



NI Water staff undertaking sewer improvement work.



Introduction by the Chair of the Board

I am pleased to present the Corporate Governance Report for 2021/22. 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 133.

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 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 ‘Team of The Year’ 2021 award from the Belfast Business Awards 2021, it is clear that 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 2021/22 we used a range of listening strategies to understand the voice of our employees including two pulse surveys to help inform our ongoing COVID-19 response and understand how we could best support our people. Over 100 employees participated in ‘The Big Conversation’ values workshops to define the behaviours associated with each of our values and create a common standard to which we can all hold ourselves accountable, ensuring that it’s not just what we do that is important but also how we do it.

Over 700 office based workers took part in consultation meetings with HR Leaders to inform our hybrid working approach and subsequently received training on ‘making hybrid work’, ‘leading hybrid teams’ and ‘high engagement remote meetings’ in order to set them up for success in a hybrid model.

To further support early careers at NI Water, we surveyed our entry level class of 2021 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 and 100% said that their teams on the ground demonstrated NI Water’s corporate values in their day to day work.

We held our very first virtual leadership conference in 2021/22 entitled ‘Making Waves’. The conference focused on the role of leadership in challenging times and modernised our approach to communication with the introduction of new NI Water Live Broadcasts for all staff.

During 2021/22, we continued our work on creating a diverse and inclusive workplace through expanding our Inclusive Leadership Training Programme to a range of priority groups (including the NI Water Board) and becoming the first company in Northern Ireland to sign up to the UK Government’s Levelling Up Goals which aim to drive equality of opportunity and social mobility post COVID-19.

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



Respect Give it, get it, live it	Excellence Better, stronger, together	Customer Delivering for you	Integrity Do the right thing	Sustainability Build tomorrow’s future today
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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 133. 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.

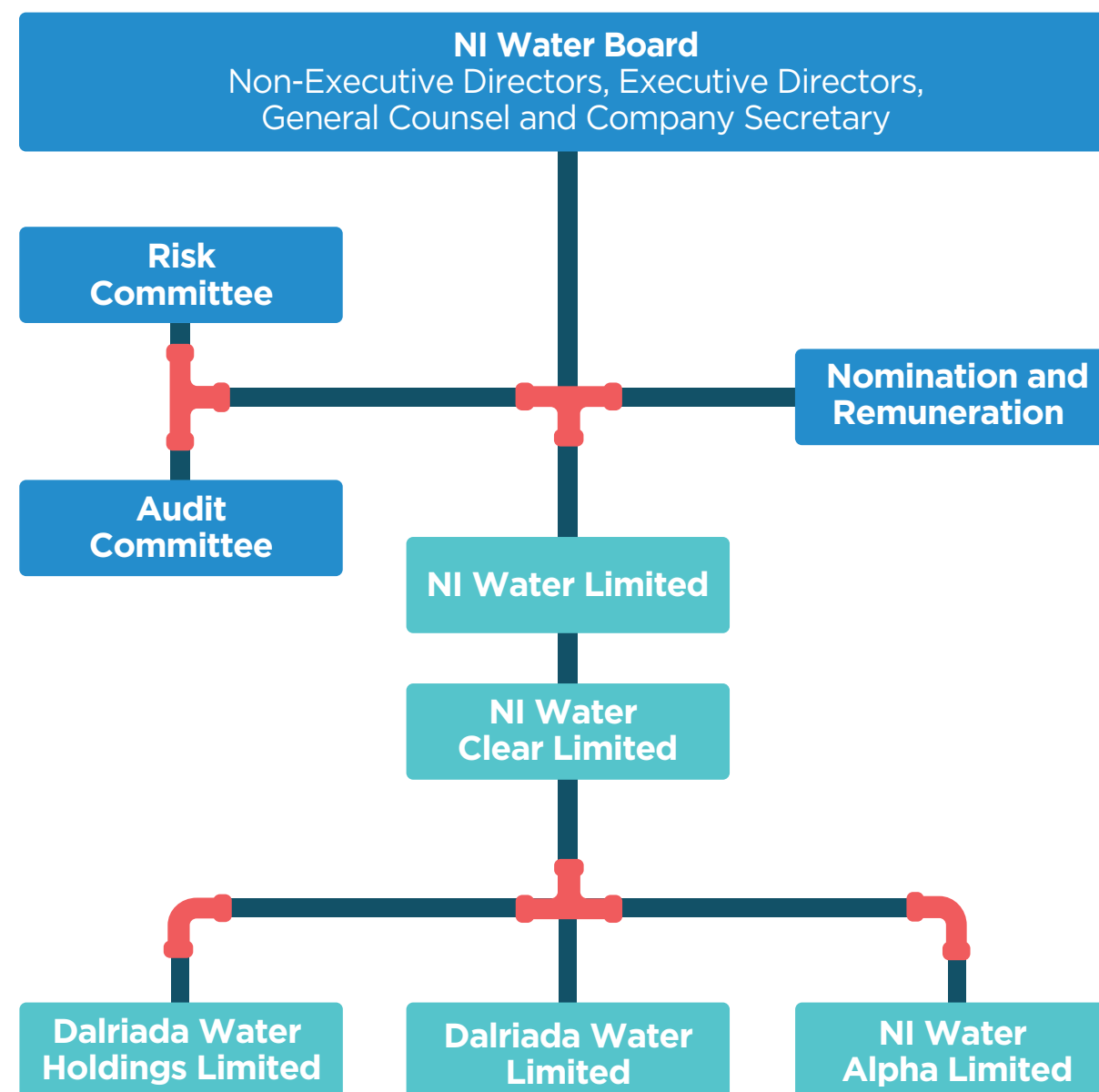
Compliance statement

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/siteFiles/resources/pdf/2021/FR002MSFM-Revised24thApril2019-SignedVersion.pdf>

Summary of Board activity

The Board activity over 2021/22 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
	• Discussed the Group's plan in relation to Brexit;	Page 90
	• Monitored the Group's response to COVID-19;	Page 89
	• Reviewed the approach to the development of a Climate Change Strategy for NI Water including compliance requirements with TCFD;	Page 66
Governance	• Reviewed the corporate risks and the risk appetite;	Page 86
	• Reviewed the effectiveness of the risk management system and reviewed the effectiveness of the internal control systems;	Page 123
	• Reviewed the terms of reference for the Audit, Risk, Nomination and Remuneration committees;	Page 118
	• Reviewed developments in corporate governance;	Page 118
	• Reviewed the External Auditors' performance;	Page 119
Business performance	• Approved the formal response to the PC21 Final Determination;	Page 155
	• Reviewed and approved the Annual Integrated Report and Accounts for 2021/22;	Page 118
	• Reviewed and approved the Regulatory Accounts and the Annual Information Return for 2021/22;	Page 118
	• Reviewed and approved the going concern and long term viability statements;	Page 118
	• Monitored the delivery of the Annual Operating Plan and Budget for 2021/22;	Page 118
	• Reviewed and approved the Annual Operating Plan and Budget for 2022/23;	Page 118
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 79
	• 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 79
	• Reviewed the work being taken forward on the Group wide diversity and inclusion policy;	Page 140
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 134
	• Undertook half yearly meetings with senior Shareholder representatives.	Page 135

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 2022 (full years)	Date of appointment	Date of cessation
Dr Leonard J. P. O'Hagan, CBE DL	7	1 April 2015	31 March 2024
Peter McNaney, CBE	6	1 August 2015	31 January 2024
Paddy Larkin	2	1 February 2020	31 January 2024
Belinda Oldfield	2	1 February 2020	31 January 2024
Marie-Thérèse McGivern	2	1 February 2020	31 January 2024
Maurice Bullick	2	1 February 2020	31 January 2024
Sara Venning	11	21 May 2010	n/a
Ronan Larkin	16	19 September 2005*	n/a
Mark Ellesmere	15	26 June 2006*	n/a
Paul Harper	5	1 January 2017	n/a
Des Nevin	2	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 2021/22 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	11	4	4	4	4	4	4	1	1	1	-	-	-
Maurice Bullick	11	11	10	4	4	4	-	-	-	1	1	1	-	-	-
Belinda Oldfield	11	11	11	-	-	-	4	4	4	1	1	1	2	2	2
Marie-Thérèse McGivern	11	11	11	-	-	-	4	4	4	1	1	0	-	-	-
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.

Dr Leonard J. P. O'Hagan CBE DL
Chair of the Board
29 June 2022

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 2021/22, including the agreement of an opening budget, the significant in-year funding pressure created by rising power prices and the successful resolution of the in-year funding pressure in January Monitoring Round. The Committee was also kept appraised of the proposed Operating Plan and Budget for 2022/23, 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 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 review of NI Water’s funding:** the Audit Committee was briefed on the NI Audit Office’s review of the funding of water infrastructure in Northern Ireland. The report is to be published during 2022/23;
- **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 new loan note instrument put in place for the last five years of PC21, extension of the working capital facility and ongoing communications with DfI in relation to securing appropriate funding for 2022/23 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 first one-year extension to November 2022. 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 2021/22 were £11k (2020/21: £11k).

Internal Audit

The Audit Committee approved the Internal Audit Strategy, which includes reviews of corporate governance, risk management, financial and operational key processes. The Committee also monitored completion of the 2021/22 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 2021.

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 2022

Report by Chair of the Risk Committee



The Risk Committee provides 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 progress in managing the corporate threats and opportunities towards the risk appetite, and the effectiveness of internal controls and resilience prevention measures.

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 2021/22 and emerging risks going forward. This included the impact of COVID-19 on service delivery and hybrid working, customer care under new ways of working, colleagues and business partners’ health, safety and wellbeing; quality and security of water supply and wastewater management; Brexit and the impact of the Northern Ireland Protocol on supply chain management; net zero, sustainability and the impact of climate change; cyber risks and data security; business continuity and major incident management; asset resilience and improvement plans; 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;
- **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 measure benefits through opportunity management are reported to the Committee on a quarterly basis. Even though 2021/22 was an extraordinary year due to a combination of external risk factors such as COVID-19’s new variants, Brexit/Northern Ireland Protocol, the summer demand surge with added complexity in the supply-chain, geo-political impact on energy costs and cyber-risk exposure, net zero and the growing frequency of extreme weather events, these risks were managed as part of “business as usual” with effective engagement with the DfI, business partners and stakeholders. Five principal threats and two principal opportunities had an increase in the threat/opportunity level over 2021/22 (page 87) and actions are in place to manage these risks.
- **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 Risk appetite session 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;

NI Water has been underfunded through the PC15 regulatory settlement (2015-21) and has no visibility of funding for the final 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. Further details on the availability of public expenditure funding are contained at page 155;

- **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. This included the consideration of ‘High Impact, Low Probability’ risks and implications on NI Water’s improvements in preventative measures, response and recovery. For some external risk factors that are beyond the control of NI Water, such as the uncertainties brought about by the Northern Ireland Protocol and an increase in geo-political risk (such as the war in Ukraine) impact on costs and the supply-chain, we have and will continue to communicate with stakeholders on their implications and steps needed to improve service and financial resilience (refer to the long term viability statement on page 127). 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. NI Water collaborated with its insurance broker, Marsh, to facilitate an independent review of NI Water’s ESG activities and reported that NI Water is in the ‘upper-tier’ when benchmarked with international corporations. Marsh supported NI Water in the development of a TCFD aligned Climate Risk Model, with support from the Centre for Risk Studies at the University of Cambridge, and provided recommendations for further improvements. Marsh also undertook a review of NI Water’s sites and provided training to senior managers on the increasing flood risk exposure on water and wastewater facilities as a result of climate change;
- **Business resilience:** the Risk Committee received quarterly updates on business continuity management, emergency and major incident management and IT disaster recovery plans. The activation

of business continuity plans helped to ensure continuity of services and safety at work in response to COVID-19 and supported the transition to hybrid-working. 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 on policy changes and updates through internal emails and NI Water’s (Source) intranet. Some mandatory health and safety training was conducted in a safe environment over the year and more training is being provided on a face-to-face basis with online participation under hybrid-working; and
- **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), Financial Reporting Council LABs (reporting on risks, uncertainties, opportunities and scenarios – September 2021) and International Insurance Cooperation between water companies, 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 included in the Chief Executive's report to the Board on a monthly basis.

A joint meeting between the Risk Committee and Audit Committee was held to review the Principal Risks on page 84 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 2022



Refer to the Directors' remuneration report on page 136 in relation to the work of the Nomination and Remuneration Committee.

Governance Statement

Introduction

The Governance section on pages 108 to 143 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. Dfl 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 2022 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 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. 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 2021/22.

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 Audit Committee received reports on financial risk management and informed the Board on NI Water's current and emerging financial risks.

The Board approved the risk appetite and received updates on the management of threats and opportunities. The Board provides a biannual 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 88 to 99. 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 availability of public expenditure funding for the Utility Regulator's PC21 Final Determination (2021-27). Further details on the availability of public expenditure funding are contained at page 155. Risks such as COVID-19, Brexit and the Northern Ireland Protocol, 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 84.

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 2022 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 risks' section, while others are reported to the Shareholder.

NI Water has been underfunded through PC15 regulatory settlement (2015-21) and has no visibility of funding for the final 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 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 84. Further details on the availability of public expenditure funding are contained at page 155.

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 2022

The Directors present their report and the audited financial statements for the year ended 31 March 2022.

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 2022. 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 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; and
- Since then, global energy prices have risen to unprecedented levels which created a c.£20m shortfall in Resource DEL in 2021/22. The shortfall was met by DfI in January Monitoring Round however pressures in relation to energy and inflation are expected to prevail into 2022/23 and beyond.

NI Water's Operating Plan and Budget for the 2022/23 year sets out a Resource Cash DEL² requirement of £173.2m and a Capital DEL requirement of £282m. This reflects the second year of the PC21 Final Determination (2022/23) adjusted for higher energy costs and higher than forecast inflation. Since then, energy prices have continued to fluctuate and current best estimate of our Resource Cash DEL requirement for 2022/23 is £184m.

The DfI Accounting Officer has written to NI Water setting out current arrangements in relation to Resource DEL and Capital DEL planning envelopes for 2022/23 in the absence of budgets being approved by the NI Executive.

- The indicative Resource DEL allocation shared was £107.8m, a £65m shortfall to the 2022/23 Operating Plan and Budget approved by the NI Water Board in January 2022 and a £76m shortfall to the current best estimate.
- The Capital DEL allocation shared was £250m, a £32m shortfall to the 2022/23 Operating Plan and Budget approved by the NI Water Board in January 2022.

- The expectation is that current shortfalls in both Resource Cash DEL and Capital DEL can be successfully bid for in Monitoring Rounds.

DfI has subsequently confirmed full Capital DEL allocation for 2022/23 of £282m to secure necessary investment in Northern Ireland's vital water and wastewater infrastructure.

The DfI Accounting Officer has also provided a letter of assurance to NI Water in relation to the current shortfall in the Resource DEL planning envelope 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 2022. 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 new loan note instrument which enables 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 2022/23 reflect the Utility Regulator's PC21 Final Determination with some adjustment for efficient delivery.

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 84.

Stage 2 – assessment of viability

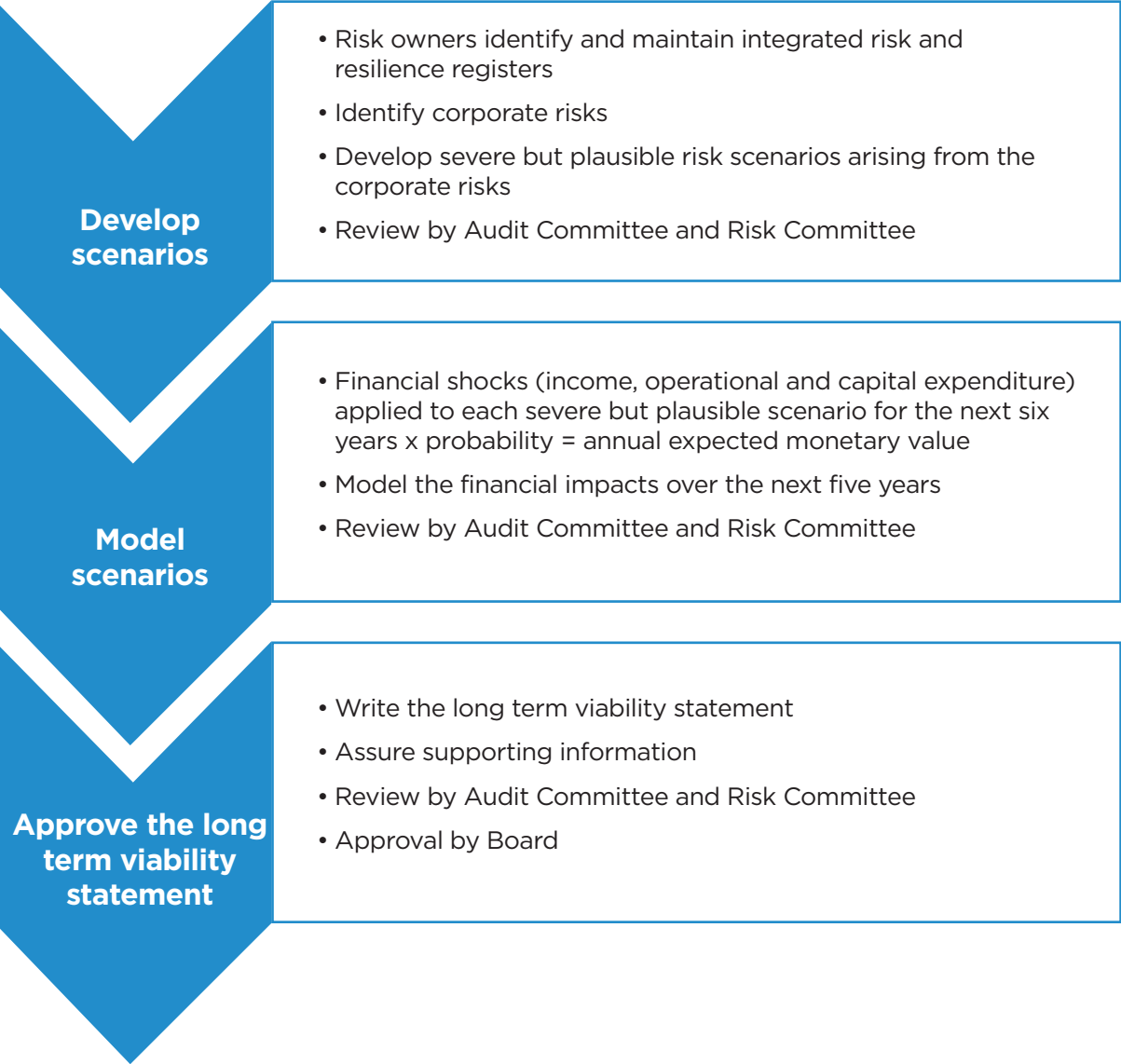
Period covered

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 five 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. This five year period extends to the end of the PC21 regulatory period (March 2027) and falls within our current strategic planning horizon (2021-46). The long term Corporate Strategy and the PC21 Business Plan reflect the Directors' best view of future prospects. The assumptions used in developing the PC21 Business Plan were based upon the best information currently available at that time.

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 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 84)
1	Underfunding	Significant underfunding of the PC21 Business Plan	
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 & 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 as a result 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 difficulty in estimating the degree to which financial shocks relating to other scenarios will increase as a result 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 PC15 regulatory settlement (2015-21) and has no visibility of funding for the final 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 155.

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 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.

Pandemics and energy price shocks are included within the suite of scenarios. Both events are difficult to predict given the level of uncertainty about their duration. COVID-19 and energy price rises are considered to be more extreme than the planning assumptions used in the above scenarios. We have, however, considered the actual known impact of both events and will reassess our planning assumptions as 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 – 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 Shareholder, as the sponsoring Government Department, will provide public expenditure budget cover to fully fund the Utility Regulator's PC21 Final Determination;
- that the Shareholder will provide public expenditure budget cover and liquidity to allow the Group to incur additional expenditure over and above the Utility Regulator's PC21 Final Determination, and associated with one or more of the severe but plausible scenarios occurring. This includes the full impact of COVID-19, future energy price shocks and wider inflationary shocks;
- that 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 availability of public expenditure funding as outlined on page 155;
- the Group's current liquidity position as outlined on page 105;
- 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) and has no visibility of funding for the final 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. 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. Further details on the availability of public expenditure funding are contained at page 155.

Assurance

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

- Level 1 - review of the information supporting the financial shocks by corporate risk owners, Corporate Governance, Financial Accounting and Regulation teams. 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 review 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 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 Dfl 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 threats and opportunities (page 84) for factors which could impact on the amount of distributable profits.

It is anticipated that a final dividend of £19.0m for the year ended 31 March 2022 (2021: £31.2m³) 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 2022.

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 117.



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 2022, was 31.6 days (2021: 31.7 days). NI Water has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy. As at 31 March 2022, the year to date ratio stood at 11.5 days (2021: 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 £0.34m on Research and development in 2021/22 (2021: £0.35m).

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 140.

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 2022, 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 75.

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 2022 (see page 114) 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 (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 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 will be engaging with employees and Trade Unions over 2022/23 on the Climate Change Strategy.

³ This dividend in respect of the year ended 31 March 2021 was paid in September 2021.

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. Following our successful supplier event in March 2021, where new contacts were established, a number of more targeted pre-market engagement sessions were held throughout 2021/22. There was also substantial engagement with our suppliers on the challenges they were experiencing due to COVID-19, Brexit and wider supply chain issues. Preparation also got underway for our Supplier Engagement event in June 2022 relating to the publication of the Scoring Social Value Policy (PPN01/21).

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. In this first 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. 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
- 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.

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.

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 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 Federation of Housing Associations (NIFHA). Our engagement over 2021/22 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

This year we continued to focus on engaging with industry groups on our PC21 Business Plan, showcasing what can be done when investment is in place. 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 updated briefings advising Councils on our Capital Delivery Programme. We also met 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. Our Climate Change Strategy is due for publication in 2022/23 and will outline our approach to net zero and building climate resilience. Find out more at page 66.

(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
29 June 2022

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 as a result of its current governance arrangements.

Annual bonus

There was no bonus scheme in 2021/22 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 138.

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	Year to 31 March 2022					Year to 31 March 2021				
	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	165 - 170	-	-	71	235 - 240	160 - 165	-	-	50	210 - 215
Ronan Larkin	125 - 130	-	-	62	185 - 190	125 - 130	-	-	13	135 - 140
Paul Harper	115 - 120	-	-	44	160 - 165	115 - 120	-	-	43	160 - 165
Des Nevin	115 - 120	-	-	101	220 - 225	110 - 115	-	-	106	215 - 220
Current member of the Executive Committee (not Executive Director):										
Mark Ellesmere	120 - 125	-	-	61	180 - 185	115 - 120	-	-	29	145 - 150
Alistair Jinks	115 - 120	-	-	60	180 - 185	115 - 120	-	-	80	195 - 200
Rose Kelly	105 - 110	-	-	40	145 - 150	105 - 110	-	-	39	140 - 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 £165k to £170k on a full year equivalent basis (2021: £160k to £165k). This was 4.74 times (2021: 4.79 times) the median

remuneration of the workforce, which was £35,046 (2021: £33,960). The marginal change in the median pay multiple (ratio) between 2020/21 and 2021/22 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 2022		Year to 31 March 2021	
	Year to 31 March 2022		Year to 31 March 2021	
Highest paid Director (£000)	165 - 170		160 - 165	
25 th Percentile (£)	28,925		.. ⁵	
Pay multiple ratio for 25th percentile	5.74		.. ⁵	
Median total remuneration (£)	35,046		33,960	
Pay multiple ratio for median remuneration	4.74		4.79	
75 th Percentile (£)	41,642		.. ⁵	
Pay multiple ratio for 75th percentile	3.99		.. ⁵	
Range of remuneration (£000)	15 - 170		15 - 165	

⁴The 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.

⁵The 2021/22 financial year is the first year disclosures in respect of the 25th percentile pay ratio and 75th percentile pay ratio are required and the 2021/22 Financial FD (DoF) 04/22 - Appendix A.1 Reporting Manual does not require comparative figures to be disclosed for 2020/21.

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 2022	Year to 31 March 2021
National median gender pay gap (%)	7.9	7.4
Our median pay gap (%)	(16.3)	(14.9)
Our mean pay gap (%)	(8.8)	(9.0)

Fees paid to Non-Executive Directors

Current Non-Executive Directors:	Year to 31 March 2022				Year to 31 March 2021			
	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 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 2022 £000	Related lump sum at 31 March 2022 £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £000
Sara Venning	35 - 40	60 - 65	2.5 - 5.0	7.5 - 10.0
Ronan Larkin	35 - 40	-	2.5 - 5.0	-
Paul Harper	10 - 15	30 - 35	0 - 2.5	5.0 - 7.5
Des Nevin	60 - 65	185 - 190	5.0 - 7.5	15.0 - 17.5
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	35 - 40	45 - 50	2.5 - 5.0	5.0 - 7.5
Alistair Jinks	30 - 35	-	2.5 - 5.0	-
Rose Kelly	5 - 10	25 - 30	0 - 2.5	5.0 - 7.5

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2022 ⁶ £000	CETV at 31 March 2021 ⁷ £000	Increase/(decrease) in transfer value less Director's contribution (net of inflation ⁸) £000	Employer contribution (to nearest £100)
Sara Venning	734	641	67	48,500
Ronan Larkin	869	786	82	37,400
Paul Harper	255	196	45	35,000
Des Nevin	1,749	1,647	142	35,000
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	831	770	63	35,500
Alistair Jinks	836	753	83	35,000
Rose Kelly	179	127	38	32,100

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

⁷Based on accrued benefits at 31 March 2021 and financial conditions as at 31 March 2021.

⁸CPI inflation of 0.5% (CPI figure for the year to September 2020).

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 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:

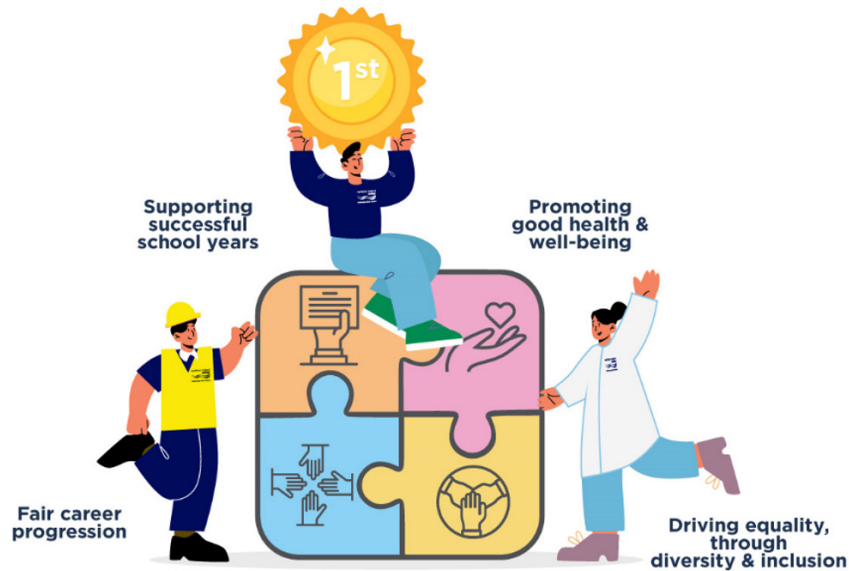
- increase employee engagement through providing an inclusive workplace;
- increase diversity within our workforce;
- place a commitment to diversity and inclusion firmly within our new corporate values;
- enhance employer brand and promote breadth of careers within NI Water;
- widen our schools outreach, 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 a range of external advocacy bodies and investing in dedicated resources to drive the strategy forward. Our diversity and inclusion employee working group, formed in 2019 continues to go from strength to strength, informing and participating in campaigns, initiatives and decisions on diversity and inclusion’.

Highlights of our diversity and inclusion journey are shown below:



Helping to ‘Level Up’ Northern Ireland.
In 2021, 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.



NI Water, the first Company in NI to sign up to Government’s Levelling Up Goals

LEVELLING UP GOALS



Badge of best practice.

NI Water achieved the Bronze Diversity Charter mark in 2019/20 and has been successfully re-accredited against this standard for three years running. In 2022/23 we are working towards achieving the silver standard.



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 their organisation and across the sector.

Increasing female representation

Changes have been made to hiring practices including use of software to check for gender neutral language in recruitment advertising, mandatory unconscious bias training for interviewers and revised schools outreach campaigns to strengthen our employer brand. As a result, female representation through hiring strategies increased from 30% in 2016 to 42% in 2021.

Raising awareness

During 2021/22, over 40 NI Water colleagues across all Directorates participated in six diversity campaigns to raise awareness of, and commit to, diversity and inclusion. These campaigns were International Women’s Day, Maths Week at Work, International Women in Engineering Day, National Inclusion Week, International Men’s Day and our inaugural month long Menopause Awareness programme.



Developing inclusive leaders

In 2021/22, NI Water's Board participated in an inclusive leadership workshop led by EY in order to model our commitment from the top in developing a culture of diversity and inclusion.

Providing opportunities for all

Despite the pandemic, NI Water recruited over 100 employees in 2021, including over 30 apprentices, supporting employment in the local economy.

Supporting early careers

In 2021/22, we launched our first reverse mentoring programme, matching new apprentices with experienced staff in a mutually beneficial mentoring arrangement. We also surveyed our entry level class of 2021/22 to understand their experience of work at NI Water. The results were overwhelmingly positive with 100% of respondents stating that they felt comfortable to 'be themselves' at work (testament to the work being done to create a culture of diversity and inclusion) and 100% said they would recommend NI Water as a great place to work to others.

Bringing our values to life

In 2021/22, over 100 employees participated in our values project to define the behaviours that sit behind our values (Respect, Excellence, Integrity, Customer and Sustainability) and create a common standard of behaviour to which we can all aspire.

The journey continues

We've come a long way in the last two years but there is more to do. In 2022/23, we've prioritized a number of key groups to receive diversity and inclusion training including all senior leaders. We will continue our awareness campaigns in four areas (gender, age, social mobility and neuro diversity) and we will advance our social mobility agenda via actioning our 'levelling up' recommendations, ramping up our apprenticeship 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 2022

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 117 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 2022 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 2022; 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 2022