

**DEE VALLEY WATER PLC**

**ANNUAL PERFORMANCE**

**REPORT**

**YEAR ENDED 31 MARCH 2016**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
MARCH 2016**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

P B Holder  
I J A Plenderleith  
J H Schofield  
K Starling

**COMPANY NUMBER**

03527628

**REGISTERED OFFICE**

Packsaddle  
Wrexham Road  
Rhostyllen  
Wrexham  
Clwyd  
LL14 4EH

**AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Manchester  
United Kingdom

**CERTIFICATE OF COMPLIANCE (LICENCE CONDITION F6A.2A)**

This is to certify that, in the opinion of the Directors of Dee Valley Water plc (the “Appointee”):

- the Appointee:
  - will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil its obligations under its Instrument of Appointment);
  - will, for at least the next 12 months, have available to it management resources and systems of planning and internal control which are sufficient to enable it to carry out those functions;
  - is in compliance with paragraph 3.1 of condition K of its Instrument of Appointment and
- all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker.

The main factors taken into account by the Directors in giving this certificate were:

- that the Appointee’s processes and systems of internal control had operated as expected;
- that the Appointee operated as if the appointed business were substantially the Appointee’s sole business and that the Appointee were a separate public limited Company;
- that the Appointee’s resources and facilities were adequate to enable the Appointee to meet its regulatory obligations;
- the net worth of the Appointee and the strength of its key performance indicators as shown in the Operating and Financial review; and
- the Appointee’s borrowing facilities and the size of its undrawn bank facilities.

The certificate was approved at a duly convened meeting of the Board of Directors on 15 July 2016 and is signed on behalf of the Directors on 15 July 2016 by:



I J A Plenderleith  
Chief Executive

## **STRATEGIC REPORT**

The Directors of Dee Valley Water plc are pleased to present their strategic report on the affairs of the Company, along with the Directors' report, the audited Annual Performance Report and the auditor's report for the year ended 31 March 2016.

### **BUSINESS OVERVIEW**

The Company made significant progress in the first year of our new five-year business plan (2015-2020) and we can look forward with confidence to achieving our customer performance commitments.

We have made significant commercial changes to the Company which have increased our operational performance and sharpened our focus on providing an even better service for our customers.

#### **Financial performance**

Our financial performance continues to be satisfactory with revenue of £23.1 million on a statutory basis (2015: £24.6 million) and operating profit of £6.6 million (2015: £7.5 million).

In common with most water companies, our financial performance was impacted by the PR14 final determination, which imposed a reduction in prices and therefore contributed to the downturn in revenue in the current year. However, this was mitigated by an improvement in operating expenses and financing costs.

Following the agreement of a five-year, £30 million revolving credit facility early in the year, the Company is well placed to deliver the investment plan agreed with Ofwat for the period to 2020. The facility provides cost effective funding to support the delivery of the largest capital investment plan in the Company's history.

Strong progress has been made against the Company's operational key performance indicators this year and this, alongside the financial certainty provided by the agreement of financing at favourable interest rates, ensures that the Company can progress confidently into the second year of AMP6.

#### **Customer care**

Customer service and care for our most vulnerable customers is of paramount importance for everyone at Dee Valley Water. Customer satisfaction surveys show our approval ratings continue to go up – our own independent surveys say 92% of the domestic customers who interacted with us are satisfied with the service they received.

An independent survey for the Consumer Council for Water ('CCWater'), published in August 2015, has confirmed that Dee Valley Water has the most satisfied customers (87%) of all the water companies in England and Wales when it comes to value for money.

In addition to high-quality customer service, we recognise that our customers also want low bills and a wide range of payment options. While we have the fourth lowest water bills in England and Wales, the difficulties faced by our many vulnerable customers is a key concern. From 1 April 2016 we launched our own social tariff for those with low household incomes. Eligible customers can get 30% off their bill. To supplement this and provide a local and personal service, we continue to offer flexible payment plans and our customer liaison team visit vulnerable elderly customers to give advice and help them to pay their bills.

#### **Improved performance**

We have embraced Ofwat's shift in focus from capital expenditure (capex) based solutions to total expenditure (totex) and customer outcomes. This has enabled us to move away from primarily delivering high cost capital schemes. Instead, we are concentrating on how best to provide a resilient and high-quality supply of drinking water for our customers as efficiently as possible.

A good example of this is the work of our network teams who successfully cleaned 290km (one seventh of our network) in a priority effort to eliminate incidents of discoloured water caused by naturally occurring manganese – which is harmless to health. Our customers experienced an immediate benefit. As a result of this programme of work our water quality, mains replacement programme and burst mains record, have all improved.

We have continued with our strong environmental performance, and once again, we expect to have one of the lowest levels of leakage in the industry. Our leakage for 2015-2016 was 78.4 litres per property – well below the target of 90.8 litres per property.

## STRATEGIC REPORT

### BUSINESS OVERVIEW (continued)

#### Culture change

This continued improvement in performance would not have been possible without the efforts of our people and teams. During the year the Company has undergone a major cultural change. It culminated in us adopting a new vision and values to underpin and support our greater focus on placing the customer at the heart of the business.

Our new vision and values were introduced after extensive consultation and involvement with our people, who gave significant input. They have welcomed the clearer focus and greater commitment to our customers.

#### Future progress

Our Board continues to focus on driving change, innovation and greater efficiency within the Company. Customer service and totex outperformance remain a key focus to ensure we can deliver effectively and efficiently for our customers and other stakeholders. We are well placed to achieve this with a Board membership which has worked at the highest level within the water industry.

While the Board is pleased with the progress we have made and continue to make at the start of this new five-year business plan period, we are not complacent. There is still much to do if we are to achieve our vision to be the leading water service provider, with our local customers at heart. This is how we will ensure we are delivering for all of our customers, our people, shareholders and the wider community.

### 2015/16 ODI PERFORMANCE

Performance against the Company's Performance Commitments ('PCs') and Outcome Delivery Incentives ('ODIs') is detailed in Section 3 of this report (page 26). The section 3 table also includes the notional reward or penalty earned at 31 March 2016, based on performance to that date, and forecast performance at the end of the AMP where available.

The position in respect of these Performance Commitments at 31 March 2016 is as below:

**A1: Discoloured water contacts (2015/16: 1.32 contacts per 1,000 population; 2014/15: 2.28 contacts; PC: 2.80 contacts)**

Discoloured water contacts reduced year-on-year (2014/15 actual performance: 2.28 contacts), driven by our strategy of upgrading treatment works to stop discolouration potential building up in the network and systematic cleaning of the water mains. We carried out our largest mains cleaning programme in 2015, flushing 290km of water mains (one seventh of our entire network).

**A2: Mean zonal compliance (2015/16: 99.95%; 2014/15: 99.88%; PC: 100%)**

Our performance against this measure improved in comparison to the prior year (2014/15 actual performance: 99.88%) as a result of the benefits from the new treatment works at Llwyn Onn, the cleaning of the Wrexham ring main by ice pigging and the significant increase in distribution mains cleaning. We are investing £25m over the AMP in schemes to improve water quality, ranging from the rebuilding of reservoirs to working with landowners to reduce catchment risks.

**A3: Delivery of the outcomes of the Legacy treatment works major scheme (PC: completion required by 31 March 2018)**

The Company intends to decommission the Legacy treatment works, implementing an alternative solution through which water treated at the Llwyn Onn treatment works will be pumped across to the Legacy distribution zone. The solution necessitates several projects, including the construction of additional pumping stations, laying 8.5km of pipeline and improving connectivity both within the Company's network and with adjacent water authorities.

The Company is on track to meet its commitment to deliver the Legacy scheme in advance of 31 March 2018.

## STRATEGIC REPORT

### 2015/16 ODI PERFORMANCE (continued)

#### ***A4: Delivery of the outcomes of the service reservoir water quality risk management scheme (PC: completion required by 31 March 2020)***

The Company remains on track to complete all service reservoir schemes by 31 March 2020. Our reservoir inspection programme continues and we are working closely with the DWI to demonstrate that we are addressing risks associated with service reservoir membranes and joints. The inspection programme ensures that all reservoirs are inspected within a 10 year period, with all remedial works identified and addressed prior to the reservoir being returned to service. In this first year of AMP6, four reservoirs have had new membranes applied. Works continue in accordance with the inspection programme.

#### ***B1: Average duration of interruptions (2015/16: 0.09 hours/ property; 2014/15: 0.17 hours/ property; 2015/16 PC: 0.29 hours)***

The Company has placed significant focus on efforts to restore supply within the 3 hour window and performance has consequently improved in the year (2014/15: 0.17 hours/ property). This performance remains well within the PC set (0.29 hours in 2015/16, reducing to 0.20 hours by 2019/20). Whilst setting a meaningful forecast for this commitment is difficult given its nature, we are targeting out-performance of the 2019/20 PC throughout the AMP.

#### ***B2: Sustainable economic level of leakage (2015/16: 78.4 litres/ property/ day; 2014/15: 77.89 l/prop/ day; 2015/16 PC: 90.8 l/prop/day)***

Leakage has increased slightly in comparison to the prior year (2014/15 actual performance: 77.89 l/prop/day), with a reduction in mains bursts offset by an increase in leakage on small diameter mains, service and communication pipes. The time taken to detect these small leaks is disproportionate to the size of the leak. The Company's leakage performance commitment remains one of the lowest in the sector, and we intend to maintain performance ahead of this commitment throughout the remainder of the AMP.

#### ***B3: Security of supply index (2015/16: 100%; 2014/15: 100%; PC: 100%)***

We maintained our performance of 100% security of supply, primarily due to the level of resource resilience available on the River Dee.

#### ***B4: Number of bursts (2015/16: 169 bursts; 2014/15: 247 bursts; PC: 246 bursts)***

The number of bursts in 2015/16 was significantly below both the prior year (2014/15 actual performance: 247 bursts) and the performance commitment, with improvements in our maintenance programmes and the mild winter contributing to this improvement in performance. It is intrinsically difficult to forecast this measure given the impact of weather conditions on burst levels, but we aim to ensure that 2019/20 burst levels are lower than that stipulated in the 2019/20 performance commitment.

#### ***C1: Gross operational greenhouse gas emissions (2015/16: 9,219 tCO<sub>2e</sub>; 2014/15: 9,389 tCO<sub>2e</sub>; 2015/16 PC: 9,783 tCO<sub>2e</sub>)***

Greenhouse gas emissions are well below the PC and have improved this year (2014/15 actual performance: 9,389 tCO<sub>2e</sub>), partly due to a change in the conversion factor used in the calculation of emissions. Our aim is to ensure that current emission levels are maintained or reduced throughout the AMP. Indeed, UPS and electrical improvements planned for the Boughton site in 2016/17 are expected to contribute to a further reduction in emissions next year.

#### ***D1: Customers perception based on market research***

A baseline survey was conducted during the year to assess customer satisfaction with our service. Customer satisfaction and trust measures within the survey scored highly and in line with other metrics produced by CC Water and SIM. A detailed action plan will be formulated with our Customer Challenge Group to ensure that this score is maintained or improved throughout the AMP.

## STRATEGIC REPORT

### 2015/16 ODI PERFORMANCE (continued)

***E1: Per capita consumption and water efficiency (2015/16: 134.87 litres/ property/ day; 2014/15: 129.53; 2015/16 PC: 131.44)***

The Company continues to promote the efficient use of water through our school education programme and the distribution of water efficiency devices. The 2015/16 figure represents an increase in per capita consumption in comparison to the prior year and is outside the PC target. Driving a reduction in per capita consumption throughout the remainder of the AMP is a key area of focus for the Company and we aim to achieve progress towards this objective during 2016/17.

***E2/ F1: Service Incentive Mechanism and Non-Household Service Incentive Mechanism (2015/16: 83.42 and 88.51 respectively; 2014/15: 77.90; PC: 80)***

An increased focus on the root causes of customer dissatisfaction, leading to the identification of training needs and process improvements, contributed to the year-on-year improvement in both household and non-household SIM (2014/15 actual performance: 77.9). The deployment of a real time feedback system, Rant & Rave, also assisted in the identification and resolution of certain basic customer service issues – complaints and unwanted contacts reduced as a result.

Future improvements in text messaging and other communication channels, alongside continuous improvement in both the skills of the customer service team and existing processes, will ensure that the SIM score is maintained or improved throughout the AMP. Whilst acknowledging the impact that certain events (e.g. a severe burst) can have on the SIM score, we anticipate that the score will exceed the performance commitment of 80 throughout the AMP.



I J A Plenderleith  
Chief Executive



**DIRECTORS' REPORT**

The Directors present the Annual Performance Report of Dee Valley Water plc for the year ended 31 March 2016.

The Annual Performance Report is separate from the statutory accounts of the Company which were prepared to 31 March 2016. These regulatory accounts are prepared to comply with Condition F of the Company's Instrument of Appointment granted under the Water Industry Act 1991.

**PRINCIPAL ACTIVITY**

The principal activity of the Company is the provision of water services to customers in an area of 835 square kilometres, in North-East Wales and North-West England, for which Dee Valley Water plc is the licensed water supply undertaker.

**DIRECTORS AND DIRECTORS' INTERESTS**

The Directors who held office during the year were as follows:

A Bickerton (resigned 25 April 2016)  
 P B Holder  
 I J A Plenderleith  
 J H Schofield  
 K Starling (appointed 28 May 2015)  
 D T Weir (resigned 31 July 2015)

**DIVIDENDS**

Dividends of £2,895,000 (2015: £2,895,000) were paid in the year.

<b>Dividends per share paid during the year</b>	<b>£</b>
2015/16 Interim paid per ordinary share	3.95
2014/15 Final paid per ordinary share	8.09
	<hr/>
Total for 2015/16	<b>12.04</b>
	<hr/> <hr/>

The interim dividend of £3.95 per share was paid on 5 January 2016. The Directors are proposing a final dividend in respect of the financial year ended 31 March 2016 of £8.09 per share which will absorb £1,946,000 of shareholder's funds. This will be paid to Dee Valley Water (Holdings) Limited, an intermediate holding company.

The Directors have considered the Company's dividend policy during the period from 2015-2020 in light of the outcome of the final determination and the Company's non-regulated business. It is the Directors' current intention to maintain an annual dividend base of 62.5 pence per share at Dee Valley Group Plc level (Company: £12.04 per share) plus a proportion of any financial outperformance, whether from revenue or cost efficiency, which will be assessed on an annual basis.

## DIRECTORS REPORT (continued)

### STATEMENT OF DIRECTORS' REMUNERATION AND STANDARDS OF PERFORMANCE (AS REQUIRED UNDER S35A OF THE WATER INDUSTRY ACT 1991)

Details of Directors' remuneration are disclosed within the Financial Statements of Dee Valley Water plc and those of the ultimate parent Dee Valley Group plc.

In the prior year, a bonus scheme was introduced for the Company's Executive Directors. The bonus award for the Executive Directors reflected performance against the Group's key performance indicators, including the Performance Commitments and Outcome Delivery Incentives and their own personal objectives.

The performance measures used to assess the Directors' bonus payments are aligned to the Group's strategy and set with reference to the delivery of key financial and non-financial targets. As in the prior year, the bonus award was capped at a maximum of 50% of base salary.

Management are committed to sharing the benefit of financial outperformance with all employees, and are currently considering options to facilitate this. The annual salary increase is linked to inflation during the year and was provided to all employees.

Whilst the Committee did not consult with employees in determining the Executive Directors' remuneration, external benchmarking is conducted periodically and the package of benefits and incentives offered was carefully considered to ensure that it is appropriate for the Directors' roles and provides sufficient rewards for strong performance. Shareholders' views on Directors' remuneration are sought annually, through the approval of the Directors' remuneration report at the Annual General Meeting.

### GOING CONCERN

The Annual Performance Report has been prepared on the going concern basis. The Company has considerable financial resources together with a customer monopoly in its area of supply. Consequently, the Directors believe that the Company is well placed to manage its business risks successfully over the forthcoming twelve months.

During the year the Company refinanced the previous £9.0m revolving credit facility, which had been committed until 31 March 2016. In order to secure future financing for the Company and to support the AMP6 investment plan, the Company entered into a five-year £30.0 million facility on 15 May 2015. This facility ensures committed funding for the Company through to 2020, with an option for a two year extension if required, providing flexible and cost effective financing. At 31 March 2016 this facility was undrawn (2015: £6.0 million drawn).

The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and consider that the going concern basis continues to be appropriate in preparing the Financial Statements.

### AUDITOR

Deloitte LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

### DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board and signed on its behalf by:




Ian Plenderleith  
Chief Executive  
15 July 2016

## DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible under Condition F of the Instrument of Appointment issued under the Water Industry Act 1991 for:

- Ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of Condition F and having regard also to the terms of guidelines notified by the Water Services Regulation Authority (“OFWAT”) to the appointee from time to time;
- Preparing regulatory accounts on a consistent basis for each financial year in accordance with Condition F, having regard also to the terms of guidelines notified by OFWAT from time to time, which, so far as is reasonably practicable, have the same content as the annual financial statements of the appointee prepared under the Companies Act 2006 and which are prepared in accordance with the formats, accounting policies and principles which apply to those financial statements;
- Preparing regulatory accounts on a current cost basis in respect of the same accounting period in accordance with guidelines issued by OFWAT from time to time;
- Preparing such other financial and related information as is required by Condition F having regard also to the terms of guidelines issued by OFWAT from time to time;
- Ensuring that the Company maintain an investment grade credit rating (license condition F6A.6); and
- Ensuring that the Company has adequate resources to continue as a going concern for the foreseeable future.



Signed on behalf of the Board

On 15 July 2016

## **INDEPENDENT AUDITOR’S REPORT TO THE WATER SERVICES REGULATION AUTHORITY (“WSRA”) AND MEMBERS OF DEE VALLEY WATER PLC**

In our opinion, Dee Valley Water Plc’s Regulatory Accounting Statements within the Annual Performance Report:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.06, RAG2.05, RAG3.08, RAG4.05 and RAG5.06) and the accounting policies set out on page 17 (including the accounting separation methodology), the state of the Company’s affairs at 31 March 2016 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

### **Basis of preparation**

Financial information other than that prepared on the basis of United Kingdom Generally Accepted Accounting Practice, including FRS 101 “Reduced Disclosure Framework” (‘FRS 101’), does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of FRS 101.

In forming our opinion on the Regulatory Accounting Statements within the Annual Performance Report, which is not modified, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the accounting separation methodology) set out in the statement of accounting policies and under the historical cost convention.

The Regulatory Accounting Statements on pages 12 to 33 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from FRS 101. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company’s statutory financial statements is included in the tables within section 1.

### **What we have audited**

The sections within Dee Valley Water Plc’s Annual Performance Report that we have audited (“the Regulatory Accounting Statements”) comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the revenue analysis by customer type (table 2I) and the related notes.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the Outcome performance table (table 3A) and the additional regulatory information in tables 4A to 4G.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 (“Condition F”). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

## **Respective responsibilities of the WSRA, the Directors and Auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the Annual Performance Report and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the section on 'What an audit of the Annual Performance report involves' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **What an audit of the Regulatory Accounting Statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Annual Performance Report. In addition, we read all the financial and non-financial information in the Annual Performance Report to identify material inconsistencies with the audited sections of the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under ISAs (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out on page 17 and its Accounting Separation Methodology Statement published on the Company's website on 15 July 2016. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

### **Opinion on other matters prescribed by Condition F**

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

### **Other matters**

The nature, form and content of the Annual Performance Report is determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2016 on which we reported on 15 July 2016, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Deloitte LLP  
Chartered Accountants and Statutory Auditor, 15 July 2016

## SECTION 1 – REGULATORY FINANCIAL REPORTING

## INCOME STATEMENT

For the year ended 31 March 2016

	Adjustments				
	Statutory £'000	Differences between statutory & RAG definitions <sup>1</sup> £'000	Non- appointed £'000	Total adjustment £'000	
<b>Revenue</b>	<b>23,149</b>	<b>(70)</b>	<b>(48)</b>	<b>(118)</b>	<b>23,031</b>
Operating costs	(18,874)	197	30	227	(18,647)
Other operating income	2,300	(158)	(1,938)	(2,096)	204
<b>Operating profit</b>	<b>6,575</b>	<b>(31)</b>	<b>(1,956)</b>	<b>(1,987)</b>	<b>4,588</b>
Other income	-	31	-	31	31
Interest income	275	(267)	-	(267)	8
Interest expense	(2,555)	-	-	-	(2,555)
Other finance income	-	267	-	267	267
<b>Profit before tax and fair value movements</b>	<b>4,295</b>	<b>-</b>	<b>(1,956)</b>	<b>(1,956)</b>	<b>2,339</b>
Fair value gains/ (losses) on financial instruments	-	-	-	-	-
<b>Profit before tax</b>	<b>4,295</b>	<b>-</b>	<b>(1,956)</b>	<b>(1,956)</b>	<b>2,339</b>
UK corporation tax	(483)	-	391	391	(92)
Deferred tax	894	-	-	-	894
<b>Profit for the year</b>	<b>4,706</b>	<b>-</b>	<b>(1,565)</b>	<b>(1,565)</b>	<b>3,141</b>

*Notes*

- (1) The key differences between the statutory and RAG definitions in the Income Statement and Statement of Financial Position are as follows:
- a. The reclassification of certain operating costs and non-tariff income to ensure consistency with the regulatory accounting guidelines;
  - b. The reclassification of the net expected return on defined benefit pension scheme assets (£267,000) from interest income to a separate 'other finance income' category such that interest income includes only interest received on cash deposits;
  - c. The reclassification of an inter-company debtor (£12,793,000), disclosed within debtors in the statutory accounts, to investments in accordance with the regulatory accounting guidelines;
  - d. The reclassification of an overdraft balance in the appointed business (£5,756,000) to trade creditors.
- (2) The appointed business comprises those activities which are necessary for the company to fulfil its function and duties as a water undertaker. For the year to 31 March 2016, UK corporation tax has been calculated for the non-appointed business at 20% of profit before tax (31 March 2015: 21%).

## SECTION 1 – REGULATORY FINANCIAL REPORTING

## STATEMENT OF COMPREHENSIVE INCOME

As at 31 March 2016

	Statutory £'000	Differences between statutory & RAG definitions £'000	Adjustments		Total appointed £'000
			Non- appointed £'000	Total adjustment £'000	
<b>Profit for the year</b>	<b>4,706</b>	-	(1,565)	(1,565)	<b>3,141</b>
Actuarial gain (net of deferred tax) on defined benefit pension scheme	1,036	-	-	-	1,036
Effect of change in corporation tax rate on accumulated actuarial gains	75	-	-	-	75
<b>Total comprehensive income for the year</b>	<b>5,817</b>	-	(1,565)	(1,565)	<b>4,252</b>

## SECTION 1 – REGULATORY FINANCIAL REPORTING

STATEMENT OF FINANCIAL POSITION  
As at 31 March 2016

	Statutory £'000	Differences between statutory & RAG definitions £'000	Adjustments		Total appointed £'000
			Non- appointed £'000	Total adjustment £'000	
<b>Non-current assets</b>					
Fixed assets	97,521	-	-	-	97,521
Retirement benefit assets	9,689	-	-	-	9,689
Investments – loans to group companies	-	12,793	-	12,793	12,793
<b>Total non-current assets</b>	<b>107,210</b>	<b>12,793</b>	<b>-</b>	<b>12,793</b>	<b>120,003</b>
<b>Current assets</b>					
Inventories	373	-	-	-	373
Trade and other receivables	18,323	(12,793)	(454)	(13,247)	5,076
Cash and cash equivalents	3,096	5,756	(8,852)	(3,096)	-
<b>Total current assets</b>	<b>21,792</b>	<b>(7,037)</b>	<b>(9,306)</b>	<b>(16,343)</b>	<b>5,449</b>
<b>Current liabilities</b>					
Trade and other payables	(11,699)	(5,756)	7,061	1,305	(10,394)
Capex creditor	(706)	-	-	-	(706)
Current tax liabilities	(223)	-	421	421	198
<b>Total current liabilities</b>	<b>(12,628)</b>	<b>(5,756)</b>	<b>7,482</b>	<b>1,726</b>	<b>(10,902)</b>
<b>Net current assets/ (liabilities)</b>	<b>9,164</b>	<b>(12,793)</b>	<b>(1,824)</b>	<b>(14,617)</b>	<b>(5,453)</b>
<b>Non-current liabilities</b>					
Trade and other payables	(2,996)	-	-	-	(2,996)
Borrowings	(52,198)	-	-	-	(52,198)
Deferred income – grants and contributions	(9,880)	-	-	-	(9,880)
Preference share capital	(114)	-	-	-	(114)
Deferred tax	(13,342)	-	-	-	(13,342)
<b>Total non-current liabilities</b>	<b>(78,530)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(78,530)</b>
<b>Net assets</b>	<b>37,844</b>	<b>-</b>	<b>(1,824)</b>	<b>(1,824)</b>	<b>36,020</b>
<b>Equity</b>					
Called up share capital	240	-	-	-	240
Retained earnings & other reserves	37,604	-	(1,824)	(1,824)	35,780
<b>Total equity</b>	<b>37,844</b>	<b>-</b>	<b>(1,824)</b>	<b>(1,824)</b>	<b>36,020</b>

The regulatory accounts of Dee Valley Water plc (registered number 03527628) were approved by the board of Directors and approved for issue on 15 July 2016 and signed on its behalf by:

*I. J. A. Plenderleith*

I J A Plenderleith  
Chief Executive



## SECTION 1 – REGULATORY FINANCIAL REPORTING

STATEMENT OF CASH FLOWS  
For the year ended 31 March 2016

	Adjustments				Total appointed £'000
	Statutory £'000	Differences between statutory & RAG definitions £'000	Non- appointed £'000	Total adjustment £'000	
<b>Operating profit</b>	<b>6,575</b>	<b>(31)</b>	<b>(1,956)</b>	<b>(1,987)</b>	<b>4,588</b>
Other income	-	31	-	31	31
Depreciation	4,790	-	-	-	4,790
Amortisation – grants and contributions	(204)	-	-	-	(204)
Changes in working capital	(121)	-	(100)	(100)	(221)
Pension contributions	(292)	-	-	-	(292)
<b>Cash generated from operations</b>	<b>10,748</b>	<b>-</b>	<b>(2,056)</b>	<b>(2,056)</b>	<b>8,692</b>
Net interest paid	(1,964)	-	-	-	(1,964)
Tax paid	(656)	-	417	417	(239)
<b>Net cash generated from operating activities</b>	<b>8,128</b>	<b>-</b>	<b>(1,639)</b>	<b>(1,639)</b>	<b>6,489</b>
<b>Investing activities</b>					
Capital expenditure	(5,626)	-	-	-	(5,626)
Grants and contributions	1,104	-	-	-	1,104
Disposal of fixed assets	1	-	-	-	1
<b>Net cash used in investing activities</b>	<b>(4,521)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,521)</b>
<b>Net cash generated before financing activities</b>	<b>3,607</b>	<b>-</b>	<b>(1,639)</b>	<b>(1,639)</b>	<b>1,968</b>
<b>Financing activities</b>					
Equity dividends paid	(2,895)	-	1,519	1,519	(1,376)
Net loans repaid	(6,000)	-	-	-	(6,000)
Financing costs paid	(348)	-	-	-	(348)
<b>Net cash used in financing activities</b>	<b>(9,243)</b>	<b>-</b>	<b>1,519</b>	<b>1,519</b>	<b>(7,724)</b>
<b>Decrease in net cash</b>	<b>(5,636)</b>	<b>-</b>	<b>(120)</b>	<b>(120)</b>	<b>(5,756)</b>

## SECTION 1 – REGULATORY FINANCIAL REPORTING

## NET DEBT ANALYSIS

As at 31 March 2016

	Interest rate risk profile			Total 2016 £'000
	Fixed rate £'000	Floating rate £'000	Index linked £'000	
<b>Net debt analysis (appointed business only)</b>				
Borrowings (excluding preference shares)	5,756	-	52,198	57,954
Preference share capital				114
<b>Total borrowings</b>				<b>58,068</b>
Cash				-
Short-term deposits				-
<b>Net debt</b>				<b>58,068</b>
<b>Gearing (%)</b>				<b>75.95%</b>
Full year equivalent nominal interest cost	81	-	1,897	1,978
Full year equivalent cash interest payment	81	-	1,891	1,972
<b>Indicative interest rates</b>				
Indicative weighted average nominal interest rate (%)	1.604%	-	3.635%	3.407%
Indicative weighted average cash interest rate (%)	1.604%	-	3.623%	3.396%

## SECTION 1 – REGULATORY FINANCIAL REPORTING ACCOUNTING DISCLOSURES

### For the year ended 31 March 2016

This Annual Performance Report has been prepared for the appointed Business of Dee Valley Water plc in accordance with guidance issued by the Water Services Regulation Authority ('OFWAT') for regulatory accounts suitable for regulation in the water industry. The accounting policies used are the same as those adopted in the statutory financial statements with the exceptions noted below and described on page 12 of this report.

#### **Basis of accounting**

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2016 the Company has changed its accounting framework from pre-2015 UK GAAP to FRS 101 and has, in doing so, applied the requirements of IFRS 1. These financial statements have been prepared in accordance with FRS 101, with the exception of adjustments and disclosures required to ensure compliance with the Regulatory Accounting Guidelines ('RAGs').

#### ***Explanation of transition to FRS 101***

This is the first year that the Company has presented its financial statements under FRS 101. The last financial statements under a previous GAAP (pre-2015 UK GAAP) were for the year ended 31 March 2015 and the date of transition to FRS 101 was therefore 1 April 2015.

#### **Price control segments**

The tables in Sections 2 and 4 of this report have been prepared in accordance with the Company's accounting separation methodology statement published on the Dee Valley Water website.

The allocation of operating costs and assets between the three relevant price controls (wholesale water, retail household and retail non-household) is consistent with the guidance in '*RAG 2 – guideline for the classification of costs across the price controls*', published by Ofwat in October 2015.

Wherever possible it is the Company's policy that assets and costs should be assigned directly to the appropriate business unit.

Where this is not possible methods of allocation have been adopted following the Ofwat guidance. The basis of allocation has been updated as appropriate where the Ofwat guidance has been revised in the current year, primarily to clarify the cost drivers applicable to the allocation of certain operating costs.

The creditor related to sewerage charges collected on behalf of the sewerage service providers in the Dee Valley Water area has been allocated to the non-appointed business. The related commission debtor has also been allocated to the non-appointed business.

## **SECTION 1 – REGULATORY FINANCIAL REPORTING ACCOUNTING DISCLOSURES**

**For the year ended 31 March 2016**

### **Capitalisation policy**

No item with an initial cost of less than £300 shall be capitalised.

All items of capital expenditure are subject to a project approval process, during which the finance department ensures that the expenditure to be capitalised meets the appropriate accounting and regulatory guidelines and is classified appropriately.

Employee costs arising directly from the construction of property, plant and equipment are identified through an internal process and are transferred from employee benefit operating costs to fixed assets.

### **TURNOVER**

#### **Revenue recognition**

Turnover comprises amounts due in respect of water supplied to measured and unmeasured customers during the year in the normal course of business. Turnover from the supply of other goods and services is immaterial. Turnover from measured water charges includes amounts billed plus an estimate of amounts unbilled at 31 March. Revenue is stated net of VAT, where applicable.

There are no material differences between the statutory and regulatory revenue recognition policies.

#### **Unoccupied properties**

Where a property is unoccupied water service charges remain payable unless the Company is requested to turn off the supply and furniture is removed. No allowances will be made retrospectively.

Where a request is received to turn off a supply, but it cannot be turned off because of joint supply issues, the Company will request confirmation that the property is vacant of furniture and that the water supply has been turned off inside the property. No further charges will be levied from this time. Where a supply can be turned off, charges will cease from the date that supply is turned off.

Unoccupied properties are routinely inspected by the Company and the billing system updated to confirm the date of inspection.

#### **New accounts**

Where a property is found to be occupied, but the occupier name is unknown, a form will be left at the property asking customers to complete and return details of their occupancy. When a completed form is returned billing will commence accordingly.

Where a form is not returned the Company will carry out checks to determine occupier details (checks may include Land Registry, 192.com or electoral roll searches. Information may also be obtained from neighbours or local post offices). Once an occupier name has been established a bill will be raised. If the date of occupancy is not known charges will be levied from the start of the financial year, the date of the last void inspection or from the date the account was previously void, whichever is deemed most appropriate.

Where the Company has been unable to determine the name of the occupier, bills will be raised in the name of 'the new occupiers' and charges levied from the start of the financial year, the date of the last void inspection or from the date the account was previously void. As previously stated, checks will be made to establish the occupiers name and a suite of letters will also be used to initiate contact with the Company. More frequent visits will be made to properties believed to be occupied to ascertain relevant information.

In all instances, customers will be required to provide documentary evidence of the date they became responsible for water service charges before any alteration to an account will be made.

#### **New properties**

New properties are brought on to charge upon receipt of meter fixed data provided by the Company's Network Operations team. This data will provide the name of the person or Company responsible for charges and all meter information needed to bring the account on to charge. The address of the property will determine when bills will be raised and the meter read and a meter round number identifying this will be allocated accordingly. Charges will be levied from the date the meter is installed and billed in arrears.

## **SECTION 1 – REGULATORY FINANCIAL REPORTING ACCOUNTING DISCLOSURES**

**For the year ended 31 March 2016**

### **Charges on income**

Court costs are added to customers' accounts as incurred when it is necessary to issue court proceedings to recover outstanding debt. Solicitors' costs are not incurred.

Court costs recharged to customers are not recognised as revenue but are deducted from the costs incurred.

### **Bad debt policy**

The Company's policy regarding the write off of debt is detailed below. There have been no changes to the policy in the year, and no significant variation in the level of write off.

### **Previous Occupier - No Forwarding Address**

The final bill is always issued to last known address on the basis that mail could be forwarded by Royal Mail.

If debt is under £50.00 (over 1 month old) and there has been no response from issuing of the final bill the debt is written off.

If the debt is greater than £50.00 the account is passed to a third party trace collection agency. Provided this service is on a 'no trace no fee' basis more than one agency may be used to trace the same debtor. If third parties cannot trace the debt it will be written off.

In most instances debt can be left on the system for longer than 12 months if it is believed that information can be obtained to enable the debt to be pursued.

### **Previous Occupier with Forwarding Address**

Where appropriate all debts are transferred to a current address within the Dee Valley Water plc area of supply.

All debts will go through the in-house collection cycle. If payment is not made, debts up to £50.00 will be written off as uneconomical to collect. Debts over £50.00 will be passed to a third party agency for collection. Again, several third party agencies may be used.

Only where third party collection fails will the debt be written off.

### **Bankruptcy/Debt Relief Orders**

In cases where the Company becomes aware that a customer has filed for bankruptcy or a Debt Relief Order charges will be apportioned to the date of bankruptcy/DRO and relevant paperwork completed and returned to register the debt. Following the issue of the paperwork and a final bill the outstanding debt subject to bankruptcy/DRO will be written off. Ongoing charges will be pursued in accordance with normal collection processes.

### **Bad debt provision**

In the prior year, following a review of the existing doubtful debt provisioning policy, management took the decision to provide fully against all debts that are greater than two years old and also to specifically provide for customers' debts based on historic default and non-payment. The bad debt charge consequently increased to £0.8m in the year ended 31 March 2015. In the current year a consistent provisioning methodology has been applied and the total bad debt charge has fallen to £0.5 million.

**SECTION 2 – PRICE CONTROL AND ADDITIONAL SEGMENTAL REPORTING**  
**For the year ended 31 March 2016**

**A. SEGMENTAL INCOME STATEMENT**

	<b>Retail</b>			
	<b>Household<sup>1</sup></b>	<b>Non- household<sup>2</sup></b>	<b>Wholesale</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Revenue - price control	2,822	326	19,783	<b>22,931</b>
Revenue - non price control	-	-	100	<b>100</b>
Operating costs	(2,745)	(219)	(15,683)	<b>(18,647)</b>
Other operating income	-	-	204	<b>204</b>
<b>Operating profit before recharges</b>	<b>77</b>	<b>107</b>	<b>4,404</b>	<b>4,588</b>
Recharges from other segments <sup>3</sup>	6	-	-	<b>6</b>
Recharges to other segments <sup>3</sup>	-	-	(6)	<b>(6)</b>
<b>Operating profit</b>	<b>83</b>	<b>107</b>	<b>4,398</b>	<b>4,588</b>
Surface water drainage rebates				<b>-</b>

*Notes*

- (1) Household retail revenue and costs are broadly consistent with the respective Final Determination allowances (£2.9m allowed revenue and £2.7m cost to serve).
- (2) Non-household retail revenue and costs are both slightly lower than the respective allowances (£0.36m allowed revenue and £0.25m cost to serve), but neither are materially different and operating profit before recharges is broadly consistent with the allowance.
- (3) Recharges from and to other segments represent a share of the depreciation associated with assets which are used by both the retail and wholesale segments of the Company. Examples of such assets include the IT and telephony infrastructure at the Company's head office.

**SECTION 2 – PRICE CONTROL AND ADDITIONAL SEGMENTAL REPORTING**  
**For the year ended 31 March 2016**

**B. TOTEX ANALYSIS - WHOLESALE**

	<b>Total £'000</b>
<b>Operating expenditure</b>	
Power	1,796
Income treated as negative expenditure	-
Service charges/ discharge consents	795
Bulk supply/ Bulk discharge	3
Other operating expenditure	7,607
Local authority rates	1,088
	<hr/>
<b>Total operating expenditure excluding third party services</b>	<b>11,289</b>
	<hr/>
Third party services	18
	<hr/>
<b>Total operating expenditure</b>	<b>11,307</b>
	<hr/> <hr/>
<b>Capital expenditure</b>	
Maintaining the long term capability of the assets - infra	1,799
Maintaining the long term capability of the assets - non-infra	2,335
Other capital expenditure - infra	783
Other capital expenditure - non-infra	569
	<hr/>
<b>Total gross capital expenditure excluding third party services</b>	<b>5,486</b>
	<hr/>
Third party services	-
	<hr/>
<b>Total gross capital expenditure</b>	<b>5,486</b>
	<hr/>
<b>Grants and contributions (price control)</b>	<b>(970)</b>
	<hr/>
<b>Totex</b>	<b>15,823</b>
	<hr/>
<b>Cash expenditure</b>	
Pension deficit recovery payments	428
Other cash items	-
	<hr/>
<b>Totex including cash items</b>	<b>16,251</b>
	<hr/> <hr/>

**SECTION 2 – PRICE CONTROL AND ADDITIONAL SEGMENTAL REPORTING**  
**For the year ended 31 March 2016**

**C. OPERATING COST ANALYSIS - RETAIL**

	<b>Household £'000</b>	<b>Non- household £'000</b>	<b>Total £'000</b>
<b>Operating expenditure</b>			
Customer services	950	70	<b>1,020</b>
Debt management	217	9	<b>226</b>
Doubtful debts	454	42	<b>496</b>
Meter reading	186	13	<b>199</b>
Services to developers	-	20	<b>20</b>
Other operating expenditure	562	52	<b>614</b>
	<hr/>	<hr/>	<hr/>
<b>Total operating expenditure excluding third party services</b>	<b>2,369</b>	<b>206</b>	<b>2,575</b>
	<hr/>	<hr/>	<hr/>
Third party services operating expenditure	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total operating expenditure</b>	<b>2,369</b>	<b>206</b>	<b>2,575</b>
	<hr/>	<hr/>	<hr/>
Depreciation	376	13	<b>389</b>
	<hr/>	<hr/>	<hr/>
<b>Total operating costs</b>	<b>2,745</b>	<b>219</b>	<b>2,964</b>
	<hr/>	<hr/>	<hr/>
<b>Debt written off</b>	<b>160</b>	<b>30</b>	<b>190</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



**SECTION 2 – PRICE CONTROL AND ADDITIONAL SEGMENTAL REPORTING**  
**For the year ended 31 March 2016**

**D. HISTORICAL COST ANALYSIS OF FIXED ASSETS – WHOLESALE & RETAIL**

	Retail			Total £'000
	Wholesale £'000	Household £'000	Non- Household £'000	
<b>Cost</b>				
At 1 April 2015	140,441	7,314	368	148,123
Disposals	(45)	-	-	(45)
Additions	5,486	667	34	6,187
At 31 March 2016	<u>145,882</u>	<u>7,981</u>	<u>402</u>	<u>154,265</u>
<b>Depreciation</b>				
At 1 April 2015	48,174	3,693	125	51,992
Disposals	(38)	-	-	(38)
Additions	4,401	376	13	4,790
At 31 March 2016	<u>52,537</u>	<u>4,069</u>	<u>138</u>	<u>56,744</u>
<b>Net book value</b>				
At 31 March 2016	<u>93,345</u>	<u>3,912</u>	<u>264</u>	<u>97,521</u>
At 1 April 2015	<u>92,267</u>	<u>3,621</u>	<u>243</u>	<u>96,131</u>

**E. ANALYSIS OF CAPITAL CONTRIBUTIONS AND LAND SALES – WHOLESALE**

	Fully recognised in income statement £'000	Capitalised and amortised against depreciation £'000	Fully netted off capex £'000	Total £'000
	<b>Grants and contributions - water</b>			
Connection charges (s45)	-	428	-	428
Infrastructure charge receipts (s146)	-	488	-	488
Requisitioned mains (s43, s55 & s56)	-	54	-	54
Diversions (s185)	-	134	-	134
Other Contributions	-	-	-	-
<b>Total</b>	<u>-</u>	<u>1,104</u>	<u>-</u>	<u>1,104</u>
<b>Balance sheet</b>				
As at 1 April 2015				9,184
Capitalised in year				1,104
Amortisation (in income statement)				(204)
<b>As at 31 March 2016</b>				<u>10,084</u>
Proceeds from disposals of protected land				<u>-</u>

**SECTION 2 – PRICE CONTROL AND ADDITIONAL SEGMENTAL REPORTING**  
**For the year ended 31 March 2016**

**F. HOUSEHOLD – REVENUES BY CUSTOMER TYPE**

	Wholesale charges revenue £'000	Retail revenue £'000	<b>Total revenue £'000</b>	Number of customers 000's	<b>Average household retail revenue per customer £</b>
Unmeasured water only customer	6,912	1,122	<b>8,034</b>	47,375	<b>23.70</b>
Measured water only customer	6,300	1,700	<b>8,000</b>	66,788	<b>25.45</b>
<b>Total</b>	<b>13,212</b>	<b>2,822</b>	<b>16,034</b>	<b>114,163</b>	<b>24.72</b>

**G. NON – HOUSEHOLD WATER – REVENUES BY CUSTOMER TYPE**

	Wholesale charges revenue £'000	Retail revenue £'000	<b>Total revenue £'000</b>	Number of customers 000's	<b>Average non- household retail revenue per customer £'000</b>
<b>Default tariffs</b>					
Unmeasured	89	15	<b>104</b>	487	<b>30.25</b>
Measured less than 50Ml	4,645	297	<b>4,942</b>	7,537	<b>39.45</b>
Untreated measured less than 50Ml	73	2	<b>75</b>	11	<b>224.83</b>
Large user	-	-	-	-	-
Measured 50Ml – 250Ml	1,609	9	<b>1,618</b>	13	<b>659.15</b>
Untreated measured greater than 50Ml	155	3	<b>158</b>	1	<b>2,798.76</b>
<b>Total</b>	<b>6,571</b>	<b>326</b>	<b>6,897</b>	<b>8,049</b>	<b>40.49</b>

**SECTION 2 – PRICE CONTROL AND ADDITIONAL SEGMENTAL REPORTING**  
**For the year ended 31 March 2016**

**H. REVENUE ANALYSIS & WHOLESALE CONTROL RECONCILIATION**

	<b>Household £'000</b>	<b>Non- household £'000</b>	<b>Total £'000</b>
<b>Wholesale charge</b>			
Unmeasured	6,912	89	7,001
Measured	6,300	6,254	12,554
Third party revenue	-	228	228
	<hr/>	<hr/>	<hr/>
<b>Wholesale Total</b>	<b>13,212</b>	<b>6,571</b>	<b>19,783</b>
	<hr/>	<hr/>	<hr/>
<b>Retail revenue</b>			
Unmeasured	1,122	15	1,137
Measured	1,700	306	2,006
Retail third party revenue	-	5	5
	<hr/>	<hr/>	<hr/>
<b>Retail total</b>	<b>2,822</b>	<b>326</b>	<b>3,148</b>
	<hr/>	<hr/>	<hr/>
<b>Third party revenue - non-price control</b>			
Bulk Supplies			4
Other third party revenue			-
Other appointed revenue			96
			<hr/>
<b>Total appointed revenue</b>			<b>23,031</b>
			<hr/>
			<b>Total<sup>1</sup> £'000</b>
Wholesale revenue governed by price control			19,783
Grants & contributions			970
			<hr/>
<b>Total revenue governed by wholesale price control</b>			<b>20,753</b>
Amount assumed in wholesale determination			21,628
			<hr/>
<b>Difference<sup>1</sup></b>			<b>(875)</b>
			<hr/>

**Notes**

- (1) Wholesale revenue was impacted by a reduction in demand from large non-household customers during the year. This, accompanied by actual customer numbers below our original forecast, lead to wholesale revenue falling below the amount assumed in the final determination.

**SECTION 3 – PERFORMANCE SUMMARY**  
**For the year ended 31 March 2016**

Unique ID	Performance commitment	Units	2014-15 performance level - actual	2015-16 performance level - actual	2015-16 CPL met?	2015-16 reward or penalty (in-period ODIs)	2015-16 reward or penalty (in-period ODIs) £m absolute value	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016 £m absolute value	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast £m absolute value
A1	Discoloured water contacts	No.	2.28	1.32	Yes	N/A	N/A	Reward DB	N/A	Reward	0.023
A2	Mean zonal compliance	%	99.88	99.95	No	N/A	N/A	Penalty DB	N/A	Penalty DB	N/A
A3	Delivery of the outcomes of the Legacy WTW major scheme	Text	N/A	Pass	N/A	N/A	N/A	(ii)	N/A	(ii)	N/A
A4	Delivery of the outcomes of the service reservoir water quality risk management scheme	Text	N/A	Pass	N/A	N/A	N/A	(ii)	N/A	(ii)	N/A
B1	Average duration of interruptions greater than 3 hours	Time	0.17	0.09	Yes	N/A	N/A	Reward	0.021	(iv)	(iv)
B2	Sustainable economic level of leakage target	No.	77.89	78.40	Yes	N/A	N/A	Reward DB	N/A	Reward DB	N/A
B3	Security of supply index	Score	100	100	Yes	N/A	N/A	N/A	N/A	N/A	N/A
B4	Number of bursts	No.	247	169	Yes	N/A	N/A	Reward	0.005	(iv)	(iv)
C1	Gross operational greenhouse gas emissions	No.	9,389	9,219	Yes	N/A	N/A	N/A	N/A	N/A	N/A
D1	Customers' perception based on market research	%	N/A	80	Yes	N/A	N/A	N/A	N/A	N/A	N/A
E1	Per capita consumption and water efficiency	No.	129.53	134.87	No	N/A	N/A	N/A	N/A	N/A	N/A
E2	Service incentive mechanism	Score	77.90	83.42	Yes	N/A	N/A	(iii)	(iii)	(iii)	(iii)
F1	Non-household Service Incentive Mechanism	Score	N/A (i)	88.51	Yes	N/A	N/A	(iii)	(iii)	(iii)	(iii)

(i) The non-household SIM score was not reported separately in 2014/15;

(ii) Penalties payable if schemes are not completed on schedule. Both the Legacy and service reservoir schemes are currently expected to be completed within the required timeframe;

(iii) Ofwat methodology for calculation of reward/ penalty to be confirmed;

(iv) It is not currently considered to be possible to provide a forecast position for these performance commitments at 31 March 2020 – see pages 4 to 6 for additional commentary.

**SECTION 4 – ADDITIONAL REGULATORY INFORMATION**  
**For the year ended 31 March 2016**

**A. NON – FINANCIAL INFORMATION**

	<b>Unmeasured</b>	<b>Measured</b>
<b>Retail – household (average number of households billed)</b>		
Water only connections	47,375	66,788
	<hr/>	<hr/>
<b>Total</b>	47,375	66,788
Number of void households	1,053	1,073
	<hr/>	<hr/>
Per capita consumption (excluding supply pipe leakage) l/h/d	161.83	112.02
	<hr/> <hr/>	<hr/> <hr/>
		<b>Water</b>
		<b>MI/d</b>
<b>Wholesale volume (MI/d)</b>		
Bulk supply export		0.029
Bulk supply import		0.021
Distribution input		62.612
		<hr/> <hr/>

**SECTION 4 – ADDITIONAL REGULATORY INFORMATION**  
**For the year ended 31 March 2016**

**B. WHOLESALE TOTEX ANALYSIS**

	<b>Water £'000</b>
<b>Actual totex</b>	
Menu totex	15,805
<b>Items excluded from the menu</b>	
Pension deficit recovery payments	428
Third party costs	18
Other adjustments	-
	<hr/>
Total costs excluded from the menu	446
	<hr/>
<b>Actual totex</b>	<b>16,251</b>
	<hr/>
Actual totex base year prices <sup>1</sup>	<b>15,327</b>
Allowed totex base year prices <sup>1</sup>	<b>20,900</b>
	<hr/> <hr/>

*Notes*

- (1) Actual totex has been restated to 2012/13 prices to enable comparison with allowed totex from the Final Determination.

In base year prices, 2015/16 actual totex is £5.6m less than the original allowance. This variance primarily relates to capital expenditure, for which £9.5m was allowed in base year prices (actual spend net of capital contributions in base year prices: £4.3m).

Capital expenditure was lower than originally forecast as the decision to adopt an alternative approach to the Legacy water treatment works scheme pushed back the commencement of this project. Current year capital expenditure has therefore focused more heavily on investment at Oerog Springs, the Boughton WTP and the mains renewal programme. The Legacy scheme must be completed by 31 March 2018 and the spend on this scheme, which commenced post year-end, will therefore be re-phased over 2016/17 and 2017/18.

**C. FORECAST IMPACT OF PERFORMANCE ON RCV**

	<b>Current year £'000</b>
RCV determined at FD	76,460
RCV element of totex over/underspend	(2,718)
Allowance (Rewards/penalties - ODI) <sup>1</sup>	-
	<hr/>
<b>Projected 'shadow' RCV</b>	<b>73,742</b>
	<hr/> <hr/>

*Notes*

- (1) Any penalties for the Legacy alternative and service reservoir water quality schemes, if required, are imposed through an RCV adjustment. Penalties do not accrue for either scheme in the year ended 31 March 2016, and the Company anticipates that both schemes will be completed in accordance with the performance commitment.

## SECTION 4 – ADDITIONAL REGULATORY INFORMATION

For the year ended 31 March 2016

## D. WHOLESALE TOTEX ANALYSIS – WATER

	Water resources		Raw water distribution		Water treatment £'000	Treated water distribution £'000	Total £'000
	Abstraction licences £'000	Raw water abstraction £'000	Raw water transport £'000	Raw water storage £'000			
<b>Operating expenditure</b>							
Power	-	4	635	-	412	745	1,796
Income treated as negative expenditure	-	-	-	-	-	-	-
Service charges/ discharge consents	795	-	-	-	-	-	795
Bulk supply/ Bulk discharge	-	2	-	-	1	-	3
Other operating expenditure	-	426	195	35	3,520	3,431	7,607
Local authority rates	-	104	25	-	71	888	1,088
<b>Total operating expenditure excluding third party services</b>	<b>795</b>	<b>536</b>	<b>855</b>	<b>35</b>	<b>4,004</b>	<b>5,064</b>	<b>11,289</b>
Third party services	-	-	18	-	-	-	18
<b>Total operating expenditure</b>	<b>795</b>	<b>536</b>	<b>873</b>	<b>35</b>	<b>4,004</b>	<b>5,064</b>	<b>11,307</b>
<b>Capital expenditure</b>							
Maintaining the long term capability of the assets - infra	-	50	27	11	397	1,314	1,799
Maintaining the long term capability of the assets - non- infra	-	65	33	14	516	1,707	2,335
Other capital expenditure - infra	-	22	11	5	173	572	783
Other capital expenditure - non-infra	-	15	8	4	126	416	569
<b>Total gross capital expenditure excluding third party services</b>	<b>-</b>	<b>152</b>	<b>79</b>	<b>34</b>	<b>1,212</b>	<b>4,009</b>	<b>5,486</b>
Third party services	-	-	-	-	-	-	-
<b>Total gross capital expenditure</b>	<b>-</b>	<b>152</b>	<b>79</b>	<b>34</b>	<b>1,212</b>	<b>4,009</b>	<b>5,486</b>
<b>Grants and contributions (price control)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>970</b>	<b>970</b>
<b>Totex</b>	<b>795</b>	<b>688</b>	<b>952</b>	<b>69</b>	<b>5,216</b>	<b>8,103</b>	<b>15,823</b>
<b>Cash expenditure</b>							
Pension deficit recovery payments	-	9	16	-	192	211	428
Other cash items	-	-	-	-	-	-	-
<b>Totex including cash items</b>	<b>795</b>	<b>697</b>	<b>968</b>	<b>69</b>	<b>5,408</b>	<b>8,314</b>	<b>16,251</b>
<b>Unit cost information (operating expenditure)</b>							
Licensed volume available (MI)	29,679						
Volume abstracted (MI)		23,667					
Volume transported (MI)			20,012				
Average volume stored (MI)				1,430			
Distribution input from water treatment (MI)					22,916		
Distribution input treated water (MI)						22,916	
Unit cost (£/MI)	26.79	22.62	43.62	24.44	174.72	221.02	

**SECTION 4 – ADDITIONAL REGULATORY INFORMATION**  
**For the year ended 31 March 2016**

**E. OPERATING COST ANALYSIS – HOUSEHOLD RETAIL**

	<b>HH unmeasured £'000</b>	<b>HH measured £'000</b>	<b>Total £'000</b>
<b>Operating expenditure</b>			
Customer services	333	617	950
Debt management	153	64	217
Doubtful debts	398	56	454
Meter reading	-	186	186
Other operating expenditure	227	335	562
	<hr/>	<hr/>	<hr/>
<b>Total operating expenditure excluding third party services</b>	1,111	1,258	2,369
Depreciation	53	323	376
	<hr/>	<hr/>	<hr/>
<b>Total operating costs excluding third party services</b>	1,164	1,581	2,745
	<hr/>	<hr/>	<hr/>
<b>Other operating expenditure - breakdown</b>			
Demand-side water efficiency - gross expenditure			12
Demand-side water efficiency - expenditure funded by wholesale			-
			<hr/>
Demand-side water efficiency - net retail expenditure			12
			<hr/>
Customer-side leak repairs - gross expenditure			74
Customer-side leak repairs - expenditure funded by wholesale			-
			<hr/>
Customer-side leak repairs - net retail expenditure			74
			<hr/>



**SECTION 4 – ADDITIONAL REGULATORY INFORMATION**  
**For the year ended 31 March 2016**

**F. WHOLESALE CURRENT COST FINANCIAL PERFORMANCE**

	<b>Total £'000</b>
<b>Revenue</b>	<b>19,883</b>
Operating expenditure	(11,307)
Capital maintenance charges	(5,789)
Other operating income	204
	<hr/>
<b>Current cost operating profit</b>	<b>2,991</b>
Other income	31
Interest income	8
Interest expense	(2,555)
Other finance income	267
	<hr/>
<b>Profit before tax and fair value movements</b>	<b>742</b>
Fair value gains/(losses) on financial instruments	-
	<hr/>
<b>Profit before tax</b>	<b>742</b>
	<hr/> <hr/>

**SECTION 4 – ADDITIONAL REGULATORY INFORMATION**  
**For the year ended 31 March 2016**

**G. FINANCIAL METRICS**

	<b>Unit</b>	<b>Metric</b>
Net debt	£'000	58,068
Regulated entity	£'000	18,392
Regulated gearing	%	75.95
Post tax return on regulated equity	%	14.13
RORE (return on regulated equity)	%	3.40
Dividend yield	%	7.48
Retail profit margin - Household	%	2.82
Retail profit margin - Non household	%	1.74
Credit rating	N/a	Baa1
Return on RCV	%	6.19
Dividend cover	Dec	2.28
Funds from operations (FFO)	£'000	6,710
Interest cover (cash)	Dec	4.40
Adjusted interest cover (cash)	Dec	2.12
FFO/Debt	Dec	0.12
Effective tax rate	%	3.93
Free cash flow (RCF)	£'000	5,334
RCF/capex	Dec	0.95
Revenue (actual)	£'000	22,931
EBITDA (actual)	£'000	9.28
Proportion of borrowings which are fixed rate	%	10.11
Proportion of borrowings which are floating rate	%	-
Proportion of borrowings which are index linked	%	89.89
Proportion of borrowings due within 1 year or less	%	9.91
Proportion of borrowings due in more than 1 year but no more than 2 years	%	-
Proportion of borrowings due in more than 2 years but no more than 5 years	%	-
Proportion of borrowings due in more than 5 years but no more than 20 years	%	89.89
Proportion of borrowings due in more than 20 years	%	0.20

**SECTION 4 – ADDITIONAL REGULATORY INFORMATION**  
**For the year ended 31 March 2016**

**H. OTHER NARRATIVE DISCLOSURES**

(i) **Current tax reconciliation – appointed business**

<b>Current tax</b>	<b>2016</b>
	<b>£'000</b>
UK corporation tax	179
Adjustment for prior years	(87)
	<hr/>
<b>Total current tax</b>	<b>92</b>
	<hr/>
<b>Deferred tax</b>	
Deferred tax charge	313
Adjustment for prior years	126
Movement in respect of rate change	(1,333)
	<hr/>
<b>Total deferred tax</b>	<b>(894)</b>
	<hr/>
<b>Tax on profit on ordinary activities</b>	<b>(802)</b>
	<hr/> <hr/>

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 20%. The differences are explained below:

	<b>2016</b>
	<b>£'000</b>
Profit on ordinary activities before taxation	2,339
	<hr/>
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 20%	468
Effects of:	
Non-deductible expenses	24
Capital allowances in excess of depreciation	(213)
Adjustments for prior years	(87)
Short-term timing differences	(100)
	<hr/>
	<b>(376)</b>
	<hr/>
<b>Current tax charge for the year</b>	<b>92</b>
	<hr/> <hr/>

The total current tax charge (£92,000) is lower than allowed taxation for the year (£160,000), largely due to the impact of a prior year current tax adjustment (£87,000). This adjustment primarily related to an increase in capital allowances in respect of the year ended 31 March 2015, post finalisation of the statutory accounts.

## **RISK AND COMPLIANCE STATEMENT**

### **For the year ended 31 March 2016**

#### **1 INTRODUCTION**

The Board of Dee Valley Water recognises that we have full responsibility for ensuring that the Company complies with all of our obligations. This covers obligations set out in the Water Industry Act 1991, amended by the Water Act 2003, and the Company's Conditions of Appointment. We consider that we also have a good understanding of other material obligations encountered in the normal course of business.

The purpose of this statement is to describe how Dee Valley Water complies with relevant statutory, licence and regulatory obligations and to confirm that we are taking appropriate steps to manage and/ or mitigate our risks. The statement covers the period from 1 April 2015 to 31 March 2016.

This statement includes the confirmations stipulated in RAG 3.11; namely that each Company should confirm that it:

- considers it has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations;
- has sufficient processes and internal systems of control to fully meet its obligations;
- has appropriate systems in place to allow it to identify, manage and review its risks.

#### **2 BOARD GOVERNANCE**

As a company listed on the London Stock Exchange, the board structure for the holding company, Dee Valley Group plc, is transparent and complies with the UK Corporate Governance Code. Dee Valley Water plc is the only trading subsidiary company in the Group. The current board structure has a majority of independent non-executive directors and ensures strong board leadership and governance for dealing with regulatory changes.

#### **3 CUSTOMER EXPECTATIONS**

We are keenly aware of our responsibilities as directors of a Group which delivers an essential utility service and which is of strategic importance to the local economy and its people. We consider that we have a good understanding of our customers' expectations and we actively strive to meet those expectations.

As a small, locally-based company, the relationship with our customers is fundamental to our overall strategy and sets us apart from larger water companies.

We aim to provide a personal service in all dealings with customers, ensuring that all enquiries and complaints are dealt with in a fair and prompt manner. The success of this approach is reflected in the results of customer satisfaction surveys, which show that our approval ratings continue to improve. This is demonstrated by an August 2015 survey conducted by the Consumer Council for Water ('CC Water'), which indicated that Dee Valley Water had the most satisfied customers of all of the water companies in England & Wales when considering value for money.

Furthermore, customer service and care for our most vulnerable customers is of key importance to us. Our water bills remain the fourth lowest in England & Wales and, from 1 April 2016, we implemented a social tariff scheme to help customers who require further assistance. We also continue to offer flexible payment plans and, demonstrating our commitment to a local and personal service, our customer liaison team visit vulnerable elderly customers to provide assistance when required.

We have developed a good working relationship with the CC Water committee. Formal meetings are held on a biannual basis, which are open to the public, and there are other working-level meetings and contacts at various levels of the business. This relationship ensures that suitable focus is maintained on customer-facing aspects.

## **RISK AND COMPLIANCE STATEMENT**

### **For the year ended 31 March 2016**

#### **4 PROCESSES AND INTERNAL SYSTEMS**

The Company's assurance plan was published during the year. This plan includes an assessment of the relative significance of risks faced by the Company, outlining the audit or assurance procedures that will be performed in respect of each of these risks in order to ensure that the risk is appropriately mitigated. The development of the assurance plan included extensive consultation with key external and internal stakeholders.

The Company also appointed a Quality and Assurance Manager in the year, with responsibility for leading our internal audit process and co-ordinating delivery of the assurance plan. A full, risk-based internal audit programme has been developed for 2016/17 and the internal audit function will report its findings directly to the Audit Committee. This programme is progressing in accordance with the agreed schedule.

The organisational structure aligns departments with the various activity and process areas for which they are responsible. The structure has defined lines of responsibility and accountability. The Chief Executive leads the day to day running of the business.

Within the Company, responsibility for meeting the agreed performance commitments and outcome delivery incentives is owned by the relevant departments. The ownership of obligations has been strengthened by the introduction of department-specific performance indicators in order to increase departmental focus. The system of control is based on procedures which are kept under review in order to maintain effectiveness and achieve improvement wherever possible.

Sufficiency and adequacy of systems of control is monitored closely through reports and the performance measures presented at the monthly management meetings attended by the Executive Management Team, and the bi-monthly Board meetings.

Collection and assurance of performance data was previously warranted through the June return reporting process. The Technical Information Assuror has continued to provide reassurance to the Board as to the quality of the information collected, in the same way as the Reporter did previously to Ofwat, and has provided assurance over the performance commitment data included in the Annual Performance Report ('APR'). The Financial Auditor continues to audit financial information, including sections 1 and 2 of the APR.

The Board receives reassurance about the adequacy of the Company's reporting processes through its Audit Committee, to which both Financial and Technical Auditors deliver audit reports at least annually.

The Financial Auditor has met the Audit Committee without any Executive Directors in attendance to allow the Company's non-executive Directors the opportunity to discuss any areas of concern in confidence, without executive management present.

#### **5 COMMUNICATION**

Our publications are periodically reviewed to ensure that they remain accurate and appropriate for our customers. We use a variety of communication methods, including leaflets, website, telephone conversations and home visits, in order to ensure that customers can access relevant information at the right time. During the year our website has been re-launched and now offers online payment options, account management functionality and a clear, easy to navigate interface.

The good working relationship we have developed with CCWater (Wales) allows us to obtain useful feedback about the information we provide. We also use information and feedback from market research and customer contacts to influence our information provision.

We have continued our full engagement with the Customer Challenge Panel during the year, explaining improvements in our customer service including new initiatives such as the gathering of customer feedback through Rant & Rave, our website re-launch and the introduction of a Social Tariff. We have also aimed to ensure that the panel is aware of our operational targets and the major projects that the Company is delivering during this AMP.

**RISK AND COMPLIANCE STATEMENT****For the year ended 31 March 2016****6 RISKS**

We consider that there are appropriate systems in place to allow the identification, management and review of the risks faced by the Company.

The Board has overall responsibility for the system of risk management, and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure, and can only provide reasonable and not absolute assurance against material mis-statement or loss.

There is a continuing process for identifying, evaluating and managing the significant risks that we face. The Executive team are responsible for the identification and evaluation of significant risks applicable to their areas of responsibility together with the design and operation of suitable internal controls. The Company's strategic risk register encompasses the significant risks across all activities.

Risks are identified using standardised procedures covering expected consequences, likelihood, and mitigations. The Executive Directors keep the risk register under continuous review to take account of changing circumstances and experience and with the aim of managing the overall level of risk. The risk register is also reviewed by the Audit Committee, and the Board, as part of the review of effectiveness of the Company's system of internal control. The Board also monitors performance against the Company's performance commitments throughout the year, ensuring that there is appropriate focus on the delivery of these targets and challenging the Executive team where appropriate.

The strategic risk register identifies the scale of each risk and its control measures. Risks are considered against the following risk areas:

- Regulation and compliance;
- Customer service;
- Operational;
- Health and safety; and
- Financial.

Many of the major risks are operational, being associated with the potential for water quality failures or interruptions of supply to customers, although they could have severe reputation, financial or legal consequences also.

Current major risks are summarised as follows, including details as to how these risks are mitigated.

<b>Risk</b>	<b>What Does It Mean</b>	<b>Mitigation</b>
<b>Regulation and compliance</b>		
Ongoing regulatory reform and the potential increase in policy divergence between the English and Welsh governments	Our operational environment is highly regulated. Our policies and procedures ensure compliance with the regulatory framework. But market reform and the potential for differences in policy between the two governments creates risks.  Regulatory changes may increase costs of administration, reduce income and margin and lead to greater variability of returns.	We have developed strong relationships within the Welsh Government and take part in relevant consultations – particularly those which may impact policy and Regulation. We maintain close links with the supply area's Members of Parliament and Assembly Members and the business community. All are aware of Dee Valley's unique position as a cross-border water only supplier.  We are active within our trade body and other forums and contribute to the debate about our industry's future.  We liaise and engage with Government, our regulators and other stakeholders to ensure we

**RISK AND COMPLIANCE STATEMENT**  
**For the year ended 31 March 2016**

Risk	What Does It Mean	Mitigation
<p>Implementation of the recommendations outlined by the Silk Commission with respect to alignment of political and regulatory boundaries</p>	<p>As our water supply area is mainly in Wales, we are currently Governed by Welsh Government policy across our entire water supply area, some of which is in England. The Silk Commission recommended an alignment of political and regulatory boundaries, creating a risk that we could be forced to adopt Welsh Government policy for our Welsh customers and English Government policy for our English customers if these recommendations are adopted. This would effectively split the business. The cost of compliance with two policy regimes could be significant, increasing customer bills and leading to a customer loss of confidence and reputational damage.</p>	<p>understand and can contribute to the future direction of policy.</p> <p>As a Welsh company we are committed to working proactively with the Welsh Government to develop its water strategy for its people.</p> <p>We participate actively in the Wales Water Forum and have opened dialogue with local and national Welsh Assembly Members to develop this discussion to benefit customers.</p> <p>We believe that changes in regulatory practice should bring proven benefits to customers and the wider environment. We are engaging with the Welsh Government, Natural Resources Wales, the Drinking Water Inspectorate, the Environment Agency and Ofwat to ensure that the focus remains on benefit to customers as they consider possible implementation.</p>
<p>Failure to meet regulatory performance targets</p>	<p>Ofwat has set the company some challenging operational performance targets for PR14. Delivery of the Legacy alternative scheme within the permitted timeframe is a significant example of this. Failure to complete the scheme in the agreed timeframe would lead to potentially significant financial penalties and a loss of credibility with key regulators.</p>	<p>Our review of processes, systems and equipment is ongoing and investments are being made to deliver significant improvements in the quality of product and service.</p> <p>We have a series of internal measures that enable us to proactively monitor performance and take prompt corrective action when and where necessary.</p>
<p><b>Customer Service</b></p>		
<p>Failure to meet the customer service standards expected by our customers</p>	<p>Ofwat’s regulatory processes place customers at the heart of the business. Failure to meet these higher standards will lead to customer dissatisfaction and SIM penalties imposed by Ofwat, all of which will damage the company’s reputation.</p>	<p>We have re-shaped our customer service to ensure the customer is at our heart. We have also invested in training and new technology to enable us to better understand the needs of our customers and to overhaul all of our customer facing services.</p> <p>Our performance – as measured by Ofwat’s SIM and independent surveys – has improved significantly in the year. We are committed to continuing this and achieving upper quartile performance in this AMP period.</p>

**RISK AND COMPLIANCE STATEMENT**

For the year ended 31 March 2016

<b>Risk</b>	<b>What Does It Mean</b>	<b>Mitigation</b>
<b>Operational</b>		
Failure to maintain a constant supply of water to part of the supply area	<p>Failure of certain important assets could cause widespread loss of supply to customers with the risk of regulatory sanction, loss of reputation and higher operating costs.</p> <p>Failure of assets could be through structural or equipment failure or extreme events, particularly flooding. There is no operational back-up for some assets.</p>	<p>Assets are managed through condition monitoring and maintenance. When appropriate, risk-based asset investment planning identifies assets for replacement, which is a continuing process.</p> <p>Planning is progressing for a flood protection scheme for a vulnerable river intake.</p> <p>Contingency plans provide for major failures. These include bringing in water from other parts of the supply area; providing emergency supplies and mutual aid agreements with other water companies.</p>
Recurrent discoloured water incidents resulting in a failure to comply with the wholesomeness of water requirement in the Drinking Water Standards	<p>Water quality failures caused by an historical issue could result in regulatory sanctions, adversely affect our reputation and cause an increase in our costs.</p>	<p>The Drinking Water Safety Plan addresses the management of risks throughout the supply system from catchment to customer.</p> <p>This ensures there are adequate mitigations in place for all risks, including discolouration in the form of operational procedures, processes, maintenance, monitoring and appropriately trained staff.</p> <p>Risk-based investment planning plays an important part by ensuring equipment performs effectively and emerging risks are addressed.</p> <p>There is a strategy in place to deal with the discoloured water problem specifically, with improvements seen in the current year and the decommissioning of the Legacy site due to be delivered by December 2017.</p>
Business interruption and/or data loss resulting from cyber threats	<p>Loss or corruption of computer systems or data is a real and growing threat and potentially, could have far reaching effects, particularly within our administrative and equipment operations.</p>	<p>The cyber threat is constantly evolving – as are our efforts to counter it. As a vital utility we take the threat very seriously and receive support and guidance at Government level and from other support structures.</p> <p>Our review of our existing systems and controls is underway and our people are being trained to be more security aware.</p> <p>As a precaution, we have robust incident response, business continuity and disaster recovery procedures in place and regularly test our ability to recover from systems failure.</p> <p>We also maintain insurance cover for loss and liability.</p>
<b>Health &amp; Safety</b>		
The nature of the activities we undertake creates a	Our work requires our employees and contractors to use equipment and carry out tasks which have the	We continually review our H&S strategies and working practices to look for improvements. Our assets are subject to regular monitoring and



**RISK AND COMPLIANCE STATEMENT****For the year ended 31 March 2016**

<b>Risk</b>	<b>What Does It Mean</b>	<b>Mitigation</b>
potential to cause harm to our employees, contractors and the general public	potential to cause serious harm. In addition, we undertake a lot of work in dynamic public places such as busy streets. We take every precaution to prevent injury, however the failure of a procedure or the breakdown of an asset could lead to injury.	<p>maintenance though proactive and reactive programmes of work. Our reservoirs are independently inspected and then maintained by our staff to ensure that they remain safe.</p> <p>We recognise that the key to a safer organisation is the behaviour of staff. As such, we encourage near miss reporting across the organisation as we believe this ensures we review incidents to address the root causes of incidents.</p> <p>We have commenced the development of a new management system that will improve behavioural safety across all business areas, and we have reviewed and improved our risk management system, including a new reporting system. Senior leaders drive this new system and carry out a number of audits on key risk areas each year.</p>
<b>Financial</b>		
There is a risk that, due to the economic environment and the demographic of the Group's customer base, customers will not pay debts as they fall due	<p>In line with the licence arrangements for other UK regulated water companies, the Group is obliged to supply water to customers regardless of their credit worthiness which could result in a bad debt recovery risk.</p> <p>Non-recovery of bad and doubtful debts or an inappropriate provisioning policy will result in reduced operating cash flow and income statement volatility.</p>	<p>An annual review of bad and doubtful debt provisioning is conducted by the Board and an assessment of appropriateness of the current provisioning is made. Following a review, the bad debt provision was increased last year to provide fully for all debts in excess of two years old and to provide for customers' debts based on historic non-payment.</p> <p>Furthermore the Group operates extensive debt management and payment plans for customers to allow for greater recovery.</p>
There is a risk that the costs associated with managing the Defined Benefit Pension Scheme affect the Group's operating cash flow	<p>The pension scheme is in deficit on a funding basis, with a repair plan of 7 years at 31 March 2014.</p> <p>The pension scheme is also subject to a triennial valuation which, depending on economic conditions, can result in increased funding costs.</p> <p>Deficit repair costs are forecast to be £0.5m per annum for AMP6 and ongoing contributions are around £0.6m.</p> <p>Ofwat has allowed in the FD an annual contribution of £0.2m for deficit repair but only until 31</p>	<p>The annual business planning process provides a platform for the Board to review financeability and affordability.</p> <p>Pension strategy and evaluation remains a key focus area for the Board.</p>

**RISK AND COMPLIANCE STATEMENT****For the year ended 31 March 2016**

Risk	What Does It Mean	Mitigation
	<p>March 2020 when this allowance will cease.</p> <p>Such significant values, plus potential future volatility, means that the pension scheme poses significant risk to operational cash flows.</p>	

**6 PERFORMANCE COMMITMENTS**

The Company's performance against the commitments set during the PR14 Final Determination process is detailed in Section 3 of the APR. This section includes actual performance in 2015/16 and the notional rewards to 31 March 2016, based on our performance to that date. All of the data in this section has been audited by our Technical Information Assuror, Black & Veatch.

Factors contributing to our performance against the agreed targets are discussed in the Strategic Report sections of the APR (see pages 4 to 6).

**7 ACCOUNTING DECLARATIONS**

We confirm in our Regulatory Accounts that:

- we have sufficient financial resources to enable the business to carry out its regulated activities, for at least the next 12 months (licence condition F6A); and
- we have produced them in compliance with paragraph 3.1 of condition K of the Instrument of Appointment.

There have been no transactions with associated companies during the year.

We hold confidential, investment grade ratings from both Standard and Poor's and Moody's. The ratings were first granted in 2002 and have remained unchanged since that date.

I certify that this statement is endorsed by the Board of Dee Valley Water plc



Ian Plenderleith  
Chief Executive

For and on behalf of Dee Valley Water Plc  
15 July 2016

**DATA ASSURANCE SUMMARY**  
**For the year ended 31 March 2016**

**DATA ASSURANCE SUMMARY**

Our assurance plan, published in March 2016, detailed the assurance to be obtained in respect of the Annual Performance Report, focusing on the mitigation of risks identified both in prior years and during the development of the assurance plan.

These risks are detailed below, alongside the assurance obtained on each Section of the APR for the year ended 31 March 2016.

<b>APR Section</b>	<b>Risk</b>	<b>Assurance obtained and 2015/16 outcome</b>
Section 1 (A-D)	Differences between statutory and RAG definitions, and non-appointed business, are not appropriately identified.	Deloitte have audited the statutory/ RAG and non-appointed business adjustments included in the Section 1 tables. They have confirmed that these adjustments are appropriate and consistent with Ofwat guidance and/ or historic data.
Section 2 (B/C)/ Section 4 (D/E)	The allocation of operating expenditure between the price controls (wholesale, retail HH and retail NHH) is inappropriate.	Deloitte have audited the allocation of opex between these price controls (Tables 2B and 2C) and confirmed that cost drivers applied are consistent with the Ofwat guidance in RAG 2.  Deloitte have also performed agreed-upon procedures on the wholesale upstream services allocation in Table 4D and the Retail measured/ unmeasured analysis in Table 4E.
Section 3	Operational PC's are misstated, impacting on the notional rewards reported in section 3	Black & Veatch, our Technical Information Assuror, have assured the reported performance in respect of each of the performance commitments in table 3A, verifying each against supporting documentation.  Black & Veatch have also performed agreed-upon procedures to confirm whether the notional reward/ penalty assessment at 31 March 2016, including the quantum of each reward, is appropriate based on the performance level reported for that year.
Section 4	Accuracy of reporting on other financial metrics	Deloitte have performed agreed upon procedures on all of the tables in Section 4, confirming that the financial metrics in table 4G have been calculated in line with Ofwat guidance and agreeing other non-financial information to supporting data.