

Governance



Portaferry Road wastewater pumping station, County Down

Corporate governance



Introduction by the Chair of the Board

I am pleased to present the Corporate Governance Report for 2020/21. This report describes the key features of NI Water’s corporate governance structure to support the long term sustainable success of NI Water, generating value for all our stakeholders. The report also outlines compliance with the relevant provisions given NI Water Limited’s status as a Government Company under the Companies Act 2006 and as a NDPB sponsored by DfI. The Board is committed to the principles of good corporate governance and delivering what matters for all our stakeholders. Details on how the Board understands the views of stakeholders and how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in the Board’s discussions and decision making are set out on page 119.

Putting back more than we take out

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

- Customer** - delivering an exceptional customer experience;
- Water** - delivering great tasting, clean and safe water to meet customer need;
- Economy** - efficiently delivering infrastructure to underpin sustainable growth;
- Nature** - protecting and enhancing the natural environment; and
- People** - providing a great place to work.

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

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

Our purpose, vision and values

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

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

Monitoring culture involves regular analysis and interpretation of evidence

and information gathered from a range of sources. Drawing insight from multiple quantitative and qualitative sources helps guard against forming views based on incomplete or limited information. During 2019/20, we commenced a work stream on culture and diversity. In 2020/21, NI Water’s Executive Committee undertook an immersive Inclusive leadership programme lead by EY in order to model our commitment from the top in developing leaders capable of developing a culture of diversity and inclusion within teams and across NI Water. Around 140 employees will participate in a programme of work over 2021/22 to define and develop our corporate values into everyday behaviours and actions that we can all hold ourselves accountable to in how we carry out our daily work. The workforce can raise any matters of concern through our speak up (whistleblowing) policy <https://www.niwater.com/speak-up/>



Stakeholder engagement

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

Details on how the Board understands the views of stakeholders and how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in the Board’s discussions and decision making are set out on page 119. The Board keeps these engagement mechanisms under review to ensure that they remain effective.

The Board draws on the following to ensure there is robust engagement with the workforce: the results of annual employee engagement surveys; COVID-19 pulse surveys and action plans; Board and Executive Committee engagement sessions; consultation with the Trade Unions; encouraging involvement of employees in business performance through a regulatory performance delivery mechanism; and the work of around 30 employee champions from different parts of the business.

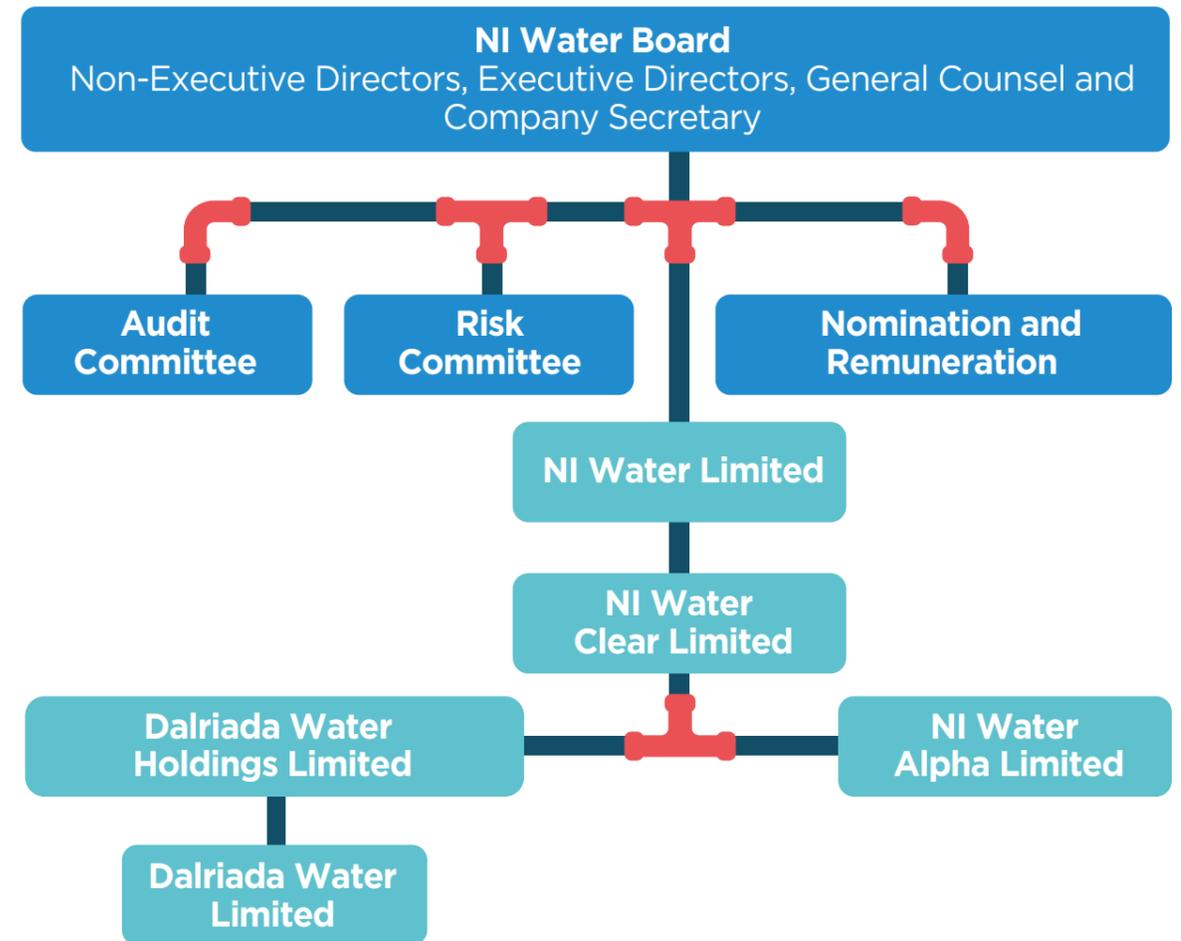
Compliance statement

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

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

Board and Executive Committee

The Board and Executive Committee structure is shown below:



Operation of the Board

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

The operation of the Board and its responsibilities are outlined in the MSFM: <https://www.niwater.com/who-we-are/>

Summary of Board activity

The Board activity over 2020/21 is summarised below:

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

Board committees

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

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

Length of service

The time served by Board members is shown below:

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

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

Meetings

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

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

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

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



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

Report by Chair of the Audit Committee



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

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

Significant matters

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

- Risk relating to financial funding:** the Audit Committee was kept updated during the year on the funding position for 2020/21, including the agreement of a budget and the revised outputs for the year as agreed with stakeholders to take account of the impact of COVID-19. The Committee was also kept apprised of the proposed Operating Plan and Budget for 2021/22, ongoing liaison with DfI and funding arrangements over the PC21 period;
- Subsidiary companies and consolidation:** the Audit Committee considered the appropriate accounting treatment on the consolidation of the subsidiary companies acquired in 2017/18. This included fair value accounting; the value and treatment of goodwill in the Group accounts and the treatment of the PPP contract in Dalriada Water Limited's accounts;
- Long term viability statement:** the Audit Committee was regularly briefed on the development of the long term viability statement, including the scenarios being considered, the impact of each of the scenarios and the conclusion on viability;
- Risk relating to the pension scheme:** the Audit Committee considered the funding position of NI Water Limited's defined benefit pension scheme in the light of changes in market conditions, changes at year end as a result of COVID-19 and the results of the triennial valuation of the pension scheme;
- UK Corporate Governance Code:** the Audit Committee was briefed on the corporate reform agenda and the changes to the UK Corporate Governance Code 2018;
- Going concern:** the Audit Committee was briefed on ongoing communications with DfI in relation to extensions to NI Water's loan notes, the new loan note instrument put in place for the last five years of PC21 and working capital facilities; and
- Claims:** the claims level and treatment of claims from contractors were monitored during the year with additional information sought from management as appropriate.

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

External Audit

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

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

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

Refer to Note D1 to the Statutory Accounts for the fees relating to audit and non-audit services. Non-audit services provided during 2020/21 were £11k (2019/20: £11k).

Internal Audit

The Audit Committee approved the Internal Audit Strategy, which includes reviews of corporate governance, risk management, financial and operational key processes. During the year, the Committee approved the updated Internal Audit Charter to ensure that it fully reflected the remit, scope and responsibilities of the function, in accordance with the relevant professional standards for Internal Audit. The Committee also monitored

completion of the 2020/21 audit plan. The Head of Internal Audit provided a progress report to each Audit Committee meeting, which included an overview of audit review findings, follow up status of recommendations and summary of any advisory activity. The Head of Internal Audit met with the Chair of the Audit Committee without management to discuss NI Water's overall control environment and as Chair of the Audit Committee, I have satisfied myself that Internal Audit has sufficient resources through those discussions. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function and the Head of Internal Audit. These safeguards include the Head of Internal Audit having a primary reporting line to the Chair of the Audit Committee. In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit provided an annual self-assessment of the function's performance to the Audit Committee. In addition, an External Quality Assessment of the Internal Audit function was completed by the Chartered Institute of Internal Auditors which concluded that the Internal Audit function was in full conformance with the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards. This was reported to the Audit Committee in March 2021.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Audit Committee's terms of reference, as approved by the Board. A formal report was presented to the Board in October 2020.

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

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

Report by Chair of the Risk Committee



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

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

Significant matters

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

- **Risk governance:** over the financial year, the Risk Committee considered significant threats and opportunities to achieving strategic priorities for the year 2020/21 and emerging risks going forward. This included the impact of COVID-19 on service delivery and its effects on the workforce, customers and business partners safety and wellbeing; quality and security of water supply and wastewater management; Brexit; health and safety; sustainability and the impact of climate change; cyber risks and data security; business continuity management; asset resilience; and opportunities for further improvements to customer experience and stakeholder engagement. The Committee reviewed the completion of actions and the effectiveness of controls, considering both internal and external audit reports on specific risks and the completion of their recommendations.
In relation to the overall effectiveness of NI Water's risk and resilience framework the Committee received an Internal Audit report with an overall opinion of 'Substantial' which means that 'there is a robust system of governance, risk management and control which should ensure that objectives are fully achieved';
- **Corporate threat and opportunity maps:** the Risk Committee considered the proposed corporate threats and opportunities at the start of the financial

year and recommended these for Board approval. Risk maps with clear controls and actions to improve resilience and measurable benefits through opportunity management are reported to the Committee on a quarterly basis. Even though 2020/21 was an extraordinary year due to a combination of external risk factors such as COVID-19, Brexit, economic downturn and extreme weather events, there were no risks escalated during the financial year. This is due mainly to the effectiveness of NI Water's risk and resilience management and its ability to respond and recover from such challenges in a timely manner without impacting on service delivery or adversely affecting our colleagues and business partners to an extent that required an escalation event;

- **Risk appetite:** the Risk Committee monitored the progress towards the Board agreed risk appetite for the seven risk themes (consisting of both threats and opportunities). A Risk Appetite Workshop was held during the year to review the effectiveness of completed actions to move closer to the agreed risk appetite levels. A six-monthly update is provided to the Risk Committee and a summary report to the Board;
- **Emerging risks:** details of emerging risks based on local and global research, developments and incidents were reported to the Risk Committee along with details of the mitigating steps being taken and further action to improve resilience. For some external

risk factors that are beyond the remit of NI Water, such as the uncertainties brought about by the Northern Ireland Protocol or possible easing of COVID-19 restrictions, we have and will continue to communicate with stakeholders on their implications and steps needed to improve resilience. NI Water continues to take steps to manage emerging risks through its long term viability impact analysis and has made significant improvements to service delivery, resilience and sustainability. NI Water won the 2020 Chartered Accountants Ireland 'CSR and Sustainability' award and received the 'Highly Commended' overall runner up award;

- **Business resilience:** the Risk Committee received quarterly updates regarding business continuity management, emergency and major incident management and IT disaster recovery plans. The activation of business continuity plans greatly helped to ensure continuity of services and safety at work in response to COVID-19. There was no interruption to service delivery and we have taken steps to ensure colleagues and business partners are safe whether on our sites or working from home and that our customer needs are met whether at NI Water facilities or when we make home visits;

- **Risk training and awareness:** risk and resilience workshops and risk map meetings continued on a virtual basis and risk training was conducted through e-learning and webinars. One-to-one virtual training sessions were held over the year to meet colleagues and business partners' specific needs and colleagues were continually briefed in policy changes and updates through internal emails and NI Water's (Source) intranet; and
- **Risk research, development and innovation:** the Risk Committee is very encouraged by NI Water's involvement in both local and international research activities in governance, risks and resilience management. Over the year the Committee received reports on the guest lectures provided to the Undergraduate and Masters programmes and outcome of research projects for masters' students in the Queen's University Belfast Management School and the Ulster University Business School. NI Water continues to participate in UK, European and international research through the 'Water Research Foundation' (WRF), which has helped to implement innovative ways to improve risk and resilience management.

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

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

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Risk Committee's terms of reference. A formal report was presented to the Board in July 2020.

Belinda Oldfield
Chair of the Risk Committee
23 June 2021

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

Governance Statement

Introduction

The Governance section on pages 96 to 129 sets out the role of the Board and the assessment of its effectiveness in discharging its responsibilities under the Companies Act 2006. MPMNI requires a 'Governance Statement' to be included in the Annual Integrated Report and Accounts. Given that some of the compliance requirements have already been included in the Governance section, the Governance Statement needs to be read in conjunction with this section. The Governance Statement forms part of the audited financial statements.

Scope of responsibility

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

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

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

Governance framework

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

further community engagement to improve sustainability and creative ways to promote health and wellbeing of our colleagues and business partners.

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

The system of internal control has been in place in NI Water for the year ended 31 March 2021 and up to the date of approval of the Annual Integrated Report and Accounts, and accords with DoF's and HM Treasury's guidance, where appropriate.

Capacity to handle risk

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

The risk and control framework

A range of information was used to establish the corporate threats and opportunities at the start of the year. This included a benchmark of threats and opportunities faced by other water companies, the Internal Audit Opinion, the Accounting Officer's Annual Assurance Statement, changes in legislation and Government guidance and emerging risks to NI Water. It also takes into account the Financial Reporting Council's guidance on reporting on COVID-19, the UK's exit from the EU and sustainability reporting for the year 2020/21.

During the year, the Executive Committee met on a quarterly basis to assess and evaluate corporate risks and agreed the necessary improvements required to address evolving business needs. The corporate and directorate risk registers have clearly defined owners. These registers were reviewed on a continual basis using risk management software, with monthly reports generated for monitoring purposes. Corporate risk maps were presented to the Risk Committee on

a cyclical basis throughout the year. The Board received summary information on a monthly basis. Corporate risks can be viewed for business units and programme or project levels as appropriate, to evidence the effectiveness of controls and required actions. Directorate risks can also be escalated to senior management's attention when they are graded as 'high' or 'medium'. An established escalation process is also in place to alert the Chief Executive, Board and Stakeholders of significant new issues.

The Risk Committee updates the Board on a quarterly basis on threat improvements, benefits from opportunity realised, improvement in resilience, risk escalated and completion of improvement actions.

The Board approved the risk appetite and reviewed the action plans in place to manage the risk exposure and realise opportunities.

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

Key risks materialising in year

During the year risks have been effectively managed and principal risks are as reported in pages 76 to 87. Risks such as funding constraints continue to place NI Water in a situation where operational service delivery could be impacted in the short to medium term and inadequate levels of capital investment can impact the economic development in Northern Ireland due to lack of asset capacity. Discussions are ongoing with the DfI on the governance funding model and the Utility Regulator's PC21 Final Determination. Risks such as COVID-19, Brexit and weather related events which have wide implications for NI Water, will continue to be managed within limited resourcing and asset capability, with steps taken where possible to improve on our resilience.

Internal Audit

The Head of Internal Audit provided an 'Annual Opinion' on NI Water's system of governance, risk management and internal control. The opinion for the year ended 31 March 2021 is 'Satisfactory': 'While there is some residual risk identified this should not significantly impact on the achievement of objectives'.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of corporate governance, internal control

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

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

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

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

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

Chief Executive's Year End Assurance Statement – Exception Report

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

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



Sara Venning
Accounting Officer
23 June 2021

Directors' report

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

Principal activities

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

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2021. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Parent Company operates as described below:

- NI Water Limited is subject to economic regulation rather than market competition. As a result, the Parent Company provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, which designates NI Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland;
- following the NI Assembly decision to defer the introduction of domestic water charges, NI Water Limited receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water Limited is also designated as a NDPB and is subject to public sector spending rules i.e. public expenditure;
- following the launch of the 25 year strategy in September 2019, NI Water submitted its Business Plan for the PC21 Price Control period (April 2021 to March 2027) to the Utility Regulator in January 2020. The PC21 Business Plan was a strong, challenging and ambitious plan seeking to balance service delivery and consumer interests

with continuing efficiency over both the near and longer term;

- the Utility Regulator published the PC21 Draft Determination in September 2020. While the Draft Determination recognised many of the strengths of the PC21 Business Plan, it fell short of being a balanced package, acceptable to the NI Water Board. At the request of the Utility Regulator, NI Water prepared a comprehensive, evidence-based response to allow the Utility Regulator to reach a more balanced position in its Final Determination;
- the Utility Regulator published the PC21 Final Determination on 13 May 2021 and NI Water has until 13 July 2021 to decide on acceptability; and
- the Board of NI Water is encouraged to see that the first year of PC21 (2021/22) has been fully funded by the Department and the NI Executive. The Board is now in discussion with the Shareholder and other Government Departments to ensure that, in order to accept, there is support and continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.

Our current budget for the 2021/22 year takes into account the current COVID-19 pandemic and a significant drop in billable revenues and includes £129.5m and £216.2m for Resource Cash DEL² and Capital DEL respectively. This was prepared in advance of receipt of the PC21 Final Determination which includes forecasts of £122.0m and £178.6m for Resource Cash DEL and Capital DEL respectively. Whilst the PC21 Final Determination includes the impact of lower billable revenues due to the current COVID-19 pandemic, it does not include funding for additional costs. Adjustment for this reduces the Resource Cash DEL variance significantly. The difference in Capital DEL will result in a number of projects profiled later in the PC21 Final Determination being brought forward. The £129.5m and £216.2m allocations for Resource Cash DEL and Capital DEL respectively have been confirmed by the DfI.

NI Water has access to cash through its loan note instrument from which it can draw down loans from DfI up until 31 March 2022. A new loan note instrument has been put in place which gives access to the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027. In addition, the Company has access to a working capital facility of £20m.

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

On the basis of the discussions, the Directors have formed a judgement at the time of approving the financial statements that the Group has adequate resources to continue in operational existence for the foreseeable future and as such to continue as a going concern.

Long term viability statement

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

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

This viability statement has been prepared in two stages, firstly by considering and reporting on the longer term prospects by taking into account the Group's current position and principal risks, and then by stating whether the Board has a

reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their viability assessment, drawing attention to any qualifications or assumptions as necessary.

Stage 1 - longer term prospects

The Directors have considered the Group's longer term prospects, taking into account the Group's current position and principal risks. Refer to page 72.

Stage 2 - assessment of viability

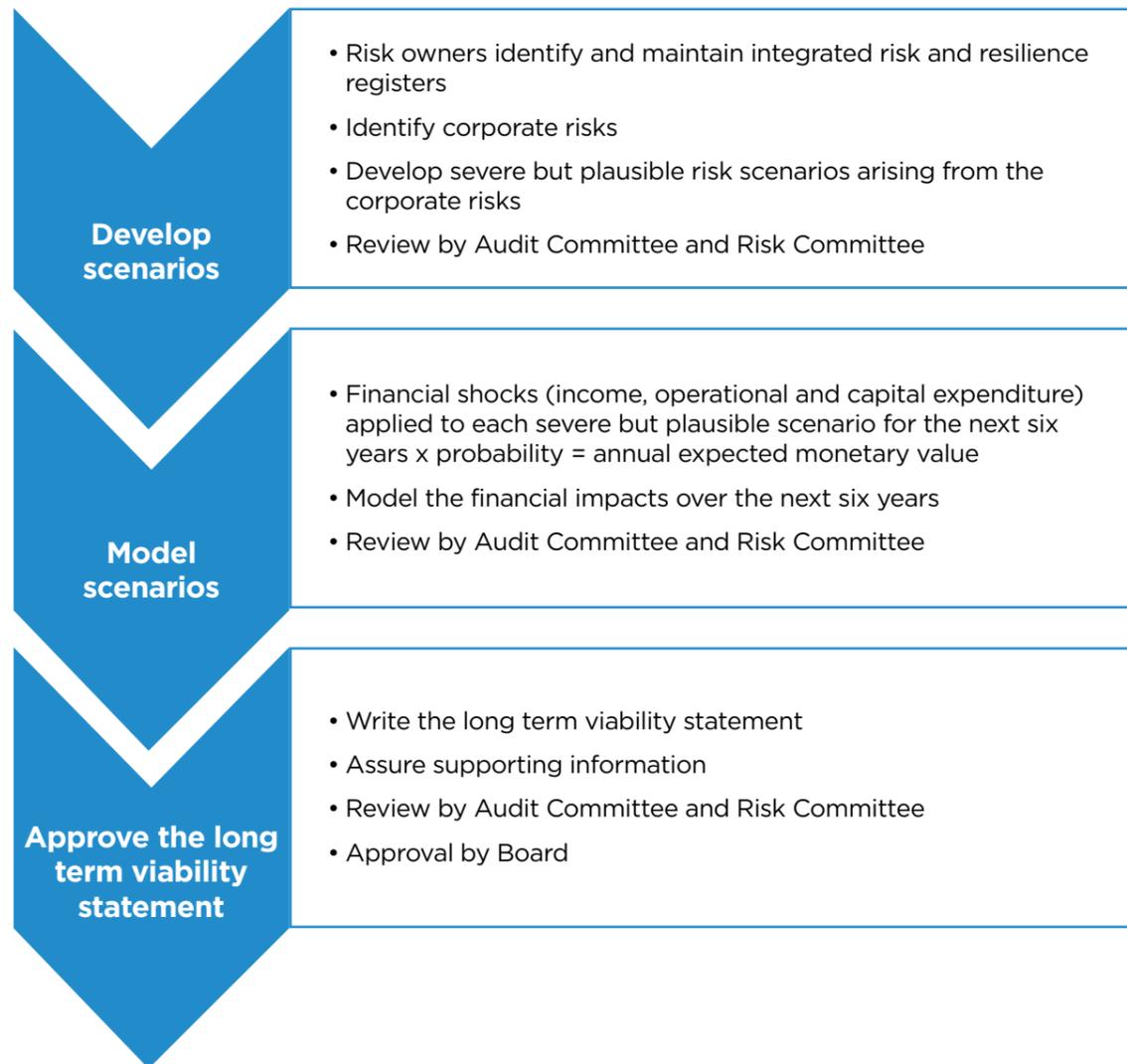
Period covered

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

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

Approach

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



Scenarios

A number of severe but plausible scenarios and underlying events were developed based on the corporate risks (a sub-set of the principal risks) and in liaison with risk owners. An estimate was made of the likely financial shock for each event, which was then multiplied by a probability of occurrence to give an expected monetary value. The expected monetary value for each event was summed to give the expected monetary value for each scenario. The total

of the expected monetary values for all the scenarios represents the anticipated financial shock for all corporate risks in each year of the six year assessment period. This financial shock is based on the Directors' current expectations and, by its very nature, is inherently unpredictable, speculative and involves risk and uncertainty because it relates to events and depends on circumstances that may or may not occur in the future.

Scenario number	Scenario name	Description of severe but plausible scenarios	Link to strategic risk (page 72)
1	Underfunding	Significant underfunding of the PC21 Business Plan	PT1 PT2 PT3 PT5 PT6 PT7 PT8 PO1 PO3 PO4
2	Macro-economic	Macro-economic shocks and stress (combination of inflation, interest rates, bad debt, tax duty/recession) may lead to changes in the number of non-domestic customers and levels of bad debt	PT1 PT2 PT3 PT5
3	Pension	Unanticipated additional contributions to the Pension Scheme arising from higher than expected actual inflation; lower than expected investment returns; the threat that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets; and members living for longer than expected	PT1 PT2 PT8 PO2
4	People	A lack of people, capacity and capability compounded by a shortfall in STEM skills and talent in the marketplace may compromise our business performance and ability to retain critical skills	PT1 PT2 PT3 PT4 PT7 PO2
5	Supply chain	Global supply chain disruptions, chemical pricing or changes to market conditions may lead to excessive energy or chemical cost inflation, power outages/blackouts and insolvency of key operational or capital contractors	PT1 PT2 PT3 PT5 PT6 PT7 PO4
6	Health and Safety	Major fire or explosion due to process safety failure, legionella/asbestos exposure or dam burst may lead to death or serious injury to colleague or member of the public	PT2 PT4 PO2
7	Cyber	Significant IT/cyber breach leads to major data loss (GDPR, NISD and SEMD) leading to investigation and fine by Information Commissioner or Competent Authority, service impact or breach of network information systems and security and emergency measure obligations	PT1 PT2 PT7 PO1 PO2 PO4
8	Drinking water	Major widespread water quality contamination event	PT1 PT2 PT3 PT5 PT6 PT7 PO1 PO4
9	Wastewater	Severe consent failure at key wastewater treatment works (including unexpected change to PPP Omega contract)	PT1 PT2 PT5 PT6 PT7 PO1 PO3 PO4
10	Pollution	Pollution and sewer flooding incidents lead to loss of reputation with regulators, key stakeholders and damage to the natural and built environment	PT1 PT2 PT3 PT5 PT6 PT7 PO1 PO3 PO4
11	Severe weather	Multi-year dry spring/summer leads to severe drought and supply restrictions	PT1 PT2 PT5 PT6 PO1 PO4
		Severe winter followed by thaw leading to significant increase in leakage and supply interruptions	PT1 PT2 PT5 PT6 PO1 PO4
		Widespread flood inundation/coastal inundation/significant flood event including our ability to embed and transform our flood resilience	PT1 PT2 PT5 PT6 PO1 PO3 PO4
12	Net zero carbon	Significant increase in decarbonisation costs due to changes in the required rate of decarbonisation as a result of changes in legislation, technology and climate	PT1 PT5 PT6 PO1 PO3 PO4

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

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

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

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

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

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

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

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

Fundamental assumptions

This viability statement is based on the following fundamental assumptions:

- that the Utility Regulator's final determination on the PC21 Business Plan is fully funded by the Shareholder;
- that the Shareholder, as the sponsoring Government Department, can provide public expenditure budget cover to allow the Group to incur additional expenditure associated with one or more of the severe but plausible scenarios occurring. This includes the full impact of COVID-19;
- a mechanism is agreed with the Shareholder to address the commitment for repayment of the 2027 Capital Loan Note on 31 March 2027;
- that the current regulatory and statutory framework does not substantively change. From an economic perspective, given the market structure of water and wastewater services, threats to the Group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries; and
- that the assessment of financial shocks based on the above approach for this viability assessment represents the full range of financial shocks (known and unknown) and their magnitude. The assessment of financial shocks will be further embedded into the risk management process in future years.

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

- the Group's current liquidity position as outlined on page 93;
- the detailed financial projections developed as part of the planning process, which include the best available information about the PC21 regulatory period ending in March 2027; and
- the severe but plausible scenarios and stress testing described above.

Mitigating actions

The English and Welsh water companies can undertake a range of actions to mitigate the impact of severe but plausible financial shocks. These actions include use of cash reserves, access to borrowing on the financial markets, flexing capital investment programme between years, moving expenditure between operational and capital expenditure, cutting dividends, equity injections, equity reductions and significantly increasing the size and scope of their commercial insurance programmes. These mitigating actions are either not available to NI Water given its NDPB status or would not provide any additional spending power. Furthermore, the English and Welsh water companies operate under a funded regulatory settlement, unlike NI Water, which has been underfunded through PC15 regulatory settlement (2015-21). The Board is in discussions with the Shareholder and other Government Departments to ensure that there is support and continuing commitment to fund the PC21 Final Determination. NI Water's financial resilience is therefore very dependent on its sponsoring Government Department for both access to funding and public expenditure budget cover to incur expenditure, the latter of which is the fundamental constraint. Severe but plausible financial shocks would in all likelihood require additional funding bids to DfI. Such bids would compete with other bids on public expenditure within the sponsoring Government department and across the public sector.

Assurance

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

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

Conclusion

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

Future developments

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

Dividends and reserves

NI Water Limited's dividend policy is to provide a return to the Shareholder DfI based on a percentage of the regulatory capital value less net debt. The return is set in the PC15 Final Determination. Payment of any dividend is subject to NI Water having sufficient distributable profits. Refer to the principal threats and opportunities (page 72) for factors which could impact on the amount of distributable profits. It is anticipated that a final dividend of £31.2m for the year ended 31 March 2021 (2020: £29.9m³) will be approved by the Shareholder upon the recommendation of the Board in July 2021 and paid in September 2021 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2021.

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

Directors and Officers

The Directors and Officers who served during the year and up to the date of this report are set out on page 105.

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

<https://www.niwater.com/our-board/> and <https://www.niwater.com/our-executive-committee/>

Directors' and Officers' indemnities

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

Policy on the payment of creditors

NI Water's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreements, the policy is to make payment not more than 30 days after receipt of a valid invoice. The year to date ratio, expressed in days, between the time invoices from large suppliers fall due and the time invoices were actually paid at 31 March 2021, was 31.7 days (2020: 31.4 days). NI Water has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy. As at 31 March 2021, the year to date ratio stood at 11.5 days (2020: 11.6 days).

Political and charitable contributions

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

Research and development

NI Water invested £0.4m on Research and development in 2020/21 (2020: £0.3m).

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

Employees

NI Water uses an increased range of communication channels to keep its employees involved in the Group's affairs to engage them and keep them informed and appraised on performance and other business related matters. NI Water continues to oppose all forms of unlawful and unfair discrimination. It remains the Group's policy to promote equality of opportunity for all our employees during their employment. NI Water is recognised as a disability confident employer, as an endorsement of our commitment to recruit and retain disabled people and people with health conditions. Read more about diversity and inclusion on page 127.

Directors' interests in contracts

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

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2021, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of NI Water Limited in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation - 'cross directorships'

Directors and employees of NI Water may be Directors of related companies when this is in the best interests of NI Water, and where appropriate arrangements are in place to avoid conflicts of interest. These arrangements include prior approval of any cross directorships by the Board and the

Shareholder. In addition, Directors holding cross directorships are required to disclose any such interests prior to making decisions which may result in, or give the appearance of, a conflict of interest.

Greenhouse gas emissions

Details on greenhouse gas emissions are included on page 65.

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

The Board of Directors of NI Water consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Act) in the decisions taken during the year ended 31 March 2021 (see page 102) and by reference to the approval of our Strategy (2021-46) and PC21 Business Plan (2021-27), supported by the Board assurance statement accompanying our plan:

(a) Long term decisions

Our Strategy and Business Plan set out the step change in investment required to address the most critical needs and enable Northern Ireland to thrive from its water and sewerage infrastructure. The NI Water Board has driven the strategic development of our Strategy and Business Plan. It has challenged the Executive Committee to put forward a strategy and plan that delivers for health, environment and economy in Northern Ireland while being affordable for customers and deliverable for our people and our supply chain. The Board has obtained confirmation from its independent Board Assurance Advisor (Atkins) that the Strategy and Business Plan are clear, structured and evidence based, and the narrative is supported by robust data. The Board reviewed the Group's response to the PC21 Draft Determination and considered the response to the PC21 Final Determination.

(b) Employees

Our people are the most important drivers of our success and our Strategy and Business

Plan aims to create a more diverse, engaged and high-performance organisation in which all employees are supported and empowered to reach their full potential and excel in whatever they do. In addition to our annual employee engagement survey and other engagement channels, we engaged with our people and Trade Unions specifically in developing our Strategy, which has a separate strategic priority on people. The Business Plan underpins the Strategy and commits us to ensuring that our people are strongly equipped with the skills and competency to succeed in an era of unprecedented change in the workplace. It focuses on developing and delivering a sound resourcing plan to build the diverse and inclusive workforce of the future, anticipate and address current and future skill gaps and ensure a strong leadership and talent pipeline. The Business Plan also commits us to protecting the health, safety and wellbeing of our people through sector leading health, safety and wellbeing performance and our zero accident and harm ambition. We have updated our employees and the Trade Unions in relation to the PC21 Draft and Final Determinations.

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

(c) Suppliers, customers and others:

Supply chain



We regularly engage with our supply chain through a variety of channels, which range from specific events to ongoing business as usual contacts. One of our primary channels is our annual supplier event, which has been running for nearly a decade. This event provides a great opportunity to engage with our new and existing suppliers. In March 2021, in conjunction with InterTrade Ireland, we held our first online supplier event. Participants were able to hear panel

discussions on energy and analytics, attend a tips for tendering webinar and meet our lead suppliers to understand sub-contracting opportunities. We had a fantastic response with over 450 suppliers involved. The session included one to one meetings with members of our buying teams and representation from across the business. Refer to page 118 regarding payment of creditor policy.

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

Customers

Our Strategy and Business Plan are based on engagement with our domestic customers and our non-domestic customers including developers. We recognise that we have a different relationship with our domestic customers

from our peers in the rest of the UK and that not paying directly for water and sewerage services makes them even further removed and our service even more invisible. Our approach has been overseen by the consumer engagement oversight group, an ongoing partnership between NI Water, the Utility Regulator, the CCNI and the DfI. This group has worked with us to shape our approach and provide assurance. Customer engagement in preparation for PC21 has focused on qualitative engagement to better capture the views and perceptions of our customers. We have developed a new strategic partnership with Ipsos MORI, which extends into PC21, enabling us to develop an ongoing, consistent approach to engagement. Engagement⁴ that has informed our PC21 Business Plan has included:

Operational engagement

 **200,000** phone calls per year



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

Indirect engagement



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



1.4m+ website views

Focused engagement



189 domestic and business customers engaged in focussed workshops



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



1,036 perception surveys with domestic customers and businesses

⁴This engagement relates to the PC21 Business Plan which used 2018/19 data.

Principal Stakeholders

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

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

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

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

Local Councils

We have presented the current status of water and wastewater infrastructure, capacity constraints and our PC21 capital investment programme to all 11 Local Councils in the context of their Local Development Plans and the 'hub' towns and cities that are central to their growth plans. We have also engaged with the Northern Ireland Local Government Association (NILGA), the Society of Local Authority Chief Executives (SOLACE) as well as the Northern Ireland Housing Council and The Chartered Institute of Housing. Our engagement over 2020/21 highlighted that our PC21 Business Plan will only begin to address current development constraints and further investment will be required in future price controls; that an increase of investment can

only be delivered successfully if there is a commitment by Government to medium term funding; and the need for long term tariff stability.

Business organisations

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

Political parties

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

(d) Community and the environment

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

(e) Business conduct

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

(f) Shareholder

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

Disclosure of information to auditors

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

Auditor

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

By order of the Board



Mark Ellesmere
Company Secretary
23 June 2021

Directors' remuneration report

Nomination and Remuneration Committee

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

Board appointments and diversity

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

Remuneration policy

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

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Notwithstanding this policy NI Water Limited has been subject to public sector pay policy in 2020/21 as a result of its current governance arrangements.

Annual bonus

There was no bonus scheme in 2020/21 for Executive Directors and Senior Managers.

Benefits in kind

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

Group Companies

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

Non-Executive Directors' remuneration

The higher fees for the Chair of the Board reflect the additional responsibilities of that role. Further details on the fees paid to the Non-Executive Directors are provided on page 125.

Directors' employment contracts

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

Fees paid to members of the Executive Committee

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

⁵The 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.

⁶Appointed as a Board member on 1 September 2020.

Pay multiples

The relationship between the remuneration of the highest paid Director and the median remuneration of NI Water's workforce is shown below. The banded remuneration of the highest paid Director in NI Water was £160k to £165k on a full year equivalent basis (2020: £155k to £160k). This was 4.79 times (2020: 4.83 times) the median

remuneration of the workforce, which was £33,960 (2020: £32,944). The marginal change in the pay multiple (ratio) between 2019/20 and 2020/21 was primarily due to the annual uplift to the remuneration of the highest paid director offset to a greater degree by increases to the minimum levels of remuneration.

Group	Year to 31 March 2021		Year to 31 March 2020	
	Year to 31 March 2021	Year to 31 March 2020	Year to 31 March 2021	Year to 31 March 2020
Highest paid Director (£000)	160 - 165	155 - 160	160 - 165	155 - 160
Median total remuneration (£)	33,960	32,944	33,960	32,944
Pay multiple (ratio)	4.79	4.83	4.79	4.83
Range of remuneration (£000)	15 - 165	16 - 160	15 - 165	16 - 160

Gender pay gaps

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

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

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

Fees paid to Non-Executive Directors

Current Non-Executive Directors:	Year to 31 March 2021				Year to 31 March 2020			
	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £000	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £000
Dr Leonard J. P. O'Hagan CBE DL-Chair of the Board	40 - 45	-	-	40 - 45	40 - 45	-	-	40 - 45
Peter McNaney, CBE	15 - 20	-	-	15 - 20	15 - 20	-	-	15 - 20
Belinda Oldfield	15 - 20	-	-	15 - 20	2.5 - 5.0 ⁷	-	-	2.5 - 5.0
Marie-Thérèse McGivern	15 - 20	-	-	15 - 20	2.5 - 5.0 ⁷	-	-	2.5 - 5.0
Patrick Larkin	15 - 20	-	-	15 - 20	2.5 - 5.0 ⁷	-	-	2.5 - 5.0
Maurice Bullick	15 - 20	-	-	15 - 20	2.5 - 5.0 ⁷	-	-	2.5 - 5.0

⁷Appointed Non-Executive Director on 1 February 2020.

Pension entitlements

Non-Executive Directors do not participate in NI Water's pension scheme. All Executive Directors are members of the defined benefit pension arrangements. The accrued pension entitlement is the amount that the Executive Director would receive if he/she

retired at the end of the year. The increase in the accrued entitlement is the difference between the accrued benefit at the year end and that at the previous year end. Further details on pensions are provided in Notes E2 and G3 to the Statutory Accounts.

Transfer values

The Cash Equivalent Transfer Value (CETV) for an individual Executive Director is the actuarially assessed capitalised value of the pension scheme benefits accrued at a particular point in time. All transfer values have been calculated on the basis of actuarial advice in accordance with Technical Actuarial Standards issued by the Financial Reporting Council. The transfer values of the

accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Director's pension benefit. Transfer values do not represent sums payable to individual Directors and therefore cannot be added meaningfully to annual remuneration.

Increase in transfer value less Directors' contributions

The real increase in CETV shows the increase over the year in the transfer value of the accrued benefits after deducting the Director's personal contributions to

the scheme. Further details on Directors' remuneration are shown in Note E1a to the Statutory Accounts.

Pension benefits for members of the Executive Committee

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

Pension (CETV) benefits for members of the Executive Committee

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

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

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

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

What we have done to improve diversity and inclusion

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

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

- increase employee engagement through providing an inclusive workplace;
- increase diversity within our workforce;
- place a commitment to diversity and inclusion firmly within our new corporate values;

- enhance employer brand and promote breadth of careers within NI Water;
- widen our schools outreach, to positively influence STEM career choices;
- develop inclusive leaders capable of developing a culture of diversity and inclusion within teams; and
- involve employees in developing the strategy, focusing activity in the areas that matter most.

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

Highlights of our diversity and inclusion journey are shown below:



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



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



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



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



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



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

Strategic partnerships

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

Developing inclusive leaders

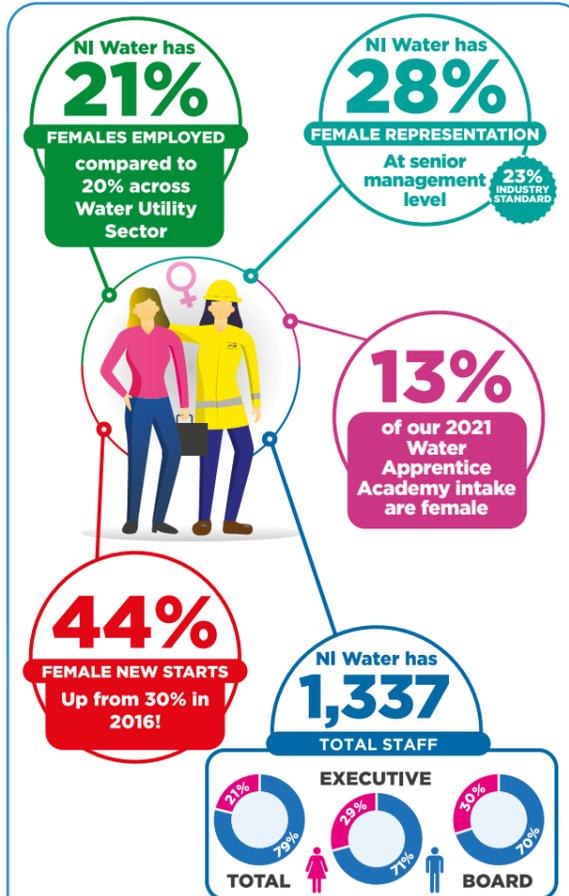
In 2020/21, NI Water's Executive Committee undertook an immersive Inclusive leadership programme lead by EY in order to model our commitment from the top in developing leaders capable of developing a culture of diversity and inclusion within teams and across NI Water.

Developing each other

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

Bringing our values to life

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



Increasing female representation

Changes have been made to hiring practices by use of software to check for gender neutral language in recruitment advertising, mandatory unconscious bias training for interviewers and revised schools outreach campaigns to improve our employer brand.

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

The journey continues

We have come a long way in the last two years but we are still at early stages of our journey and there is more to come. Over 2021/22 we plan to include a new management development programme for all managers with a focus on inclusive leadership training.

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

Statement of Directors' responsibilities

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

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006, and the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial

statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

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

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

Each of the Directors, whose names are listed on page 105 confirm that, to the best of their knowledge:

- the Group financial statements give a true and fair view of the assets, liabilities, financial position of the Group as at 31 March 2021 and of its profit for the year then ended;
- the Parent Company's statement of financial position gives a true and fair view of the state of affairs of the Parent Company's affairs as at 31 March 2021; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company together with a description of the principal risks and uncertainties it faces.

On behalf of the board

Mark Ellesmere
Company Secretary
23 June 2021