418	2,418	2,390	2,390	2,500	2,500
Total scope 1 direct emissions	**11,515**	**11,515**	**15,100**	**15,100**	**12,530**	**12,530**
Scope 2 energy indirect emissions*						
Grid electricity purchased**	21,263	49,652	25,724	51,802	35,634	66,430
Total scope 2 energy indirect emissions	**21,263**	**49,652**	**25,724**	**51,802**	**35,634**	**66,430**
Total scope 1 and scope 2 (gross of avoided emissions)	**32,778**	**61,167**	**40,825**	**66,902**	**48,164**	**78,960**
Avoided emissions						
Avoided emissions from renewable electricity exported	(281)	(281)	(468)	(468)	(605)	(605)
Avoided emissions from renewable electricity purchased	N/A	(30,983)	N/A	(28,082)	N/A	(28,490)
Total avoided emissions	**(281)**	**(31,264)**	**(468)**	**(28,550)**	**(605)**	**(29,095)**
Total scope 1 and scope 2 (net of avoided emissions)	**32,497**	**29,903**	**40,357**	**38,352**	**47,559**	**49,865**
Scope 3 other indirect emissions						
Purchased goods and services	80,310	80,310	48,550	48,550	43,110	43,110
Capital goods and services	64,560	64,560	45,310	45,310	33,210	33,210
Waste generated in operations	9,410	9,410	8,780	8,780	14,650	14,650
Employee commuting, homeworking and business travel	1,850	1,850	1,650	1,650	1,660	1,660
Fuel and energy	6,200	6,200	6,450	6,450	7,360	7,360
Transport and distribution	3,330	3,330	2,640	2,640	1,120	1,120
Leased assets	100	100	100	100	100	100
Total avoided emissions	**165,760**	**165,760**	**113,480**	**113,480**	**101,210**	**101,210**
Total reported emissions (net of avoided emissions)	**198,257**	**195,663**	**153,837**	**151,832**	**148,769**	**151,075**

*The scope 1 and scope 2 emissions relating to Omega and Kinnegar Public Private Partnership contracts have been reclassified to scope 3 emissions.

**Market-based emissions from grid electricity purchased derived on a pro-rata basis using 2021/22 emissions.

***Market-based figures use emission factors specific to the actual electricity purchased.

****Location-based figures use average grid emissions to calculate electricity emissions.

^Note that any adjustments to the 2020/21 baseline reported in our Climate Change Strategy is due to improved understanding.

NI Water greenhouse gas emissions intensity	2022/23	2021/22	2020/21
Total location-based reported emissions per megalitre of treated water (tCO_2e/Ml)	0.887	0.608	0.684
Total location-based reported emissions per megalitre of sewage water (tCO_2e/Ml)	1.487	1.019	1.148

The total reported emissions increased from 151,832 tCO_2e in 2021/22 to 195,663 tCO_2e in 2022/23, an increase of 29%. The increase in total reported emissions was primarily due to increased capital investment. There was a resulting increase in greenhouse gas emissions intensity.

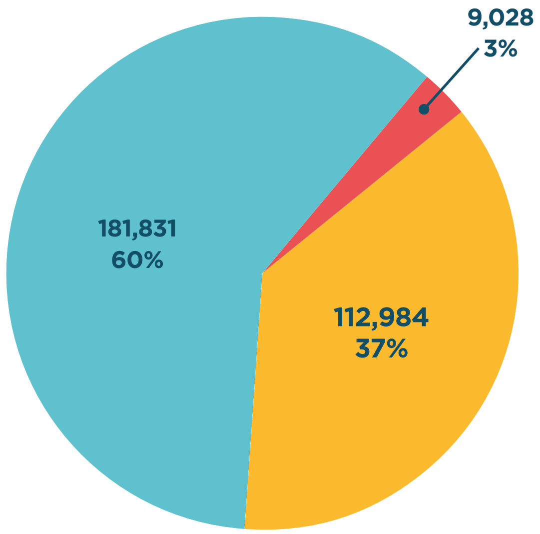
2022/23 is the first year NI Water is reporting scope 3 emissions. The data is based on assumptions and latest understanding.

We plan to develop our methodology and processes in future years.

Based on the uncertainties and current industry practice, our net zero 2040 baseline currently excludes some of the wastewater process emissions and all of land use. We will include all of these in our net zero 2040 baseline and target once we are able to quantify them.

NI Water's electricity consumption and renewable energy generation is shown below:

Total electricity consumption 2022/23 (MWh)



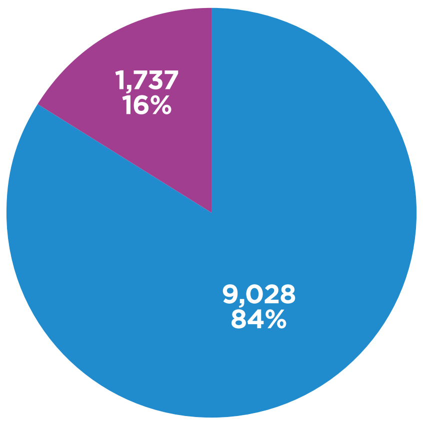
Grid electricity purchased (excluding renewable energy)

Grid electricity purchased - renewable energy

Renewable electricity generated and used

Total electricity consumption 303,843MWh

Total renewable electricity generated 2022/23 (MWh)



Renewable electricity generated and used

Renewable electricity generated and exported to the grid

Total renewable electricity generated 10,765MWh

ISO 14064 (Part 1)

NI Water has appointed a UKAS accredited verifier to review its carbon reporting against ISO 14064 (Part 1). This ISO standard covers the quantification and reporting of greenhouse gas emissions and removals. The verification work covers the 2020/21 baseline in Climate Change Strategy and the subsequent two years (2021/22 to 2022/23).

CDP

NI Water has registered with CDP and uses the 2022/23 CDP questionnaires for Companies and Public Authorities. The CDP aligns with the Climate Disclosures Standards Board (CDSB) framework which helps corporates identify material information and data. The CDP and CDSB are part of a climate disclosure framework, which ultimately supports corporate disclosures under the TCFD framework.

Targets

NI Water is committed to achieve net zero for the energy we use by 2030 and net zero for all our emissions by 2040, as measured against our 2020/21 adjusted baseline. We will refresh this baseline for any structural changes that have a significant impact such as changes in calculation methods, outsourcing or insourcing. Changes to the baseline will be guided by materiality thresholds.

Over 2023/24, we will finalise the decarbonisation trajectories to inform annual targets aligned with our Climate Change Strategy.

Science Based Targets Initiative (SBTi)

Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

We have committed to set a science-based target with the Science Based Targets Initiative (SBTi), which defines and promotes global best practice in science-based target setting. The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). NI Water has registered with the SBTi to signal its commitment to setting science-based targets and automatically joined the Business Ambition for 1.5°C and Race to Zero campaigns. NI Water has two years in which to submit its targets to the SBTi for validation.

Future developments in climate reporting

IFRS Sustainability Standards

The IFRS Foundation has established a new International Sustainability Standards Board (ISSB) that will develop a comprehensive global baseline of sustainability disclosure standards. A prototype for the new standards has been published, which aligns with the TCFD framework. The prototype is accompanied by sector specific disclosure guidance. The final version of the standards was published in June 2023 and will replace the TCFD framework. The UK government has confirmed it intends to incorporate these standards into the UK corporate reporting framework. We continue to monitor the development of the standards and the implications for our climate reporting. We plan to undertake a gap analysis with the standards over 2023/24.

Climate Change Act (Northern Ireland) 2022

The Climate Change Act (NI) 2022 was enacted in June 2022. The Department for Agriculture, Environment and Rural Affairs (DAERA) assisted by NI Environment Link and Climate NI hosted workshops in November 2022 on its implementation. This centres around the development of a Climate Action Plan and five-year Carbon Budget (2023-2027).

The Climate Action Plan and Carbon Budget are primarily focussed on greenhouse gas emissions and cover the various sectors across the economy. Infrastructure spans a number of these sectors (wastewater, energy, buildings, land use etc). The Climate Action Plan will contain proposals and policies aimed at support a 38% reduction in emissions by 2027, from 1990 levels (which represents a 22% reduction from 2019 emissions levels). These proposals and policies will also aim to support the 2030 target of 48% lower than the baseline and align with the 2040 and 2050 targets as stipulated in the Act. The 2040 target is to be set in line with the 2050 target of 100% lower for carbon dioxide and 46% lower for methane. The Climate Action Plan may also cover climate adaptation and public body reporting.

We are engaging with DAERA and the Department for Infrastructure to support the development of the Climate Action Plan and Carbon Budget, which are to be finalised by December 2023. As part of this engagement, we submitted a response to the draft Climate Action Plan and Carbon Budget in 2022/23, highlighting the different approaches to greenhouse gas reporting between the water sector and Government. This includes the use of different bases of carbon accounting (carbon consumption versus carbon production) and different baseline years. We have commissioned a reconciliation between greenhouse gas reporting in the water sector and reporting under the Act. The reconciliation will be shared with DAERA and the DfI and will be reflected in our submission to the consultation on the Climate Action Plan and Carbon Budget.

The Act also requires DAERA to make new regulations, which will set mitigation and adaptation climate reporting duties on specified public bodies. NI Water has been identified as a public body under the meaning of the Act. NI Water has issued a response to the DAERA consultation on public body reporting.

NI Water's Apprenticeship Academy graduates.

Strategic areas of focus

- Powered by talent
- Safe, happy and healthy workplace
- Creating a legacy for our communities

Sustainable development goals

Principal threats/opportunities

Page 76 Read more about principal threats and opportunities.

Strategic performance indicators

People	Unit of measurement	Target 2022/23	Actual 2022/23	Pass/ Fail	Target 2023/24
Employee attendance	%	96.5	96.7	Pass	96.5
Health and safety incidents	Number	≤7	6	Pass	≤7

Powered by talent

We want to create a great place to work and ensure that NI Water is fit for the future by attracting, developing, and retaining top talent. Our people strategy is focused on driving performance for our customers through building capability, ensuring we have the right people with the right skills performing their roles to the best of their ability. Our plans support the provision of a safe and healthy workplace, helping to make NI Water an organisation in which we are all proud to work.

Whilst many organisations are experiencing the 'great resignation', our staff turnover remained consistently low at around 5%, while average tenure has remained high at over 15 years. Nearly 10% of our workforce were promoted in 2022/23. Our employer brand remains strong in the marketplace, with over 250 new recruits in the last two years.

Over 2022/23, we engaged an expert partner to support the delivery of a comprehensive management development framework that will develop world class management capabilities at all levels. This is a major investment in our leaders and managers over PC21 and continues NI Water's journey in developing leadership skills, competencies, and behaviours to create a high-performance culture and role model our values.

Your future matters

We continue to grow and diversify our entry level academy to seed our organisation with top talent to support succession planning. Our Apprentice Academy won the prestigious Chartered Institute of Personnel and Development (CIPD) Award for Best Apprenticeship Scheme. Our academy model has grown to 75 apprentices and covers business areas such as operations, mechanical and electrical engineering, civil engineering, and cyber security. We continue to see higher female representation through this programme in typically male dominated areas. We launched a campaign to recruit a further 33 apprentices and higher level apprentices and graduates to join in 2023/24, introducing programmes in new business areas including Science, Finance and Accountancy, Commercial Management, and ICT Telemetry to add to our existing programmes in Water Operations and Construction Engineering. This will bring our entry level academy numbers to 108 people, just under 10% of the workforce.

northern ireland water | apprentice academy

northern ireland water | higher level apprentice

northern ireland water | graduate programme

See it to be it!

Our entry level strategy is supported by promotion of careers in STEM, partnering with further and higher education bodies and influencing early career choices. Over 2022/23, we participated in the 21st Century Girls and Big Conversation schools and college career events, partnered with NIE Networks in the 4CUR future careers event involving 7,500 school children, and held our inaugural online parents evening. Several female leaders from NI Water are taking part in the 'Sisters IN' mentoring programme, which is designed to inspire tomorrow's female leaders.

Three of NI Water's inspirational female leaders with pupils from local schools taking part in the 'SistersIN' Mentoring Programme.

Providing a safe, happy and healthy workplace

It is only with a motivated, safe and healthy workforce that we can deliver exceptional standards of customer service. We do this by placing care for our people front and centre in how we do business, looking after them through all of life's events and providing the conditions for them to perform their role to the best of their ability.

Zero harm

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

NI Water has a dedicated Health and Safety team, which is key to ensuring that NI Water complies with relevant legislation and best practice. The Health and Safety Focus Group, made up of representatives from across NI Water, examines NI Water and contractor incidents, reviews health and safety training needs, and general promotion of health and safety. Driver awareness is one of the areas of focus for 2022/23 and 2023/24.

NI Water has a Health, Safety and Facilities Transformation Programme (2021–2025) which sets out several priorities for health and safety. Significant investment continues to be made in our facilities and above ground buildings and related assets.

The Assure health and safety software enables all employees and our supply chain to report incidents, unsafe and good observations and safety suggestions via App or Source homepage using a mobile phone, Toughbook, or laptop. The system has been developed over 2022/23 and will give NI Water real time, accurate and meaningful data that will allow us to appropriately target and resource both our short and long-term health and safety priorities.

Prioritising Health

In recent years, our work on employee wellbeing has been widely recognised as a programme of best practice in Northern Ireland and has earned us several prestigious business awards, including the Belfast Telegraph Award for Excellence in Workplace Health and Wellbeing 2022. More importantly, the programme has proven to have been successful in helping to improve the health and wellbeing of many of our employees. We have had excellent feedback from employees who have benefited from the various programmes including a few notable cases where early identification of health issues prevented more serious consequences.

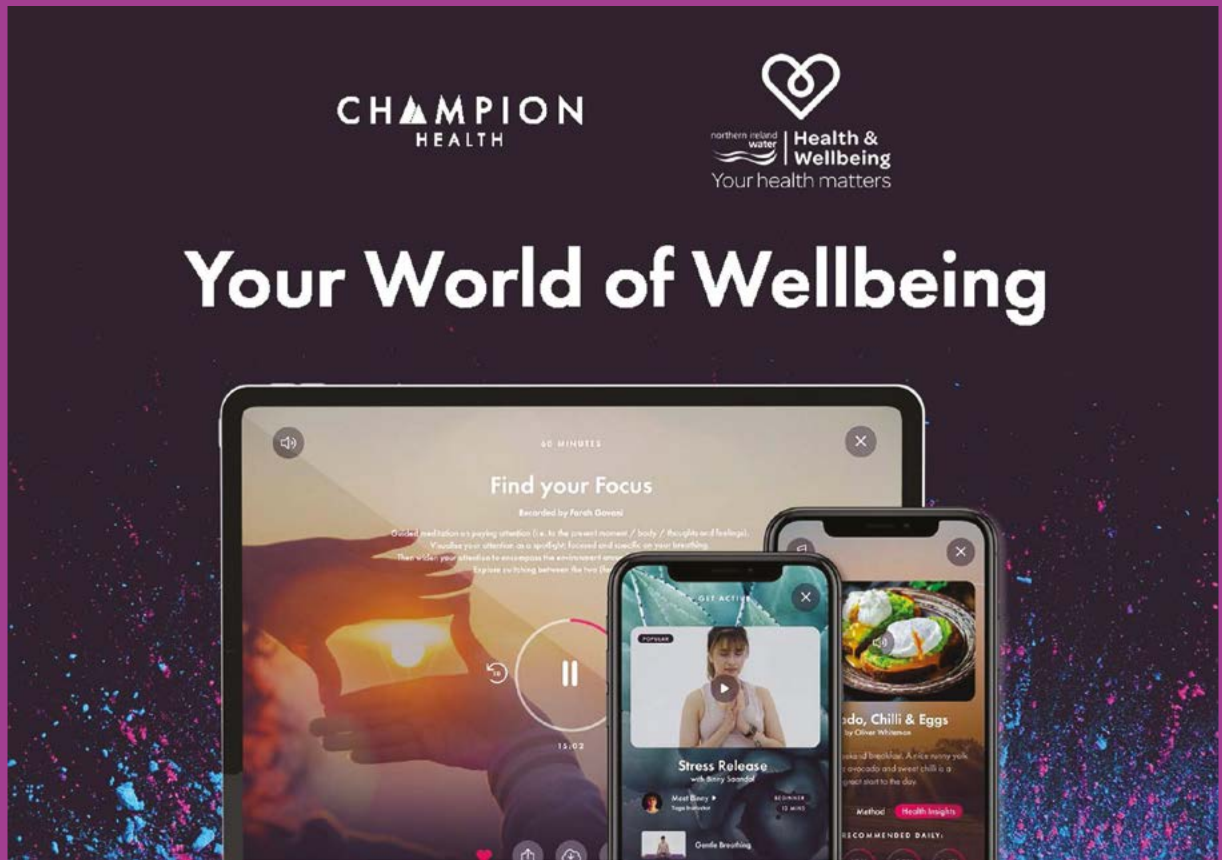
Our health and wellbeing strategy, is focused around four key pillars of health (mental, physical, social, and financial). Over 2022/23, we hosted a range of guest speakers, attracting record audience numbers and continued our health promotion and awareness campaigns via the use of storytelling to support Men's Health Week, Mental Health Awareness Week, Carers Week and Smoking Cessation.

Our hugely popular live well roadshow was brought to each hub office over 2022/23 with a newly designed programme reflecting feedback from our many listening strategies asking for increased support for retirement, financial health, men's health, and women's health.

northern ireland water | Health & Wellbeing
Your health matters

Netflix of wellbeing

We introduced our new wellbeing app in association with Champion Health to offer employees a 'Netflix of wellbeing' at their fingertips, completely personalised to their individual needs and interests. Family and friends of NI Water employees can also use the app.



NI Water wellbeing app.

Involving people in the decisions that affect them

We use a range of listening strategies to gather the voice of the employee and ensure that action is targeted in the right place. These include employee surveys, frontline focus groups, cultural ambassador network, monthly polls, and employee workgroups. This approach provides agile ways of staying connected with our people to understand the sentiment of our workforce.

Feedback received has helped inform a variety of corporate strategies including the new hybrid working strategy. In 2022/23, we engaged a new expert culture and engagement partner to help design and deliver a new holistic listening strategy across NI Water. We will use this to gather the voice of the employee and develop our ability to measure the health of our corporate culture.

Celebrating and promoting diversity

As a major employer delivering an essential service, we recognise both the business and personal benefits of creating a diverse and inclusive environment and the importance of diversity in attracting and retaining the best talent. We are committed to creating an environment where everyone feels valued and able to contribute fully to their full potential. Significant work has been undertaken in the last three years to lay the foundations for a new culture of diversity and inclusion.

Find out more about diversity and inclusion at page 130.

NI Water receiving the Silver Diversity Charter Mark.

Our progress was recognised at the Belfast Chamber Business Awards in October 2022, when NI Water was recognised as the best of Belfast business in becoming the inaugural winners of the Diversity and Inclusion award. The Diversity and Inclusion award recognises organisations who exhibit exceptional practice and exemplary contributions towards improving diversity and inclusion in their business.

NI Water receiving the Diversity and Inclusion award.

Building on our success in achieving the Bronze Charter Mark for Diversity in 2020/21, NI Water became the second public sector organisation in Northern Ireland to achieve the challenging standard of the Silver Diversity Charter Mark by Diversity Mark in 2022/23. We now join 17 other leading NI employers who have also achieved this important standard.

We also began our programme of diversity and inclusion training in 2022/23, delivering Inclusive Leadership training to key groups across the organisation including our entire Level 3 senior leadership team (over 70 leaders) to enable them to fulfil their commitments in this area and act as role models.

northern ireland water | Diversity & Inclusion
Here everyone matters

Silver Diversity Mark

Creating a legacy for our communities

Wrapping up a milestone year of celebrations

In 2022/23 we wrapped up a milestone year of celebration through one of the largest corporate volunteering schemes in Northern Ireland.

In 10 outstanding years, we have donated over 11,500 employee hours to help good causes. Supported by Business in the Community, NI Water has helped employees to volunteer their time through a wide range of volunteering activities.

As part of our 'Cares Challenge' programme, activities are planned and set up in partnership with Business in the Community's NI Cares Programme. The programme identifies organisations and charities within the local community who need a helping hand with physical tasks. This has allowed our staff to help a wide range of charities including, Southern Area Hospice, The National Trust, Welcome Organisation, Crosskennan Lane Animal Sanctuary and Foyle Hospice.

NI Water staff volunteering with Cares Challenge assisting with the winter campaign at Simon Community.

Making a difference in Malawi

NI Water supports WaterAid's vision of a world where everyone, everywhere has access to clean water, decent sanitation, and good hygiene. We are proud to lead the local WaterAid NI Committee, which raises around £60,000 each year. Recent fundraising has been dedicated to WaterAid's Deliver Life project in Malawi, which aims to improve the health of women, girls, and children by providing access to clean water, decent sanitation, and good hygiene in their communities. These funds will support health centres in Machinga and Zomba districts of Malawi, by helping to introduce a variety of facilities such as solar-powered piped water supply systems, inclusive bathrooms, and other sanitary facilities.

Deliver Life project in Malawi. Photo credit Dennis Lupenga.

Creating a water saving culture

NI Water is committed to creating a water saving culture for communities. Our Education Programme delivers NI Water's key environmental messages on water efficiency to schools, community, and youth groups with a strong emphasis on the link between saving water and saving energy. Schools are encouraged to promote the use of water butts throughout the school community via a colouring competition.

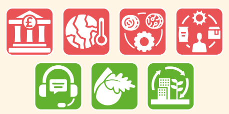
These messages are further promoted through the free water audit and water efficiency project supported by an online platform 'Get Water Fit', which involves distributing save-a-flush, four minute shower timers, leaky loo strips and toothy timers directly to the customer. We have completed 210 school visits and 63 community visits in line with targeted engagement.

Water whizz-kids from Bellaghy Primary School, County Derry/Londonderry with their new water bottles provided as part of NI Water's refillution campaign.

NI Water's Environmental Outreach and Learning Officer with water whizz-kids from Ballymacash Primary School, Lisburn, County Antrim.

Principal risks

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

Strategic Priorities	Strategic performance indicators (SPIs)	Principal threat /Principal opportunity Read more page 80
Customer – delivering an exceptional customer experience Read more page 26	• Reduction in customers reporting service failures • First point of contact resolution • More customers singing our praises (Net Promoter Score)	
Water – delivering great tasting, clean and safe water to meet customer need Read more page 32	• Water quality compliance • Reduction in leakage • Reduction in supply interruptions	
Economy – efficiently delivering infrastructure to underpin sustainable growth Read more page 42	• Increase/(decrease) in customer tariffs • Number of economic constraint areas removed • Number of serious development restrictions removed • Bathing water quality	
Nature – protecting and enhancing the natural environment Read more page 50	• Reduction in our pollution incidents • Wastewater compliance • Reduction in number of properties at risk of out of sewer flooding • Reduction in our carbon footprint	
People – providing a great place to work Read more page 68	• Employee attendance • Reduction in health and safety incidents	

Principal threat

- GOVERNANCE MODEL AND FUNDING
- HEALTH AND SAFETY
- CLIMATE CHANGE
- ASSET RESILIENCE
- DATA INTEGRITY AND CYBER RISKS
- SUPPLY CHAIN
- PEOPLE

Principal opportunity

- CUSTOMER SERVICE AND INNOVATION
- LIVING WITH WATER PROGRAMME
- STAKEHOLDER ENGAGEMENT AND SUSTAINABLE DEVELOPMENT

Risk and resilience

Increasingly, NI Water faces downside threats which are external to the organisation. These include, for example, inflation; factors which impact our supply chain; uncertainty regarding funding, labour and skills shortages, cyber-attacks, and climate change.

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

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

A resilience culture within NI Water means that all employees are united in purpose and are clear on the need to be prepared for when that incident does occur rather than simply thinking that it might occur.

This is demonstrated by putting plans in place in advance and then being adaptive when an incident does occur so that disruption is minimised, and NI Water can return to 'business as usual' in the most effective and efficient way possible. All the corporate risk maps have a section which records the existing controls and the actions to be put in place to continually improve on our resilience.

NI Water's integrated risk and resilience framework

Integrated

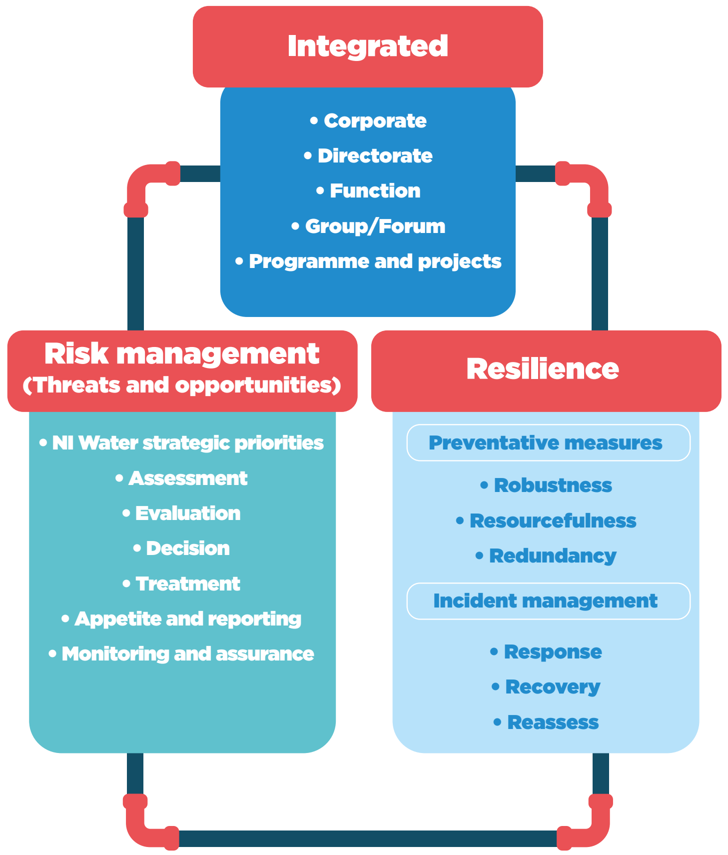
Risks are managed on a cross-directorate basis with input from external strategic partners where required (e.g., supply chain, local councils and service users).

Resilient

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

NI Water defines resilience as 'the strategic and organisational capacity of NI Water to resist, respond to, and recover from disruptive threats both foreseen and unforeseen and to reassess such as to learn from and improve on how we deliver our services'.

NI Water's integrated risk and resilience model



NI Water's approach to risk management

NI Water's approach to risk management is to have a risk culture where our employees and strategic partners are aware of how they contribute towards our strategic priorities.

There is a collaborative approach to analyse the downside risk (threats) that could have a detrimental impact on the achievement of our priorities but also to consider the upside risk (opportunities) towards deriving better outcomes. Using an integrated risk management software, risk owners are able to manage controls and actions over the predetermined timeline towards achieving the risk appetite.

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

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

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

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

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

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

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

Read more about risk management on pages 108 and 202

Emerging from the corporate risk maps are a number of significant principal threats and opportunities. For each principal threat or opportunity, we have identified the related strategic priority and the change in the level of threat or opportunity over 2022/23. These threats and opportunities have not been ranked and therefore are not listed in order of significance.

Principal threat	Strategic priority	Change in threat level*
Governance model and funding	Customer, Water, Economy, Nature, People	▲
Health and safety	Water, Nature, People	=
Climate change	Customer, Water, Economy, Nature, People	▲
Asset resilience	Customer, Water, Economy, Nature, People	▲
Data integrity and cyber risks	Customer, Water, People	▲
Supply chain	Water, Economy, Nature	▲
People	People	▲ **

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

*This column shows the change in the threat level compared to what was reported in 2021/22. An upward arrow means that the level of threat has increased.

**New threat. Previously managed as an opportunity.

***This column represents the change in the opportunity compared to what was reported in 2021/22. An upward arrow means that the potential benefits to NI Water from the opportunity have increased.

Principal threats

Governance model and funding

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

Background to the threat

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

NI Water is an asset intensive business and long-term planning is essential to improve services for customers today while investing to safeguard services for future customers. The uncertainty over funding adds complexity and inefficiency to long-term asset management and longer-term asset resilience, as NI Water is unable to take a multi-year view of its investment profile. This makes it difficult to maintain momentum to complete programmes of work.

Like many businesses, NI Water is subject to threats which are largely outside its control such as inflation and cost increases; government funding cuts; adverse weather resulting in recovery costs and damage to our assets and unlawful acts by third parties (e.g., pollution, legislation breaches). The timing and impact of these are dependent on the nature of the threat. NI Water does not have a contingency fund to deal with such financial shocks which could potentially impact the ability to recover from the incident.

The current sub-optimal funding model is a result of the dual status of NI Water as both a regulated Government owned company and a Non-Departmental Public Body (NDPB) and leads to continual difficulties in applying government guidance that conflicts with NI Water's statutory and regulatory requirements.

The Board of NI Water accepted the PC21 Final Determination in July 2021 and was encouraged that the first year of PC21 (2021/22) was fully funded by the DfI and the NI Executive. Since then, global energy prices have risen to unprecedented levels and inflation has reached a 40 year high. This is creating significant pressure on operating and capital expenditure. While capital expenditure for 2022/23 was funded in line with the Final Determination, we faced significant challenges on operating expenditure. There is a risk that the capital budget across the six-year Business Plan will not be sufficient to enable delivery of the regulatory outcomes due to significant levels of inflation associated with construction. These pressures are exacerbated by draft expenditure limits for 2023/24 which are below the level required, and the lack of visibility of funding for the remaining three years (2024/25 to 2026/27) of PC21. The absence of a functioning NI Executive prevents the setting of multi-year public expenditure budgets.

Managing the threat

NI Water has increased customer bills for 2023/24 according to a formula agreed with the Northern Ireland Utility Regulator. However, public expenditure budget cuts can prevent NI Water from spending the income received from customers. Even with full funding and bill increases, historic underinvestment will take in the region of 12 to 18 years to remedy. NI Water continues to work with the Utility Regulator and the DfI to make the case for ring-fenced funding over PC21 supported by a financial risk mechanism, including the approval of strategic capital projects to reduce the threat of adverse impacts on customers. In the meantime, NI Water ensures that the implications on the delivery of our services because of funding constraints are fully analysed, managed, and communicated to the public in a clear and responsive manner.

Emerging risks

NI Water is currently preparing for the PC21 mid-term review. We have received the Utility Regulator's approach to this mid-term review. NI Water will make a written submission to the Regulator at the end of September 2023, setting out proposed changes to funding, price limit requirements and revised output targets. The Regulator will publish their decision in December 2023.

Owner

Director of Finance Regulation and Commercial.

Find out more about funding world class economic infrastructure at page 44, going concern and managing the threat at page 145.

Health and safety

Strategic priorities: Water, Nature, People

Background to the threat

Health and safety is an integral part of NI Water's day-to-day business. NI Water's vision for health and safety for employees, contractors and customers is the 'pursuit of zero harm by raising standards and performance through the identification and adoption of industry best practice and the development of an empowered, valued, engaged, accountable and competent workforce'. We are committed to ensuring that all work activities are conducted in compliance with the Health and Safety at Work (NI) Order.

Managing the threat

NI Water has a dedicated Health and Safety team, which is key to ensuring that NI Water complies with relevant legislation and best practice. The Health and Safety Focus Group, made up of representatives from across NI Water, meets on a monthly basis to examine NI Water and contractor incidents, review health and safety training needs, and general promotion of health and safety; providing assurance to the Executive Committee, the Risk Committee and the Board on health and safety related matters.

NI Water has a Health, Safety and Facilities Transformation Programme 2021–2025 which sets out several priorities for health and safety. A significant amount of work was undertaken during 2022/23 to progress this plan, with progress being tracked by Risk Committee and Board. Completion of the transformation programme will help us to realise sustainable, measurable improvements and compliance in health and safety for the benefit of our people.

Emerging risks

We are continuing with our hybrid working pilot to manage the return to office locations for non-front line staff.

Owner

Director of People and Learning.

Find out more about health and safety at page 71.

Climate change

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

Background to the threat

Transitioning to a zero carbon, climate resilient economy is a long-term aspiration, but we need to act with urgency and prioritise delivery now. We are in a climate emergency, a global energy cost crisis, and facing economic uncertainty. The need to act becomes more pressing with each day that passes.

Addressing climate change is critical to the water sector given the impact on the quality and quantity of water sources, the carbon intensity of our sector's supply chain, and the exposure of our assets to extreme weather events. We will mitigate emissions from our activities, reduce emissions where we can from our construction and the wider supply chain, and adapt our assets to extreme weather events.

Managing the threat

At NI Water, we're committed to delivering a net zero, climate resilient future for all our customers. We have challenged ourselves to go further and faster than the net zero 2050 targets set in law. NI Water is committing to achieve net zero for the energy we use by 2030 and net zero for all our emissions by 2040, as measured against our 2020/21 adjusted baseline. As an operator of critical national infrastructure, we must be ready for climate change. We are moving our business to a higher state of readiness by planning for two degrees of temperature rise by 2050 and preparing for four degrees by 2090. We are determined to harness the huge and largely unseen potential for NI Water to address climate change. Several of the approaches we are taking will benefit our society and economy more broadly as it seeks to decarbonise and exploit the benefits of green growth through a just transition.

Our Climate Change Strategy lays the foundations to help us reach our climate change commitments under future Price Controls. While our spending to 2027 has largely been set, we are finding ways to decarbonise our business now which will enable us to make deeper emissions reductions at the next Price Control - PC27 (2027-33). This Climate Change Strategy will help us prepare our future Business Plans where we will have to make new climate investments, some of which we will only be able to anticipate once we are further along our journey.

Emerging risks

Today all the answers do not exist. We will be bold and innovative in finding affordable solutions. Yet we can't do this on our own. Climate change is a systemic problem for Northern Ireland and requires systemic solutions. And we need holistic solutions that also address the changes of the global energy crisis and growing pressures on public sector funding that we experience as a government owned company. We will continue to collaborate across government and with the Utility Regulator to find the most cost-effective way to invest in our services, which supports those who can least afford to pay, places fairness across generations at the heart of our approach while restoring our natural environment.

Owner

Director of Asset Delivery, Director of Business Services and Director of Customer and Operations.

Find out more about our Climate Change Strategy at page 60.

Asset resilience

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

Background to the threat

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

There is a very real threat that NI Water could suffer a major failure in its assets or be unable to respond effectively to a major incident caused by severe weather. This could cause a significant impact to our customers due to deterioration in the quality of drinking water, interruptions to supply and management of wastewater services, including an adverse impact to the environment.

The unavailability of anticipated funding (both operational and capital) is expected to cause a delay in achieving the desired Level of Service to all customers. Given the current levels of inflation, there is a risk that the capital investment budget for PC21 will not be sufficient to enable delivery of the regulatory outcomes.

Managing the threat

As noted on page 80, NI Water continues to work with the Utility Regulator and the DfI on medium and long-term funding arrangements to ensure that assets are maintained and replaced appropriately. Significant work was undertaken as part of the PC21 submission to determine the capital maintenance required for assets and any impact on customers if this maintenance is not undertaken. This assessment indicated that additional capital (base) maintenance is required during PC21 to be able to maintain service levels.

Work was undertaken during the year to improve resilience across several of our sites. This included upgrades to water treatment works, trunk mains and completion of our northern resilience project.

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

Emerging risks

Aging assets are affected by capital expenditure for improvement or replacement, which in turn places greater pressure on the already constrained operating expenditure for planned maintenance. The public sector funding cuts in 2023/24 will impact on NI Water's ability to upgrade assets and put in place other resilience measures. Consequently, asset failure and an increase in the number of incidents becomes more likely, as does the associated reputational damage. It will impact on levels of service and other regulatory deliverables. Development constraints continue to impact the business, both from an operational and reputational perspective.

Owner

Director of Asset Delivery and Director of Customer and Operations.

Data integrity and cyber risks

Strategic priorities: Customer, Water, People

Background to the threat

The robustness and accuracy of data, increasing regulation, changes in technology and the impact of cybercrime may have a significant disruption to levels of service.

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

Cybercrimes are increasing in both frequency and disruptive potential. These crimes can cause interruption to computer control systems and impact on data integrity. This could have a significant adverse impact on business performance over the recovery period.

Managing the threat

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

There is a constant cycle of work on the NI Water Corporate IT Network to improve cyber resilience through updating of systems controls, compliance with IT system supplier updates, training, and awareness. In 2022/23, we continued our simulated phishing campaigns to test our awareness of phishing email attacks and to help educate users in how attackers attempt to gain access to their systems. We launched cyber training and continued to liaise with the National Cyber Security Centre to keep at the forefront of an evolving threat landscape.

A Cyber Resilience Programme is in place for the technology used to run the NI Water sites. Significant work is ongoing to deliver this Programme and significant improvements have been made in key areas.

We continue to collaborate across the business during the introduction of new technology and technology upgrades to ensure that any cyber risks are captured at an early stage.

Emerging risks

The UK's National Cyber Security Centre has advised NI Water that the cyber threat level against Critical National Infrastructure from Russia has increased, with Russia expending more effort on sabotage. There has been a significant increase in disruptive and destructive attack attempts and this increase is expected to continue both in terms of volume and sophistication. We continue to monitor the situation.

Owner

Chief Information Officer.

Supply chain

Strategic priorities: Water, Economy, Nature

Background to the threat

We rely on a complex supply chain for goods, services and construction works. Any disruption to this supply chain could impact on the delivery of our services.

Significant global economic uncertainty and volatility arising from the war in Ukraine and surging consumer demand following the easing of the COVID-19 pandemic, resulted in rising commodity prices, and increased raw material costs over 2022/23. Pandemic related supply chain bottlenecks have been exacerbated by labour shortages and trade friction.

Like most businesses NI Water is experiencing significant cost increases across many of the materials used to construct and operate our assets. We also face longer lead times and difficulty in sourcing some goods, services, and construction materials.

Managing the threat

NI Water has established a commercial team which brings together procurement teams and contract managers. We have established a Supply Chain Resilience Working Group to review supply chain risks and agree mitigating actions to ensure resilience in this area, such as reprofiling of regulatory deliverables. As part of our procurement strategy, we have established four integrated partnerships, which will ultimately expand our available supply chain.

Emerging risks

Rising geopolitical tensions, continued economic uncertainty and climate change will increasingly pressure logistics and procurement operations.

Owner

Director of Finance, Regulation and Commercial; Director of Asset Delivery and Director of Customer and Operations.

Lime is one of the chemicals used in the treatment of water.

Find out more about the pressures caused by supply chain inflation in Note 1(c) to the financial statements.

STRATEGIC REPORT

People

New

Strategic priorities: People

Background to the threat

The current socio-economic pressures, such as skills shortfalls, labour shortages and competitive reward market have the potential to make it more difficult for NI Water to attract and retain the right talent for the organisation. NI Water also has an ageing workforce with limited diversity and low turnover.

Managing the threat

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

Our People Strategy is focused on driving performance for our customers through building capability, ensuring we have the right people with the right skills performing their roles to the best of their ability. We regularly invite our colleagues to participate in ongoing Pulse Surveys so that we can listen to their concerns and suggestions on how we can make NI Water a great place to work. We launched Apprenticeship and Graduate Programmes over 2022/23 and are piloting a succession planning framework during 2023/24. Diversity and inclusion training was provided to all senior managers over 2022/23. We also launched our 'SistersIN' Mentoring Programme, which encourages the uptake of STEM subjects amongst young females.

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

Emerging risks

Rising levels of ill health in the economy, alongside acute pressures on the NHS, are lowering the size of the workforce.

Owner

Director of People and Learning.

Find out more about providing a great place to work at page 70.

Principal opportunities

Customer service and innovation

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

Background to the opportunity

NI Water is seeking to deliver a world class customer experience. Changing customer expectations, the digital revolution and demographic and lifestyle changes are all leading NI Water to embrace new ways to meet customer needs, now and in the future.

Exploiting the opportunity

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

Through cooperation with other utilities, business partners, universities and in- house development, we continue to support and implement new technologies to improve customer experience and efficiency in service delivery. In 2022/23 we expanded our online self-service portal with improved digital features to help our customers and colleagues. The portal provides an enhanced customer experience with added functionality of simple to use and environmentally friendly processes. We continued to support our vulnerable customers through promotion of our Customer Care Register.

There has also been a significant overall improvement in the service offered to developers over 2022/23. The introduction of a pre-planning team has helped to improve our engagement with developers and helped to mitigate the impact of infrastructure constraints.

Emerging risks

Customers want to be increasingly more in control of how they interact with us, driving the need to be at the right place, at the right time, on the right channel and serving customers to a standard provided by leading service providers.

Owner

Director of Customer and Operations.

Find out more about delivering a world class customer experience at page 28.

STRATEGIC REPORT

Living With Water Programme

Strategic priorities: Customer, Economy, Nature

Background to the opportunity

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

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

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

Living With Water in Belfast:
An Integrated Plan for Drainage and Wastewater Management in Greater Belfast was published in 2021/22. At £1.4bn over 12 years it is not a quick, or inexpensive fix. The publication of the Plan is a major milestone as it represents the culmination of five years of studies by the programme partners to assess the challenges faced and determine drainage and wastewater related investment needed for Greater Belfast.

Exploiting the opportunity

NI Water's participation in the programme provides an opportunity to develop the catchment based multi-agency sustainable solutions and upgrade the sewerage networks and six wastewater treatment works that discharge into Inner Belfast Lough. The upgrades need to be undertaken in a way that Government and NI Water can afford, and which minimises disruption during construction. Throughout 2022/23, several significant flood alleviation projects were carried out in Belfast. The approach is now being extended to develop catchment based and integrated solutions in other towns and cities across Northern Ireland

Emerging risks

In 2023/24, NI Water will submit revised cost assessments for the Programme to inform the PC21 mid-term review. As has been noted on page 83, the public sector funding cuts in 2023/24 will impact on NI Water's ability to deliver the Living With Water Programme.

Owner

Director of Asset Delivery.

Find out more about the Living With Water Programme at page 54.

Stakeholder engagement and sustainable development

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

Background to the opportunity

NI Water is seeking to create a legacy for our communities and to work in such a way which puts more back into society than we take out. This includes engaging with stakeholders and the community to educate and benefit local communities.

Exploiting the opportunity

NI Water is engaged in numerous and wide-ranging sustainable development projects to safeguard public health, underpin economic growth, and restore nature. Our work positions us as custodians of the natural environment.

Our fantastic Cares Challenge was active throughout 2022/23 and as part of this we supported charities such as Southern Area Hospice, Action Deaf Youth and Praxis Care as well as local community groups.

We are proud of our unique education programme, which includes the Waterbus mobile classroom initiative. We have educated over 200,000 'water-whizz' school kids about the value of water for health, the economy and nature.

Emerging risks

Public expenditure budget cuts in 2023/24 place additional pressure on the delivery of our services and our ability to create a legacy for our communities.

Owner

Company Secretary, Director of Asset Delivery and Director of Business Services.

Find out more about creating a legacy for our communities at page 74.

STRATEGIC REPORT

Our finances explained

Revenue

Government subsidy

We receive subsidy from the DfI in lieu of deferred domestic charges. In 2022/23 we received a subsidy of £345.5m.

Bills

We bill non-domestic customers which generated £92.0m of revenue in 2022/23 and road drainage charges of £25.2m from the DfI.

Other revenue

Other forms of revenue were £16.5m in 2022/23.

Government loans

We borrow from the DfI to help fund our capital investment programme. £155m was borrowed in 2022/23.

Investment

Investment in new assets and on our network totalled £309.5m in 2022/23.

Day-to-day operating costs

Our day-to-day running costs totalled £375.6m in 2022/23. These costs include staff, power, rates, hired and contracted services.

Operating profit

Operating profit (revenue less day-to-day operating costs) was £105.0m in 2022/23.

Financing our investment

Interest on our borrowings from the DfI £52.5m and our Public Private Partnership liabilities £10.5m comprised the majority of our net finance charges of £58.6m in 2022/23.

Profit before tax

The profit before tax was £46.4m in 2022/23.

Corporation tax

We have charged £5.3m for tax to be paid in future years.

Profit after tax

The profit after tax for the year was £41.1m.

Dividend

A dividend of £19.0m was paid to the DfI in 2022/23. The dividend to the DfI represents a return to the taxpayer on the amount invested in the Company.

Cash flow from operating activities

Balance of cash remaining determines the loans required from the DfI.

STRATEGIC REPORT

Financial performance

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

- Statutory Group Accounts prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of Companies Act 2006 ("IFRS Standards") covering NI Water Limited (both our appointed (regulated) and non-appointed (non-regulated) businesses) and our subsidiaries; and
- Regulatory Accounts for NI Water Limited for our appointed (regulated) business prepared under the Regulatory Accounting Guidelines issued by the Utility Regulator.

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

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

Pages 134 to 211
Read our Statutory Accounts.
The Regulatory Accounts are published separately. See the latest Regulatory accounts at: https://www.niwater.com/publications/

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

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

Consolidated Statement of Comprehensive Income

Our Consolidated Statement of Comprehensive Income (SOCI) is presented on page 138 is summarised below.

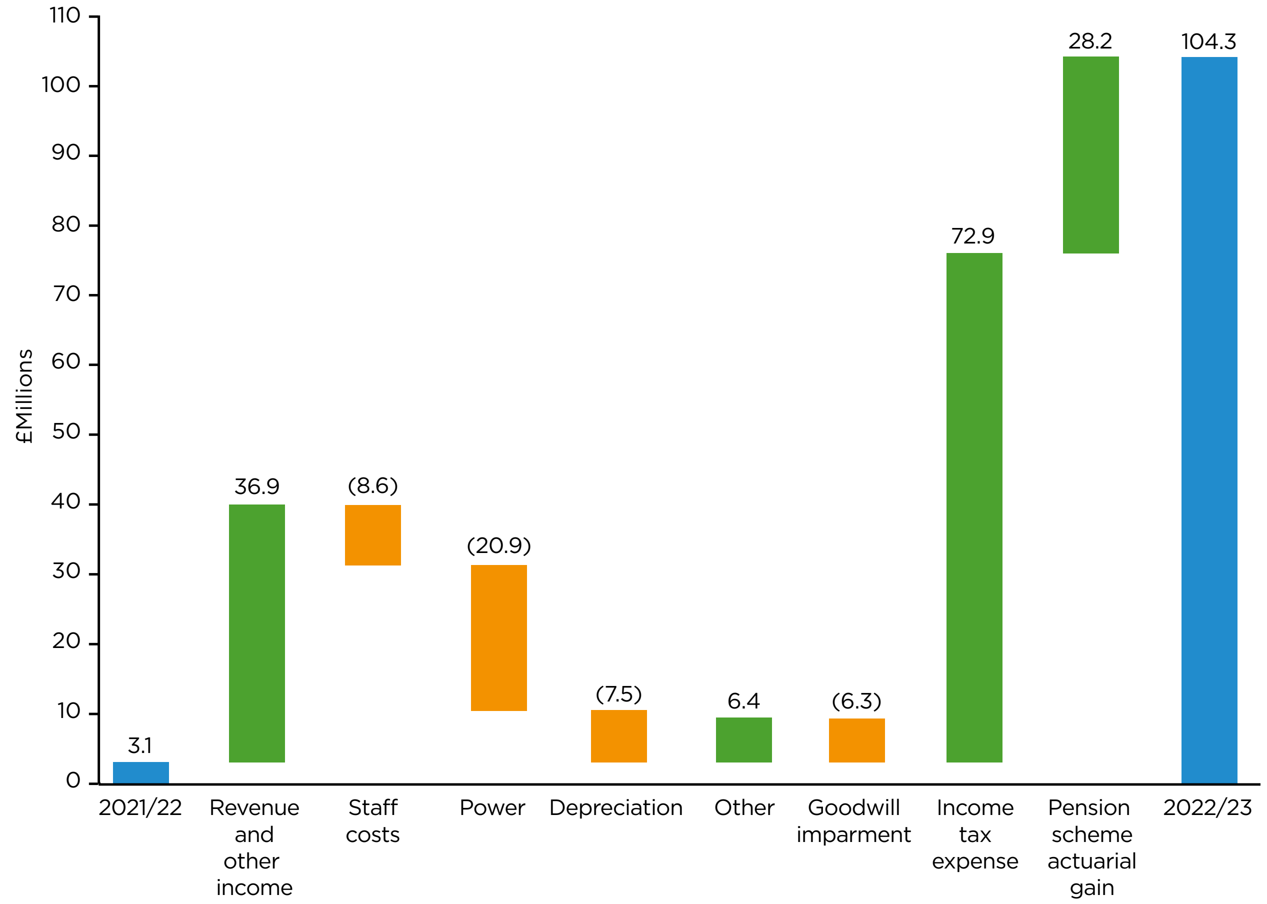
Summary Consolidated Statement of Comprehensive Income

	Year to 31 March 2023 £m	Year to 31 March 2022 £m
Revenue	**479.3**	441.2
Results from operating activities	**105.0**	105.4
Net finance charges	**(58.6)**	(59.0)
Profit before tax	**46.4**	46.4
Income tax expense	**(5.3)**	(78.3)
Profit/(Loss) for the year	**41.1**	(31.9)
Other comprehensive income, net of income tax	**63.2**	35.0
Total comprehensive income for the period	**104.3**	3.1

Revenue has been stated excluding the value of adopted assets (£29.7m) (2021/22: £40.0m) following the adoption of IFRS 15 "Revenue from Contracts with Customers" in 2018/19. It is considered that the adoption of assets creates a long-term obligation to maintain the related assets and therefore the revenue should be spread over the life of the assets through a deferred credit release (£4.1m) (2021/22: £3.8m).

A provision of £1.0m (2022: £1.0m) was retained to take account of the estimated impact of continued economic uncertainty post COVID-19 on our billed customers.

Movement in total consolidated comprehensive income for the period



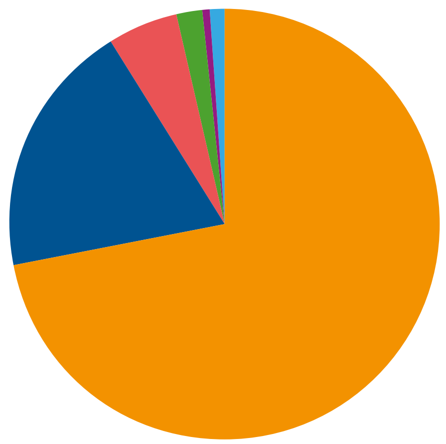
Revenue

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

The customer subsidy from Government covered the full domestic charge and this arrangement will remain in place until 2027.

Revenue was £479.3m for the year to 31 March 2023 (2022: £441.2m). Included in revenue was £370.7m (2022: £341.9m) received from the DfI, being subsidy of £345.5m (2022: £318.7m) and road drainage charges of £25.2m (2022: £23.3m). All the revenue was in relation to NI Water Limited as subsidiary revenue was all within the Group.

Sources of revenue 2022/23



- Customer subsidy from DfI £345.5
- Customer income £92.0
- Road drainage from DfI £25.2
- Connection and infrastructure charges £9.8
- Other third party contributions £2.7
- Transfers of assets from customers £4.1

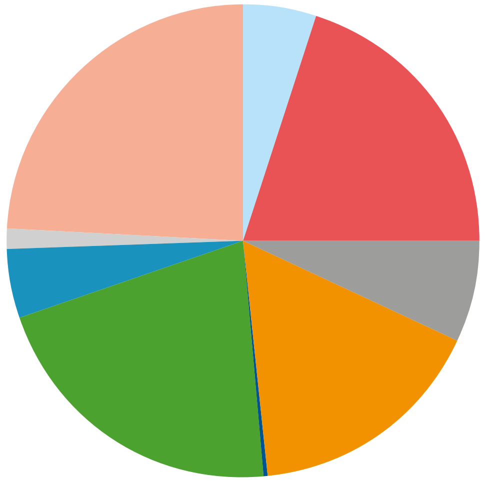
See Statutory Accounts Note C1.

STRATEGIC REPORT

Operating activities

Operating expenses in 2022/23 of £375.6m (2022: £338.2m) increased from last year. The increase primarily resulted from higher power costs driven by the continued unprecedented increase in wholesale gas prices, higher staff costs and higher depreciation costs as a result of the increased asset base. Results from operating activities before interest for the year was £105.0m (2022: £105.4m).

Operating expenses 2022/23



- Raw materials and consumables: £21.4
- Power: £83.0
- Rates: £28.9
- Hire and contracted services: £67.1
- Other operating expenses: £1.4
- Staff costs: £87.8
- Own work capitalised: (£19.5)
- Impairment of goodwill: £6.3
- Depreciation: £99.1

NI Water is one of the largest users of electricity in Northern Ireland. We spent around £83m on power in 2022/23.

Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £52.5m (2022: £50.9m); our Public Private Partnership (PPP) liabilities of £10.5m (2022: £11.1m) and net finance costs on the pension fund of £0.6m (2022: £1.2m). This was partly offset by £3.5m (2022: £3.7m) fair value increase in the value of financial liabilities and fair value impairment of senior loan debt and bank interest received of £1.6m (2022: £0.6m). See Statutory Accounts Note B2.

Taxation

The tax charge for the year was £5.3m (2022: £78.3m) for which payment is deferred to future years. The effective tax rate for the year to 31 March 2023 was 11.5% (2022: 168.6%). The significantly higher tax charge in the prior year was largely due to the increase in the rate of corporation tax from 19% to 25% from 1 April 2023 being applied to the Group's significant opening deferred tax liability. Since the new rate was enacted at the balance sheet date, the deferred tax for 2021/22 was calculated at the appropriate tax rate which was expected to apply when the assets are realised or liabilities settled. See Statutory Accounts Note F1.

Pension scheme actuarial gain

In 2022/23 there was an actuarial gain of £63.2m (2022: £35.0m gain). See page 96 and Statutory Accounts Note E2 and G3.

Distributions

The Board will consider a proposal to declare a dividend of £21.0m later this year (2022: £19.0m). See Statutory Accounts Note B3.

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

Capital structure

The Consolidated Statement of Financial Position (SOFP) at 31 March 2023 as presented on page 136 is summarised below.

Total assets increased by 7.4% to £4,041.0m (2022: £3,764.2m).

Our net debt[1] figure was £1,678.3m at 31 March 2023 (2022: £1,526.8m).

Gearing (the ratio of net debt to equity and net debt) was 58.9% (2022: 58.4%).

Summary Consolidated Statement of Financial Position

	At 31 March 2023 £m	At 31 March 2022 £m
Total non-current assets	**3,905.2**	3,624.9
Total current assets	**135.8**	139.3
Total Assets	**4,041.0**	3,764.2
Equity	**1,172.4**	1,087.2
Total non-current liabilities	**2,655.9**	2,494.6
Total current liabilities	**212.7**	182.4
Total liabilities	**2,868.6**	2,677.0
Total equity and liabilities at 31 March	**4,041.0**	3,764.2

Liquidity

Operating activities generated a net cash inflow of £209.1m (2022: £190.7m). Net cash outflows of £285.7m (2022: £212.7m) related to investing activities. Net financing activities created a cash inflow of £64.4m (2022: inflow £68.3m).

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

Interest is accrued on the working capital facility at floating interest rates based on Bank of England Base Rate.

Investing activities included the acquisition of property, plant and equipment of £287.4m (2022: £216.7m), interest received of £1.0m (2022: £nil), proceeds from the sale of property, plant and equipment of £0.4m (2022: £1.7m) and grants received of £0.4m (2022: £2.3m).

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

1. Refer to Notes A7 and B4 in the Statutory Accounts. Net debt consists of loans from the DfI of £1,594.6m (2022: £1,439.6m), external loans relating to subsidiaries of £60.7m (2022: £67.1m), derivative financial instruments of £1.0m (2022: £4.5m); and finance leases of £95.8m (on consolidation Alpha finance lease excluded) (2022: £101.5m) less cash and cash equivalents of £73.8m (including £15.3m from consolidated entities), (2022: £85.9m (including £15.8m from consolidated entities)).

STRATEGIC REPORT

Pension funding

The pension scheme was valued (net of the associated deferred tax liability/asset) as an asset of £46.5m at 31 March 2023 (2022: liability of £29.1m). This was made up of a total market value of assets of £300.1m (2022: £323.0m) less actuarial value of liabilities £253.7m (2022: £352.1m). The change from a net liability to a net asset arises primarily due to material increase in discount rate assumption by 2% which has served to reduce liabilities offset by experience loss allowing for actual inflation. See Statutory Notes E2 and G3.

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

Investing in our water and wastewater infrastructure

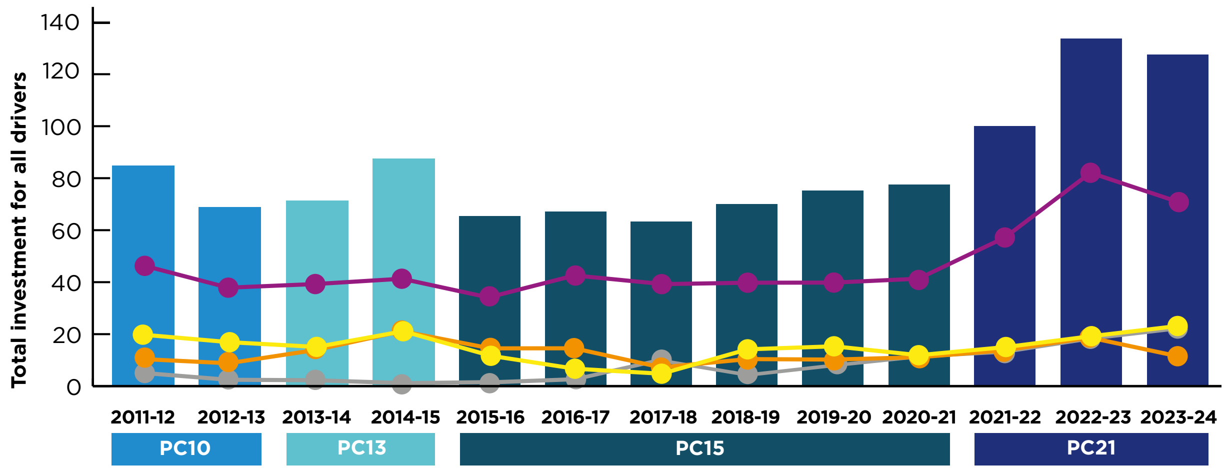
We have invested £3,148.2bn in Northern Ireland's water and wastewater infrastructure since our formation in 2007/08.

Around £297m of capital investment was delivered during 2022/23. £174m was invested in maintaining the current assets and a further £124m was invested to deliver quality enhancements, improve service and accommodate growth. Investment of £394m is planned for 2023/24.

Investment in 2022/23 included the completion of six wastewater treatment work, remediation of three unsatisfactory intermittent discharges and laying approximately 123km of new, renewed and relined water mains.

Investment analysed by investment driver

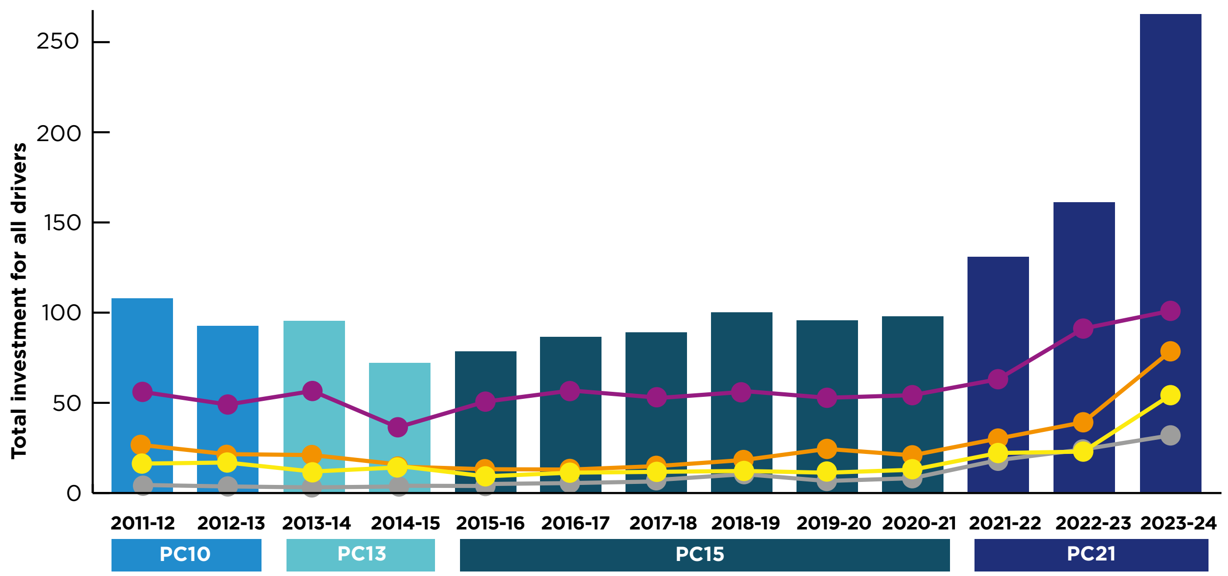
Water service



Type of investment driver

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

Wastewater service



Type of investment driver

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

This Strategic Report was approved by the Board of Directors on 29 June 2023 and signed on its behalf by Mark Ellesmere, Company Secretary.

Mark Ellesmere
Company Secretary
29 June 2023

Governance

NI Water's restoration team working on phase two of the Mourne Wall Restoration Project, County Down.

GOVERNANCE

Corporate governance

Chair's welcome

I am pleased to present the Corporate Governance Report for 2022/23. This report describes the key features of NI Water's corporate governance structure to support the long-term sustainable success of NI Water, generating value for all our stakeholders. The report also outlines compliance with the relevant provisions given NI Water Limited's status as a Government Owned Company under the Companies Act 2006 and as an NDPB sponsored by the DfI. The Board is committed to the principles of good corporate governance and delivering what matters for all our stakeholders. Details on how the Board understands the views of stakeholders and how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in the Board's discussions and decision making are set out on page 123.

Putting back more than we take out

Our Strategy (2021-46) is designed to make Northern Ireland a more healthy, sustainable, and prosperous place in which to live. Our business invests to meet the needs of current and future generations. The strategy centres around five strategic priorities, which set out how we will deliver our purpose and vision:

Customer - delivering an exceptional customer experience;

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

Economy - efficiently delivering infrastructure to underpin sustainable growth;

Nature - protecting and enhancing the natural environment; and

People - providing a great place to work.

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

The United Nations has developed 17 goals to deliver a more sustainable world by 2030 and we are proud to play our part in supporting delivery of at least 12 of these goals.

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

Our purpose, vision, and values

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

Our Values provide the cultural framework to support achievement of our purpose and vision and we encourage our employees to live these values.

We are committed to the highest standards of behaviour in how we do business. As a proud winner of the prestigious 'Employer of the Year' 2023 Belfast Telegraph Business Award, our people are central to everything we do. Our Values are at the heart of our decision making and centre around a more sustainable way of doing business by giving back more to society, the economy, and the natural environment than we take out.

Monitoring culture involves regular analysis and interpretation of evidence and information gathered from a range of sources. Through 2022/23 we used a range of listening strategies to understand the voice of our employees including issuing our sixth pulse survey focused on hybrid working, which reported a highly positive experience with 82% of respondents enjoying the flexibility, 81% benefitting from fuel and time savings and 79% experiencing a better work life balance because of hybrid working. Almost two-thirds of line managers confirmed they were experiencing management successes because of the hybrid model pilot, including increased productivity, better connected through Microsoft Teams and happier staff.

To further support early careers at NI Water, we surveyed our apprentices for the second year running to understand their experience of work. The results were overwhelmingly positive with 100% of respondents stating that they felt comfortable to 'be themselves' at work, 100% said that their teams on the ground demonstrated NI Water's corporate values in their day-to-day work and 100% saying they would recommend NI Water as a great place to work.

We also issued a values survey to all employees following the organisational wide launch of our new behaviour statements which showed significant progress in our values maturity with majority of respondents moving from a rating of Level 2 (awareness of the values) to Level 4 (living the values).

Our Purpose

To provide the water for life we all rely on to thrive.

Our Vision

To grow **value** and **trust** by being **world-class**

NI Water **Values**

Respect . Excellence . Customer . Integrity . Sustainability

Respect	Excellence	Customer	Integrity	Sustainability
Give it, get it, live it	Better, stronger, together	Delivering for you	Do the right thing	Build tomorrow's future today

Stakeholder engagement

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

Details on how the Board understands the views of stakeholders and how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in the Board's discussions and decision making are set out on page 123. The Board keeps these engagement mechanisms under review to ensure that they remain effective.

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

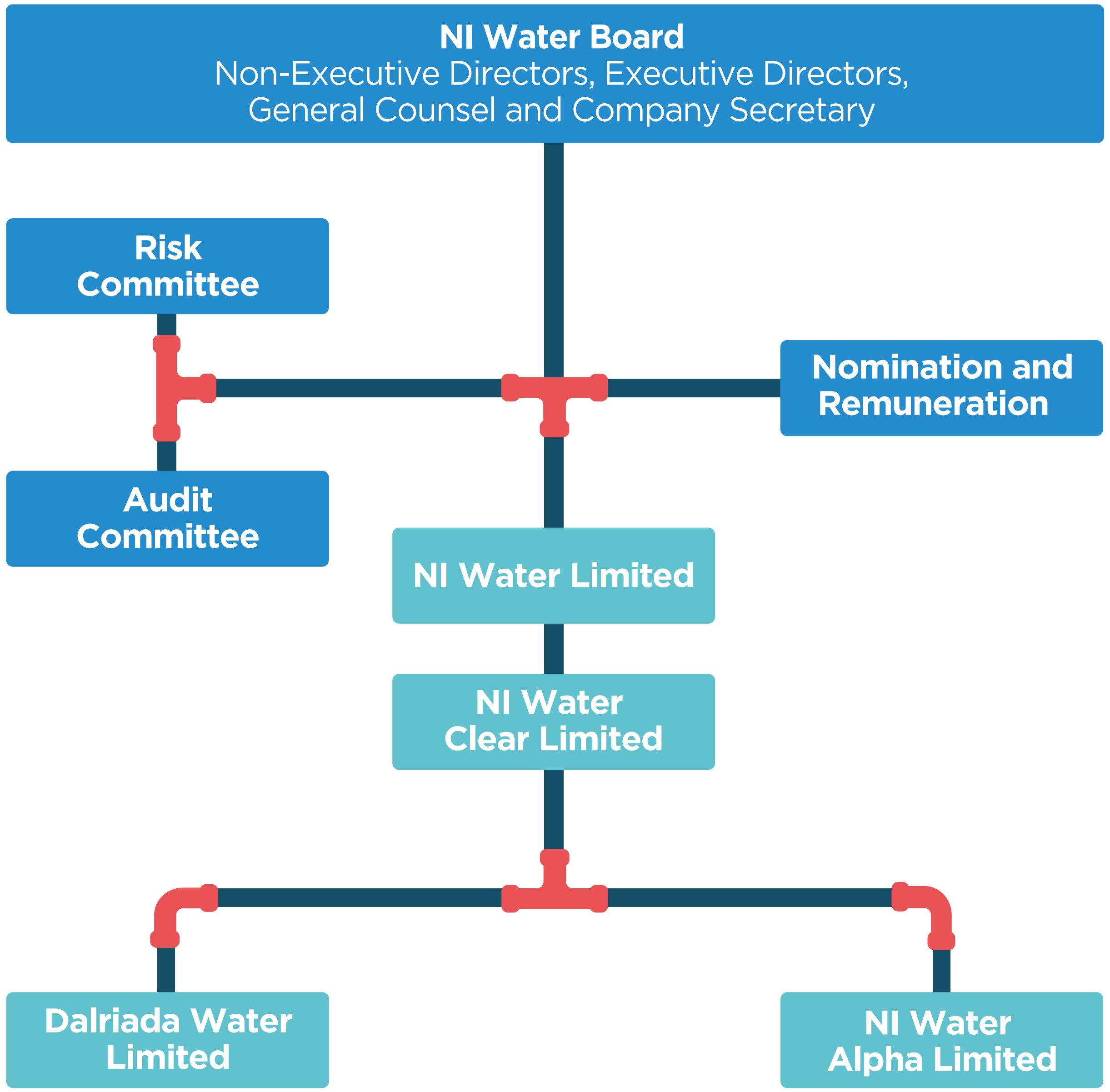
Compliance statement

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

The Board considers that, during the year and up to the date of this report, NI Water has complied with the main principles of corporate governance that apply to NI Water as set out within the Partnership Agreement, and which are practical for a Government owned Company. NI Water seeks to emulate best practice corporate governance arrangements as set out in the 'UK Corporate Governance Code' and the Partnership Agreement draws on the same but also draws on 'Corporate Governance for Central Government Departments: Code of Best Practice Northern Ireland' (Governance Code). However, it should be noted that the Company's commercial freedoms are restricted by the constraints of the public expenditure system and the provisions set down in the Partnership Agreement and consequently NI Water is not able to comply with all aspects of the UK Corporate Governance Code, nor is it required to. This includes the arrangements for appointment and termination of Board Members and their remuneration.

Board and Executive Committee

The Board and Executive Committee structure is shown below:



Dalriada Water Holdings Limited was dissolved on 22 July 2022 and no longer forms part of NI Water Group.

Operation of the Board

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

The operation of the Board and its responsibilities are outlined in the Partnership Agreement: https://www.niwater.com/siteFiles/resources/2023/PartnershipAgreement.pdf

Summary of Board activity

The Board activity over 2022/23 is summarised below:

		Cross reference
Strategy	• Reviewed progress against delivery of the Strategy (2021-46) through monthly updates from the Executive Committee on the strategy pillars and a half year strategic report;	Page 24
	• Approved the Climate Change Strategy for NI Water including compliance requirements with TCFD;	Page 58
Governance	• Reviewed the corporate risks and the risk appetite;	Page 76
	• Reviewed the effectiveness of the risk management system and reviewed the effectiveness of the internal control systems;	Page 113
	• Reviewed the terms of reference for the Audit, Risk, Nomination and Remuneration committees;	Page 108
	• Reviewed developments in corporate governance;	Page 108
	• Reviewed the External Auditors' performance;	Page 109
Business performance	• Approved the Annual Integrated Report and Accounts for 2022/23;	Page 108
	• Approved the Regulatory Accounts and the Annual Information Return for 2022/23;	Page 108
	• Approved the going concern and long-term viability statements;	Page 108
	• Monitored the delivery of the Annual Operating Plan and Budget for 2022/23;	Page 108
	• Approved the Annual Operating Plan and Budget for 2023/24;	Page 108
Employees	• Reviewed the health, safety and wellbeing activities and considered health and safety incidents involving employees and contractors as well as the Health and Safety Strategy to reinforce the zero harm ambition;	Page 71
	• Discussed the results of the pulse surveys. Reviewed and endorsed the action plan to address areas for improvement and the workforce engagement mechanisms to ensure an accurate representation of employees' views are provided to the Board;	Page 73
	• Reviewed the work being taken forward on the Group wide equality, diversity and inclusion policy;	Page 130
Stakeholders	• Undertook regular engagement with the Shareholder and key Stakeholders through the Water Senior Steering Group, the Outputs Review Group and other Stakeholder sub-groups and meetings; and	Page 124
	• Undertook half yearly meetings with senior Shareholder representatives.	Page 125

Board committees

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

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

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Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2023 (full years)	Date of appointment	Date of cessation
Dr Leonard J. P. O'Hagan, CBE DL	8	1 April 2015	31 March 2024
Peter McNaney, CBE	7	1 August 2015	31 January 2024
Paddy Larkin	3	1 February 2020	31 January 2024
Belinda Oldfield	3	1 February 2020	31 January 2024
Marie-Thérèse McGivern	3	1 February 2020	31 January 2024
Maurice Bullick	3	1 February 2020	31 January 2024
Sara Venning	12	21 May 2010	n/a
Ronan Larkin	17	19 September 2005*	n/a
Mark Ellesmere	16	26 June 2006*	n/a
Paul Harper**	6	1 January 2017	n/a
Des Nevin***	3	1 September 2020	n/a

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

**Paul Harper (Director of Asset Delivery) retiring in April 2024. New appointment for Director of Infrastructure Delivery commencing 1 September 2023. Director of Engineering and Sustainability role to be filled.

***Des Nevin (Director of Customer and Operations) retiring in October 2023. New appointment for Director of Customer and Operations commencing 1 September 2023.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2022/23 are shown below:

	Board meeting			Audit Committee			Risk Committee			Joint Audit Committee and Risk Committee			Nomination and Remuneration Committee		
	Held*		Attended	Held*		Attended	Held*		Attended	Held*		Attended	Held*		Attended
	Total	Available to attend		Total	Available to attend		Total	Available to attend		Total	Available to attend		Total	Available to attend	
Dr Leonard J. P. O'Hagan, CBE DL	11	11	9	-	-	-	-	-	-	-	-	-	4	4	3
Peter McNaney, CBE	11	11	11	4	4	4	-	-	-	1	1	1	4	4	4
Paddy Larkin	11	11	11	4	4	4	4	4	4	1	1	1	-	-	-
Maurice Bullick	11	11	10	4	4	3	-	-	-	1	1	0	-	-	-
Belinda Oldfield	11	11	9	-	-	-	4	4	4	1	1	1	4	4	4
Marie-Thérèse McGivern	11	11	10	-	-	-	4	4	3	1	1	0	-	-	-
Sara Venning	11	11	11	4	4	4	4	4	4	1	1	1	4	4	4
Ronan Larkin	11	11	11	4	4	4	4	4	4	1	1	1	-	-	-
Mark Ellesmere	11	11	11	4	4	4	4	4	4	1	1	1	4	4	4
Paul Harper	11	11	11	-	-	-	4	4	4	1	1	1	-	-	-
Des Nevin	11	11	11	-	-	-	4	4	4	1	1	1	-	-	-

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

Dr Leonard J. P. O'Hagan CBE DL
Chair of the Board
29 June 2023

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Report by Chair of the Audit Committee

The Audit Committee monitored the integrity of financial reporting together with NI Water's formal announcements relating to its financial performance, paying particular attention to significant reporting judgements and assumptions contained therein. The Audit Committee provided oversight on the effectiveness of financial risk management and its associated controls, reviewed the effectiveness of NI Water's fraud prevention, theft, speak up (whistleblowing) and anti-bribery policies and procedures, conflict of interest, cyber-fraud awareness training and the effectiveness of investigations.

The Audit Committee met with the Risk Committee to consider the Internal Audit's Annual Assurance Statement, principal and emerging risks and the effectiveness of NI Water's internal control and risk management system.

Significant matters

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

- **Risk relating to financial funding:** the Audit Committee was kept updated during the year on the funding position for 2022/23, including Resource DEL and Capital DEL planning envelopes in the absence of budgets being approved by the NI Executive, the significant in-year funding pressure created by rising power prices and the resolution of in-year funding pressure following Secretary of State's budget approval in December 2022. The Committee was also kept appraised of the proposed Operating Plan and Budget for 2023/24, ongoing liaison with the DfI and funding arrangements over the PC21 period;
- **Subsidiary companies and consolidation:** the Audit Committee considered the appropriate accounting treatment on the consolidation of the subsidiary companies acquired in 2017/18. This included fair value accounting; the value and treatment of goodwill in the Group accounts and the treatment of the PPP contract in Dalriada Water Limited's accounts;
- **Long-term viability statement:** the Audit Committee was regularly briefed on the management of the long-term viability for NI Water as reported in the statement, including the scenarios being considered, the impact of each of the scenarios and the conclusion on viability;
- **TCFD climate disclosures:** the Audit Committee was regularly briefed on the development of NI Water's Climate Change Strategy and Climate Risk Model, including the draft disclosures as part of the transition towards alignment with the TCFD framework by 2023/24;
- **NI Audit Office reports:** the Audit Committee was briefed on the NI Audit Office's report on the sale of Portavoe Reservoir and their ongoing review of funding of water infrastructure in Northern Ireland. The report is to be published during 2023/24;
- **Risk relating to the pension scheme:** the Audit Committee considered the funding position of NI Water Limited's defined benefit pension scheme in light of changes in market conditions;
- **Corporate governance and reporting reform:** the Audit Committee was briefed on the Department of Business, Energy and Industrial Strategy (BEIS) corporate reform agenda and wider developments in climate and sustainability related disclosures;
- **Going concern:** the Audit Committee was briefed on the loan note instrument in place to the end of PC21, extension of the working capital facility and ongoing communications with the DfI in relation to securing appropriate funding for 2023/24 to enable NI Water to comply with its statutory duties and secure the continued provision of water and wastewater services; and
- **Claims:** the claims level and treatment of claims from contractors were monitored during the year with additional information sought from management as appropriate.

Following a competitive tendering exercise, KPMG were appointed as external auditors under the current contract in November 2018 for three years with the option to extend for a further three years. The Audit Committee approved the proposal to take up the second one-year extension to November 2023. Following seven years as audit partner, John Poole has been replaced, for independence reasons, by Dominic Mudge. The accounts for the year ended 31 March 2023 are the first set of accounts signed by the current audit partner, Dominic Mudge.

External Audit

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

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

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

Refer to Note D1 to the Statutory Accounts for the fees relating to audit and non-audit services. Non-audit services provided during 2022/23 were £12k (2021/22: £11k) in relation to subsidy assurance review.

Internal Audit

The Audit Committee approved the Internal Audit Strategy, which includes reviews of corporate governance, risk management, financial and key operational processes. The Committee also monitored completion of the 2022/23 audit plan. The Head of Internal Audit provided a progress report to each Audit Committee meeting, which included an overview of audit review findings, follow up status of recommendations and summary of any advisory activity. The Head of Internal Audit met with the Chair of the Audit Committee without management to discuss NI Water's overall control environment and as Chair of the Audit Committee, I have satisfied myself that Internal Audit has sufficient resources through those discussions. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function and the Head of Internal Audit. These safeguards include the Head of Internal Audit having a primary reporting line to the Chair of the Audit Committee. In addition, the Internal Audit Charter, approved by the Audit Committee, provides the mandate, authority, scope, and responsibilities for the function, in accordance with the relevant Internal Audit professional standards. In accordance with the Public Sector Internal Audit Standards (PSIAS) and the International Professional Practice Framework (IPPF), the Head of Internal Audit provided an annual self-assessment of the function's performance to the Audit Committee. In addition, an External Quality Assessment of the Internal Audit function is completed at least once every five years, last completed by the Chartered Institute of Internal Auditors in February 2021, concluding that the Internal Audit function was in full conformance with the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Audit Committee's terms of reference, as approved by the Board. A formal report was presented to the Board in September 2022.

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

Peter McNaney, CBE
Chair of the Audit Committee
29 June 2023

Report by Chair of the Risk Committee

The Risk Committee provides oversight on NI Water's risk and resilience management framework. The purpose of this report is to provide an insight into the work of the Risk Committee over the last 12 months.

The Committee met on a quarterly basis and reviewed the risk management system and processes, the progress in managing the corporate threats and opportunities towards the risk appetite, and the effectiveness of internal controls and resilience measures.

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

Significant matters

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

- **Risk governance:** over the financial year, the Risk Committee considered significant threats and opportunities to achieving strategic priorities for 2022/23 and emerging risks going forward. This included health and safety; human resources including recruitment and wellbeing; quality and security of water supply; cyber risks and data security; business continuity and major incident management; asset resilience; winter resilience, innovation, reputation and branding and environmental management. The Risk Committee reviewed the draft Cyber Assessment Framework self-assessment and recommended it to the Board for approval.
- **Corporate threat and opportunity management:** the Risk Committee considered the proposed corporate threats and opportunities at the start of the financial year and recommended these for Board approval.

  Summary risk maps with clear controls and actions to improve resilience and achieve the benefits from the opportunities were presented to the Committee on a quarterly basis. The Committee reviewed the completion of actions and the effectiveness of controls.

  A corporate threat and opportunity management report was included in the Chief Executive's report to the Board on a monthly basis.

  Six principal threats had an increase in the threat level over 2022/23 (page 79) and actions are in place to manage these risks.

  NI Water has been underfunded through the PC15 regulatory settlement (2015-21). We have draft public expenditure limits from the DfI for 2023/24 which are below the levels required and have no visibility of funding for the final three years (2024/25 to 2026/27) of PC21. The absence of a functioning NI Executive prevents the setting of multi-year public expenditure budgets. Further details on the availability of public expenditure funding are contained at page 145.
- **Risk appetite:** the Risk Committee monitored the progress towards the Board's agreed risk appetite for the seven risk themes (consisting of both threats and opportunities). A six-monthly update is provided to the Risk Committee and a summary report to the Board.
- **Emerging risks:** details of emerging risks based on local and global research, developments and incidents were reported to the Risk Committee along with details of the mitigating steps being taken and further action to improve resilience. We continue to communicate with stakeholders on the implications of key external risk factors that are beyond the control of NI Water, such as the impact of inflation on costs and lead times in the supply chain and public sector funding cuts. We identify steps needed to improve service and financial resilience (refer to the long-term viability statement on page 116). NI Water continues to take steps to manage emerging risks through horizon scanning.
- **Environmental Social Governance (ESG):** the Risk Committee received updates regarding NI Water's engagement with Government, business partners and community partnerships to create further opportunities to work on a collaborative basis to restore the natural environment and benefit wider society. These activities are reported in other sections of the Annual Integrated Report.
- **Business resilience:** the Risk Committee received updates on business continuity management, emergency and major incident management and IT disaster recovery plans. This included an update on the plans put in place over the winter months to minimise any disruption to service because of severe weather incidents.
- **Risk training and awareness:** risk and resilience training and workshops and risk map meetings were held on a hybrid basis throughout the year. Colleagues were briefed on policy changes and updates through internal emails and NI Water's (Source) intranet. The Integrated Risk and Resilience Framework was reviewed and approved by the Risk Committee.
- **Risk research, development and innovation:** the Risk Committee is encouraged by NI Water's involvement in both local and international research activities in governance, risk and resilience management. Over the year the Committee received reports on the guest lectures provided to the masters programmes in Northern Ireland and the Republic of Ireland and the outcome of research projects for masters students in Queen's University Belfast Management School and the Ulster University Business School. NI Water continues to participate in UK, European and international research through the 'Water Research Foundation' (WRF), the Water Sector Insurance Special Interest Group hosted by the Association of Insurance and Risk Managers in Industry and Commerce (AIRMIC), the Water Sector Risk Managers Forum and the Northern Water Business Continuity Forum.

A joint meeting between the Risk Committee and Audit Committee was held to review the Principal Risks on page 76 and the effectiveness of NI Water's internal control and risk management framework. The Board was satisfied with the content of the Chairs' reports included within the Annual Integrated Report and Accounts.

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

Belinda Oldfield
Chair of the Risk Committee
29 June 2023

Refer to the Directors' remuneration report on page 126 in relation to the work of the Nomination and Remuneration Committee.

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Governance Statement

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Introduction

The Governance section on pages 98 to 133 sets out the role of the Board and the assessment of its effectiveness in discharging its responsibilities. MPMNI requires a 'Governance Statement' to be included in the Annual Integrated Report and Accounts. Given that some of the compliance requirements have already been included in the Governance section, the Governance Statement should be read in conjunction with this section. The Governance Statement forms part of the audited financial statements.

Statutory, regulatory and NDPB context

NI Water Limited is a regulated Government owned company and is therefore required to comply with a range of statutory, regulatory, and NDPB related responsibilities. These responsibilities include those under the Companies Act 2006, the Water and Sewerage Services (Northern Ireland) Order 2006, the Licence granted by the Utility Regulator and relevant governance provisions in MPMNI. The full remit of responsibilities is set out in the Corporate Compliance Framework, which is monitored by the Board. The Directors can be held jointly and personally liable for failure to comply with many of these responsibilities.

Scope of responsibility for the Chief Executive and Accounting Officer

The governance arrangements established between NI Water Limited and its sole Shareholder the DfI are set out in the Partnership Agreement. NI Water seeks to emulate best practice corporate governance arrangements as set out in the 'UK Corporate Governance Code' and the Partnership Agreement draws on the same but also draws on 'Corporate Governance for Central Government Departments: Code of Best Practice Northern Ireland' (Governance Code).

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

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

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

Governance framework

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

The Group's Integrated Governance Framework, supported by the Integrated Risk and Resilience Framework provides the appropriate structure to facilitate good governance and communication across the business and with key stakeholders. The Integrated Risk and Resilience Framework also sets out the potential impact of emerging risks and the approach to be taken by NI Water to manage these risks going forward.

The system of internal control has been in place in NI Water for the year ended 31 March 2023 and up to the date of approval of the Annual Integrated Report and Accounts, and accords with the DoF's and HM Treasury's guidance, where appropriate.

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Capacity to handle risk

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

The risk and control framework

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

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

The Risk Committee updates the Board on a quarterly basis on threat improvements, benefits from opportunity realised, improvement in resilience, risks escalated and completion of improvement actions. The Risk Committee also received reports on risk appetite throughout the year. The Audit Committee received reports on financial risk management and informed the Board on NI Water's current and emerging financial risks.

The Board received updates on the status of corporate risks monthly. The Board provides a biannual risk management report, at a strategic level, to the DfI. Risk management is a permanent agenda item in the Shareholder meetings. Other stakeholders are involved in managing risks that impact upon them.

Refer to pages 108 and 110 for further details on the matters considered by the Board and sub-committees.

Key risks materialising in year

During the year, risks have been effectively managed and principal risks are as reported in pages 80 to 89. Risks such as funding constraints continue to place NI Water in a situation where operational service delivery could be impacted in the short to medium term and inadequate levels of capital investment can impact the economic development and natural environment in Northern Ireland due to lack of asset capacity. Discussions are ongoing with the DfI on the governance funding model and the availability of public expenditure funding for the Utility Regulator's PC21 Final Determination. Further details on the availability of public expenditure funding are contained at page 145. Risks such as escalating energy and material costs, net zero and adverse weather-related events, which have wide implications for NI Water, continue to be managed in the context of constrained resourcing and asset capability, with steps taken where possible to improve on our resilience. Further details are contained in the Principal Risks section on page 76.

Internal Audit

The Head of Internal Audit provided an 'Annual Opinion' on NI Water's system of governance, risk management and internal control. The opinion for the year ended 31 March 2023 is 'Satisfactory': 'While there is some residual risk identified this should not significantly impact on the achievement of objectives'.

Review of effectiveness

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

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

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

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

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

Chief Executive's Year End Assurance Statement – Exception Report

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

NI Water was underfunded through PC15 regulatory settlement (2015-21). We have draft public expenditure limits from the DfI for 2023/24 which are below the levels required and have no visibility of funding for the final three years (2024/25 to 2026/27) of PC21. The absence of a functioning NI Executive prevents the setting of multi-year public expenditure budgets. Any underfunding of the Utility Regulator's PC21 Final Determination will increase the size and likelihood of the financial shocks as outlined in the long-term viability statement. Further details on the risks of underfunding are contained in the Principal Risks section on page 76. Further details on the availability of public expenditure funding are contained at page 145.

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

Sara Venning
Accounting Officer
29 June 2023

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2023.

Principal activities

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

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2023. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Parent Company operates as described below:

- NI Water Limited is subject to economic regulation rather than market competition. As a result, the Parent Company provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, which designates NI Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.
- Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water Limited receives funding by means of a subsidy provided by the DfI. Due to the level of subsidy, NI Water Limited is also designated as a NDPB and is subject to public sector spending rules i.e. public expenditure.
- Following the launch of the 25 year strategy in September 2019, NI Water submitted its Business Plan for the PC21 Price Control period (April 2021 to March 2027) to the Utility Regulator in January 2020. The PC21 Business Plan is a strong, challenging and ambitious plan seeking to balance service delivery and consumer interests with continuing efficiency over both the near and longer-term.
- The Utility Regulator published the PC21 Final Determination in May 2021 endorsing the proposals outlined in the PC21 Business Plan and adding further challenge in some areas.
- The Board of NI Water accepted the PC21 Final Determination in July 2021, encouraged that the first year of PC21 (2021/22) was fully funded by the Department for Infrastructure and the NI Executive and on the basis of a continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.
- Since then, global energy prices have risen to unprecedented levels and inflation has reached a 40-year high, both of which have created significant inescapable pressures on Resource DEL[2] in 2021/22 and 2022/23. Shortfalls in Resource DEL have been successfully met by in-year bids to the DfI in both years.
- Pressures in relation to energy and inflation are expected to prevail into 2023/24. NI Water's Operating Plan and Budget for the 2023/24 year sets out a Resource DEL requirement of £215m and a Capital DEL requirement of £370m. This reflects the third year of the PC21 Final Determination (2023/24) adjusted for higher energy costs and higher than forecast inflation. Since preparing the Operating Plan and Budget in February 2023, energy prices have improved and we have secured better rates on a number of our contracts. The current best estimate of our Resource DEL requirement is £195m.
- On 15 May 2023, the DfI Accounting Officer wrote to NI Water advising that the DfI was planning on the basis of a Resource DEL budget of £171.4m for NI Water in 2023/24. This planning assumption is £44m less than the 2023/24 Operating Plan and Budget and £24m less than the current best estimate.

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

- On 1 June 2023, the DfI Deputy Secretary wrote to NI Water advising a Capital DEL allocation of £321.2m, a shortfall of £49m to the 2023/24 Operating Plan and Budget.
- On 8 June 2023, the DfI Accounting Officer provided a letter of assurance to NI Water in relation to the current shortfall in the Resource DEL allocation and contingency arrangements that may need to be put in place such that NI Water can continue to trade and meet its liabilities as they fall due for at least 12 months from the date of signing the financial statements for the year ended 31 March 2023. The letter of assurance provides the confirmation required to enable NI Water to comply with its statutory duties and secure the continued provision of water and wastewater services.
- NI Water has access to cash through the loan note instrument which enables the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027. £155m was drawn down in 2022/23. In addition, the Company has access to a working capital facility of £20m.
- Operating Plan targets for 2023/24 reflect the Utility Regulator's PC21 Final Determination with some adjustment for efficient delivery.

The challenging public sector budget situation in Northern Ireland has created a shortfall in Resource DEL allocation which limits what NI Water can spend to run and operate its business in 2023/24. The shortfall in Capital DEL allocation creates a limit on what NI Water can invest in water and drainage infrastructure.

The current shortfalls in Resource DEL and Capital DEL allocations give rise to significant uncertainty and concern in the context of delivering six year PC21 programme of work as well as having the potential to lead to conflict in relation to:

- Obligations to deliver services under our Licence;
- Board's statutory duties;
- Accounting Officer responsibility not to overspend; and
- Regularity of spend.

Notwithstanding the current shortfalls in Resource DEL and Capital DEL, NI Water has access to cash to meet its liabilities as they fall due. On that basis and given the regulatory, financial and governance environment within which NI Water operates, the Directors have formed a judgement at the time of approving the financial statements that the Group has adequate resources to continue in operational existence for the foreseeable future and as such to continue as a going concern.

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

Long-term viability statement

The long-term success of NI Water is dependent on the sustainability of its business model and its management of risk. Ultimately, this long-term success can only be realised if we move from a 'stop-start' approach to delivery because of underfunding and lack of visibility on funding, to multi-year funding in line with that determined by the independent Utility Regulator, supported by a mechanism to deal with financial shocks.

The purpose of the viability statement is to assist the Board in discharging its responsibility to ensure that the Group is financially resilient i.e., the extent to which the Group's financial arrangements enable it to avoid, cope with and recover from disruption (a 'financial shock'). The viability statement demonstrates how the Board has assured itself that this is the case, providing this assurance both to the Shareholder and wider stakeholders.

In making this assessment, the Board has taken account of the current position, the potential impact of the principal risks facing the business in severe but plausible scenarios, and the effectiveness of any mitigating actions. The Board's assessment has been made in the context of NI Water's funding arrangements. All other UK water companies benefit from funded regulatory settlements. NI Water has been underfunded through the PC15 regulatory settlement (2015-21). We have draft public expenditure limits from Government for 2023/24 which are below the levels required and have no visibility of funding for the final three years (2024/25 to 2026/27) of PC21. The absence of a functioning NI Executive prevents the setting of multi-year public expenditure budgets.

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

Stage 1 – longer-term prospects

The Directors have considered the Group's longer-term prospects, taking into account the Group's current position and principal risks. Refer to page 76.

Stage 2 – assessment of viability

Period covered

The Directors have considered the appropriate length of time over which to provide the viability statement. In making their assessment, they have taken account of the balance between timescale and robustness of analysis, and the time periods used and recommended across the water sector. The Directors consider that a five year period is appropriate given NI Water's position within the current regulatory cycle, the extent to which information is available on the direction of the subsequent Business Plans and the assessment periods used in the water sector.

This five year assessment period covers the remaining four years of PC21 and the first year of PC27, so extends beyond the end of the PC21 regulatory period (March 2027) and falls within our current strategic planning horizon (2021-46). Preparations for the PC27 Business Plan are at an early stage. In the absence of a PC27 Business Plan, we have assumed no material changes in income, expenditure, loan facilities or agreements between year 4 (final year of PC21) and year 5 (first year of PC27). The long-term Corporate Strategy and the PC21 Business Plan reflect the Directors' best view of prospects. The assumptions used in developing the PC21 Business Plan were based upon the best information currently available at that time.

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Approach

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

Develop scenarios

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

Model scenarios

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

Approve the long-term viability statement

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

Scenarios

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

Scenario number	Scenario name	Description of severe but plausible scenarios	Link to strategic risk (page 76)
1	Underfunding	Significant underfunding of the PC21 Final Determination	
2	Macroeconomic	Macro-economic shocks and stress (combination of inflation, interest rates, bad debt, tax duty/recession) may lead to changes in the number of non-domestic customers and levels of bad debt	
3	Pension	Unanticipated additional contributions to the Pension Scheme arising from higher-than-expected actual inflation; lower than expected investment returns; the threat that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets; and members living for longer than expected	
4	People	A lack of people, capacity and capability compounded by a shortfall in STEM skills and talent in the marketplace may compromise our business performance and ability to retain critical skills	
5	Supply chain	Global supply chain disruptions, chemical pricing or changes to market conditions may lead to excessive energy or chemical cost inflation, power outages/ blackouts and insolvency of key operational or capital contractors	
6	Health and Safety	Major fire or explosion due to process safety failure, legionella/asbestos exposure or dam burst may lead to death or serious injury to colleague or member of the public	
7	Cyber	Significant IT/cyber breach leads to major data loss (GDPR, NISD and SEMD) leading to investigation and fine by Information Commissioner or Competent Authority, service impact or breach of network information systems and security and emergency measure obligations	
8	Drinking water	Major widespread water quality contamination event	
9	Wastewater	Severe consent failure at key wastewater treatment works (including unexpected change to PPP Omega contract)	
10	Pollution	Pollution and sewer flooding incidents lead to loss of reputation with regulators, key stakeholders, and damage to the natural and built environment	
11	Severe weather	Multi-year dry spring/summer leads to severe drought and supply restrictions	
		Severe winter followed by thaw leading to significant increase in leakage and supply interruptions	
		Widespread flood inundation/coastal inundation/ significant flood event including our ability to embed and transform our flood resilience	
12	Net zero carbon	Significant increase in decarbonisation costs due to changes in the required rate of decarbonisation because of changes in legislation, technology, and climate	

Financial shocks have not been developed in relation to scenario one due to the uncertainty around funding over PC21 and the subsequent difficultly in estimating the degree to which financial shocks relating to other scenarios will increase because of any underfunding. Scenario one is unique to NI Water as all other UK water companies benefit from funded regulatory settlements. NI Water has been underfunded through the PC15 regulatory settlement (2015-21) and has no visibility of funding for the remaining four years (2023/24 to 2026/27) of the six year PC21 regulatory settlement. The absence of a functioning NI Executive prevents the setting of multi-year public expenditure budgets. Any underfunding of the determination will increase the size and likelihood of the financial shocks across the other scenarios. Further details on the availability of public expenditure funding are contained at page 145.

The financial shocks in relation to scenario 12 (Net zero carbon) have been developed in the absence of a net zero aligned Business Plan. The shocks for this scenario will be reassessed once the PC27 Business Plan is developed. PC27 will be NI Water's first net zero aligned Business Plan.

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

Energy price shocks and wider inflationary pressures are included within the suite of scenarios. Such events are difficult to predict given the level of uncertainty about their duration. We will reassess our planning assumptions as inflation expectations evolve.

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

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

- **Combination 1 –** macroeconomic, pension and supply chain;
- **Combination 2 –** people and pollution;
- **Combination 3 –** health and safety, cyber, drinking water and wastewater;
- **Combination 4 –** drinking water, severe weather and net zero carbon;
- **Combination 5 –** health and safety, cyber and net zero carbon; and
- **Combination 6 –** macroeconomic, pension, people, supply chain and wastewater.

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

Fundamental assumptions

This viability statement is based on the following fundamental assumptions:

- that the Utility Regulator's PC21 Final Determination is fully funded by the Shareholder;
- that the Shareholder, as the sponsoring Government Department, can provide public expenditure budget cover to allow the Group to incur additional expenditure associated with one or more of the severe but plausible scenarios occurring. This includes energy price shocks and wider inflationary shocks;
- a mechanism is agreed with the Shareholder to address the commitment for repayment of the 2027 Capital Loan Note on 31 March 2027 as outlined in Note G2 to the financial statements;
- that the current regulatory and statutory framework does not substantively change. From an economic perspective, given the market structure of water and wastewater services, threats to the Group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries; and
- that the assessment of financial shocks based on the above approach for this viability assessment represents the full range of financial shocks (known and unknown) and their magnitude. The assessment of financial shocks will be further embedded into the risk management process in future years.

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

- the availability of public expenditure funding as outlined on page 145;
- the Group's current liquidity position as outlined on page 95;
- the detailed financial projections developed as part of the planning process, which include the best available information about the PC21 regulatory period ending in March 2027; and
- the severe but plausible scenarios and stress testing described above.

Mitigating actions

The English and Welsh water companies can undertake a range of actions to mitigate the impact of severe but plausible financial shocks. These actions include use of cash reserves, access to borrowing on the financial markets, flexing capital investment programme between years, moving expenditure between operational and capital expenditure, cutting dividends, equity injections, equity reductions and significantly increasing the size and scope of their commercial insurance programmes. These mitigating actions are either not available to NI Water given its NDPB status or would not provide any additional spending power. Furthermore, the English and Welsh water companies operate under a funded regulatory settlement, unlike NI Water, which has been underfunded through PC15 regulatory settlement (2015-21). We have draft public expenditure limits from Government for 2023/24 which are below the levels required and have no visibility of funding for the final three years (2024/25 to 2026/27) of PC21. The absence of a functioning NI Executive prevents the setting of multi-year public expenditure budgets. NI Water's financial resilience is therefore dependent on its sponsoring Government Department for both access to funding and public expenditure budget cover to incur expenditure, the latter of which is the fundamental constraint. Severe but plausible financial shocks would likely require additional funding bids to the DfI. Such bids would compete with other bids on public expenditure within the sponsoring Government department and across the public sector. Further details on the availability of public expenditure funding are contained at page 145.

Assurance

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

- Level 1 - liaison with corporate risk owners and review by Corporate Governance, Financial Accounting and Regulation teams in Finance, Regulation and Commercial Directorate. Level 1 assurance included ensuring that the long-term viability statement was produced in line with best practice and the UK Corporate Governance Code; and
- Level 2 - the viability statement was subject to scrutiny and challenge by the Executive Committee, the Audit Committee, the Risk Committee and the Board at key stages in its development.

Conclusion

The Directors have concluded that, subject to the fundamental assumptions outlined above, there is a reasonable expectation that NI Water will be able to continue in operation and meet its liabilities as they fall due over the five year assessment period ending on 31 March 2028.

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Future developments

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

Dividends and reserves

NI Water Limited's dividend policy is to provide a return to the Shareholder the DfI based on a percentage of the regulatory capital value less net debt. The return reflects the cost of equity set in the PC21 Final Determination. Payment of any dividend is subject to NI Water having sufficient distributable profits. Refer to the Principal Risks (page 76) for factors which could impact on the amount of distributable profits.

It is anticipated that a final dividend of £21.0m for the year ended 31 March 2023 (2022: £19.0m[3]) may be approved by the Shareholder upon the recommendation of the Board later this year. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2023.

Directors and Officers

The Directors and Officers who served during the year and up to the date of this report are set out on page 107.

Further details on our Board and Executive Committee can be found at:
Our executive committee
Our Board

Directors' and Officers' indemnities

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

Policy on the payment of creditors

NI Water's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreements, the policy is to make payment not more than 30 days after receipt of a valid invoice. The year to date ratio, expressed in days, between the time invoices from large suppliers fall due and the time invoices were actually paid at 31 March 2023, was 31.8 days (2022: 31.6 days). NI Water has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy.

As at 31 March 2023, the year to date ratio stood at 11.5 days (2022: 11.5 days).

Political and charitable contributions

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

Research and development

NI Water invested £0.19m on Research and development in 2022/23 (2022: £0.34m).

Refer to Note G1(f)(ii) to the Statutory Accounts for the accounting treatment.

Employees

NI Water uses an increased range of communication channels to keep its employees involved in the Group's affairs to engage them and keep them informed and appraised on performance and other business related matters. NI Water continues to oppose all forms of unlawful and unfair discrimination. It remains the Group's policy to promote equality of opportunity for all our employees during their employment. NI Water is recognised as a disability confident employer, as an endorsement of our commitment to recruit and retain disabled people and people with health conditions. Read more about diversity and inclusion on page 130.

Directors' interests in contracts

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

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2023, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of NI Water Limited in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation - 'cross directorships'

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

Greenhouse gas emissions

Details on greenhouse gas emissions are included on page 64.

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

The Board of Directors of NI Water consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Act) in the decisions taken during the year ended 31 March 2023 (see page 104) and by reference to the approval of our Strategy (2021-46) and PC21 Business Plan (2021–27), supported by the Board assurance statement accompanying our plan:

(a) Long-term decisions

Our Strategy and Business Plan set out the step change in investment required to address the country's most critical needs and enable Northern Ireland to thrive from its water and sewerage infrastructure.

The NI Water Board has driven the strategic development of our Strategy and Business Plan. It has challenged the Executive Committee to put forward a strategy and plan that delivers for the health, the environment and the economy in Northern Ireland while being affordable for customers and deliverable for our people and our supply chain. The Board has obtained confirmation from its independent Board Assurance Advisor that the Strategy and Business Plan are clear, structured and evidence based, and the narrative is supported by robust data. The Board reviewed the Group's response to the PC21 Draft Determination and approved the response to the PC21 Final Determination.

(b) Employees

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

The Business Plan also commits us to protecting the health, safety and wellbeing of our people through sector leading health, safety and wellbeing performance and our zero accident and harm ambition. We have updated our employees and the Trade Unions in relation to the PC21 Draft and Final Determinations and engaged on the Climate Change Strategy through a NI Water Live event and updates on Source in May 2023.

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

(c) Suppliers, customers and others:

Supply chain

Continuing to engage with our supply chain remains a critical focus. Following the introduction of the new Procurement Policy

3. The dividend in respect of the year ended 31 March 2022 was paid in February 2023.

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Note (PPN) 01/21 – Scoring Social Value, NI Water and the Social Value Unit at the Strategic Investment Board hosted a hybrid event in June 2022, where just under 300 people were in attendance. Keynote speakers from the public, private and third sector led the conversation on this new and significant step change in public procurement and the feedback has been extremely positive.

In February 2022, the Institute of Water facilitated a “Working in Partnership” event. Suppliers from across various sectors were in attendance, to hear from NI Water’s Commercial and Procurement professionals on how the procurement landscape is evolving and how Government Policy (Social Value, Supply Chain Resilience and Human Rights) is impacting on how we buy goods and services. NI Water are assessing their markets to determine the risk associated human rights violations and consequently suppliers (in medium/high risk markets) are being asking to evidence their own human rights policy at time of tender.

NI Water staff and the Social Value Unit at the Strategic Investment Board at the Social Value Supplier Engagement Session in Belfast, County Antrim.

Collaborating with suppliers; having regular meetings at supplier’s sites, availing of the opportunity to tour their premises, meeting more of their teams and learning more about ways of working, has proven an excellent way to build on our supplier relationship management strategies. The team have also been part of a number of external market engagement and ‘Meet the Buyer’ events, where they have also supported panel discussions. And finally, at the 2022 World Procurement Awards, the team were thrilled to have been shortlisted as a finalist for their award under the Transformation category.

Customers

Our Strategy and Business Plan are based on engagement with our domestic customers and our non-domestic customers including developers. We recognise that we have a different relationship with our domestic customers from our peers in the rest of the UK and that not paying directly for water and sewerage services makes them even further removed and our service even more invisible. During the second year of PC21 we have continued to work in partnership with the Utility Regulator, the CCNI and the DfI in our approach to meeting customer expectations and targets via the consumer engagement oversight group Understanding the views of customers through surveys and feedback has remained a focus for us. Read more about customer engagement on page 20.

Principal Stakeholders

Our principal stakeholders helped us co-create our Strategy and Business Plan. A range of working groups and challenge groups provided us with assurance that we developed a plan that reflects our strategic priorities. Our participation in these groups has ensured that we have provided a forum for stakeholders for strategic discussion on priority issues.

The Outputs Review Group, chaired by the DfI ensures NI Water is held accountable for progress on key outputs, and can coordinate the delivery of the price control process.

Customer Measures/Satisfaction working group, chaired by the Utility Regulator and comprising CCNI, the DfI and NI Water coordinates the development and monitoring of new consumer performance measures and oversees the implementation of the Utility Regulator’s consumer protection best practice framework.

Further details on engaging with our stakeholders is contained in the ‘Listening to you’ section on page 20.

Local Councils

We have presented the current status of water and wastewater infrastructure, capacity constraints and our PC21 capital investment programme to four Local Councils. In addition, we have also presented our capacity constraint information and investment proposals to the Local Development Planning Teams within eight of the Local Councils in the context of their Local Development Plans and the ‘hub’ towns and cities that are central to their growth plans. NI Water has participated in the Independent Examinations held by the Planning Appeals Commission on Local Development Plans for Antrim and Newtownabbey Borough Council Mid and East Antrim Borough Council, and Lisburn and Castlereagh City Council.

Our engagement over 2022/23 highlighted that a fully funded PC21 Final Determination will only begin to address current development constraints and that sustained investment will be required in future price control periods into the mid-2040s.

Business organisations

We continued to focus on engaging with industry groups on delivery of our PC21 Business Plan as we move towards our midway review, showcasing what can be done when investment is in place. These groups included construction, manufacturing, hospitality, and agri-food. We liaised with key stakeholders and groups such as the Construction Employers’ Federation, NI Food and Drink Association, Retail NI, Hospitality Ulster, and the Ulster Farmers Union. In line with our continued climate ambitions, we also continue our engaged membership of the Responsible Plastic Management Programme.

Political parties

We held updated briefings advising Councils on our Capital Delivery Programme. We held site visits and briefings for elected representatives at sites including Dundrum and Ballyronan Wastewater Treatment Works, as well as the Brompton/Stricklands wastewater pumping stations upgrade.

We met with Party Leaders, Party Infrastructure Spokespersons and Party Policy Advisors to ensure that local elected representatives are all fully aware of the status of water and wastewater infrastructure, NI Water’s recommended PC21 capital investment programme for Northern Ireland and the consequences should inadequate funding continue. We also attended the party-political conferences.

(d) Community and the environment

The Strategy and PC21 Business Plan were developed in line with the DfI’s Draft Social and Environmental Guidance for Water and Sewerage Services (2021-27). Government priorities for PC21 are set out in the draft guidance. The strategic priorities focus on sustainably growing all forms of capital (natural capital, social capital, intellectual capital, human capital, manufactured capital and financial capital) to ensure that we put back more than we take out. The priorities provide a framework to support best practice corporate decision making (integrated thinking across the capitals and natural capital accounting) and corporate reporting (integrated reporting across the capitals). We are proud to play our part in supporting delivery of at least 12 of the UN’s Sustainable Development Goals. Our Climate Change Strategy was published in May 2023 and outlines our approach to net zero and building climate resilience. Find out more at page 58.

(e) Business conduct

As the Board of Directors, we are committed to the highest standards of behaviour in how we do business. Our values provide the cultural framework to support achievement of our purpose and vision, and we encourage our employees to live these values. Our values are at the heart of our decision making and underpin everything we do. They centre around a more sustainable way of doing business by putting back more to society, the economy, and the natural environment than we take out. The values are embedded in our code of ethics, which links to other policies such as those on speak up (whistleblowing), fraud prevention, anti-bribery and corruption and modern slavery.

(f) Shareholder

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

Disclosure of information to auditors

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

Auditor

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

By order of the Board

Mark Ellesmere
Company Secretary
29 June 2023

Directors' remuneration report

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Nomination and Remuneration Committee

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

The Committee met four times in the year

Board appointments and diversity

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

Remuneration policy

NI Water's policy on remuneration of Executive Directors and Executives is to attract, retain and motivate the best people, recognising the input they have to the ongoing success of the business.

Consistent with this policy, and in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006, the benefit packages awarded by NI Water to Executive Directors and Executives are intended to be competitive, and under the policy should comprise base salary, and a discretionary performance related bonus designed to incentivise Directors and align their interests with those of the Shareholder. The remuneration consists of the following elements:

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually considering inflation. Notwithstanding this policy NI Water Limited is subject to public sector pay policy because of its current governance arrangements.

Annual bonus

There was no bonus scheme in 2022/23 for Executive Directors and Senior Managers.

Benefits in kind

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

Group Companies

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

Non-Executive Directors' remuneration

The higher fees for the Chair of the Board reflect the additional responsibilities of that role. Further details on the fees paid to the Non-Executive Directors are provided on page 128.

Directors' employment contracts

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

Fees paid to members of the Executive Committee

	Year to 31 March 2023					Year to 31 March 2022				
Current	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Pension benefits £000[4]	Total £000	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Pension benefits £000	Total £000
Sara Venning	**180 - 185**	**-**	**-**	**92**	**270 - 275**	165 - 170	-	-	71	235 - 240
Ronan Larkin	**135 - 140**	**-**	**-**	**110**	**245 - 250**	125 - 130	-	-	62	185 - 190
Paul Harper	**130 - 135**	**-**	**-**	**47**	**175 - 180**	115 - 120	-	-	44	160 - 165
Des Nevin	**130 - 135**	**-**	**-**	**99**	**225 - 230**	115 - 120	-	-	101	220 - 225
Current member of the Executive Committee (not Exective Director):										
Mark Ellesmere	**130 - 135**	**-**	**-**	**90**	**220 - 225**	120 - 125	-	-	61	180 - 185
Alistair Jinks	**130 - 135**	**-**	**-**	**103**	**230 - 235**	115 - 120	-	-	60	180 - 185
Rose Kelly	**115 - 120**	**-**	**-**	**43**	**160 - 165**	105 - 110	-	-	40	145 - 150

Pay multiples

The relationship between the remuneration of the highest paid Director and the median remuneration of NI Water's workforce is shown below. The banded remuneration of the highest paid Director in NI Water was £180k to £185k on a full year equivalent basis (2022: £165k to £170k). This was 4.77 times (2022: 4.74 times) the median remuneration of the workforce, which was £37,772 (2022: £35,046). The marginal change in the median pay multiple (ratio) between 2021/22 and 2022/23 was primarily due to the annual uplift to the remuneration of the highest paid director offset in part by increases to the minimum levels of remuneration.

Group		
	Year to 31 March 2023	Year to 31 March 2022
Highest paid Director (£000)	**180 - 185**	165 - 170
25^{th} Percentile (£)	**31,786**	28,925
Pay multiple ratio for 25th percentile	**5.67**	5.74
Median total remuneration (£)	**37,772**	35,046
Pay multiple ratio for median remuneration	**4.77**	4.74
75^{th} Percentile (£)	**45,028**	41,642
Pay multiple ratio for 75th percentile	**4.00**	3.99
Range of remuneration (£000)	**17 - 180**	15 - 170

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

GOVERNANCE

Gender pay gaps

The gender pay gap regulations in place across the rest of the UK have not yet been brought into force in Northern Ireland. We have disclosed the gender pay gap information below to help as part of our commitment to a diverse and inclusive workforce. The median and mean gender pay gaps are the difference between the mean and median hourly rate of pay of male full-pay relevant employees and that of female full-pay relevant employees.

The reason for the pay gap (negative) is because 36% of our workforce are frontline employees who are typically lower paid than non-frontline employees and that 99% of our frontline employees are male. Further details on the gender of persons employed are shown in Note E1 to the Statutory Accounts.

Group		
	Year to 31 March 2023	Year to 31 March 2022
National median gender pay gap (%)	**8.3**	7.9
Our median pay gap (%)	**(9.4)**	(16.3)
Our mean pay gap (%)	**(5.4)**	(8.8)

Fees paid to Non-Executive Directors

	Year to 31 March 2023				Year to 31 March 2022			
Current Non-Executive Directors:	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £000	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £000
Dr Leonard J. P. O'Hagan CBE DL- Chair of the Board	**40 - 45**	**-**	**-**	**40 - 45**	40 - 45	-	-	40 - 45
Peter McNaney, CBE	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Belinda Oldfield	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Marie-Thérèse McGivern	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Patrick Larkin	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Maurice Bullick	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20

Pension entitlements

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

Transfer values

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

Increase in transfer value less Directors' contributions

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

Pension benefits for members of the Executive Committee

Current Executive Directors:	Accrued pension at age 60 at 31 March 2023 £000	Related lump sum at 31 March 2023 £000	Real increase in pension at NRA £000	Real increase in lump sum at age 60 £000
Sara Venning	40 - 45	75 - 80	5.0 - 7.5	10.0 - 12.5
Ronan Larkin	40 - 45	-	5.0 - 7.5	-
Paul Harper	10 - 15	40 - 45	2.5 - 5.0	7.5 - 10.0
Des Nevin	65 - 70	205 - 210	5.0 - 7.5	17.5 - 20.0
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	40 - 45	55 - 60	5.0 - 7.5	7.5 - 10.0
Alistair Jinks	40 - 45	-	5.0 - 7.5	-
Rose Kelly	10 - 15	30 - 35	0 - 2.5	5.0 - 7.5

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2023[5] £000	CETV at 31 March 2022[6] £000	Increase/(decrease) in transfer value less Director's contribution (net of inflation[7]) £000	Employer contribution (to nearest £100)
Sara Venning	**471**	734	**54**	52,400
Ronan Larkin	**699**	869	**107**	40,400
Paul Harper	**247**	255	**41**	37,800
Des Nevin	**1,426**	1,749	**139**	37,800
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	**572**	831	**67**	38,400
Alistair Jinks	**727**	836	**115**	37,800
Rose Kelly	**167**	179	**31**	34,600

5. Based on accrued benefits at 31 March 2023 and financial conditions as at 31 March 2023.

6. Based on accrued benefits at 31 March 2022 and financial conditions as at 31 March 2022.

7. CPI inflation of 3.10% (CPI figure for the year to September 2021).

What have we done to improve diversity and inclusion?

Valuing people for who they are and the contributions they bring provides the cultural framework to support achievement of our purpose and vision, placing our commitment to diversity and inclusion at the heart of how we do business.

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

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

northern ireland water | Diversity & Inclusion
Here everyone matters

Highlights of our diversity and inclusion journey are shown below.

Over the last 12 months NI Water has been recognised at the highest levels for its commitment to diversity, equality, and inclusion via the achievement of numerous prestigious business awards including the silver diversity charter mark, at that time becoming only the second public sector organization to have achieved the standard and one of 12 organisations in Northern Ireland.

NI Water's CEO receiving the Silver Diversity Charter Mark from Diversity Mark.

A beacon of best practice

NI Water were also announced winners of the Belfast Chamber Business Award 2022 for Diversity and Inclusion and were awarded not one but two Business in the Community Responsible Business Awards for Best Diversity and Inclusion, and Fair Chance for All.

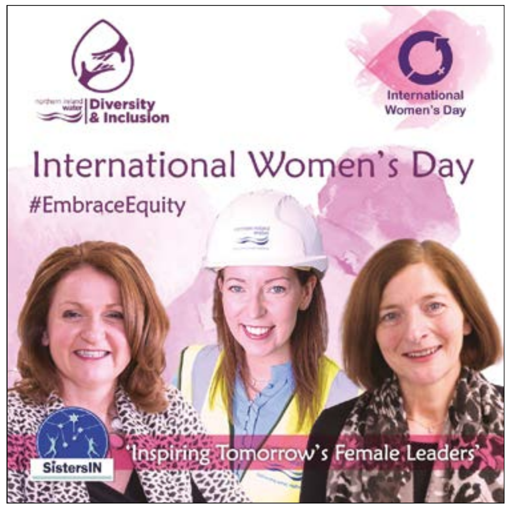
Best Diversity and Inclusion 2022 WINNER

Helping to 'Level Up' Northern Ireland

In 2021/22, NI Water became the first company in Northern Ireland to sign up the UK Government's 'Levelling Up' goals, which seek to drive equality of opportunity and support social mobility post COVID-19. In recognition of the fact that 50% of young people from disadvantaged backgrounds in the UK leave compulsory education without GCSE Maths and English qualifications, we have changed our recruitment practice to offer a skills based alternative to assess basic numeracy and literacy, ensuring access to employment regardless of social background.

Increasing female representation

Changes have been made to hiring practices including use of female role models and imagery in recruitment marketing, changing the performance factors used to select, use of gender neutral language in recruitment advertising, mandatory unconscious bias training for interviewers, female mentoring initiatives and revised schools outreach campaigns to strengthen our employer brand. As a result, the percentage of females hired increased from 30% in 2015/16 to 42% in 2022/23.



Raising awareness

During 2022/23, we continued our diversity and inclusion education to support our key areas of focus (gender, age and social mobility) via campaigns for International Women's Day and a brand new preparation for retirement service including sessions for staff on understanding your pension and designing your future. Four NI Water teams completed the Belfast Marathon to raise funds to help disadvantaged young people within our communities to receive important skills training to help gain employment, exceeding their intended funding target by 50%.

One of NI Water's teams who completed the Belfast Marathon to raise funds to help disadvantaged young people within our communities.

Developing inclusive leaders

In 2022/23, NI Water's entire senior leadership team (circa 70 people) participated in Inclusive leadership training to model our commitment from the top in developing a culture of diversity and inclusion and equip our leaders with the skills and knowledge necessary to fulfill our ambitions.

Supporting early careers

Our award winning apprentice academy continues to go from strength to strength, growing from five apprentices in 2019 to 108 apprentices, higher level apprentices and graduates in 2022/23. Diversifying into new business areas including Science, Finance and Accountancy, Commercial Management, Data Analytics and ICT as well as our staple programs in Water Utilities and Engineering. Our academy was recently named Northern Ireland's Best Apprenticeship Scheme 2022 by the CIPD. This strategy continues to have a positive impact on culture at NI Water helping achieve a more balanced age profile and increasing female representation (average 17% of our annual entry level intake are female).

Bringing our values to life

During 2022/23, we undertook an organisational wide campaign to introduce the new behaviour statements underpinning each of our values (Respect, Excellence, Integrity, Customer and Sustainability) and create a common standard of behaviour to which we can all aspire. A follow up values pulse survey reported that the campaign had been successful in advancing our values maturity with the majority of employees moving from a rating of Level 2 (awareness of the values) to Level 4 (living the values) in one year.

The journey continues

We've come a long way in the last three years but there is more to do. In 2023/24, we will roll out Inclusive Leadership training to our middle management population, we also aim to become JAM card accredited to support neurodiversity amongst customers and colleagues. We will continue our awareness campaigns in four areas (gender, age, social mobility and neuro diversity) and advance our social mobility agenda via actioning our 'levelling up' recommendations, growing and diversifying our entry level strategy and increasing the use of social clauses within our supply chain contracts.

Dr Leonard J. P. O'Hagan CBE DL
Chair of the Board
29 June 2023

Statement of Directors' responsibilities

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

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

On that basis they have elected to prepare the Group and Parent Company financial statements consistent with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

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

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

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

Each of the Directors, whose names are listed on page 107 confirm that, to the best of their knowledge:

- the Group financial statements give a true and fair view of the assets, liabilities, financial position of the Group as at 31 March 2023 and of its profit for the year then ended;
- the Parent Company's statement of financial position gives a true and fair view of the state of affairs of the Parent Company's affairs as at 31 March 2023; and
- the Strategic Report includes a fair view of the development and performance of the business and the position of the Group and Parent Company together with a description of the principal risks and uncertainties it faces.

On behalf of the board

Mark Ellesmere
Company Secretary
29 June 2023

Statutory Accounts

Lough Fingrean reservoir, County Tyrone.

STATUTORY ACCOUNTS

Consolidated statement of financial position

	Note	At 31 March 2023 £000	At 31 March 2022 £000
Assets			
Property, plant and equipment	A1	**3,778,775**	3,550,238
Investment properties	A3	**1,876**	1,874
Intangible assets and goodwill	A4	**78,043**	72,760
Investments	A5	**-**	-
Employee benefits	E2	**46,457**	-
Total non-current assets		**3,905,151**	3,624,872
Inventories	A6	**5,467**	4,598
Trade and other receivables	C4	**41,401**	36,098
Unbilled revenue	C5	**12,724**	10,641
Prepayments		**2,359**	2,059
Cash and cash equivalents	A7	**73,812**	85,911
Assets classified as held for sale	A8	**20**	26
Total current assets		**135,783**	139,333
Total assets		**4,040,934**	3,764,205
Equity			
Share capital	B3	**500,000**	500,000
Statutory distributable reserve		**171,690**	171,690
Retained earnings		**500,808**	415,583
Fair value reserve		**(76)**	(76)
Total equity attributable to owner of the Company		**1,172,422**	1,087,197
Liabilities			
Loans and borrowings	B1	**1,738,221**	1,596,609
Interest rate swap	D2	**986**	4,517
Other payables	D2	**1,893**	2,039
Deferred income	C2	**583,871**	558,998
Provisions	D3	**8,397**	7,405
Deferred tax liabilities	F1	**322,483**	296,023
Employee benefits	E2	**-**	29,055
Total non-current liabilities		**2,655,851**	2,494,646
Loans and borrowings	B1	**12,864**	11,542
Trade payables	D2	**177,173**	147,449
Other payables	D2	**18,901**	16,511
Deferred income	C2	**1,312**	4,400
Provisions	D3	**2,411**	2,460
Total current liabilities		**212,661**	182,362
Total liabilities		**2,868,512**	2,677,008
Total equity and liabilities		**4,040,934**	3,764,205

The financial statements were authorised for issue by the Board of Directors on 29 June 2023 and were signed on its behalf by:

Sara Venning,
Chief Executive,
29 June 2023

The Notes on pages 145 to 208 form part of these financial statements.

Company statement of financial position

	Note	At 31 March 2023 £000	At 31 March 2022 £000
Assets			
Property, plant and equipment	A1	**3,778,615**	3,549,922
Investment properties	A3	**1,876**	1,874
Intangible assets	A4	**61,444**	49,839
Investments	A5	**5,000**	5,000
Employee benefits	E2	**46,457**	-
Total non-current assets		**3,893,392**	3,606,635
Inventories	A6	**5,138**	4,424
Trade and other receivables	C4	**66,333**	69,615
Unbilled revenue	C5	**12,724**	10,641
Prepayments		**2,336**	2,302
Cash and cash equivalents	A7	**58,499**	70,135
Assets classified as held for sale	A8	**20**	26
Total current assets		**145,050**	157,143
Total assets		**4,038,442**	3,763,778
Equity			
Share capital	B3	**500,000**	500,000
Statutory distributable reserve		**171,690**	171,690
Retained earnings		**498,981**	417,534
Fair value reserve		**(76)**	(76)
Total equity attributable to owner of the Company		**1,170,595**	1,089,148
Liabilities			
Loans and borrowings	B1	**1,748,219**	1,605,278
Other payables	D2	**1,893**	2,039
Deferred income	C2	**583,871**	558,998
Provisions	D3	**8,397**	7,405
Deferred tax liabilities	F1	**313,719**	290,183
Employee benefits	E2	**-**	29,055
Total non-current liabilities		**2,656,099**	2,492,958
Loans and borrowings	B1	**12,074**	10,700
Trade payables	D2	**176,300**	147,362
Other payables	D2	**19,651**	16,750
Deferred income	C2	**1,312**	4,400
Provisions	D3	**2,411**	2,460
Total current liabilities		**211,748**	181,672
Total liabilities		**2,867,847**	2,674,630
Total equity and liabilities		**4,038,442**	3,763,778

The Company's profit for the year ended 31 March 2023 was £37,293k (2022: loss (£34,042k)).

The financial statements were authorised for issue by the Board of Directors on 29 June 2023 and were signed on its behalf by:

Sara Venning,
Chief Executive,
29 June 2023

The Notes on pages 145 to 208 form part of these financial statements.

Consolidated statement of comprehensive income

	Note	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Revenue	C1	**479,278**	441,191
Other income	C3	**1,495**	2,729
Operating expenses	D1	**(375,589)**	(338,178)
Research and development expenses		**(187)**	(342)
Results from operating activities		**104,997**	105,400
Finance income	B2	**5,090**	4,278
Finance costs	B2	**(63,667)**	(63,242)
Net finance costs		**(58,577)**	(58,964)
Profit before income tax		**46,420**	46,436
Income tax expense	F1	**(5,349)**	(78,286)
Profit/(Loss) for the year		**41,071**	(31,850)
Other comprehensive income			
Items that will never be reclassified to profit or loss: Defined benefit plan actuarial gains/(losses)	F1	**63,154**	34,985
Other comprehensive income for the period, net of income tax		**63,154**	34,985
Total comprehensive income for the period		**104,225**	3,135
Profit/(Loss) attributable to:			
Owner of the Company		**41,071**	(31,850)
Total comprehensive income attributable to:			
Owner of the Company		**104,225**	3,135

All profits relate to continuing operations.

The Notes on pages 145 to 208 form part of these financial statements.

Consolidated statement of changes in equity

	Attributable to the owner of the Group					
	Note	**Share capital £000**	**Statutory distributable reserve £000**	**Retained earnings £000**	**Fair value reserve £000**	**Total equity £000**
Balance at 1 April 2022	B3	500,000	171,690	415,583	(76)	1,087,197
Total comprehensive income for the period						
Profit for the year		-	-	41,071	-	41,071
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	E2	-	-	84,206	-	84,206
Deferred tax arising on gains in defined benefit plan	F1	-	-	(21,052)	-	(21,052)
Deferred tax arising on losses in defined benefit plan (rate change)	F1	-	-	-	-	-
Total other comprehensive income		**-**	**-**	**63,154**	**-**	**63,154**
Total comprehensive income for the period		**-**	**-**	**104,225**	**-**	**104,225**
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(19,000)	-	(19,000)
Balance at 31 March 2023		**500,000**	**171,690**	**500,808**	**(76)**	**1,172,422**
Dividends per share (GBP)						0.04

The Notes on pages 145 to 208 form part of these financial statements.

Consolidated statement of changes in equity continued

	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Fair value reserve £000	Total equity £000
	Attributable to the owner of the Group					
Balance at 1 April 2021	B3	500,000	171,690	443,617	(76)	1,115,231
Total comprehensive income for the period						
Loss for the year		-	-	(31,850)	-	(31,850)
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	E2	-	-	44,209	-	44,209
Deferred tax arising on gains in defined benefit plan	F1	-	-	(11,052)	-	(11,052)
Deferred tax arising on losses in defined benefit plan (rate change)	F1	-	-	1,828	-	1,828
Total other comprehensive income		-	-	**34,985**	-	**34,985**
Total comprehensive income for the period		-	-	**3,135**	-	**3,135**
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(31,169)	-	(31,169)
Balance at 31 March 2022		**500,000**	**171,690**	**415,583**	**(76)**	**1,087,197**
Dividends per share (GBP)						0.06

The Notes on pages 145 to 208 form part of these financial statements.

Company statement of changes in equity

	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Fair value reserve £000	Total equity £000
	Attributable to the owner of the Company					
Balance at 1 April 2022	B3	500,000	171,690	417,534	(76)	1,089,148
Total comprehensive income for the period						
Profit for the year		-	-	37,293	-	37,293
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	E2	-	-	84,206	-	84,206
Deferred tax arising on gains in defined benefit plan	F1	-	-	(21,052)	-	(21,052)
Deferred tax arising on losses in defined benefit plan (rate change)	F1	-	-	-	-	-
Total other comprehensive income		-	-	**63,154**	-	**63,154**
Total comprehensive income for the the period		-	-	**100,447**	-	**100,447**
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to the owner of the Company	B3	-	-	(19,000)	-	(19,000)
Balance at 31 March 2023		**500,000**	**171,690**	**498,981**	**(76)**	**1,170,595**
Dividends per share (GBP)						0.04

The Notes on pages 145 to 208 form part of these financial statements.

Company statement of changes in equity continued

	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Fair value reserve £000	Total equity £000
	Attributable to the owner of the Company					
Balance at 1 April 2021	B3	500,000	171,690	447,760	(76)	1,119,374
Total comprehensive income for the period						
Loss for the year		-	-	(34,042)	-	(34,042)
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial gains	E2	-	-	44,209	-	44,209
Deferred tax arising on gains in defined benefit plan	F1	-	-	(11,052)	-	(11,052)
Deferred tax arising on losses in defined benefit plan (rate change)	F1	-	-	1,828	-	1,828
Total other comprehensive income		**-**	**-**	**34,985**	**-**	**34,985**
Total comprehensive income for the period		**-**	**-**	**943**	**-**	**943**
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to the owner of the Company	B3	-	-	(31,169)	-	(31,169)
Balance at 31 March 2022		**500,000**	**171,690**	**417,534**	**(76)**	**1,089,148**
Dividends per share (GBP)						0.06

The Notes on pages 145 to 208 form part of these financial statements.

Consolidated statement of cash flows

	Note	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Cash flows from operating activities			
Profit before tax		**46,420**	46,436
Adjustments for:			
Depreciation	A1, A3	**89,743**	84,544
Amortisation of intangible assets	A4	**9,327**	7,065
Amortisation of deferred credit on adopted assets	C1	**(4,085)**	(3,787)
Gain on sale of property, plant and equipment	C3	**(420)**	(585)
Interest expense (net)	B2	**58,577**	58,964
Amortisation of goodwill	A4	**6,322**	-
Amortisation of FV senior debt loan and associated deferred tax		**-**	(552)
Tax refund/(paid)		**778**	(417)
		206,662	191,668
Changes in:			
- inventories		**869**	135
- trade and other receivables		**(4,681)**	(14,675)
- unbilled revenue		**(2,117)**	(2,757)
- trade and other payables		**1,438**	1,451
- provisions		**941**	6,882
- excess of pension charge over cash pension contributions		**6,005**	8,026
Cash generated from operating activities		**209,117**	190,730
Cash flows from investing activities			
Interest received		**956**	3
Proceeds from sale of property, plant and equipment		**425**	613
Insurance proceeds		**-**	1,120
Acquisition of property, plant and equipment, and intangible assets		**(287,404)**	(216,715)
Grants received		**366**	2,257
Net cash used in investing activities		**(285,657)**	(212,722)
Cash flows from financing activities			
Proceeds from borrowings		**155,000**	170,000
Payment of finance lease liabilities		**(5,730)**	(4,927)
Payment of bank loans		**(5,846)**	(4,641)
Interest paid		**(59,983)**	(60,952)
Dividends paid	B3	**(19,000)**	(31,169)
Net cash from financing activities		**64,441**	68,311
Net increase in cash and cash equivalents		**(12,099)**	46,319
Cash and cash equivalents at 1 April	A7	**85,911**	39,592
Cash and cash equivalents at 31 March	A7	**73,812**	85,911

The Notes on pages 145 to 208 form part of these financial statements.

Company statement of cash flows

	Note	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Cash flows from operating activities			
Profit before tax		**39,777**	42,236
Adjustments for:			
Depreciation	A1, A3	**89,568**	84,359
Amortisation of intangible assets	A4	**9,327**	7,065
Gain on sale of property, plant and equipment	C3	**(420)**	(585)
Interest expense (net)		**63,442**	63,781
Amortisation of deferred credit for adopted assets	C1	**(4,085)**	(3,787)
Tax refund/(paid)		**1,222**	(223)
		198,831	192,846
Changes in:			
- inventories		**(713)**	(112)
- trade and other receivables		**3,589**	(15,972)
- unbilled revenue		**(2,114)**	(2,731)
- trade and other payables		**1,202**	(1,275)
- provisions		**941**	6,882
- excess of pension charge over cash pension contributions		**6,005**	8,026
Cash generated from operating activities		**207,741**	187,664
Cash flows from investing activities			
Interest received		**1,995**	1,356
Proceeds from sale of property, plant and equipment		**425**	613
Insurance proceeds		**-**	1,120
Acquisition of property, plant and equipment, and intangible assets		**(285,946)**	(216,772)
Loan to subsidiaries		**-**	-
Repayment of loan from subsidiaries		**356**	710
Grants received		**366**	2,257
Net cash used in investing activities		**(282,804)**	(210,716)
Cash flows from financing activities			
Proceeds from borrowings		**155,000**	170,000
Payment of finance lease liabilities		**(10,728)**	(8,994)
Interest paid		**(61,845)**	(62,811)
Dividends paid	B3	**(19,000)**	(31,169)
Net cash from financing activities		**63,427**	67,026
Net increase in cash and cash equivalents		**(11,636)**	43,974
Cash and cash equivalents at 1 April	A7	**70,135**	26,161
Cash and cash equivalents at 31 March	**A7**	**58,499**	70,135

The Notes on pages 145 to 208 form part of these financial statements.

Notes to the Statutory accounts

1. Key accounting policies

a) Reporting entity

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

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

b) Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS Standards").

c) Basis of measurement

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2023. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Parent Company operates as described below:

- NI Water Limited is subject to economic regulation rather than market competition. As a result, the Parent Company provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, which designates NI Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.
- Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water Limited receives funding by means of a subsidy provided by the DfI. Due to the level of subsidy, NI Water Limited is also designated as a NDPB and is subject to public sector spending rules i.e. public expenditure.
- Following the launch of the 25 year strategy in September 2019, NI Water submitted its Business Plan for the PC21 Price Control period (April 2021 to March 2027) to the Utility Regulator in January 2020. The PC21 Business Plan is a strong, challenging and ambitious plan seeking to balance service delivery and consumer interests with continuing efficiency over both the near and longer-term.
- The Utility Regulator published the PC21 Final Determination in May 2021 endorsing the proposals outlined in the PC21 Business Plan and adding further challenge in some areas.
- The Board of NI Water accepted the PC21 Final Determination in July 2021, encouraged that the first year of PC21 (2021/22) was fully funded by the DfI and the NI Executive and on the basis of a continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.
- Since then, global energy prices have risen to unprecedented levels and inflation has reached a 40-year high, both of which have created significant inescapable pressures on Resource DEL[8] in 2021/22 and 2022/23. Shortfalls in Resource DEL have been successfully met by in-year bids to the DfI in both years.
- Pressures in relation to energy and inflation are expected to prevail into 2023/24. NI Water's Operating Plan and Budget for the 2023/24 year sets out a Resource DEL requirement of £215m and a Capital DEL requirement of £370m. This reflects the third year of the PC21 Final Determination (2023/24) adjusted for higher energy costs and higher than forecast inflation. Since preparing the Operating Plan and Budget in February 2023, energy prices have improved and we have secured better rates on a number of our contracts. The current best estimate of our Resource DEL requirement is £195m.
- On 15 May 2023, the DfI Accounting Officer wrote to NI Water advising that the DfI was planning on the basis of a Resource DEL budget of £171.4m for NI Water in 2023/24. This planning assumption is £44m less than the 2023/24 Operating Plan and Budget and £24m less than the current best estimate.

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

1. Key accounting policies continued

c) Basis of measurement continued

Going concern continued

- On 1 June 2023, the DfI Deputy Secretary wrote to NI Water advising a Capital DEL allocation of £321.2m, a shortfall of £49m to the 2023/24 Operating Plan and Budget.
- On 8 June 2023, the DfI Accounting Officer provided a letter of assurance to NI Water in relation to the current shortfall in the Resource DEL allocation and contingency arrangements that may need to be put in place such that NI Water can continue to trade and meet its liabilities as they fall due for at least 12 months from the date of signing the financial statements for the year ended 31 March 2023. The letter of assurance provides the confirmation required to enable NI Water to comply with its statutory duties and secure the continued provision of water and wastewater services.
- NI Water has access to cash through the loan note instrument which enables the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027. £155m was drawn down in 2022/23. In addition, the Company has access to a working capital facility of £20m.
- Operating Plan targets for 2023/24 reflect the Utility Regulator's PC21 Final Determination with some adjustment for efficient delivery.

The challenging public sector budget situation in Northern Ireland has created a shortfall in Resource DEL allocation which limits what NI Water can spend to run and operate its business in 2023/24. The shortfall in Capital DEL allocation creates a limit on what NI Water can invest in water and drainage infrastructure.

The current shortfalls in Resource DEL and Capital DEL allocations give rise to significant uncertainty and concern in the context of delivering six-year PC21 programme of work as well as having the potential to lead to conflict in relation to:

- Obligations to deliver services under our Licence;
- Board's statutory duties;
- Accounting Officer responsibility not to overspend; and
- Regularity of spend.

Notwithstanding the current shortfalls in Resource DEL and Capital DEL, NI Water has access to cash to meet its liabilities as they fall due. On that basis and given the regulatory, financial and governance environment within which NI Water operates, the Directors have formed a judgement at the time of approving the financial statements that the Group has adequate resources to continue in operational existence for the foreseeable future and as such to continue as a going concern.

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

d) Functional and presentation currency

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

e) Changes in accounting policies

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

1. Key accounting policies continued

f) Critical accounting estimates and judgements

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

There were no critical accounting judgements identified by management. Information on estimation uncertainties that management deemed to have a significant risk of resulting in a material adjustment within the next financial year are included in the following Notes:

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

Significant accounting policies are included at Note G1.

Key themes for NI Water

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A. The assets we use

NI Water uses a significant number of assets in its operations. We are continually investing in our assets both to maintain and to increase our capacity for service. For further information on our capital programme see pages 96 to 97.

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

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

A1. Property, plant and equipment

	Company						Group	
	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**	Vehicle plant and equipment £000	**Total £000**
Cost or deemed cost								
Balance at 1 April 2021	99,873	2,182,076	1,598,011	18,199	261,222	**4,159,381**	889	**4,160,270**
Additions	-	4,611	-	-	211,583	**216,194**	-	**216,194**
Additions – Right-of-use assets	-	-	28	-	-	**28**	13	**41**
Customer contributions	1	38,475	1,518	-	-	**39,994**	-	**39,994**
Disposals	-	(789)	-	(850)	-	**(1,639)**	-	**(1,639)**
Transfers	1,929	42,066	88,963	2,305	(135,263)	**-**	-	**-**
Transfer from investment properties	(3)	-	-	-	-	**(3)**	-	**(3)**
Balance at 31 March 2022	**101,800**	**2,266,439**	**1,688,520**	**19,654**	**337,542**	**4,413,955**	**902**	**4,414,857**
Balance at 1 April 2022	101,800	2,266,439	1,688,520	19,654	337,542	**4,413,955**	902	**4,414,857**
Additions	-	4,238	-	-	284,342	**288,580**	7	**288,587**
Additions – Right-of-use assets	-	-	-	-	-	**-**	12	**12**
Customer contributions	1	28,534	1,147	-	-	**29,682**	-	**29,682**
Disposals	-	(1,004)	-	(1,228)	-	**(2,232)**	-	**(2,232)**
Transfers	13,232	101,791	175,486	3,075	(293,584)	**-**	-	**-**
Transfer from investment properties	-	-	-	-	-	**-**	-	**-**
Balance at 31 March 2023	**115,033**	**2,399,998**	**1,865,153**	**21,501**	**328,300**	**4,729,985**	**921**	**4,730,906**

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

STATUTORY ACCOUNTS

A1. Property, plant and equipment continued

	Company						Group	
	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**	Vehicle plant and equipment £000	**Total £000**
Depreciation and impairment losses								
Balance at 1 April 2021	(22,005)	(193,709)	(550,657)	(14,933)	-	**(781,304)**	(401)	**(781,705)**
Depreciation for the year	(1,308)	(20,089)	(61,370)	(1,288)	-	**(84,055)**	(135)	**(84,190)**
Depreciation for the year – Right-of-use assets	(274)	(10)	(16)	-	-	**(300)**	(50)	**(350)**
Disposals	-	789	-	837	-	**1,626**	-	**1,626**
Balance at 31 March 2022	**(23,587)**	**(213,019)**	**(612,043)**	**(15,384)**	**-**	**(864,033)**	**(586)**	**(864,619)**
Balance at 1 April 2022	(23,587)	(213,019)	(612,043)	(15,384)	-	**(864,033)**	(586)	**(864,619)**
Depreciation for the year	(1,422)	(20,900)	(65,438)	(1,506)	-	**(89,266)**	(125)	**(89,391)**
Depreciation for the year – Right-of-use assets	(274)	(10)	(14)	-	-	**(298)**	(50)	**(348)**
Disposals	-	1,004	-	1,223	-	**2,227**	-	**2,227**
Balance at 31 March 2023	**(25,283)**	**(232,925)**	**(677,495)**	**(15,667)**	**-**	**(951,370)**	**(761)**	**(952,131)**
Carrying amounts								
At 31 March 2022	78,213	2,053,420	1,076,477	4,270	337,542	3,549,922	316	3,550,238
At 31 March 2023	**89,750**	**2,167,073**	**1,187,658**	**5,834**	**328,300**	**3,778,615**	**160**	**3,778,775**

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

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

Property, plant and equipment includes right-of-use assets of £900k (2022: £1,174k) related to leased properties that do not meet the definition of investment property (see Notes A9 and D5).

Borrowing costs capitalisation

Included in the total net book value of property, plant and machinery is £9,636k (2022: £6,886k) of borrowing costs capitalised during the period using a capitalisation rate of 3.48% (2022: 3.29%) relating to the Parent Company.

STATUTORY ACCOUNTS

A1. Property, plant and equipment continued

Leased assets (Group and Company)

	At 31 March 2023 £000	At 31 March 2022 £000
The net book value of land and buildings comprises:		
Freehold	**87,810**	75,996
Leasehold - long and short-term	**1,940**	2,217
Total	**89,750**	78,213

	At 31 March 2023 £000	At 31 March 2022 £000
Land within this total is not depreciated and is shown as follows:		
Freehold and leasehold	**23,986**	23,957

PPP assets

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

Capital commitments

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

	Group and Company	
	At 31 March 2023 £000	At 31 March 2022 £000
Contracted	**405,061**	243,762

In addition to the above, at the end of the financial year the Group and Company had entered into commitments amounting to £2,150m (2022: £3,540m). These commitments relate to planned future capital spend. The contracted amount of £405m (2022: £244m) is in relation to actual spend contracted with suppliers to date.

A2. Service concession agreements

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

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

Kinnegar

A contract with Coastal Clear Water Limited was signed on 30 April 1999 for the provision of sewage treatment, which covered the upgrading of the Kinnegar Wastewater Treatment Works with a capital cost in the region of £11m. The contract is for 25 years with an end date of 30 April 2024. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2023 is £13.32m and £5.42m respectively (2022: £13.00m and £5.29m). The amount included in PPP Creditors at 31 March 2023 is £0.46m (2022: £0.77m).

Omega

A contract with Glen Water Limited was signed on 6 March 2007 for the provision of sewage treatment/sludge disposal at six sites with a capital cost in the region of £132m. The contract is for 25 years with an end date of 5 March 2032. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2023 is £154.96m and £96.00m respectively (2022: £153.46m and £99.06m). The amount included in PPP Creditors at 31 March 2023 is £94.00m (2022: £99.03m).

A2. Service concession agreements continued

Alpha (Company only)

A contract with Dalriada Water Limited was signed on 30 May 2006 for the provision of bulk drinking water supplies. This has a capital cost in the region of £111m. The service provision commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2023 is £131.83m and £78.93m respectively (2022: £129.20m and £80.42m). The amount included in PPP Creditors at 31 March 2023 is £69.96m (2022: £75.02m). With the acquisition by the Group of Dalriada Water Limited during 2017/18 (see Note A5) the PPP creditor at group level is eliminated on consolidation.

Significant terms

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

Nature and extent of rights and obligations

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

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

A3. Investment properties

	Group	Company
	Total £000	Total £000
Cost or deemed cost		
Balance at 1 April 2021	**6,956**	**6,956**
Disposals	**-**	**-**
Transfers to non-current assets held for sale	**-**	**-**
Transfers from non-current assets held for sale	**2**	**2**
Transfer to property, plant and equipment	**-**	**-**
Balance at 31 March 2022	**6,958**	**6,958**
Balance at 1 April 2022	**6,958**	**6,958**
Disposals	**-**	**-**
Transfers to non-current assets held for sale	**-**	**-**
Transfers from non-current assets held for sale	**6**	**6**
Transfer to property, plant and equipment	**-**	**-**
Balance at 31 March 2023	**6,964**	**6,964**
Accumulated depreciation and impairment losses		
Balance at 1 April 2021	**(5,080)**	**(5,080)**
Disposals	**-**	**-**
Impairment loss	**-**	**-**
Depreciation for the year	**(4)**	**(4)**
Transfers to property, plant and equipment	**-**	**-**
Balance at 31 March 2022	**(5,084)**	**(5,084)**
Balance at 1 April 2022	**(5,084)**	**(5,084)**
Disposals	**-**	**-**
Impairment loss	**-**	**-**
Depreciation for the year	**(4)**	**(4)**
Transfers to property, plant and equipment	**-**	**-**
Balance at 31 March 2023	**(5,088)**	**(5,088)**
Carrying amounts		
At 31 March 2022	**1,874**	**1,874**
At 31 March 2023	**1,876**	**1,876**

Impairment loss

During the year ended 31 March 2023, the Group and Company did not recognise any impairment loss for investment properties (2022: £Nil).

A4. Intangible assets and goodwill

	Company			Group	
	Computer programs and software £000	Assets in the course of construction £000	Total £000	Goodwill £000	Total £000
Cost					
Balance at 1 April 2021	96,496	10,509	**107,005**	23,935	**130,940**
Additions	-	22,469	**22,469**	-	**22,469**
Transfers	28,239	(28,239)	**-**	-	**-**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2022	**124,735**	**4,739**	**129,474**	**23,935**	**153,409**
Balance at 1 April 2022	124,735	4,739	**129,474**	23,935	**153,409**
Additions	-	20,932	**20,932**	-	**20,932**
Transfers	21,651	(21,651)	**-**	-	**-**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2023	**146,386**	**4,020**	**150,406**	**23,935**	**174,341**
Amortisation and impairment losses					
Balance at 1 April 2021	(72,570)	-	**(72,570)**	(1,014)	**(73,584)**
Amortisation for the year	(7,065)	-	**(7,065)**	-	**(7,065)**
Impairment for the year	-	-	**-**	-	**-**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2022	**(79,635)**	**-**	**(79,635)**	**(1,014)**	**(80,649)**
Balance at 1 April 2022	(79,635)	-	**(79,635)**	(1,014)	**(80,649)**
Amortisation for the year	(9,327)	-	**(9,327)**	-	**(9,327)**
Impairment for the year	-	-	**-**	(6,322)	**(6,322)**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2023	**(88,962)**	**-**	**(88,962)**	**(7,336)**	**(96,298)**
Carrying amounts					
At 31 March 2022	45,100	4,739	**49,839**	22,921	**72,760**
At 31 March 2023	**57,424**	**4,020**	**61,444**	**16,599**	**78,043**

a) Impairment testing for goodwill

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

The cash flow projections included specific estimates for the life of the finite contract and the discount rate was a post-tax measure estimated based on the historical industry average weighted-average equity cost of capital, at a market interest rate of 8.6%.

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

Goodwill arising on acquisitions will be reviewed for impairment at each year end and will be written down to nil by the end of the PPP contract on the basis of the forecasted discounted profitability of the acquired companies. It is expected that the next impairment of goodwill will take place from 2026/27 onwards based on the current forecasts. Chemical costs borne by NI Water Alpha Ltd in the reporting year have been far in excess of previous estimates. These costs are forecast to continue for some time and impact of this on cashflows has resulted in an impairment of goodwill in the reporting year.

STATUTORY ACCOUNTS

A4. Intangible assets and goodwill continued

Assets in the course of construction (AICC)

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

£187k (2022: £342k) of research and development expenditure was recognised as an expense during the period. The following intangible assets are deemed to be material to the Group and Company's financial statements:

Description	Carrying amount	Remaining amortisation period (years)
Metering & Billing	£5.2m	6
Wastewater networks modelling	£4.2m	8
NI Asset Management Plan 5	£4.1m	8
Digital Services	£2.9m	6
Strategic Sewerage Network Modelling	£2.5m	9
Marine Modelling	£2.3m	9
Wastewater Treatment Works Sampling	£2.2m	7
Clean water model	£2.1m	8
PC21 Drainage Area Plans	£1.5m	9
Capital Maintenance Project Modelling	£1.4m	9
Facilities Review	£1.4m	7
Integrated Environmental Model	£1.3m	9
Legionella Assessment Project	£1.2m	9
Laganbank Sewer Investigation	£1.1m	10
Capital Efficiency Portfolio	£0.9m	8
Asbestos Surveys	£0.9m	9
Oracle	£0.7m	5
Digital Client Side Support	£0.5m	5
Water Fittings Regulations	£0.5m	7
Small Business Research Initiative Energy Recovery	£0.5m	7
Energy Storage	£0.4m	6
Major Projects Partnering	£0.4m	7
Cyber Recovery Vault	£0.4m	7
Goodwill arising on acquisitions	£16.6m	9

The contractual commitments for the acquisition of intangible assets as at 31 March 2023 are £9,550k (2022: £7,322k).

A5. Investments

	Company	
	At 31 March 2023 £	At 31 March 2022 £
Investment in subsidiaries	**5,000,001**	5,000,001
Total	**5,000,001**	5,000,001

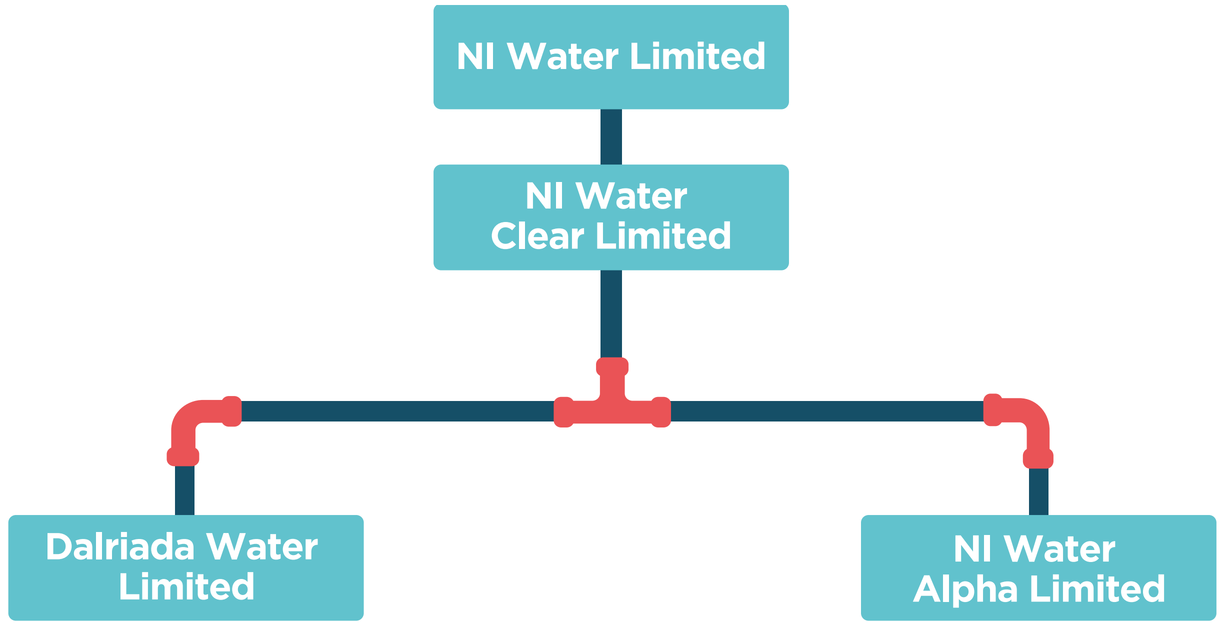
Principal subsidiary undertakings	Country of incorporation	Registered office address	% Ordinary shares and votes held	Principal activity
NI Water Clear Limited	Northern Ireland	Westland House, 40 Old Westland Road, Belfast BT14 6TE	100	Holding company
NI Water Alpha Limited*	Northern Ireland	Dunore Point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

*Owned by NI Water Clear Limited.

A5. Investments continued

List of subsidiaries

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



Dalriada Water Holdings Limited was dissolved on 22 July 2022 and no longer forms part of NI Water Group.

A6. Inventories

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Raw materials and consumables	**5,467**	4,598	**5,138**	4,424
Total	**5,467**	**4,598**	**5,138**	**4,424**

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

During the year raw materials, consumables and work in progress issued from stores and recognised within operating costs for the Group amounted to £7,713k (2022: £4,867k) (Company: £798k, 2022: £699k). The inventory held in stores is a component of total inventories. In the year ending 31 March 2023 the write-down of inventories to net realisable value amounted to £60k (2022: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2022: £60k). The write-downs are included in operating expenses.

A7. Cash and cash equivalents

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Bank balances	**72,785**	84,893	**57,472**	69,117
Call deposits	**1,027**	1,018	**1,027**	1,018
Cash and cash equivalents	**73,812**	**85,911**	**58,499**	**70,135**

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

A8. Non-current assets held for sale

The Company's Land Management Department is focused on selling the properties no longer required for operational purposes. Efforts to sell the assets have commenced and where the sale is expected by March 2024 these properties have been classified as held for sale in current assets.

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

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Balance at 1 April	**26**	40	**26**	40
Net transfer from investment properties	**-**	-	**-**	-
Net transfer to investment properties	**(6)**	(2)	**(6)**	(2)
Net transfer from property, plant and equipment	**-**	3	**-**	3
Impairment/Depreciation	**-**	-	**-**	-
Disposals	**-**	(15)	**-**	(15)
Balance at 31 March	**20**	26	**20**	26

A gain of £3k (2022: £2k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI.

A9. Leases

See accounting policies in Note G1(o).

Leases as lessee (IFRS 16)

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

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

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

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

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

A9. Leases continued

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

a) Right-of-use assets

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

	Land and buildings £000	Infrastructure assets £000	Operational assets £000	Vehicle plant and equipment £000	Total £000
Balance at 1 April 2022	1,174	357	16	81	1,628
Depreciation charge for the year	(274)	(10)	(14)	(50)	(348)
Additions to right-of-use assets	-	-	-	12	12
Balance at 31 March 2023	**900**	**347**	**2**	**43**	**1,292**

	Land and buildings £000	Infrastructure assets £000	Operational assets £000	Vehicle plant and equipment £000	Total £000
Balance at 1 April 2021	1,448	367	4	118	1,937
Depreciation charge for the year	(274)	(10)	(16)	(50)	(350)
Additions to right-of-use assets	-	-	28	13	41
Balance at 31 March 2022	**1,174**	**357**	**16**	**81**	**1,628**

b) Amounts recognised in profit or loss

2023 – Leases under IFRS 16	Profit or loss and cash flow £000
Interest on lease liabilities	29
Depreciation on right-of-use assets	348
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	19

2022 – Leases under IFRS 16	Profit or loss and cash flow £000
Interest on lease liabilities	36
Depreciation on right-of-use assets	350
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	35

c) Amounts recognised in statement of cash flows

	At 31 March 2023 £000
Total cash outflow for leases	377

A9. Leases continued

d) Extension options

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

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

The current photocopier lease contract with Xerox ends on 31 May 2023. A direct award contract will be awarded for one year ending on 31 May 2024 where a re-tender is expected to be completed.

Leases as lessor

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

a) Operating lease

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

Rental income recognised by the Group during 2023 was £1,365k (2022: £1,365k).

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

2023 – Operating leases under IFRS 16	At 31 March 2023 £000	At 31 March 2022 £000
Less than one year	**1,365**	1,365
One to two years	**1,365**	1,365
Two to three years	**1,365**	1,365
Three to four years	**1,365**	1,365
Four to five years	**1,365**	1,365
More than five years*	**118,235**	118,235
Total	**125,060**	125,060

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

B. How we are financed

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

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

B1. Loans and borrowings

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

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	At 31 March 2023 £000	At 31 March 2022 £000
Non-current liabilities				
Capital loan notes	**1,594,560**	1,439,560	**1,594,560**	1,439,560
Bank loans	**54,416**	61,266	**-**	-
Finance lease liabilities (PPP)	**88,189**	94,452	**152,619**	164,416
Finance lease liabilities (IFRS 16)	**1,056**	1,331	**1,040**	1,302
Total	**1,738,221**	1,596,609	**1,748,219**	1,605,278
Current liabilities				
Current portion of bank loans	**6,298**	5,846	**-**	-
Current portion of finance lease liabilities (PPP)	**6,263**	5,353	**11,798**	10,406
Current portion of finance lease liabilities (IFRS 16)	**303**	343	**276**	294
Total	**12,864**	11,542	**12,074**	10,700

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Group					
			At 31 March 2023		At March 2022	
	Nominal interest rate	Year of maturity	Face value £000	Carrying amount £000	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	**627,560**	**627,560**	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	**356,000**	**356,000**	356,000	356,000
Capital loan notes	Gilt + 0.85%	2034	**456,000**	**456,000**	456,000	456,000
Capital loan notes	Gilt + 0.85%	2042	**155,000**	**155,000**	-	-
Bank loan – EIB	5.18%	2030	**25,893**	**27,467**	29,087	30,920
Bank loan - RBC	SONIA + Credit Adjustment Spread	2029	**31,341**	**33,247**	34,047	36,192
PPP finance lease liabilities – Omega	3.67%	2032	**93,996**	**93,996**	99,033	99,033
PPP finance lease liabilities – Kinnegar	3.99%	2024	**456**	**456**	772	772
Finance lease liabilities (IFRS 16)	2.20% - 2.70%	2020-69	**1,359**	**1,359**	1,674	1,674
Total			**1,747,605**	**1,751,085**	1,604,173	1,608,151

The secured bank loans are secured over trade receivables within Dalriada Water Limited with a carrying amount of £87,016k (2022: £92,503k).

STATUTORY ACCOUNTS

B1. Loans and borrowings continued

	Company					
			At 31 March 2023		At 31 March 2022	
	Nominal interest rate	**Year of maturity**	**Face value £000**	**Carrying amount £000**	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	**627,560**	**627,560**	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	**356,000**	**356,000**	356,000	356,000
Capital loan notes	Gilt + 0.85%	2034	**456,000**	**456,000**	456,000	456,000
Capital loan notes	Gilt + 0.85%	2042	**155,000**	**155,000**	-	-
PPP finance lease liabilities – Alpha	5.81%	2031	**69,965**	**69,965**	75,017	75,017
PPP finance lease liabilities – Omega	3.67%	2032	**93,996**	**93,996**	99,033	99,033
PPP finance lease liabilities – Kinnegar	3.99%	2024	**456**	**456**	772	772
Finance lease liabilities (IFRS 16)	2.20%	2020-69	**1,316**	**1,316**	1,596	1,596
Total			**1,760,293**	**1,760,293**	1,615,978	1,615,978

The capital loan notes (denominated in GBP) have been issued under the instruments constituting £1,280,200k Fixed Coupon Unsecured loan notes 2027, £600,000k Fixed Coupon Unsecured loan notes 2034 and £1,750,000k Fixed Coupon Unsecured loan notes 2042. During the year to 31 March 2023, £155m of loan notes were issued under the £1,750,000k Fixed Coupon Unsecured loan notes 2042 instrument (2022: £170m issued under the Fixed Coupon Unsecured loan notes 2034). Capital loan notes are issued to the DfI and those issued under the £1,280,200k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2027, those issued under the £600,000k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2034 and those issued under the £1,750,000k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2042. All loan notes in issue before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 carry fixed interest rates of 0.85% above the reference gilt rate as published by the UK HM Government Debt Management Office on the day of issue of the loan note. The gilt rates applying to loan drawdowns subsequent to 31 March 2010 range from 0.43% to 4.42%.

Finance lease liabilities (PPP)

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

	Group					
	At 31 March 2023			At 31 March 2022		
	Future minimum lease payments £000	**Interest £000**	**Present value of minimum lease payments £000**	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**15,899**	**9,636**	**6,263**	15,890	10,537	5,353
Between one and five years	**65,255**	**31,778**	**33,477**	64,722	35,070	29,652
More than 5 years	**68,518**	**13,806**	**54,712**	85,214	20,414	64,800
Total	**149,672**	**55,220**	**94,452**	165,826	66,021	99,805

B1. Loans and borrowings continued

	Company					
	At 31 March 2023			At 31 March 2022		
	Future minimum lease payments £000	**Interest £000**	**Present value of minimum lease payments £000**	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**26,327**	**14,529**	**11,798**	26,205	15,799	10,406
Between one and five years	**111,306**	**46,744**	**64,562**	108,716	52,035	56,681
More than 5 years	**106,124**	**18,067**	**88,057**	135,302	27,567	107,735
Total	**243,757**	**79,340**	**164,417**	270,223	95,401	174,822

Finance lease liabilities (IFRS 16)

Finance lease liabilities relate to leases identified as finance leases under IFRS 16 as outlined in Note A9. Finance lease liabilities are payable as follows:

	Group					
	At 31 March 2023			At 31 March 2022		
	Future minimum lease payments £000	**Interest £000**	**Present value of minimum lease payments £000**	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**312**	**9**	**303**	372	29	343
Between one and five years	**290**	**78**	**212**	531	82	449
More than 5 years	**1,048**	**204**	**844**	1,104	222	882
Total	**1,650**	**291**	**1,359**	2,007	333	1,674

	Company					
	At 31 March 2023			At 31 March 2022		
	Future minimum lease payments £000	**Interest £000**	**Present value of minimum lease payments £000**	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**285**	**8**	**277**	322	28	294
Between one and five years	**273**	**78**	**195**	503	81	422
More than 5 years	**1,048**	**204**	**844**	1,102	222	880
Total	**1,606**	**290**	**1,316**	1,927	331	1,596

B1. Loans and borrowings continued

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

Group	Group £000
Balance at 1 April 2021	**1,448,200**
Changes from financing cash flows	
Proceeds from borrowings	170,000
Payment of bank loans	(4,641)
Payment of finance lease liabilities	(4,927)
Total changes from financing cash flows	**160,432**
Non-cash changes	
New leases (IFRS 16)	77
Amortisation of fair value adjustment arising on consolidation of senior loan	(552)
Total non-cash changes	**(475)**
Balance at 31 March 2022	**1,608,157**
Changes from financing cash flows	
Proceeds from borrowings	155,000
Payment of bank loans	(5,846)
Payment of finance lease liabilities	(5,730)
Total changes from financing cash flows	**143,424**
Non-cash changes	
New leases (IFRS 16)	56
Amortisation of fair value adjustment arising on consolidation of senior loan	(552)
Total non-cash changes	**(496)**
Balance at 31 March 2023	**(1,751,085)**

B2. Finance income and finance costs

Recognised in profit or loss

	Group	
	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Interest income on bank deposits	**1,007**	18
Financial liabilities at fair value through profit or loss – net change in fair value	**3,531**	3,708
Amortisation of senior loan debt fair valued at acquisition date	**552**	552
Net finance income	**5,090**	4,278
Financing charges on pension scheme	**(615)**	(1,233)
Interest expense on financial liabilities measured at amortised cost	**(52,472)**	(50,897)
Interest on PPP financing arrangements	**(10,537)**	(11,076)
Interest expense on finance lease liability	**(43)**	(36)
Finance costs	**(63,667)**	**(63,242)**
Net finance costs recognised in profit or loss	**(58,577)**	**(58,964)**

All finance income and finance costs above relate to assets/(liabilities) not at fair value through profit or loss except for financial liabilities held at fair value. Of the above amount £58,414k (2022: £54,101k) was payable by the Company to the DfI in relation to loan notes issued (see Note B1 'Loans and borrowings' and Note G4 'Related parties'). Interest of £9,636k was capitalised by the Group in the year (2022: £6,886k).

B3. Capital and reserves

Share capital

	Company	
	Ordinary shares	
	At 31 March 2023 £000	At 31 March 2022 £000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

Ordinary shares

At 31 March 2023 the authorised share capital of the Company comprised 500 million ordinary shares (2021: 500m) with a par value of £1 each.

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

Statutory distributable reserve

The statutory distributable reserve was established under enabling legislation.

Dividends

The following dividends were declared and paid by the Company.

	Company	
	Year to 31 March 2023 £000	Year to 31 March 2022 £000
3.80 pence per allotted ordinary share (2022: 6.23 pence)	**19,000**	31,169

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

B4. Financial instruments

The Group and Company establishes an allowance for impairment of water, sewerage and trade effluent customer debt by applying a range of expected recovery rates to an aged debt profile. The expected recovery rates are based on the risk of default across different industries (derived from historical collection data and management judgement) with categorisation into high, medium or low risk. A recovery rate profile across the aging categories is set for each of the three risk categories, which reflects the relative risks of collection. All high and medium risk debt is 100% provided for if over one year old, whereas the low risk category is 100% provided for when over three years old. Separate allowances are made for debt arising from test meters, those customers on repayment plans and for debt considered uncollectible. The impairment percentages are reviewed for accuracy on an annual basis. The Group and Company believes that the unimpaired amounts that are past due are still collectible.

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

Impairment losses

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

	Group			
	Gross	**Impairment**	Gross	Impairment
	At 31 March 2023		At 31 March 2022	
	£000	**£000**	£000	£000
Not past due	**18,355**	**532**	19,606	934
Past due 0-30 days	**2,346**	**295**	2,628	352
Past due 31-60 days	**568**	**117**	586	153
Past due 61-90 days	**310**	**80**	328	144
Past due 91-120 days	**289**	**116**	236	136
Past due 121-150 days	**260**	**159**	188	144
Past due 151-365 days	**690**	**551**	630	601
Past due 1-2 years	**692**	**598**	594	578
Past due 2+ years*	**710**	**615**	406	406
Total	**24,220**	**3,063**	25,202	3,448

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

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

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

B4. Financial instruments continued

Impairment losses

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

	Company			
	Gross	**Impairment**	Gross	Impairment
	At 31 March 2023		At 31 March 2022	
	£000	**£000**	£000	£000
Not past due	**18,355**	**532**	19,606	934
Past due 0-30 days	**2,346**	**295**	2,628	352
Past due 31-60 days	**568**	**117**	586	153
Past due 61-90 days	**310**	**80**	328	144
Past due 91-120 days	**289**	**116**	236	136
Past due 121-150 days	**260**	**159**	188	144
Past due 151-365 days	**690**	**551**	630	601
Past due 1-2 years	**692**	**598**	594	578
Past due 2+ years*	**710**	**615**	406	406
Total	**24,220**	**3,063**	25,202	3,448

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

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

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

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

	Group	
	At 31 March 2023 £000	At 31 March 2022 £000
Not past due	**17,151**	18,997
Past due 0-30 days	**2,605**	2,737
Past due 31-60 days	**796**	509
Past due 61-90 days	**238**	204
Past due 91-120 days	**164**	81
Past due 121-150 days	**102**	21
Past due 151-365 days	**795**	684
Past due 1-2 years	**797**	593
Past due 2+ years	**1,572**	1,376
Total	**24,220**	25,202

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

B4. Financial instruments continued

	Company	
	At 31 March 2023 £000	At 31 March 2022 £000
Not past due	**17,151**	18,997
Past due 0-30 days	**2,605**	2,737
Past due 31-60 days	**796**	509
Past due 61-90 days	**238**	204
Past due 91-120 days	**164**	81
Past due 121-150 days	**102**	21
Past due 151-365 days	**795**	684
Past due 1-2 years	**797**	593
Past due 2+ years*	**1,572**	1,376
Total	**24,220**	25,202

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

	Group and Company	
	At 31 March 2023 £000	At 31 March 2022 £000
Balance at 1 April	**3,448**	3,518
New provisions	**2,221**	2,922
Debt provision utilised	**(415)**	(415)
Provision released unused	**(2,191)**	(2,577)
Balance at 31 March	**3,063**	3,448

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

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

B4. Financial instruments continued

Liquidity risk

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

31 March 2023

	Group						
	Carrying amount £000	**Contractual cash flows £000**	**6 months or less £000**	**6-12 months £000**	**1-2 years £000**	**2-5 years £000**	**More than 5 years £000**
Capital loan notes	**1,594,560**	(2,023,985)	(31,872)	(31,872)	(63,570)	(1,127,478)	(769,193)
Bank loans	**60,714**	(57,018)	(3,547)	(2,751)	(13,468)	(27,903)	(9,349)
Finance lease liabilities (PPP)	**94,452**	(149,935)	(8,081)	(8,081)	(15,982)	(49,273)	(68,518)
Finance lease liabilities (IFRS 16)	**1,359**	(1,650)	(161)	(151)	(123)	(167)	(1,048)
Trade and other payables	**195,791**	(195,792)	(193,899)	-	-	(1,893)	-
Derivative financial instrument*	**986**	(986)	-	-	-	-	(986)
Total	**1,947,862**	**(2,429,366)**	**(237,560)**	**(42,855)**	**(93,143)**	**(1,206,714)**	**(849,094)**

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

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

31 March 2022

	Group						
	Carrying amount £000	**Contractual cash flows £000**	**6 months or less £000**	**6-12 months £000**	**1-2 years £000**	**2-5 years £000**	**More than 5 years £000**
Capital loan notes	**1,439,560**	(1,788,172)	(28,255)	(28,101)	(56,510)	(1,152,627)	(522,679)
Bank loans	**67,112**	(62,647)	(3,044)	(2,802)	(12,316)	(25,686)	(18,799)
Finance lease liabilities (PPP)	**99,805**	(165,825)	(7,945)	(7,945)	(16,162)	(48,559)	(85,214)
Finance lease liabilities (IFRS 16)	**1,674**	(2,004)	(187)	(185)	(302)	(228)	(1,102)
Trade and other payables	**164,182**	(164,182)	(162,143)	-	-	(2,039)	-
Derivative financial instrument*	**4,517**	(4,517)	-	-	-	-	(4,517)
Total	**1,776,850**	**(2,187,347)**	**(201,574)**	**(39,033)**	**(85,290)**	**(1,229,139)**	**(632,311)**

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

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

B4. Financial instruments continued

31 March 2023

	Company						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	**1,594,560**	(2,023,985)	(31,872)	(31,872)	(63,570)	(1,127,478)	(769,193)
Finance lease liabilities (PPP)	**164,417**	(244,018)	(13,295)	(13,295)	(26,526)	(84,779)	(106,123)
Finance lease liabilities (IFRS 16)	**1,316**	(1,605)	(142)	(142)	(110)	(163)	(1,048)
Trade and other payables	**197,843**	(197,843)	(195,950)	-	-	(1,893)	-
Total	**1,958,136**	**(2,467,451)**	**(241,259)**	**(45,309)**	**(90,206)**	**(1,214,313)**	**(876,364)**

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

31 March 2022

	Company						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	**1,439,560**	(1,788,172)	(28,255)	(28,101)	(56,510)	(1,152,627)	(522,679)
Finance lease liabilities (PPP)	**174,822**	(270,223)	(13,102)	(13,102)	(26,590)	(82,126)	(135,303)
Finance lease liabilities (IFRS 16)	**1,596**	(1,927)	(161)	(161)	(285)	(218)	(1,102)
Trade and other payables	**166,151**	(166,151)	(164,112)	-	-	(2,039)	-
Total	**1,782,129**	**(2,226,473)**	**(205,630)**	**(41,364)**	**(83,385)**	**(1,237,010)**	**(659,084)**

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

B4. Financial instruments continued

Profile

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

	Group	
	Carrying amount	
	At 31 March 2023 £000	At 31 March 2022 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,717,838)**	(1,571,959)
Total	**(1,717,838)**	(1,571,959)
Variable rate instruments		
Financial assets	**73,812**	85,911
Financial liabilities*	**(33,247)**	(36,192)
Total	**40,565**	49,719

* Financial liabilities of £33,247k is at variable rate but the Group has entered into a derivative financial instrument contract to fix the interest rate payable.

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

	Company	
	Carrying amount	
	At 31 March 2023 £000	At 31 March 2022 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,760,293)**	(1,615,978)
Total	**(1,760,293)**	(1,615,978)
Variable rate instruments		
Financial assets	**58,499**	70,135
Financial liabilities	**-**	-
Total	**58,499**	70,135

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets at fair value through profit or loss. The Group designates derivatives (interest rate swaps) as interest rate hedges at fair value through profit or loss.

B4. Financial instruments continued

Fair values versus carrying amounts

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

	Group					
	Note	FVOCI - equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Fair value - hedging instruments £000	Total carrying amount £000
31 March 2023						
Financial assets not measured at fair value						
Cash and cash equivalents	A7	-	73,812	-	-	**73,812**
Trade and other receivables	C5	-	8,559	-	-	**8,559**
Unbilled income	C5	-	12,724	-	-	**12,724**
Total		**-**	**95,095**	**-**	**-**	**95,095**
Financial liabilities not measured at fair value						
Finance lease liabilities (PPP)	B1	-	-	(94,452)	-	**(94,452)**
Finance lease liabilities (IFRS 16)	B1	-	-	(1,359)	-	**(1,359)**
Trade payables	D2	-	-	(177,173)	-	**(177,173)**
Other payables	D2	-	-	(20,794)	-	**(20,794)**
Loans and borrowings	B1	-	-	(1,594,560)	-	**(1,594,560)**
Bank loans	B1	-	-	(60,714)	-	**(60,714)**
Financial liabilities measured at fair value						
Interest rate swap	D2	-	-	-	(986)	**(986)**
Total		**-**	**-**	**(1,949,052)**	**(986)**	**(1,950,038)**

B4. Financial instruments continued

	Group					
	Note	FVOCI - equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Fair value - hedging instruments £000	Total carrying amount £000
31 March 2022						
Financial assets not measured at fair value						
Cash and cash equivalents	A7	-	85,911	-	-	**85,911**
Trade and other receivables	C5	-	11,112	-	-	**11,112**
Unbilled income	C5	-	10,641	-	-	**10,641**
Total		**-**	**107,664**	**-**	**-**	**107,664**
Financial liabilities not measured at fair value						
Finance lease liabilities (PPP)	B1	-	-	(99,805)	-	**(99,805)**
Finance lease liabilities (IFRS 16)	B1	-	-	(1,674)	-	**(1,674)**
Trade payables	D2	-	-	(147,449)	-	**(147,449)**
Other payables	D2	-	-	(18,550)	-	**(18,550)**
Loans and borrowings	B1	-	-	(1,439,560)	-	**(1,439,560)**
Bank loans	B1	-	-	(67,112)	-	**(67,112)**
Financial liabilities measured at fair value						
Interest rate swap	D2	-	-	-	(4,517)	**(4,517)**
Total		**-**	**-**	**(1,774,150)**	**(4,517)**	**(1,778,667)**

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans, borrowings and finance lease liabilities, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings, which includes third party borrowings, is £1,561m (2022: £1,666m). Accounting policy 1(c) outlines the background to PC21. The uncertainty in relation to this would normally have an impact on the credit rating of loans and borrowings and the interest rate used to calculate fair values. It has been assumed that no change in the credit risk premium has occurred in relation to the capital loan notes of loans and borrowings because all loans and borrowings are provided by the Shareholder and the Group has no access to external finance markets for existing or future borrowings. Included within the £1,561m fair value of loans and borrowings are £61m in respect of bank loans which were fair valued on acquisition. As the bank loans were fair valued at the point of acquisition, the fair value is equivalent to the carrying amount. Further details on the terms and year end balances can be found in Note B1. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The derivative financial instrument (interest rate swap) is categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The investment securities are categorised within Level 1 in the fair value hierarchy.

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

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

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

B4. Financial instruments continued

	Company				
	Note	FVOCI - equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Total carrying amount £000
31 March 2023					
Financial assets not measured at fair value					
Cash and cash equivalents	A7	-	58,499	-	**58,499**
Trade and other receivables	C5	-	39,608	-	**39,608**
Unbilled income	C5	-	12,724	-	**12,724**
Total		-	110,831	-	110,831
Financial liabilities not measured at fair value					
Finance lease liabilities (PPP)	B1	-	-	(164,417)	**(164,417)**
Finance lease liabilities (IFRS 16)	B1	-	-	(1,316)	**(1,316)**
Trade payables	D2	-	-	(176,300)	**(176,300)**
Other payables	D2	-	-	(21,544)	**(21,544)**
Loans and borrowings	B1	-	-	(1,594,560)	**(1,594,560)**
Total		-	-	(1,958,137)	(1,958,137)

	Company				
	Note	FVOCI - equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Total carrying amount £000
31 March 2022					
Financial assets not measured at fair value					
Cash and cash equivalents	A7	-	70,135	-	**70,135**
Trade and other receivables	C5	-	44,635	-	**44,635**
Unbilled income	C5	-	10,641	-	**10,641**
Total		-	125,411	-	125,411
Financial liabilities not measured at fair value					
Finance lease liabilities (PPP)	B1	-	-	(174,822)	**(174,822)**
Finance lease liabilities (IFRS 16)	B1	-	-	(1,596)	**(1,596)**
Trade payables	D2	-	-	(147,362)	**(147,362)**
Other payables	D2	-	-	(18,789)	**(18,789)**
Loans and borrowings	B1	-	-	(1,439,560)	**(1,439,560)**
Total		-	-	(1,782,129)	(1,782,129)

B4. Financial instruments continued

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans, borrowings and finance lease liabilities, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings is £1,500m (2022: £1,599m). Accounting policy 1(c) outlines the background to PC21. The uncertainty in relation to this would normally have an impact on the credit rating of loans and borrowings and the interest rate used to calculate fair values. It has been assumed that no change in the credit risk premium has occurred because all loans and borrowings are provided by the Shareholder and the Company has no access to external finance markets for existing or future borrowings. Further details on the terms and year end balances can be found in Note B1. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The investment securities are categorised within Level 1 in the fair value hierarchy.

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

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

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

STATUTORY ACCOUNTS

C. Revenue and receivables

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

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

C1. Revenue

	Group	
	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Customer subsidy provided by the DfI	**345,470**	318,675
Customer income	**92,027**	81,843
Road drainage income provided by the DfI	**25,243**	23,251
Transfers of assets from customers	**4,085**	3,787
Connection and infrastructure charges	**9,800**	10,269
Other third party contributions	**2,653**	3,366
Total	**479,278**	441,191

Customer subsidy provided by the DfI

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

Customer income

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

Road drainage income provided by the DfI

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

Transfers of assets from customers

In 2018/19 the Group and Company adopted IFRS 15 and changed its accounting policy such that the value of transfers of assets from customers £29,682k (2022: £39,994k) has been taken to a deferred credit reserve and amortised over the life of the related asset. The amount recognised as income in the current year is £4,085k (2022: £3,787k).

Connection and infrastructure charges

Connection charges relate to the cash charge to customers to connect a property to the water or sewerage network. This charge covers the capital cost of the connection. Infrastructure charges are also levied at the point of connection to the network.

Infrastructure charges income is used to partly fund the overall capital programme. Connection and infrastructure charges are recognised in revenue when services have been supplied to the customer.

Other third party contributions

This includes customer contributions towards requisitioning of water or sewerage network pipes. The customer will only make a contribution when the scheme would be considered uneconomical without this contribution. Other third party contributions also include fees charged for the transfer of assets from customers ('adoption' of assets). Contributions in relation to requisitioning and other third party fees are recognised on receipt.

C2. Deferred income

Deferred income classified as current consists of deferred revenue associated with the annual unmeasured water bill cycle and the portion of deferred government grants that will be recognised as income in the next year. Deferred income classified as non-current consists of the non-current portion of deferred government grants and adopted assets which have been recognised as deferred income under IFRS 15 Revenue.

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Government grants	**23,846**	24,593	**23,846**	24,593
Customer billing in advance	**244**	3,309	**244**	3,309
Adopted assets	**561,093**	535,496	**561,093**	535,496
Total	**585,183**	563,398	**585,183**	563,398
Non-current	**583,871**	558,998	**583,871**	558,998
Current	**1,312**	4,400	**1,312**	4,400
Total	**585,183**	563,398	**585,183**	563,398

The Group and Company credited £327k (2022: £439k) to capital grants during the year. The balance of grants noted above relates to awards made previously to Water Service. All grants have been recognised as deferred income and are being amortised over the useful economic life of the related asset. New grants received during the year of £327k relates to assets in the course of construction (AICC) and some of these projects have been commissioned with the associated grants amortised over the expected useful economic life of the related assets.

C3. Other income

	Group	
	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Net gain on sale of property, plant and equipment	**420**	585
Amortisation of deferred grants and contributions	**1,075**	1,024
Insurance proceeds	**-**	1,120
Total	**1,495**	2,729

C4. Trade and other receivables

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Trade and other receivables from related parties (see Note G4)	**2,425**	2,198	**2,425**	2,198
Trade and other receivables from subsidiaries	**-**	-	**31,177**	33,523
Trade receivables	**6,134**	8,914	**6,006**	8,914
Other receivables	**32,842**	24,986	**26,725**	24,980
Total	**41,401**	36,098	**66,333**	69,615
Current	**41,401**	36,098	**66,333**	69,615

At 31 March 2023 other receivables include VAT receivable of £9,146k (2022: £9,082k) for the parent Company.

C5. Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Group		Company	
	Note	**At 31 March 2023 £000**	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Trade and other receivables	B4	**8,559**	11,112	**39,608**	44,635
Unbilled income	B4	**12,724**	10,641	**12,724**	10,641
Cash and cash equivalents	A7	**73,812**	85,911	**58,499**	70,135
Total		**95,095**	107,664	**110,831**	125,411

The total exposure to credit risk at the reporting date is with UK counterparties, and these are GBP denominated. All financial assets, which are subject to credit risk, are measured at amortised cost.

The maximum exposure to credit risk for trade and other receivables and unbilled income at the reporting date by type of counterparty was:

	Group		Company	
	Carrying amount			
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
End-user customers	**21,283**	21,753	**52,332**	55,276

The maximum exposure to cash and cash equivalents (Note A7) is £73,812k (2022: £85,911k). The majority of this balance relates to monies held at the Company's principal banker, Danske Bank, and monies held at Dalriada Water Limited's principal banker, Natwest Plc.

D. Purchases and payables

This section sets out the costs incurred by NI Water to provide its services. In addition, it provides the notes to the accounts for the SOFP on creditors, provisions and leases.

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

D1. Operating expenses

	Group	
	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Depreciation and other amounts written off tangible and intangible assets	**99,070**	91,609
Hire and contracted services	**67,098**	66,251
Staff costs	**87,786**	79,164
Power	**83,048**	62,193
Rates	**28,908**	28,514
Raw materials and consumables	**21,436**	16,014
Sundry operating expenses	**1,431**	12,615
Own work capitalised*	**(19,510)**	(18,182)
Impairment of goodwill	**6,322**	-
Total operating expenses	**375,589**	338,178

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

Refer to page 122 for expenditure on research and development.

The net increase in inventories for the year was £869k (2022: £135k increase).

Impairment losses above are included within the 'operating expenses' line of the SOCI. The events and circumstances leading to the recognition of the impairment losses in investment properties are outlined in Note A3 and goodwill in Note A4.

	Group	
	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**92**	71
Fees payable to the Company's auditor for other services: Audit of the accounts of subsidiaries	**24**	21
Audit of regulatory financial statements	**12**	11
Regularity audit opinion (Group)	**25**	22
Total	**153**	125
Amounts receivable by the auditor in respect of:		
Subsidy assurance opinion	**12**	11
Total	**12**	11
Total fees paid to the Group auditor	**165**	136

D2. Trade and other payables

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Payments received on account	**1,105**	1,583	**1,105**	1,583
Trade payables	**5,448**	2,320	**3,135**	872
Taxation and social security	**3,371**	2,561	**3,371**	2,561
Accruals – operating expenditure	**53,690**	52,718	**53,079**	52,110
Accruals – capital expenditure	**106,140**	83,316	**106,140**	83,316
Accruals relating to related parties (see Note G4)	**7,419**	4,951	**7,419**	4,951
Accruals relating to subsidiaries	**-**	-	**2,051**	1,969
Total	**177,173**	147,449	**176,300**	147,362

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note B4.

Other payables

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Non-current – interest rate swap	**986**	4,517	**-**	-
Non-current – others	**1,893**	2,039	**1,893**	2,039
Current	**18,901**	16,511	**19,651**	16,750
Total	**21,780**	23,067	**21,544**	18,789

Non-current other payables relate to retentions from capital projects all of which will fall due within two to five years and interest rate swap.

Exposure to currency risk

The Company is not exposed to any significant currency risks.

D3. Provisions

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Omega obligation provision £000	Other provisions £000	**Total £000**
Balance at 1 April 2022	1,989	208	6,320	1,348	**9,865**
New Provisions	810	74	-	-	**884**
Utilised	(710)	(93)	(140)	-	**(943)**
Remeasurement of prior year provision	-	-	1,710	-	**1,710**
Amounts released unused	(568)	(42)	-	(98)	**(708)**
Balance at 31 March 2023	**1,521**	**147**	**7,890**	**1,250**	**10,808**
Non-current	913	111	7,373	-	**8,397**
Current	608	36	517	1,250	**2,411**
Total	**1,521**	**147**	**7,890**	**1,250**	**10,808**

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Omega obligation provision £000	Other provisions £000	**Total £000**
Balance at 1 April 2021	1,749	263	-	970	**2,982**
New Provisions	957	25	6,493	378	**7,853**
Utilised	(347)	(72)	(173)	-	**(592)**
Transferred to accruals	-	-	-	-	**-**
Amounts released unused	(370)	(8)	-	-	**(378)**
Balance at 31 March 2022	**1,989**	**208**	**6,320**	**1,348**	**9,865**
Non-current	1,194	156	6,055	-	**7,405**
Current	795	52	265	1,348	**2,460**
Total	**1,989**	**208**	**6,320**	**1,348**	**9,865**

Public and employer liability claims

The public liability and employer liability claims at 31 March 2023 relate to unsettled claims. The public liability claims principally relate to previous operational incidents and contractors' business interruption incidents in prior years. The provisions represent potential liabilities on these claims above the amount of insurance cover in place. Professional advice has been sought on the potential liability for individual claims. Claims submitted against the Group and Company are in excess of the provisions made as management have made best estimates of the required provisions based on past experience of similar claims. Until claims are progressed through the formal claims process some degree of uncertainty will remain as to the amount and timing of any final settlement figure. The employer liability claims principally relate to incidents incurred by employees on Group and Company premises. A related contingent liability has also been disclosed at Note D4. The contingent liability for public and employer liability of £0.5m represents an amount relating to the value of claims received above the provision included in the financial statements.

Omega Obligation Provision

The provision at 31 March 2023 is in relation to settlement of a dispute with Glen Water in August 2021. The settlement both extinguishes past claims and gives rise to the construction/ refurbishment of assets as well as a constructive obligation in respect of sharing annual electricity and sludge savings. Since the timing and value of payments for sludge savings have been set out in the contract, this obligation has been recognised as an accrual (£3.5m). The full benefits of the electricity gain share are less certain in terms of timing and value and as a result have been recognised as a provision (£7.9m; 2022: £6.3m) based on prevailing power rates in the 2022/23 year.

STATUTORY ACCOUNTS

D3. Provisions continued

Other provisions

Other provisions relate to management's best estimates of the value of entitlement in relation to holiday pay totalling £1,250k (2022: £1,348k).

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

31 March 2023

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Omega obligation provision £000	Other provisions £000	**Total £000**
Within one year	608	36	517	1,250	**2,411**
In the second to fifth years	913	111	3,870	-	**4,894**
Over five years	-	-	3,503	-	**3,503**
Total	**1,521**	**147**	**7,890**	**1,250**	**10,808**

31 March 2022

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Omega obligation provision £000	Other provisions £000	**Total £000**
Within one year	795	52	265	1,348	**2,460**
In the second to fifth years	1,194	156	2,641	-	**3,991**
Over five years	-	-	3,414	-	**3,414**
Total	**1,989**	**208**	**6,320**	**1,348**	**9,865**

Provisions greater than one year are not discounted on the basis of materiality.

D4. Contingencies

The Group and Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £0.5m (2022: £0.7m). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. A summary of contingent liabilities is set out below:

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Public and employer liability	**492**	686	**492**	686
Total	**492**	686	**492**	686

D4. Contingencies continued

Debenture to the DfI

The DfI has entered into deeds of guarantee with the concessionaires of the Alpha and Omega PPP contracts to guarantee all future liabilities of the Company under these contracts.

The Group and Company has entered into an environmental indemnity with the DfI and the Department of the Environment (from 9 May 2016 Department of Agriculture, Environment and Rural Affairs (DAERA)) in respect of any future environmental liabilities arising for NI Water. The Group and Company has registered a debenture to counter indemnify the DfI in relation to these three guarantees. Under this debenture the Group and Company pledges to the DfI by way of first floating charge and as a continuing security for the payment and discharge of the secured liabilities all of the Group and Company's rights to and title, and interest on property, assets rights and revenues. No provision has been made in the financial statements in respect of this guarantee as the conditions under which the liability would crystallise have not been breached.

Parent Company guarantee

In accordance with the share acquisition by the Group of: (i) Dalriada Water (Holdings) Limited; and (ii) Northern Ireland Water Alpha Limited (formerly named Kelda Water Services (Alpha) Limited) (the "OpCo"), a Parent Company guarantee to Dalriada Water Limited (the "ProjectCo"), previously provided by Kelda Group Limited, has novated to Northern Ireland Water Limited. The guarantee guarantees the performance by the OpCo of the OpCo's obligations and liabilities under the terms of a principal sub-contract between the ProjectCo and the OpCo. Under the terms of the project agreement, the ProjectCo earns a Unitary Charge from Northern Ireland Water Limited in return for providing the required quantity of water to Northern Ireland Water Limited at each of the specified sites to the specified water quality standards.

Contingent assets

The Group and Company receives performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2023 is £18.2m (2022: £16.3m) and this balance is included in accruals (see Note D2). Bonds are only recognised as a capital contribution if customers are in default of agreed conditions. The Group and Company has also received a number of paper performance bonds issued by various financial institutions. These are not recognised in the financial statements. Value placed on paper bonds held at 31 March 2023 is £35.9m (2022: £34.6m). These items are considered contingent assets as an inflow of economic benefits is considered to be remote.

Contingent liability

A legal ruling has been made regarding age discrimination arising from pension scheme transitions arrangements. Court of appeal judgements were made in cases affecting Judges' pensions (McCloud) and firefighter pensions (Sergeant) which had previously been considered by employment tribunals. The ruling may have implications for other pension schemes, including the NI Water Pension Scheme, which have implemented transitional arrangements for benefits changes. In 2022/23 pension service costs have been increased by £nil (2022: £nil) to reflect the likely outcome for the Scheme.

D5. Operating leases

Leases as lessee

Total future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Less than one year	**12**	19	**12**	19
Between one and five years	**2**	-	**2**	-
More than 5 years	**-**	-	**-**	-
Total	**14**	19	**14**	19

The Group and Company leases lands, vehicle GPS and motor vehicles which are recognised as operating leases as they fall within the following IFRS 16 exemptions:

- lease term ends within 12 months of the date of initial application;
- leases of low value assets.

During the year ended 31 March 2023 an amount of £19k (2022: £35k) (Company: £19k, 2022: £35k) was recognised as an expense in profit or loss in respect of operating leases.

E. Our employees

This section sets out information about employee numbers and costs and then provides information on the Group and Company's main pension scheme. The analysis provided in the pension notes is based on IAS 19 estimate of the scheme's assets and liabilities as at 31 March 2023. The value shown in the SOFP calculated on IAS 19 Employee Benefits basis is subject to a number of factors. In this section we provide information to explain the following:

- why the pension liabilities on the SOFP have changed from one year to another;
- what makes up the charge in the income statement in the year; and
- the amount of the scheme assets and liabilities totalling the net defined benefit pension liability on the SOFP.

The movement in the IAS 19 Employee Benefits estimate of the defined benefit scheme liability during the year, is the item which singularly has the greatest impact on the SOFP.

Most of our employees are members of the NI Water Pension Scheme which is a defined benefit scheme. A number of our employees are members of a defined contribution scheme.

Further information on the analysis of the NI Water Pension Scheme assets and the assumptions underlying the liabilities are set out in Note G3.

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

E1. Personnel numbers and expenses

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Group		Company	
	No. of employees Year to 31 March 2023	No. of employees Year to 31 March 2022	**No. of employees Year to 31 March 2023**	No. of employees Year to 31 March 2022
Directors	**7**	7	**7**	7
Non-industrial staff	**932**	891	**904**	862
Industrial staff	**484**	472	**484**	472
Total staff	**1,423**	1,370	**1,395**	1,341

The gender of persons employed by the Group (including Directors) during the year ended 31 December 2022, analysed by category, was as follows*:

	Group					
	No. of employees Year to 31 December 2022			No. of employees Year to 31 December 2021		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**55**	**19**	**74**	53	19	72
Non-industrial staff	**607**	**286**	**893**	564	270	834
Industrial staff	**487**	**6**	**493**	462	4	466
Total staff	**1,149**	**311**	**1,460**	1,079	293	1,372

*Based on statutory returns made to the Equality Commission on a calendar year basis.

E1. Personnel numbers and expenses continued

The gender of persons employed by the Company (including Directors) during the year ended 31 December 2022, analysed by category, was as follows*:

	Company					
	No. of employees Year to 31 December 2022			No. of employees Year to 31 December 2021		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**55**	**19**	**74**	53	19	72
Non-industrial staff	**581**	**284**	**865**	538	268	806
Industrial staff	**487**	**6**	**493**	462	4	466
Total staff	**1,123**	**309**	**1,432**	1,053	291	1,344

*Based on statutory returns made to the Equality Commission on a calendar year basis.

The aggregate payroll costs for the Group of these persons were as follows:

	Group	
	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Wages and salaries	**59,403**	50,845
Social security costs	**6,445**	5,332
Other pension costs	**21,938**	22,987
Total payroll costs	**87,786**	79,164

An amount of £16,945k (2022: £15,795k) of the above payroll costs has been capitalised as it relates to work carried out by the Group that adds to the value of property, plant and equipment and intangible assets.

E1a Key management personnel short-term employee benefit

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Directors' remuneration report on pages 126 to 129. Key management includes all Board and Executive Committee members. Apart from NI Water Limited, the Directors of the Companies in the Group did not receive any emoluments for their services from the date of acquisition.

In summary, key management personnel compensation comprised:

	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Short-term employee benefits	**1,095**	1,019
Post-employment benefits	**279**	259
Total benefits	**1,374**	1,278

The emoluments of the highest paid Director were £180k (2022: £166k). There are 4 (2022: 4) Executive Directors in the Group's pension scheme.

There are amounts included in the SOCI in respect of actuarial gains and losses attributable to key management personnel, however, it is considered impractical to provide a breakdown of the actuarial gains/losses relating to individual members. While some elements resulting in gains/losses are easy to measure on an individual basis e.g. the effect of salary increases, others would involve allocating a share in investment returns and other scheme experience (deaths/retirements) which cannot be attributed to individual members.

E1. Personnel numbers and expenses continued

E1b Exit packages

The exit packages for employees who left the Company during the year are reported below. The majority of the exit packages relate to the Voluntary Exit schemes which were used to facilitate the targeted reduction in headcount. The Voluntary Exit schemes are similar to the Northern Ireland Civil Service (NICS) scheme and incorporate the provisions of relevant age discrimination legislation. All applications are considered in terms of overall cost and business need. Overall cost in individual cases is based on length of service and pensionable pay figures. Ill-health retirement costs are met by the pension scheme and are not included in the exit packages.

Exit package cost band £000	Number of compulsory redundancies 31 March 2023	Number of other departures agreed 31 March 2023	Total number of exit packages by cost band 31 March 2023	Number of compulsory redundancies 31 March 2022	Number of other departures agreed 31 March 2022	Total number of exit packages by cost band 31 March 2022
0 - 10	-	2	2	-	-	-
10 - 25	-	13	13	-	9	9
25 - 50	-	3	3	-	2	2
50 - 100	-	-	-	-	-	-
Above 100	-	-	-	-	-	-
Total number	-	18	18	-	11	11
Total cost (£'000)	-	351	351	-	219	219

E1c Off-payroll engagements

In accordance with the Department of Finance (DoF) disclosure guidance - FD (DoF) 02/20, the Company had the following 'off-payroll' engagements at a cost of over £245 per day and engaged for over six months. None of the subsidiaries in the Group had off-payroll engagements as defined by the DoF guidance in the year.

Table 1 – Temporary off-payroll worker engagements as at 31 March 2023	Number
Number of existing engagements as of 31 March 2023	62
Of which have:	
Existed for less than one year at time of reporting	27
Existed for between one and two years at time of reporting	23
Existed for between two and three years at time of reporting	11
Existed for between three and four years at time of reporting	-
Existed for four or more years at time of reporting	1

Table 2 – All temporary off-payroll workers engaged at any point during the year ended 31 March 2023	Number
Number of off-payroll workers engaged during the year ended 31 March 2023	27
Of which:	
Number determined as out-of-scope of IR35	25
Number determined as in-scope of IR35	2
Number of engagements reassessed for compliance or assurance purposes during the year	-
Of which: Number of engagements that saw a change to IR35 status following review	-
Number of engagements where the status was disputed under provisions in the off-payroll legislation	-
Of which: Number of engagements that saw a change to IR35 status following review	-

Table 3 – Off-payroll engagements of board members (and/or senior officials with significant financial responsibility) between 1 April 2022 and 31 March 2023	Number
Number of off-payroll engagements of board members, (and/or senior officials with significant financial responsibility), during the financial year.	-
Total number of individuals on payroll and off-payroll that have been deemed "board members, (and/or senior officials with significant financial responsibility)", during the financial year. This figure should include both on payroll and off-payroll engagements.	4

E2. Employee benefits

The net pension expense before tax recognised in the income statement in respect of the defined benefit scheme is summarised as follows:

Components of defined benefit cost

	Total year to 31 March 2023 £000	Total year to 31 March 2022 £000
Service cost		
Current service costs (operating costs - staff costs)	20,222	20,006
Past service costs (operating costs - staff costs)	-	615
Total service cost	20,222	20,621
Net interest cost:		
Interest expense	9,788	7,774
Interest income	(9,173)	(6,540)
Net interest cost	615	1,234
Administration expenses and taxes	1,200	1,100
Defined benefit cost included in profit	22,037	22,955

The reconciliation of the opening and closing net pension obligations included in the statement of financial position is as follows:

Net defined benefit (asset)/liability reconciliation

	Total year to 31 March 2023 £000	Total year to 31 March 2022 £000
Opening defined benefit liability	29,055	62,627
Defined benefit cost included in profit	22,037	22,955
Total measurements included in Other Comprehensive Income	(84,206)	(44,209)
Cash flows – employer contributions	(13,343)	(12,318)
Closing defined benefit liability	(46,457)	29,055
Actual return on plan assets	(32,047)	22,055

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

	Total year to 31 March 2023 £000	Total year to 31 March 2022 £000
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	-	-
Effect of changes in financial assumptions	(148,128)	(23,782)
Effect of experience adjustments	22,702	(4,912)
Return on plan assets excluding interest income	41,220	(15,515)
Total remeasurements included in Other Comprehensive Income	(84,206)	(44,209)

STATUTORY ACCOUNTS

E2. Employee benefits continued

Significant assumptions used in this disclosure

Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2023	Conditions at 31 March 2022
Rate of increase in salaries	**2.70% until 2024, 3.70% thereafter**	3.00% until 2024, 4.00% thereafter
Rate of increase in pensions in payment and deferred pensions	**3.10%**	3.40%
Discount rate	**4.80%**	2.80%
Inflation assumption - RPI	**3.00%**	3.30%
Inflation assumption - CPI	**2.70%**	3.00%

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

F. Taxation

This section sets out information about the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the accounting and tax bases of profit.

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

F1. Taxation

Group Income tax expense

	Year to 31 March 2023 £000	Year to 31 March 2022 £000
Tax recognised in profit or loss current tax expense		
Current year	**-**	-
Adjustment for prior years	**59**	112
Total	**59**	112
Deferred tax		
Origination of temporary differences	**-**	(10,764)
Adjustment to prior years	**3,865**	1,196
Tax rate changes / differences	**-**	(68,830)
Current year (charge)/ credit	**(9,273)**	-
Total	**(5,408)**	(78,398)
Total income tax (expense)/credit	**(5,349)**	(78,286)

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

	Group					
	Year to 31 March 2023			Year to 31 March 2022		
	Before tax £000	**Tax benefit/ (expense) £000**	**Net of tax £000**	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000
Defined benefit plan actuarial (losses)/gains	**84,206**	**(21,052)**	**63,154**	44,209	(9,224)	34,985
Total	**84,206**	**(21,052)**	**63,154**	44,209	(9,224)	34,985

STATUTORY ACCOUNTS

F1. Taxation continued

Reconciliation of effective tax rate

	Group			
	%	Year to 31 March 2023 £000	%	Year to 31 March 2022 £000
(Loss)/Profit for the year	-	41,071	-	(31,850)
Total income tax expense/(credit)	-	5,349	-	78,286
Profit before income tax		**46,420**		46,436
Income tax using the Company's domestic tax rate	19.00	8,820	19.00	8,823
Non-taxable Income	(7.60)	(3,510)	-	-
Non-deductible goodwill	-	-	-	-
Other Non-deductible expenses	3.70	1,738	0.66	308
Tax rate changes/differences	4.80	2,226	151.74	70,463
Other timing differences	-	-	-	-
Adjustment to prior years	(8.40)	(3,925)	(2.82)	(1,308)
Total	**11.50**	**5,349**	168.58	78,286

Factors affecting Group future tax charge

The corporation tax rate enacted at the balance sheet date is 25% and the deferred tax for 2022/23 has been calculated at the appropriate tax rate which is expected to apply when the assets are realised or liabilities settled.

The future tax charge may also be impacted by the following:

- A restriction on the use of brought forward losses (including capital losses) may affect Groups that were previously loss making that become profit making and have profits over £5m. This measure may result in cash tax being payable before all of the trading losses brought forward have been utilised.
- In order to reduce the impact of loss restriction, consideration will be given to disclaiming capital allowances where this maximises the tax benefit to the Group.
- Structures and Buildings Allowances were introduced for eligible costs incurred where contracts were entered on or after 29 October 2018. Structures and Buildings allowances will be available when the asset is brought into use.
- New Super Deductions capital allowances were introduced for eligible costs incurred between 1 April 2021 and 31 March 2023, where contracts were entered on or after 3 March 2021. The tax relief is available in the form of a 130% first year allowance in relation to qualifying plant and machinery assets and a 50% first year allowance for most qualifying special rate assets.
- New Full expensing capital allowances were announced in the Chancellor's Spring 2023 Budget for eligible costs incurred between 1 April 2023 and 31 March 2026. The tax relief is available in the form of 100% first year relief in relation to qualifying plant and machinery assets and a 50% first year allowance for qualifying special rate assets.

The Group considers itself to be a qualifying infrastructure company for the Public Infrastructure Exemption and does not anticipate that the corporate interest restriction rules will impact on the deductibility of interest payable by members of the Group.

STATUTORY ACCOUNTS

F1. Taxation continued

Deferred tax assets and liabilities

The following are the deferred tax assets and liabilities recognised by the Group and Company and movements thereon during the current and prior reporting periods:

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Group					
	Assets		Liabilities		Net	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Property, plant and equipment	-	-	366,637	322,456	366,637	322,456
Transfers of assets from customers*	(140,273)	(133,874)	140,273	133,874	-	-
Intangible assets	(241)	(1,334)	-	-	(241)	(1,334)
Employee benefits	-	(9,160)	10,664	-	10,664	(9,160)
Provisions	(1,011)	(864)	-	-	(1,011)	(864)
Tax losses carried forward	(52,355)	(12,843)	-	-	(52,355)	(12,843)
Fair value adjustment to senior debt	(965)	(1,103)	-	-	(965)	(1,103)
Financial instruments	(246)	(1,129)	-	-	(246)	(1,129)
Net tax (assets)/ liabilities	**(195,091)**	(160,307)	**517,574**	456,330	**322,483**	296,023

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

	Company					
	Assets		Liabilities		Net	
	At 31 March 2023 £000	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000	**At 31 March 2023 £000**	At 31 March 2022 £000
Property, plant and equipment	-	-	357,355	312,687	357,355	312,687
Transfers of assets from customers*	(140,273)	(133,874)	140,273	133,874	-	-
Intangible assets	(241)	(1,334)	-	-	(241)	(1,334)
Employee benefits	-	(9,156)	10,670	-	10,670	(9,156)
Provisions	(1,011)	(864)	-	-	(1,011)	(864)
Tax losses carried forward	(53,054)	(11,150)	-	-	(53,054)	(11,150)
Net tax (assets)/ liabilities	**(194,579)**	(156,378)	**508,298**	446,561	**313,719**	290,183

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

F1. Taxation continued

Movement in deferred tax balance during the year

	Group				
	Balance at 31 March 2022 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Consolidation adjustments – profit or loss £000	Balance at 31 March 2023 £000
Property, plant and equipment	322,456	44,181	-	-	**366,637**
Intangible assets	(1,334)	1,093	-	-	**(241)**
Employee benefits	(9,160)	(1,228)	21,052	-	**10,664**
Provisions	(864)	(147)	-	-	**(1,011)**
Tax losses carried forward	(12,843)	(39,512)	-	-	**(52,355)**
Fair value of adjustment to senior debt	(1,103)	138	-	-	**(965)**
Financial instruments	(835)	883	-	-	**48**
Re-categorisation	(294)	-	-	-	**(294)**
Total	**296,023**	**5,408**	**21,052**	**-**	**322,483**

	Company				
	Balance at 31 March 2022 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Reclassification £000	Balance at 31 March 2023 £000
Property, plant and equipment	312,687	44,668	-	-	**357,355**
Intangible assets	(1,334)	1,093	-	-	**(241)**
Employee benefits	(9,156)	(1,226)	21,052	-	**10,670**
Provisions	(864)	(147)	-	-	**(1,011)**
Tax losses carried forward	(11,150)	(41,904)	-	-	**(53,054)**
Total	**290,183**	**2,484**	**21,052**	**-**	**313,719**

Confirmation over income tax treatments

Dalriada Water Limited has moved to a financial asset basis of accounting for its PFI contract with NI Water Limited. The tax impact has been calculated on the basis that the Company will continue to be entitled to capital allowances, which has been agreed with HMRC in 2018/19.

G. Supplementary notes to the accounts

This section sets out supplementary notes to the accounts. This includes our accounting policies (note that key accounting policies are included at pages 145 to 147), financial risk, details on retirement benefits, related party information and events subsequent to the year end date.

G1. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a) (ii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets/liabilities acquired. Any goodwill that arises is tested annually for impairment (see (i) (i)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see (b)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. (see Note A5 – List of subsidiaries).

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through the Statement of Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

G1. Significant accounting policies continued

(b) Financial instruments continued

(ii) Classification and subsequent measurement continued

Financial assets continued

(a) Classification continued

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objectives is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI – these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI – these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group: and
- where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

STATUTORY ACCOUNTS

G1. Significant accounting policies continued

(b) Financial instruments continued

(ii) Classification and subsequent measurement continued

Intra-group financial instruments

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(iii) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

(iv) Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. Trade receivables and contract assets with significant financing component are measured using the general model described above.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

G1. Significant accounting policies continued

(b) Financial instruments continued

(iv) Impairment continued

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to the credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

(c) Impairment of financial assets

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, that the loss event had a negative effect on the estimated future cash flows of that asset and it can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group and Company on terms that the Group and Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. The bad debt provision is based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile. For other investments (equity shares) any impairment is initially recognised through other comprehensive income and the cumulative loss is reclassified to profit or loss if impairment occurs for a second consecutive year.

(ii) Receivables

The Group and Company considers evidence of impairment for receivables. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group and Company uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment was determined by reference to a previous UK GAAP revaluation. The Group and Company elected to apply the optional exemption to use this previous revaluation as deemed cost at 1 April 2009, the date of transition (see Note A1). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located (when there is an obligation to remove the asset), and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

STATUTORY ACCOUNTS

G1. Significant accounting policies continued

(d) Property, plant and equipment continued

(ii) Assets in the course of construction

Assets in the course of construction are separately classified within property, plant and equipment until the date of commission at which stage they are transferred. Depreciation on these assets is not charged until they are brought into use.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Infrastructure assets

The infrastructure assets comprise a network of water and wastewater systems including mains, sewers, impounding and storage reservoirs for treated water, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets are subject to depreciation. In accordance with the transition provisions of IFRS 1 (revised), the Group and Company identified the carrying value of these assets as at the inception of the Group and Company and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, have been subject to depreciation over their useful economic lives. All subsequent maintenance expenditure is chargeable directly to the SOCI.

(v) Transfers of infrastructure assets from customers (adopted assets)

The Group and Company adopts infrastructure assets from customers, e.g., water and sewer pipes from property developers, which it must then use either to connect the customers to the network or to provide the customers with on-going access to a supply of services. In some cases, the Group and Company receives cash from customers that must be used only to acquire or construct an infrastructure asset in order to connect the customer to the network or provide the customer with on-going access to a supply of services.

Adopted assets are valued using the unit costs set during the relevant price control period (PC21 is the six-year control which commenced on 1 April 2021).

The value of assets transferred from customers is taken to a deferred credit reserve and amortised over the life of the assets.

(vi) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group and Company will obtain ownership by the end of the lease term. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The estimated useful lives for the current and comparative periods are as follows:

Asset Type	Asset Life
Infrastructure assets	100 - 150 years
Operational assets	40 - 80 years
Buildings	30 - 60 years
Fixed plant	3 - 40 years
Vehicles, mobile plant and equipment	4 - 10 years
Office equipment	3 - 10 years
Radio monitoring equipment	20 years

(e) Investment properties

Investment properties are properties held as surplus to operational requirements or for capital appreciation; but not for immediate sale, use in the supply of services, or for administrative purposes. As permitted by IAS 40, investment properties are measured using the cost model specified in IAS 16 whereby properties are recorded initially at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses. When property changes use from operational, or occupied, to surplus property it is reclassified from property plant and equipment to investment property. Transfers between classes do not change the carrying amount of the property transferred or the cost of the property for measurement or disclosure purposes (see (i) for further details).

G1. Significant accounting policies continued

(f) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group and Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009.

Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Software-as-a-Service Arrangements (SaaS)

SaaS acquired by the Group and Company are not capitalised but are expensed as incurred. The configuration and customisation costs incurred in implementing these (SaaS) are also recognised as an expense, unless the criteria for recognising a separate asset are met. This is in line with the first agenda decision (March 2019) and second agenda decision (April 2021) issued by the IFRS Interpretations Committee.

(iv) Other intangible assets

Other intangible assets that are acquired by the Group and Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(v) Intangible assets in the course of development

Intangible assets in the course of development, e.g., internally generated software, are separately classified within intangible assets, as assets in the course of construction, until the date of commission at which stage they are transferred. Amortisation on these assets is not charged until they are brought into use.

(vi) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as occurred.

(vii) Amortisation

Amortisation is based on the cost of the asset, less its residual value. Amortisation is recognised in the 'operating expenses' line of the SOCI on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The useful lives are finite and are as follows for the current and comparative periods:

Asset Type	Asset Life
Computer software	3 - 7 years
Capital studies non-infrastructure	7 years
Capital studies infrastructure	10 years

(g) PPP leased assets

Leases in terms of which the Group and Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Public Private Partnership (PPP) transactions

Where public service obligations are met in conjunction with other operators through a partnership arrangement the principles of IFRIC 12 are applied. Assets are included within property, plant and equipment and amounts due to PPP partners are included in PPP credits. Assets included in property plant and equipment are depreciated in accordance with normal accounting policies. The present value of the PPP financing is included within loans and borrowings and payments made are split between capital repayments and interest.

G1. Significant accounting policies continued

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment of non-financial assets

(i) Non-financial assets

The carrying amounts of the Group and Company's non-financial asset, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset, or its related cash-generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The Company's corporate assets do not generate separate cash inflows.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. However, an impairment loss recognised for goodwill cannot be reversed.

(j) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. The principal assets within this category are non-operational land and buildings. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group and Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial asset, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Group and Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(k) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

The Company operates a defined benefit pension scheme for all employees. The assets of the scheme are held separately from those of the Company. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. To calculate the present value of economic benefit, consideration is given to any applicable minimum funding requirements. Remeasurements of the net defined benefit liability, which comprise

STATUTORY ACCOUNTS

G1. Significant accounting policies continued

(k) Employee benefits continued

(ii) Defined benefit plans continued

actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring, in line with the policy on provisions (see (l) for further details). If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(m) Revenue recognition

Revenue is recognised when the risks and rewards of ownership are transferred to the customer, recovery of consideration is probable and the amount of revenue can be reliably measured. Revenue is not recognised until the service has been provided to the customer and is shown net of value added tax. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue. For measured customers, this includes an estimate of the value of water and wastewater services supplied to customers between the date of the last meter reading and the year end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

Revenue comprises: the customer subsidy provided by the DfI primarily relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007; charges to customers for water and wastewater services and related services; road drainage income from the DfI; transfers of assets from customers, e.g., sewer adoptions from developers; connection and infrastructure charges; other third party contributions and sundry income sources e.g. aerial site rentals.

(n) Government grants

New government grants and legacy grants to Water Service (pre 1 April 2007) were credited to 'deferred income' within liabilities at fair value and are released to profit or loss evenly over the expected useful life of the relevant asset, in accordance with the provisions of the Companies Act 2006. The Company receives government assistance, in the form of a customer subsidy, provided by the DfI primarily in relation to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The customer subsidy is presented in revenue in the SOCI (see Note C1). A capital subsidy is received from the DfI in relation to requisitioning of water and sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see Note G4 - Related parties).

(o) Leases

At inception of the contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any

G1. Significant accounting policies continued

(o) Leases continued

(i) As a lessee continued

lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise
a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of
the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the SOFP.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

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

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

G1. Significant accounting policies continued

(o) Leases continued

(ii) As a lessor continued

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see Note G1(b)(ii)(b)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the underlying asset. At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

(p) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise: interest expense on borrowings and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(q) Income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the SOFP date.

Current tax for the current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior years exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous year are held as an asset.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the SOFP liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

G1. Significant accounting policies continued

(q) Income tax continued

Deferred tax continued

The carrying amount of deferred tax assets is reviewed at each SOFP date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

For investment property that is measured at depreciated cost, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the SOFP date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity in which case the current or deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(r) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Exchange differences are taken to profit or loss.

(s) Determination of fair values

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A number of the Company's accounting policies and disclosures require the measurement of fair values, both financial and non-financial assets and liabilities. Management have established a control framework with respect to the measurement of fair values and regularly review significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group and Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note B4 – financial instruments.

G1. Significant accounting policies continued

(t) Application of new and revised International Financial Reporting Standards (IFRSs)

At the date of authorisation of these consolidated financial statements, the following standards and amendments have been adopted for the first time, none of which had a material impact on the consolidated or Company's financial statements:

- Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

The accounting policies set out above have, unless otherwise stated, been applied consistently in the consolidated and company financial statements to all periods presented. A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2022 and have not been applied in preparing these financial statements. The standards and interpretations not adopted are outlined below:

	Effective Date - periods beginning on or after
IFRS 17 Insurance Contracts	1 January 2023
Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
Definition of Accounting Estimate (Amendments to IAS 8)	1 January 2023
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction Amendments to IAS 12 Income Taxes	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Available for optional adoption/effective date deferred indefinitely

The Directors do not expect that the adoption of the standards and interpretations listed above will have material impact on the Group and Company financial statements.

G2. Financial risk management

Overview

This note presents information about the Group and Company's exposure to financial risks. These risks are managed within the risk management framework of the Group and Company as described below.

Further quantitative disclosures are included throughout these financial statements.

Credit risk

Credit risk is the risk that the Group and Company is exposed to loss if a customer or counterparty to a financial instrument fails to meet its financial obligations, and arises principally from the Group and Company's receivables from customers and banking relationships for deposits and interest rate swaps.

Trade and other receivables

NI Water has a statutory obligation to provide water and sewerage services to customers within its region. Approximately 72% of the Group and Company's revenue is in the form of a customer subsidy provided by the DfI. This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. Excluding the subsidy from the DfI, there is no concentration of credit risk with respect to trade receivables.

The credit risk in relation to the remaining 28% is mitigated by the application of credit control policies and procedures determined by the Group and Company and applied by a third party collection agent. Regular reviews of receivables are carried out together with prompt follow-up of unpaid invoices. Depending upon the customers' circumstances, repayments plans can be offered up to a period of 12 months. Further information on aging of receivables and bad debt provision is set out in Note B4.

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G2. Financial risk management continued

Banking relationships: Investment Deposits and Interest Rate Swaps

The Group and Company may be exposed to credit-related loss in the event of non-performance by bank counterparties. In accordance with Shareholder Governance Arrangements banking services are primarily transacted through the NICS contract. As approved by the DfI, and by the DoF, other banking relationships have been used to manage counterparty risks which arise from deposits of funds available for short-term investment and the use of Swaps to fix interest rates on borrowings in Dalriada Water Limited. The interest rate swaps are in place in Dalriada Water Limited for the period between 2006 and 2030 for notional principal amounts which equate to the portion of expected bank debt which is at variable interest rates.

Financial counterparty risks are managed by employing credit limits and continuous monitoring procedures. Deposits in the Company are only placed with banks other than the main relationship bank (MRB) if the counterparty holds an investment grade credit rating as issued by the main credit rating agencies of Standard & Poors, Moody's or Fitch. The maximum exposure with any bank other than the MRB is limited to £30m and no more than 50% of total cash balances may be held with any bank other than the MRB. The MRB may hold up to 100% of cash balances. In Dalriada Water Limited, in accordance with the contract, the "Account Bank" must meet certain credit ratings as issued by Standard & Poor's or Moody's. This is reviewed annually and approved by the funders.

Liquidity risk

Liquidity risk is the risk that the Group and Company will encounter difficulty in meeting their obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group and Company's approach to managing liquidity is to ensure, as far as possible, that sufficient liquidity exists to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group and Company's reputation.

The Treasury Function employs a continuous forecasting and monitoring process to manage cash, funding and liquidity risks.

The Group and Company are financed through a combination of retained earnings, Capital Loan Instruments provided by the DfI, working capital facility provided by the DfI and long-term bank borrowings in Dalriada Water Limited.

Funds available for deposit based on forecasted liquidity requirements and in accordance with the Shareholder governance arrangements and Group and Company Treasury policies are invested by the Treasury Function in short-term bank deposits. Dalriada Water Limited is restricted contractually to no longer than 6 monthly bank deposits to satisfy the scheduled calculation dates (30 September and 31 March) and with approved banks at certain credit rating levels.

The Capital Loan Note provided by the DfI provides the Company with the ability to draw funds until 31 March 2027. The Company also maintains a £20m working capital facility provided by the DfI available for the period to at least 31 December 2027. Borrowings on the facility are repayable on demand. This facility was not utilised at 31 March 2023.

In Dalriada Water Limited liquidity risk is principally managed through the use of long-term borrowings with an amortisation profile that matches the expected availability of funds from the Company's operating reserves. Additionally, in accordance with contractual requirements Dalriada Water Limited maintains reserve bank accounts to provide short-term liquidity against future debt service and capital maintenance expenditure requirements.

The Group and Company's net current liabilities can be met using the existing loan facilities (see Note B1). The Company recognises the commitment for repayment of the 2027 Capital Loan Note on 31 March 2027. Discussions to manage this obligation are being progressed with the DfI.

Further investigation in respect of liquidity risk is set out in Note B4.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

G2. Financial risk management continued

Market risk continued

During 2022/23, global energy prices continued to rise to unprecedented levels with wholesale gas costs in Europe hitting an all-time high. Higher gas, coal and carbon costs have been driving up the prices in the all-island wholesale electricity market, the Single Electricity Market (SEM).

Inflation – as measured by the Consumer Price Index (CPI) – rose by 10.1% in the 12 months to March 2023. High inflation risk impacts both operating costs and capital costs with implications for both our Resource DEL and Capital DEL budget allocation from the DfI.

Foreign Exchange Risk

The Group and Company are not generally exposed to significant foreign exchange transactions with the majority of transactions, assets and liabilities being in the domestic currency.

The Company has been engaged in two EU Interreg applications denominated in Euros which may expose it to foreign exchange risk. Grant receipts in Euros are exchanged to the domestic currency as close to the day of receipt as possible. Grant receipts for partners in the EU Interreg grants are transacted in Euro.

Interest Rate Risk

Investment Deposits

Interest rates on fixed term deposits are fixed for the period of investment. The average period of deposit is less than one month. The Group and Company also maintains instant access investment accounts on which interest is earned at rates based on the Bank of England Base rate.

Borrowings

Borrowings by NI Water Limited on capital loan note borrowings are at fixed rates agreed with the DfI.

Borrowings by Dalriada Water Limited are at fixed rates either agreed directly with the lender EIB or through the use of interest rate swaps on the secured bank loan with Royal Bank of Canada (RBC). The RBC syndicated loan uses Sterling Overnight Interbank Average (SONIA) plus Credit Adjustment Spread as the reference interest rate swapped to a fixed rate through the use of three Interest Rate Swap Derivative Agreements.

NI Water also has access to a working capital facility provided by the DfI, unused at the year-end, on which interest is charged at a floating rate of the Bank of England Base rate + 0.50%.

Capital management

The Company's capital consists of 500 million £1 ordinary shares, a statutory distributable reserve and a retained earnings reserve. A report on capital is prepared for the Board on an annual basis to ensure adequate cover exists for the payment of the Company's dividend.

Other risks

Further details on risks are contained on pages 76 to 79 and 110 to 114.

G3. Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit pension scheme

The Company operates a defined benefit pension scheme, the Northern Ireland Water Limited Pension Scheme (NIWLPS), which is open to all employees. Members had the option of transferring their pensionable service from the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS (NI)) and a bulk transfer was paid in respect of liabilities transferred in August 2010. The Scheme has a number of different benefit structures applying to different categories of members. All but one of these are closed to new entrants.

Composition of the Scheme

The scheme is open to new entrants and therefore the service cost as a percentage of pensionable salaries is expected to remain broadly steady over time (subject to changes in market conditions). Accrued liabilities are based on calculations carried out by a qualified independent actuary. A full calculation of the liabilities was carried out at the date of the Scheme's latest actuarial valuation (31 March 2020) for IAS 19.

Assumed life expectancies on retirement at age 60

	31 March 2023				31 March 2022			
	Non-industrial		Industrial		Non-industrial		Industrial	
	Male	Female	Male	Female	Male	Female	Male	Female
Retiring today (member aged 60)	**26.9**	**28.8**	**25.2**	**27.2**	26.8	28.7	25.1	27.1
Retiring in 20 years (member age 40)	**28.8**	**30.7**	**27.1**	**29.1**	28.7	30.6	27.1	29.0

The weighted-average target asset allocations were as follows:

	Total scheme assets at 31 March 2023	Total scheme assets at 31 March 2022
Asset category		
a. Equity instruments	**24.75%**	27.5%
b. Debt instruments:		
(i) Corporate bonds	**15.0%**	7.5%
(ii) Gilts	**6.75%**	7.5%
c. Property	**13.5%**	15.0%
d. Other	**40.0%**	42.5%
Total	**100.0%**	100.0%

	Total scheme assets at 31 March 2023 £000	Total scheme assets at 31 March 2022 £000
Fair value of plan assets		
a. Cash	**5,406**	3,431
b. Equities	**80,037**	91,152
c. Debt instruments	**69,627**	67,630
d. Property	**37,178**	46,839
e. Other	**107,893**	113,985
Total market value of assets	**300,141**	323,037

The Scheme's overall allocation to equities is approximately 11.9% UK and 14.9% in overseas equities. Assets shown as 'Investment funds' includes allocation to the following funds: Diversified Growth, Secured Finance, Infrastructure and Sustainable Opportunities.

G3. Employee benefits continued

These investments are intended to reduce the reliance on equity markets, diversify the sources of risk to which the fund is exposed and provide exposure to a wide variety of equity, bond, currency, commodity and other alternatives markets.

Defined benefit obligation by participant status

	Total at 31 March 2023 £000	Total at 31 March 2022 £000
Actives	**154,762**	227,915
Vested deferreds	**22,116**	33,245
Retirees	**76,806**	90,932
Total defined benefit obligation	**253,684**	352,092

Change in the fair value of plan assets

	Total year to 31 March 2023 £000	Total year to 31 March 2022 £000
Fair value of plan assets at end of prior year	**323,037**	293,575
Movement in year:		
Interest income	**9,173**	6,540
Contributions by plan participants	**2,016**	1,876
Contributions by employer	**13,343**	12,318
Actuarial gain/(loss)	**(41,220)**	15,515
Benefits paid	**(5,008)**	(5,687)
Administration expenses paid from plan assets	**(1,200)**	(1,100)
Insurance premiums for risk benefits	**-**	-
Total	**300,141**	323,037

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2023 £000	Total year to 31 March 2022 £000
At the beginning of the year	**352,092**	356,202
Movement in year:		
Current service cost	**20,222**	20,006
Interest expense	**9,788**	7,774
Past service costs	**-**	615
Remeasurements:		
a. Effect of changes in demographic assumptions	**-**	-
b. Effect of changes in financial assumptions	**(148,128)**	(23,782)
c. Effect of experience adjustments	**22,702**	(4,912)
Contributions by plan participants	**2,016**	1,876
Insurance premiums for risk benefits	**-**	-
Benefits paid	**(5,008)**	(5,687)
Total	**253,684**	352,092

G3. Employee benefits continued

Amounts recognised in the statement of financial position

	Total year to 31 March 2023 £000	Total year to 31 March 2022 £000
Defined benefit obligation	**(253,684)**	(352,092)
Fair value of plan assets	**300,141**	323,037
Deficit in the scheme – pension asset/(liability)	**46,457**	(29,055)
Related deferred tax asset	**10,668**	9,156
Net pension asset/(liability)	**57,125**	(19,899)

The overall return on the Scheme's assets over the year was negative with a loss of around £32m (2022: gain of £22m), equivalent to an annual return of around -10% pa (2022: 8%) ignoring cashflows. The main reason for this was the lower than expected returns on property and equities.

The total benefits paid out of the Scheme during the year ending 31 March 2023 were £5,008k (2022: £5,687k), of which £374k (2022: £213k), were in respect of individual transfer value activity. A decrease in lump sums on retirement and trivial commutation payments are the main reasons why the total benefit payments decreased compared to the previous year..

Sensitivity of key assumptions

The sensitivities to assumptions shown below are broadly symmetrical, i.e., an increase or decrease in the assumption will result in a similar movement in either direction.

Impact of:

	Change in liability 2022/23 %	Change in liability 2022/23 £000	Change in liability 2021/22 %	Change in liability 2021/22 £000
+ or - 0.50% in discount rate	**9.9%**	**25,200**	6.0%	21,000
+ or - 0.25% in rate of inflation	**0.6%**	**1,500**	0.6%	2,200
+ or - 0.25% in salary inflation	**5.4%**	**13,700**	5.6%	19,600
Increase in life expectancy of 1 year	**2.3%**	**5,900**	3.3%	11,600
Reduce long-term improvements to 0.25%	**-0.9%**	**(2,200)**	-1.4%	(4,800)

Expected cash flows for the following year

	£000
Expected employer contributions	**15,178**
Expected total benefit payments:	
Year 1	**5,158**
Year 2	**5,313**
Year 3	**5,472**
Year 4	**5,637**
Year 5	**5,806**
Then for next 5 years (Total)	**31,748**

G4. Related parties

Parent and ultimate controlling party

The Company is a Government owned Company and 100% owned by its ultimate controlling party, the DfI. The results of the Company will not be within the annual financial statements prepared by the DfI, nor in the financial statements of any other entity. Inter-Company debtor and creditor balances with the DfI and other government bodies will be supplied to the DfI for the Whole of Government Accounts. The Company transacts with other Government Departments, Agencies, and NDPBs, in the normal course of business and in accordance with standard business terms.

Related party disclosures with the DfI are as follows:

	At 31 March 2023 £000	At 31 March 2022 £000
Subsidy		
Revenue subsidy from the DfI (credited to revenue)	**345,470**	318,675
Revenue relating to road drainage (credited to revenue)	**25,243**	23,251
Other receivables - subsidy (included in other receivables - Note C4)	**2,150**	1,857
Other sales to the DfI (credited to revenue)	**905**	327
Trade receivables - other sales to the DfI (included in trade receivables - Note C4)	**275**	341
Purchases		
Purchases from the DfI (included in operating costs or capital expenditure)	**2,801**	656
Accruals - purchases from the DfI (included in accruals - Note D2)	**280**	606
Loans and borrowings		
Loans from the DfI during the year	**155,000**	170,000
Balance on loans from the DfI at year end - Note B1	**1,594,560**	1,439,560
Loan interest to the DfI - Note B2*	**58,414**	54,101
Loan interest owed to the DfI at year end	**7,138**	4,344
Dividends		
Dividend to Shareholder - Note B3	**19,000**	31,169

*Loan interest stated before capitalisation of £9,636k (2022: £6,886k) of interest.

No guarantees are given to or received from the DfI in relation to the previous balances. There are no provisions for doubtful debts related to the amounts above and no expense recognised in the year in respect of bad and doubtful debts due from the DfI.

Key management personnel's compensation

Details of the key management personnel's post-employment defined benefit plan and termination benefits are included in the Directors' remuneration report on pages 126 to 129. Key management personnel's compensation is disclosed in Note E1a.

Key management personnel's and Directors' transactions

The key personnel and Directors did not carry out any transactions with related parties of the Group.

G5 Subsequent events

There were no other subsequent events that need to be brought to the attention of the users of the financial statements.

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Northern Ireland Water Limited ('the Company') and its consolidated undertakings ('the Group') for the year ended 31 March 2023 set out on pages 136 to 208, which comprise the consolidated statement of financial position, company statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of cashflows, company statement of cashflows and related notes, including the summary of significant accounting policies set out in Note G1. The financial reporting framework that has been applied in their preparation is UK Law, UK adopted international accounting standards and as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with UK adopted international accounting standards, as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group and the Company's business model and analysed how those risks might affect the Group and the Company's financial resources or ability to continue operations over the going concern period.

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

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

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditors' report is not a guarantee that the Group or the Company will continue in operation.

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

Report on the audit of the financial statements continued

Detecting irregularities including fraud

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

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

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

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

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

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

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

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

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

Other information

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Strategic Report and the Directors' report, the Corporate governance report, the Directors' remuneration report and the Statement of Directors' responsibilities. The financial statements and our auditors' report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

STATUTORY ACCOUNTS

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

Report on the audit of the financial statements continued

Opinions on other matters prescribed by the Companies Act 2006

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

- we have not identified material misstatements in the Directors' report or the Strategic Report;
- in our opinion, the information given in the Directors' report and the Strategic Report is consistent with the financial statements;
- in our opinion, the Directors' report and the Strategic Report have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 133, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities or error, and to issue an opinion in an auditors' report. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

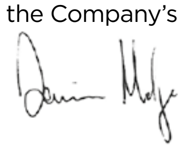
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

Report on other legal and regulatory requirements

In our opinion, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Partnership Agreement between Department for Infrastructure and Northern Ireland Water as set out in their direction to the Company revised on 10 January 2020.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Dominic Mudge - Senior Statutory Auditor
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3 July 2023

Notes

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Text Relay: 0345 7440068
Calls cost 5p per minute plus your phone Company's network access charge. Call charges for mobiles may vary.
www.niwater.com/annual-report/

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