

Governance



Control panel at Killylane water treatment works, County Antrim

Corporate governance

Chairman's introduction



I am pleased to present the Corporate Governance Report for 2019/20. 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. For the first time this year, we have included, as required by s414CZA of the Companies Act 2006, a section 172(1) Statement (see page 106).

Putting back more than we take out

During 2019/20, the Board and management published Our Strategy (2021-46), which 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. This requires long term planning as some of our assets have lives extending over 100 years. The new strategy provides a longer term view across the next quarter of a century (2021-2046) and updates our existing long term strategy (2015-2040). It takes account of the progress to date, strategic risks, feedback from our customers and other stakeholders on what is important to them and the world in which we operate.

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 at least nine of the outcomes in the Draft Outcomes Delivery Plan developed by the Northern Ireland Executive. Read more at <https://www.niwater.com/ourstrategy/>

During 2019/20, we joined Business for Nature, a community of leading businesses, which have made commitments that will begin to reverse the loss of nature and restore the planet's vital natural systems on which our economies, wellbeing and prosperity depend.

Our purpose, vision and values

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

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

Monitoring culture involves regular analysis and interpretation of evidence and information gathered from a range of sources. Drawing insight from multiple quantitative and qualitative sources helps guard against forming views based on incomplete or limited information. During 2019/20, we commenced a work stream on culture and diversity, which will include refreshing our existing behaviours over 2020/21 and consideration of how to baseline and monitor culture. We will also be updating our policies and procedures to ensure they are aligned with the new values and behaviours. The workforce can raise any matters of concern though our speak up (whistleblowing) policy, which was revised and further promoted over 2019/20.



Stakeholder engagement

We launched our strategy at a stakeholder event at Belfast wastewater treatment works in September 2019 and undertook public engagement on our website and through social media. The strategy has received broad endorsement from our stakeholders. We have made further refinements to incorporate feedback and ensure that customers are right at the heart of everything we do.



Strategy launch at Belfast wastewater treatment works

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 106. 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 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.

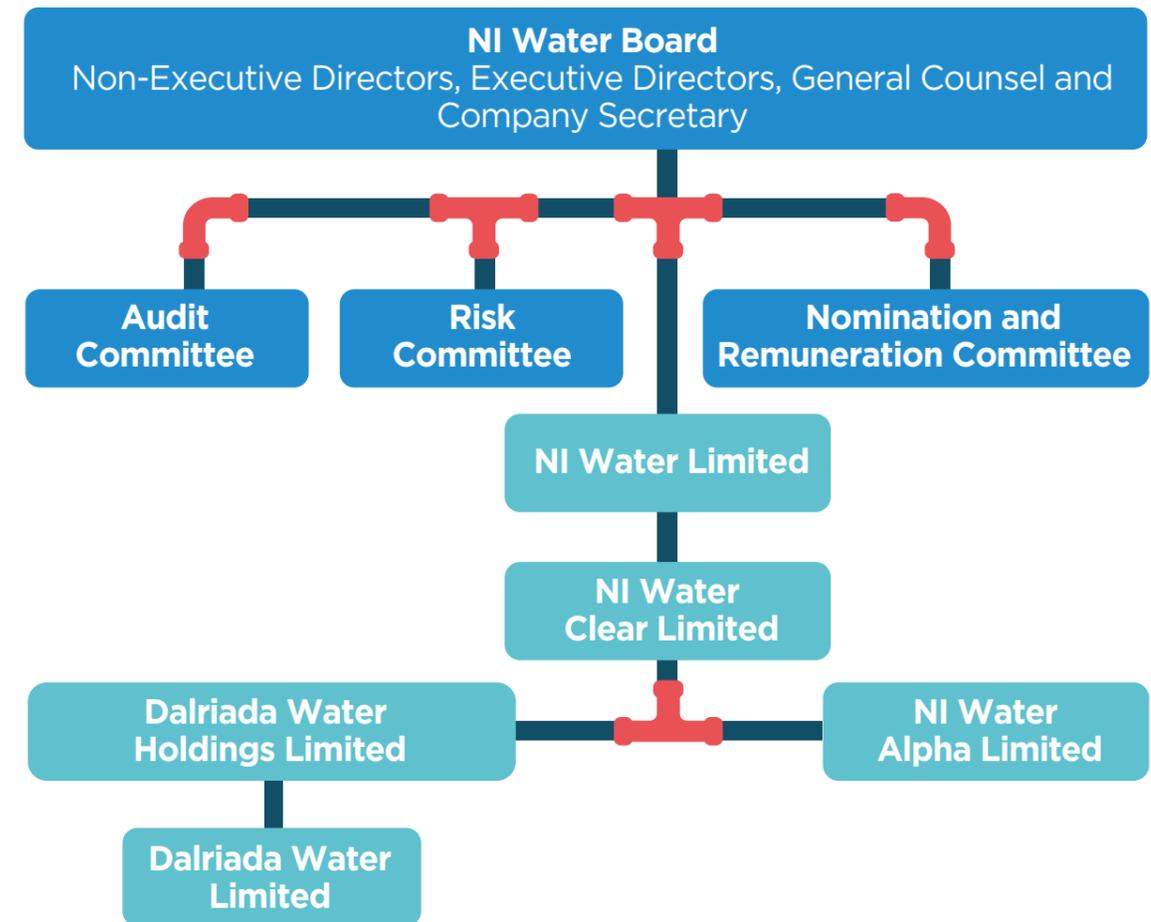
Compliance statement

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 applies to NI Water as set out within the MSFM. 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 does not comply with the UK Corporate Governance Code within the strict definition. This includes appointment, re-appointment or removal of the external auditor, 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

There have been a number of changes to Board membership in 2019/20. I would like to pay tribute to those Board members who have finished their terms in January 2020 (John Rae, Jim McCall, Trisha McAuley OBE and Kingsley Donaldson) and whose support and advice was greatly appreciated. I would also like to welcome the new Board members (Belinda Oldfield, Marie-Thérèse McGivern, Maurice Bullick and Paddy Larkin) who commenced their terms in February 2020, along with Peter McNaney CBE who has commenced his second term.

On 1 April 2020, I was appointed by the Infrastructure Minister to serve a second term for a period up to four years.

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/policy/msfmsigned2017.pdf>

Summary of Board activity

The Board activity over 2019/20 is summarised below:

		Cross reference
Strategy	<ul style="list-style-type: none"> Reviewed and approved the Strategy (2021-46), which includes the new purpose statement, vision, strategic priorities and values; 	Page 28
	<ul style="list-style-type: none"> Discussed the Group's preparations in relation to Brexit; Monitored the Group's response to Covid-19; 	Page 70 Page 69
Governance	<ul style="list-style-type: none"> Reviewed the corporate risks and the risk appetite; Reviewed the effectiveness of the risk management system and reviewed the effectiveness of the internal control systems; 	Page 62 Page 97
	<ul style="list-style-type: none"> Reviewed the terms of reference for the Audit, Risk, Nomination and Remuneration committees; Reviewed developments in corporate governance and the implementation of any changes required, particularly relating to the UK Corporate Governance Code 2018; 	Page 93
	<ul style="list-style-type: none"> Reviewed the External Auditors' performance. 	Page 94
Business performance	<ul style="list-style-type: none"> Monitored delivery of the PC15 Final Determination (as amended); 	Page 93
	<ul style="list-style-type: none"> Reviewed and approved the Annual Integrated Report and Accounts for 2019/20; 	Page 99
	<ul style="list-style-type: none"> Reviewed and approved the Regulatory Accounts and the Annual Information Return for 2019/20; 	Page 93
	<ul style="list-style-type: none"> Reviewed and approved the going concern and long term viability statements; 	Page 93
	<ul style="list-style-type: none"> Monitored the delivery of the Annual Operating Plan and Budget for 2019/20; Reviewed and approved the Annual Operating Plan and Budget for 2020/21; 	Page 93
Employees	<ul style="list-style-type: none"> Reviewed the health, safety and wellbeing activities and consideration of health and safety incidents of employees and contractors, the Health and Safety Strategy to reinforce the zero harm ambition; 	Page 64
	<ul style="list-style-type: none"> Discussed the results of the annual employee survey. 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 106
	<ul style="list-style-type: none"> Reviewed the work being taken forward on the Group wide diversity and inclusion policy; 	Page 114
Stakeholders	<ul style="list-style-type: none"> 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 	Page 106
	<ul style="list-style-type: none"> Undertook half yearly meetings with senior Shareholder representatives. 	Page 109

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)*
	Jim McCall**
	John Rae**
	Maurice Bullick***
Risk Committee	Paddy Larkin****
	John Rae (Chair)**
	Belinda Oldfield (Chair)****
	Kingsley Donaldson**
	Trisha McAuley, OBE**
Nomination and Remuneration Committee	Marie-Thérèse McGivern****
	Paddy Larkin****
	Dr Leonard J. P. O'Hagan, CBE DL (Chair)*****
	Peter McNaney, CBE*
	John Rae**
	Belinda Oldfield****

*Reappointed on 1 February 2020 to serve a second term for a period up to four years.

**Ceased Board appointment on 31 January 2020.

***Co-opted as a member from 20 July 2016 to ensure that the Audit Committee has recent and relevant financial experience. Maurice is the Finance Director at Belfast Harbour Commissioners and is a Chartered Accountant. Full Board Member from 1 February 2020.

****Appointed as a Board member on 1 February 2020 to serve a first term for a period up to four years.

*****Reappointed on 1 April 2020 to serve a second term for a period up to four years.

Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2020 (full years)	Date of appointment	Date of cessation
Dr Leonard J. P. O'Hagan, CBE DL	5	1 April 2015	31 March 2024
John Rae	8	22 August 2011	31 January 2020
Peter McNaney, CBE	4	1 August 2015	31 January 2024
Jim McCall	4	1 August 2015	31 January 2020
Trisha McAuley, OBE	4	1 August 2015	31 January 2020
Kingsley Donaldson	4	1 August 2015	31 January 2020
Paddy Larkin	-	1 February 2020	31 January 2024
Belinda Oldfield	-	1 February 2020	31 January 2024
Marie-Thérèse McGivern	-	1 February 2020	31 January 2024
Maurice Bullick	-	1 February 2020	31 January 2024
Sara Venning	9	21 May 2010	n/a
Ronan Larkin	14	19 September 2005*	n/a
Sean McAleese**	4	12 January 2015	28 February 2019
Mark Ellesmere	13	26 June 2006*	n/a
Paul Harper	3	1 January 2017	n/a

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

**Sean McAleese ceased his employment with NI Water on 28 February 2019. Des Nevin was appointed interim Director of Customer Service Delivery on 1 March 2019. He is not a Director of the Company under the Companies Act 2006.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2019/20 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	-	-	-	-	-	-	-	-	-	3	3	3
John Rae**	11	9	9	4	3	3	4	4	4	1	1	1	3	3	3
Peter McNaney, CBE****	11	11	11	4	4	4	-	-	-	1	1	1	3	3	3
Jim McCall**	11	9	8	4	3	3	-	-	-	1	1	1	-	-	-
Trisha McAuley, OBE**	11	9	7	-	-	-	4	4	4	1	1	1	-	-	-
Kingsley Donaldson**	11	9	9	-	-	-	4	4	4	1	1	1	-	-	-
Paddy Larkin***	2	2	2	4	1	1	4	-	-	1	-	-	-	-	-
Maurice Bullick***	2	2	1	4	1	1	-	-	-	1	-	-	-	-	-
Belinda Oldfield***	2	2	2	-	-	-	4	-	-	1	-	-	-	-	-
Marie-Thérèse McGivern***	2	2	1	-	-	-	4	-	-	1	-	-	-	-	-
Sara Venning	11	11	11	4	4	4	4	4	4	1	1	1	3	3	3
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	3	3	3
Paul Harper	11	11	11	-	-	-	4	4	3	1	1	1	-	-	-

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

**Ceased Board appointment on 31 January 2020.

***Appointed as a Board member on 1 February 2020 to serve a first term for a period up to four years.

****Reappointed on 1 February 2020 to serve a second term for a period up to four years.

*****Reappointed on 1 April 2020 to serve a second term for a period up to four years.

Dr Leonard J. P. O'Hagan CBE DL
Chairman
25 June 2020

Report by Chair of the Audit Committee



The Audit Committee monitored the integrity of financial reporting together with NI Water's formal announcements relating to its financial performance, paying particular attention to significant reporting judgements contained therein. The Audit Committee provided oversight on the effectiveness of financial risk management and its associated controls, reviewed the effectiveness of NI Water's Fraud Prevention, Theft, Whistleblowing and Anti-Bribery/Corruption policies and procedures, awareness training, and the effectiveness of investigations.

The Audit Committee met with the Risk Committee to consider the Chief Executive's Year End Assurance Statement, Internal Audit's Annual Assurance Statement 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 of the funding position for 2019/20, including the agreement of a budget and the revised outputs for the year as agreed with stakeholders. The Committee was also kept apprised of the proposed Operating Plan and Budget for 2020/21 and ongoing liaison with DfI and funding arrangements over the PC21 period;
- Subsidiary companies and consolidation:** the Audit Committee considered the appropriate accounting treatment on the consolidation of the subsidiary companies acquired in 2017/18. This included fair value accounting; the value and treatment of goodwill in the Group accounts and the treatment of the PPP contract in Dalriada Water Limited's accounts;
- Long Term Viability Statement:** the Audit Committee was regularly briefed on the development of the Long Term Viability Statement, including the scenarios being considered, the impact of each of the scenarios and the conclusion on viability;
- Risk relating to the pension scheme:** the Audit Committee considered the funding position of NI Water Limited's defined benefit pension scheme in the light of changes in market conditions, particularly the significant changes at year end as a result of Covid-19;
- UK Corporate Governance code:** the Audit Committee was briefed on the corporate reform agenda and the changes required by the UK Corporate Governance Code 2018;
- Going concern:** the Audit Committee was briefed on ongoing communications with DfI in relation to extensions to NI Water's loan notes and working capital facilities; and
- Claims:** the claims level and treatment of claims from contractors were monitored during the year with additional information sought from management as appropriate.

KPMG were appointed as the External Auditors in July 2013 following a competitive tendering exercise. The first set of accounts signed by the current audit partner, John Poole, was for the year ended 31 March 2016. The external audit contract was put out to tender during 2018 and KPMG were reappointed as External Auditors for three more years.

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 2019/20 were £11k (2018/19: £11k).

Internal Audit

The Audit Committee approved the Internal Audit Strategy, which includes reviews of corporate governance. During the year, the Committee approved the updated Internal Audit Charter to ensure that it fully reflected the remit, scope and responsibilities of the function, in accordance with the relevant professional standards for Internal Audit. The Committee also monitored completion of the 2019/20 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 had the opportunity to meet with the Chairman of the Audit Committee without management to discuss NI Water's overall control environment. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function. In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit provided an annual self-assessment of the function's performance to the Audit Committee.

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 2019.

As Chair of the Audit Committee, I provided a report to the Board after every meeting on the work of the Committee.

Peter McNaney, CBE
Chair of the Audit Committee
25 June 2020

Report by Chair of the Risk Committee



Upon appointment as Chair of the Risk Committee in February 2020, I was provided with the relevant reports, minutes and assurance that the following matters were dealt with appropriately throughout the course of the 2019/20 reporting period.

The Risk Committee provided oversight on NI Water's risk management framework. The Committee met on a quarterly basis and reviewed the risk management system and processes, the corporate threats and opportunities, risk appetite and benefits to be realised.

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:

- **Corporate risks:** the Risk Committee considered the proposed corporate threats and opportunities at the start of the financial year and recommended these for Board approval;
- **Corporate threat and opportunity maps:** over the financial year, the Risk Committee considered significant threats and opportunities to achieving strategic priorities. This included top ten asset risks for the short and medium term, attendance, wellbeing, winter readiness and Brexit;
- **Risk appetite:** the Risk Committee monitored the progress in moving towards the Board agreed risk appetite for the seven agreed risk themes;
- **Integrated risk and resilience framework:** the Risk Committee approved the revised integrated risk and resilience framework in January 2020;
- **Emerging risks:** details of emerging risks based on local and global research and incidents were reported to the Risk Committee along with details of the mitigating steps already being taken and further action for consideration;
- **Business continuity management:** the Risk Committee received updates regarding business continuity management, test exercises and IT disaster recovery plans;
- **Cyber security:** the Risk Committee was kept updated regarding ongoing work related to cyber security;
- **Health and safety:** the Risk Committee received a quarterly update on health and safety matters and progress against the health and safety action plan; and
- **Risk research and development:** the Risk Committee considered the ongoing research activities including with Queen's University Belfast, Ulster Business School, Ulster University and other European and International research bodies.

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

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

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Risk Committee's terms of reference. A formal report was presented to the Board in August 2019.

Belinda Oldfield
Chair of the Risk Committee
25 June 2020



NI Water won the GO Procurement Team of the year award for Brexit planning

Refer to the Directors' remuneration report on page 110 in relation to the work of the Nomination and Remuneration Committee.

Governance Statement

Introduction

The Governance section on pages 83 to 116 sets out the role of the Board and the assessment of its effectiveness in discharging its responsibilities under the Companies Act 2006. MPMNI requires a 'Governance Statement' to be included in the Annual Integrated Report and Accounts. Given that some of the compliance requirements have already been included in the Governance section, the Governance Statement needs to be read in conjunction with this section. The Governance Statement forms part of the audited financial statements.

Scope of responsibility

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

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

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

Governance framework

The system of internal control is designed to manage threats and opportunities to a reasonable level, and to achieve the Group's purpose, vision and strategic priorities. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is supported by a risk 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 lots more 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 in place to facilitate good governance and communication across the business and with key stakeholders.

The system of internal control has been in place in NI Water for the year ended 31 March 2020 and up to the date of approval of the Annual Integrated Report and Accounts, and accords with DoF's and HM Treasury's guidance, where appropriate.

Capacity to handle risk

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

The risk and control framework

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

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 'drilled

down' to business units and to programme or project levels as appropriate, to evidence the effectiveness of controls and required actions. Directorate risks can also be escalated to senior management's attention when they are graded as 'high' or 'medium'. An established escalation process is also in place to alert the Chief Executive, Board and Stakeholders of significant new issues.

The Risk Committee updates the Board on a quarterly basis on threat improvements, benefits from opportunity realised, improvement in resilience, risk escalated and completion of improvement actions. The Board approved the risk appetite and reviewed the action plans in place to manage the risk exposure and realise opportunities.

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

Key risks materialising in year

During the year risks have been effectively managed and significant risks are as reported in pages 63 to 74. Risks that are beyond the control of NI Water require different treatment. Risks such as funding constraints continue to place NI Water in a situation where service delivery could be impacted in the short to medium term and where economic development cannot be supported in the short term due to lack of asset capacity. Discussions are ongoing with DfI. Risks such as Covid-19 and weather related events, will continue to be managed by NI Water within limited resourcing and asset capability with steps taken where possible to improve on our resilience.

Internal Audit

The Head of Internal Audit provided an 'Annual Opinion' on NI Water's system of governance, risk management and internal control. The opinion for the year ended 31 March 2020 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 'Strategic threats and opportunities' section, while others are reported to the Shareholder.

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



Sara Venning
Accounting Officer
25 June 2020

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2020.

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 DfI.

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2020.

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; and
- the Board has been unable to accept the Utility Regulator's Final Determination for PC15 due to a shortfall in public expenditure funding.

NI Water Limited engaged positively with the Utility Regulator and the Department to agree changes to 2015/16 and 2016/17 regulatory outputs due to reductions in public expenditure funding.

Following the PC15 Mid Term Review, the Utility Regulator concluded:

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 six year period;
- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and
- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

As a result, adjusted outputs have not been agreed with the Utility Regulator for 2017/18 and beyond and NI Water continues to monitor performance against PC15 Final Determination targets.

Our budget for 2020/21 is based on indicative funding levels per the PC15 Final Determination and the impact of Covid-19 on billable revenues resulting in a requirement of £141.7m Resource Departmental Expenditure Limit (DEL) and £150.0m Capital DEL. The DfI has provided NI Water with indicative allocations for 2020/21, however, at the time of writing there is a gap in Resource DEL funding, which is being explored with the DfI.

NI Water has access to cash through its loan note instrument from which it can draw down loans from DfI up until 31 March 2022. In addition, the Company has access to a working capital facility of £20m.

In relation to outputs, some aspects of delivery remain behind profile mainly as a consequence of under-funding in the first two years of PC15. While this may have been recoverable with increased capital budget in latter years, this has not been available to us. Furthermore, with the reduction in delivery of capital outputs in response to Covid-19, it is now likely that there will be a shortfall in

delivery against planned PC15 outputs with some work carried over into PC21.

In accordance with the Licence, NI Water Limited submitted its business plan for the PC21 period to the Utility Regulator in January 2020. NI Water continues to make the case for certainty of funding and a medium term financial settlement to enable price limits and service targets/ outputs which will be set in the PC21 Final Determination to prevail. 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 strategic 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 strategic 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 strategic risks. Refer to page 63.

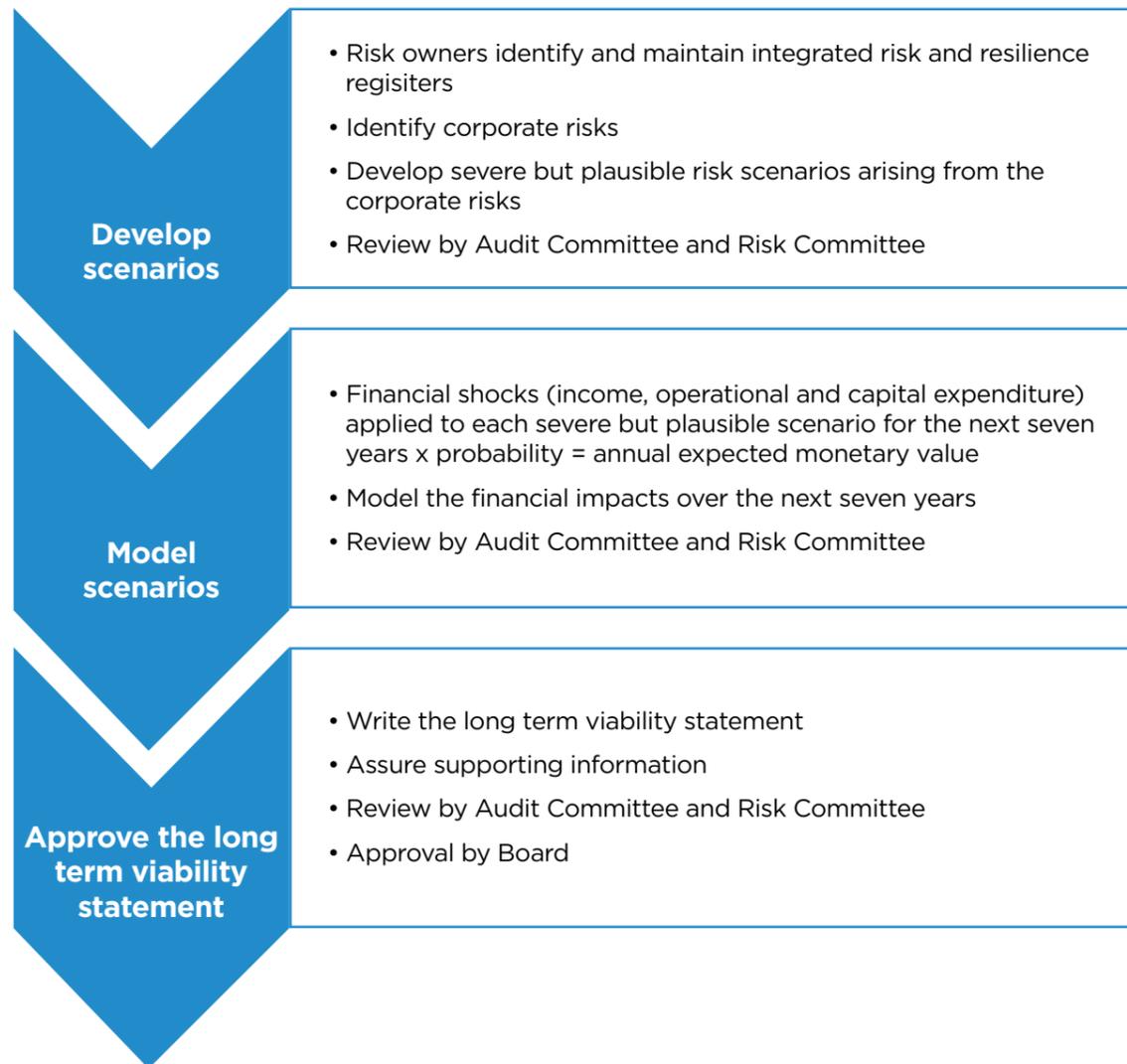
Stage 2 - assessment of viability

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 seven year period is appropriate given NI Water's position within the current regulatory cycle and the extent to which information is available on the direction of the subsequent Business Plans. As NI Water is in the final year of the six year PC15 regulatory cycle and the PC21 Business Plan has been submitted to the Utility Regulator, there is information available for the seven year period, which extends to the end of the PC21 regulatory period (March 2027). This timeframe falls well within our current strategic planning horizon (2021-46). The Strategy and the PC21 Business Plan reflect the Directors' best view of future prospects. The assumptions used in developing the PC21 Business Plan are based upon the best information currently available.

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 strategic 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 seven 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 59)
1	Underfunding	Significant underfunding of the PC21 Business Plan	ST1 ST7 ST8
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	ST1 ST7 ST8
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	ST5 ST7 ST8
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	ST7 ST8 SO2
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	ST1 ST7 ST8
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	ST2 ST7
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	ST4 ST7
8	Drinking water	Major widespread water quality contamination event	ST1 ST3 ST6 ST7
9	Wastewater	Severe consent failure at key wastewater treatment works (including unexpected change to PPP Omega contract)	ST3 ST7
10	Pollution	Pollution and sewer flooding incidents lead to loss of reputation with regulators, key stakeholders and damage to the natural and built environment	ST3 ST6 ST7
11	Severe weather	Multi-year dry spring/summer leads to severe drought and supply restrictions	ST6 ST7
		Severe winter followed by thaw leading to significant increase in leakage and supply interruptions	ST6 ST7
		Widespread flood inundation/coastal inundation/significant flood event including our ability to embed and transform our flood resilience	ST1 ST3 ST6 ST7

Financial shocks have not been developed in relation to scenario one due to the difficulty in estimating the degree to which financial shocks relating to other scenarios will increase as a result of underfunding and the uncertainty around funding over PC21. Scenario one is unique to NI Water as all other UK water companies benefit from funded regulatory settlements. The draft determination on PC21 was anticipated in July 2020 but has been deferred until September 2020 given Covid-19. The final determination was anticipated in December 2020 and has been deferred until March 2021. The PC21 funding settlement was therefore not known when the Board approved the viability statement in June 2020. Nonetheless, the Directors consider that, subject to accepting the PC21 final determination, any underfunding of the determination will increase the size and likelihood of the financial shocks across the other scenarios.

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

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

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

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

- **Combination 1** – macroeconomic, pension and supply chain;
- **Combination 2** – people and pollution;
- **Combination 3** – cyber, drinking water and wastewater; and

- **Combination 4** – drinking water and severe weather.

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

Fundamental assumptions

This viability statement is based on the following fundamental assumptions:

- that the Utility Regulator's final determination on the PC21 Business Plan is accepted by NI Water and is fully funded by the Shareholder;
- that the Shareholder, as the sponsoring Government Department, can provide public expenditure budget cover to allow the Group to incur additional expenditure associated with one or more of the severe but plausible scenarios occurring. This includes the full impact of Covid-19;
- 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 first viability assessment represents the full range of financial shocks and their magnitude. The assessment of financial shocks will be further embedded into the risk management process in future years.

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

- the Group's current liquidity position as outlined on page 129;
- the detailed financial projections developed as part of the planning process, which include the best available information about the final year of the PC15 regulatory period and 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). 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 Dfl. Such bids would compete with other bids on public expenditure within the sponsoring Government department and across the public sector.

Assurance

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

- Level 1 - a Project Board was established to review the preparation of the long term viability statement comprising of colleagues from risk, resilience, finance, regulation and internal audit. The Project Board ensured that the long term viability statement was produced in line with best practice and the UK Corporate Governance Code; and
- Level 2 - the viability statement was subject to scrutiny and challenge by the 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 seven 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 is set in the PC15 Final Determination. Payment of any dividend is subject to NI Water having sufficient distributable profits. Refer to the strategic threats and opportunities (page 63) for factors which could impact on the amount of distributable profits. It is anticipated that a final dividend of £31.5m for the year ended 31 March 2020 (2019: £28.3m²) will be approved by the Shareholder upon the recommendation of the Board in June 2020 and paid in July 2020 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2020.

² This dividend in respect of the year ended 31 March 2019 was paid in July 2019.

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 91.

Further details on our Board and Executive Committee can be found at: <https://www.niwater.com/our-board/> and <https://www.niwater.com/our-executive-committee/>

Directors' and Officers' indemnities

Directors and Officers are indemnified by NI Water against costs incurred by them in carrying out their duties, including defending any 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 2020, was 31.4 days (2019: 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 2020, the year to date ratio stood at 11.6 days (2019: 11.7 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 £0.3m on research and development in 2019/20 (2019: £0.2m).

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.

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 2020, 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 52.

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 2020 (see page 89) and by reference to the approval of our Strategy (2021-46) and PC21 Business Plan (2021-27), supported by the Board assurance statement accompanying our plan:

(a) Long term decisions

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

(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.

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 range of channels, which range from specific events to ongoing business as usual contacts. One of our primary channels is our annual supplier event, which has been running for nearly a decade. This event provides a great opportunity to engage with the new and existing suppliers. Over 400 representatives from local, national and international businesses attended our 2019/20 event at Titanic Belfast in partnership with InterTradeIreland. The event provided an opportunity for new and existing suppliers across a diverse range of sectors to find out more about our upcoming 18 month tender programme to support delivery of our Strategy and Business Plan. Areas of focus included energy, smart networks and artificial intelligence. Many of NI Water's strategic contractors were in attendance providing opportunities to meet potential new sub-contractors. The Ervia supply chain staff were also at the event and provided details of opportunities to work with Irish Water and other companies in the Ervia Group. Refer to page 105 regarding payment of creditor policy.

Customers

Our Strategy and Business Plan are based on engagement with our domestic customers and our non-domestic customers including developers. We recognise that we have a different relationship with our domestic customers from our peers in the rest of the UK and that not paying directly for water and sewerage services makes them even further removed and our service even more

invisible. Our approach has been overseen by the consumer engagement oversight group, an ongoing partnership between NI Water, the Utility Regulator, the CCNI and the DfI. This group has worked with us to shape our approach and provide assurance. Customer engagement in preparation for PC21 has focused on qualitative engagement

to better capture the views and perceptions of our customers. We have developed a new strategic partnership with Ipsos MORI, which extends into PC21, enabling us to develop an ongoing, consistent approach to engagement. Engagement³ that has informed our PC21 Business Plan has included:

Operational engagement

 **200,000** phone calls per year

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

Indirect engagement

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

 **1.4m+** website views

Focused engagement

 **189** domestic and business customers engaged in focussed workshops

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

 **1,036** perception surveys with domestic customers and businesses

³This engagement relates to the PC21 Business Plan which used 2018/19 data.

Principal Stakeholders

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

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

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

Local Councils

We presented the current status of water and wastewater infrastructure, capacity constraints and our recommended PC21 capital investment programme to all 11 Borough and District Councils in the context of their Local Development Plans and the 'hub' towns and cities that are central to their growth plans. In addition, NI Water has engaged with the Northern Ireland Local Government Association (NILGA), the Society of Local Authority Chief Executives (SOLACE) as well as Planning, Housing and Regeneration committees.

Business organisations

We focused on engaging with industry groups on our Strategy and Business Plan with the largest reliance on interest in water, such as the construction or manufacturing industry, and the farming and food sectors (through groups such as the Construction Employers' Federation, NI Food and Drink Association and the Ulster Farmers Union).

Political parties

Briefings on our Strategy and Business Plan with Party Leaders, Party Infrastructure Spokespersons, Party Policy Advisors have ensured that local representatives are all fully aware of the current status of water and wastewater infrastructure, NI Water's recommended PC21 capital investment programme and the consequences should inadequate funding continue.

(d) Community and the environment

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

(e) Business conduct

As the Board of Directors, we are committed to the highest standards of behaviour in how we do business. Our values provide the cultural framework to support achievement of our purpose and vision, and we encourage our employees to live these values. Our values are at the heart of our decision making and underpin everything we do. They centre around a more sustainable way of doing business by putting back more to society, the economy and the natural environment than we take out. The values are embedded in our Code of Ethics, which links to other policies such as our Speak Up (Whistleblowing Policy), 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 they too may benefit from the successful delivery of our plan. 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
25 June 2020

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 three times in the year.

Board appointments and diversity

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

Remuneration policy

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

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Notwithstanding this policy NI Water Limited has been subject to public sector pay policy in 2019/20 as a result of its current governance arrangements.

Annual bonus

There was no bonus scheme in 2019/20 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 Chairman reflect the additional responsibilities of that role. Further details on the fees paid to the Non-Executive Directors are provided on page 112.

Directors' employment contracts

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

Fees paid to members of the Executive Committee

Current Executive Directors:	Year to 31 March 2020					Year to 31 March 2019				
	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Pension benefits ⁴ £000	Total £000	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Pension benefits £000	Total £000
Sara Venning	155 - 160	-	-	55	210 - 215	150 - 155	-	-	57	210 - 215
Ronan Larkin	120 - 125	-	-	29	150 - 155	115 - 120	-	-	36	150 - 155
Paul Harper	110 - 115	-	-	42	155 - 160	110 - 115	-	-	40	150 - 155
Former Executive Director:										
Sean McAleese	-	-	-	-	-	105 - 110 ⁵	-	-	29 ⁶	135 - 140
Current member of the Executive Committee (not Executive Director):										
Mark Ellesmere	115 - 120	-	-	38	150 - 155	110 - 115	-	-	42	155 - 160
Alistair Jinks	100 - 105	-	-	29	130 - 135	95 - 100	-	-	30	125 - 130
Rose Kelly	105 - 110	-	-	38	140 - 145	100 - 105	-	-	37	135 - 140
Des Nevin	100 - 105	-	-	159	260 - 265	20 - 25 ⁷	-	-	15	35 - 40 ⁸

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

⁵ £115k - £120k on a full year equivalent basis. Sean McAleese ceased to be Director of Customer Service Delivery on 28 February 2019.

⁶ The value of all pension related benefits are assessed over the period from 1 April 2018, to 28 February 2019, the date on which he ceased to be Director of Customer Service Delivery.

⁷ £100k - £105k on a full year equivalent basis. Des Nevin was appointed to the Executive Committee on 7 January 2019.

⁸ The value of all pension related benefits are assessed over the period from 7 January 2019, the date on which he was appointed to the Executive Committee, to 31 March 2019.

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 £155k to £160k on a full year equivalent basis (2019: £150k to £155k). This was 4.83 times (2019: 4.85 times) the median

remuneration of the workforce, which was £32,944 (2019: £31,765). The marginal change in the pay multiple (ratio) between 2018/19 and 2019/20 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 2020		Year to 31 March 2019	
	Salary and allowances	Total	Salary and allowances	Total
Highest paid Director (£'000)	155 - 160	210 - 215	150 - 155	210 - 215
Median total remuneration (£)	32,944	32,944	31,765	31,765
Pay multiple (ratio)	4.83	4.83	4.85	4.85
Range of remuneration (£'000)	16 - 160	16 - 160	10 - 155	10 - 155

Fees paid to Non-Executive Directors

Current Executive Directors:	Year to 31 March 2020				Year to 31 March 2019			
	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- Chairman	40 - 45	-	-	40 - 45	40 - 45	-	-	40 - 45
Peter McNaney, CBE	15 - 20	-	-	15 - 20	15 - 20	-	-	15 - 20
Belinda Oldfield	2.5 - 5.0 ⁹	-	-	2.5 - 5.0	-	-	-	-
Marie-Thérèse McGivern	2.5 - 5.0 ⁹	-	-	2.5 - 5.0	-	-	-	-
Patrick Larkin	2.5 - 5.0 ⁹	-	-	2.5 - 5.0	-	-	-	-
Maurice Bullick	2.5 - 5.0 ⁹	-	-	2.5 - 5.0	-	-	-	-
Former Non-Executive Directors								
John Rae	15 - 20 ¹⁰	-	-	15 - 20	15 - 20	-	-	15 - 20
Jim McCall	15 - 20 ¹⁰	-	-	15 - 20	15 - 20	-	-	15 - 20
Trisha McAuley, OBE	15 - 20 ¹⁰	-	-	15 - 20	15 - 20	-	-	15 - 20
Kingsley Donaldson	15 - 20 ¹⁰	-	-	15 - 20	15 - 20	-	-	15 - 20

⁹ Appointed Non-Executive Director on 1 February 2020.

¹⁰ Ceased to be a Non-Executive Director on 31 January 2020.

Pension entitlements

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

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

Transfer values

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

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

Increase in transfer value less Directors' contributions

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

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

Pension benefits for members of the Executive Committee

Current Executive Directors:	Accrued pension at age 60 at 31 March 2020 £000	Related lump sum at 31 March 2020 £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £000
Sara Venning	25 - 30	40 - 45	2.5 - 5.0	7.5 - 10.0
Ronan Larkin	30 - 35	-	2.5 - 5.0	-
Paul Harper	5 - 10	20 - 25	0 - 2.5	5.0 - 7.5
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	30 - 35	30 - 35	2.5 - 5.0	5.0 - 7.5
Alistair Jinks	25 - 30	-	0 - 2.5	-
Rose Kelly	2.5 - 5	10 - 15	0 - 2.5	5.0 - 7.5
Des Nevin	50 - 55	150 - 155	7.5 - 10	22.5 - 25.0

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2020 ¹¹ £000	CETV at 31 March 2019 ¹² £000	Increase/(decrease) in transfer value less Director's contribution (net of inflation ¹³) £000	Employer contribution (to nearest £100)
Sara Venning	590	513	41	46,500
Ronan Larkin	753	675	38	35,800
Paul Harper	146	95	39	33,500
Former Executive Director:				
Sean McAleese	-	1,680	-	-
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	736	667	30	34,100
Alistair Jinks	637	565	40	29,900
Rose Kelly	86	45	33	30,700
Des Nevin	1,482	1,211	211	30,400

¹¹ Based on accrued benefits at 31 March 2020 and financial conditions as at 31 March 2020.

¹² Based on accrued benefits at 31 March 2019 (or date of leaving the Executive Committee if earlier) and financial conditions as at 31 March 2019.

¹³ CPI inflation of 2.4% (CPI figure for the year to September 2018).

What we have done to improve diversity and inclusion

Valuing people for who they are and the contributions they bring provides the cultural framework to support achievement of our purpose and vision, placing our commitment to diversity and inclusion front and centre of how we do business. We recognise diversity in all its forms i.e. race, gender, age, religion, sexual orientation, socio economic background, identity, and experience.

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

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

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

Highlights of our diversity and inclusion journey are shown below:



Diversity Mark

Badge of best practice. Accredited with the Bronze Diversity Charter Mark in 2019 and recently re-accredited against this standard in 2020 in recognition of our sustained commitment to diversity and inclusion.



Social mobility. First Company in Northern Ireland to sign up to the UK Social Mobility Pledge in 2020 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.



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

Celebrating diversity. In 2019/20 we participated in Belfast Pride celebrations for the first time ever and held an event to celebrate our female talent as part of International Women's Day.



Widening our external outreach. Our CEO, Sara Venning was the key note speaker at the Institute of Director's Women's Leadership Conference in March 2020. We are also increasing participation by our people in external diversity and inclusion conferences.

External recognition. Our diversity and inclusion strategy was shortlisted for the CIPD award 2020 for Best Diversity and Inclusion Initiative.



The journey continues

We have come a long way in the last two years but we are still at early stages of our journey and there is more to come. The 2020/21 plans include the design and delivery of a series of dedicated diversity and inclusion workshops for our Executive Committee to model our commitment from the top and the design of a new management development programme for all managers with a focus on inclusive leadership training.

Dr Leonard J. P. O'Hagan CBE DL
Chairman
25 June 2020

Statement of Directors' responsibilities

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

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

Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

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

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

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

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

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

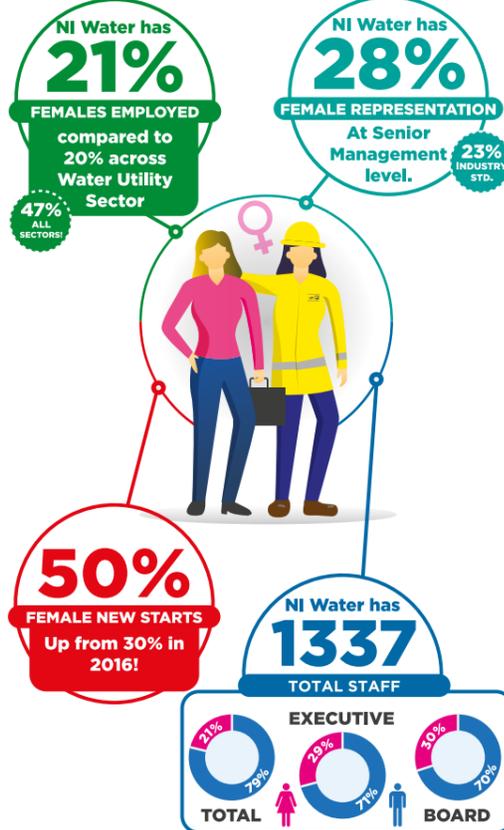
Having taken advice from the Audit Committee, the Directors consider that the Annual Integrated Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Group and Parent Company's position, performance, business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

Each of the Directors, whose names are listed on page 111 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 2020 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 2020; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company together with a description of the principal risks and uncertainties it faces.

On behalf of the board

Mark Ellesmere
Company Secretary
25 June 2020



Increasing female representation. Changes have been made to hiring practices by use of software to check for gender neutral language in recruitment advertising, mandatory unconscious bias training for interviewers and revised schools outreach campaigns to improve our employer brand. In 2019/20, the number of female applicants increased by 20% compared to the previous year.