

**Water Plus Select Limited
Annual Performance Report
For the year ended 31 March 2019**

Annual Performance Report

For the year ended 31 March 2019

Contents

Introduction	2
Reporting our performance	3
Disclosures required by RAG 3	4
Independent Auditor's report	5-9
Section 1¹ - Regulatory financial reporting	
1A Income statement	10
1B Statement of comprehensive income	11
1C Statement of financial position	12
1D Statement of cash flows	13
1E Net debt analysis	14
Current tax reconciliation	15
Notes to the Annual Performance Report	16-18
Section 2 - Price review and other segmental reporting	
2A Segmental income statement	19
2C Operating cost analysis - retail	20
2D Historic analysis of fixed assets - retail	21
2G Non-household water - revenues by customer type	22
2H Non-household wastewater - revenues by customer type	23
2I Revenue analysis and wholesale control reconciliation	24
Supplementary regulatory accounting disclosures	25

¹ Due to Water Plus Select Limited being only a non-household water retailer only tables from section 1 and 2 relating to non-household retail have been completed.

Introduction

Water Plus is a joint venture between United Utilities Plc and Severn Trent Plc, which was established on 1 June 2016 to provide retail services to non-household customers throughout England and Scotland.

From 1 April 2018 to 30 June 2018, Water Plus Select Limited (the Company), carried out the non-household retail activity for those customers served under the Instrument of Appointment of Severn Trent Water Limited (STW). The Company has therefore prepared performance information for this period in accordance with Licence Condition F of STW's Instrument of Appointment for these customers. Information for these customers, along with information relating to the other price control units for the year (household retail, wholesale water and wholesale wastewater) can be found in the Severn Trent Water Annual Performance Report 2019, published on their website, www.severntrent.co.uk.

Following Severn Trent's retail exit from the non-household water and waste water market on 1 July 2018, all customers within this price control were transferred off the STW instrument of appointment and moved to Water Plus Select Limited's Water and Sewerage Supply Licence (WSSL). Customers served under this licence fall out of the scope of this document.

For more information about the Water Plus joint venture see the Strategic Report located on pages 2-5 of the Water Plus Group Limited financial statements, available from our head office¹.

¹ Water Plus Group Limited, Two Smithfield, Hanley, Stoke-On-Trent, Staffordshire, ST1 4FD.

Reporting our performance

To provide our customers with transparency on our financial and operational performance we present this annual performance report (APR) which provides specific information on the income raised and costs incurred on the customers we served in the period from 1 April 2018 to 30 June 2018 under STW's Instrument of Appointment. This is a supplemental statement to the STW APR (published on their website - www.severntrent.co.uk) and should be read as such. Consequently, we do not present the statements required of the directors of the appointee relating to directors' remuneration or tax strategy, nor do we disclose a statement explaining performance against return on regulated equity (RORE) or a long-term viability statement as Water Plus is not the holder of the appointee licence. See the full APR of STW for statements in relation to the appointee business.

In addition, Water Plus Select Limited has published its Financial Statements for the year ended 31 March 2019, which are available from our head office (see footnote on page 2 for the address). Where disclosures in the Financial Statements fulfil requirements for the APR we have provided a cross reference in this document rather than duplicating the information.

A full APR would consist of four sections. We have only prepared sections pertaining to the non-household retail price control as we are solely a water retailer to non-household customers. These are:

1 Regulatory financial reporting

Our primary statements as reported on a statutory basis reconciled to the performance and financial position of our appointed business only (as defined on page 18).

2 Price review and additional segmental reporting

Further disaggregation of revenue and costs, to allow stakeholders to review the Company's performance against the appointee's final determination.

The remaining sections relate solely to the activities still carried out by STW.

Disclosure required by RAG 3

In addition to the disclosures that are set out in the tables in Sections 1 and 2, RAG 3.10 sets out requirements for narrative disclosures in the Annual Performance Report. The statements set out below address those requirements in so far as they are relevant to Water Plus Select Limited. These disclosures should be read in conjunction with those of STW.

The Company's dividend policy is to declare dividends at a level deemed appropriate bearing in mind future investment requirements of the Company per its business plan. Since acquisition by Water Plus Group Limited, the Company has neither declared nor paid any dividends.

Disclosure of information to auditor

In the case of each of the persons who are directors of the Company at the date when this report was approved so far as each of the directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and each of the directors has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement of directors' responsibilities

The directors are responsible for the preparation of the Annual Performance Report and for its fair presentation in accordance with the basis of preparation and accounting policies.

Under obligations to STW, the Company has prepared financial statements which comply with the requirements of Condition F of the Instrument of Appointment of STW and Regulatory Accounting Guidelines issued by the Water Services Regulation Authority. This additionally requires the directors to:

- a) Confirm that, in their opinion, the Company has sufficient financial and management resources for the next twelve months;
- b) Confirm that, in their opinion, the Company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company;
- c) Report to the Water Services Regulation Authority changes in the Company's activities which may be material in relation to the Company's ability to finance its regulated activities;
- d) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and
- e) Keep proper accounting records which comply with Condition F.

The Directors of the Company hereby confirm that they have fulfilled the responsibilities listed above.

Approved by the board and signed on its behalf by:



Samantha Booth
Chief Financial Officer
12 July 2019

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and the Directors of Water Plus Select Limited

Opinion

We have audited the tables within Water Plus Select Limited's Annual Performance Report for the year ended 31 March 2019 ("the Regulatory Accounting Statements") which 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 operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I) and the related notes.

In our opinion, Water Plus Select Limited's Regulatory Accounting Statements within the Annual Performance Report:

have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2), set out on page 16.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements under the FRC Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and the Directors of Water Plus Select Limited (continued)

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory accounting statements within the Annual Performance Report have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting statements are 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.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards ("IFRSs"). Financial information other than that prepared on the basis of IFRSs 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 Regulatory Accounting Statements on pages 10 to 25 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. 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.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. Our opinion is not modified in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and the Directors of Water Plus Select Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory accounting statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory accounting statements within the Annual Performance Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Annual Performance Report.

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and the Directors of Water Plus Select Limited (continued)

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the company's Annual Performance Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- Assess the reasonableness of significant accounting estimates and related disclosures made by the directors.

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note 2 and its accounting methodology statement(s) published on the Company's website on 15 July 2019. 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).

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and the Directors of Water Plus Select Limited (continued)

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.

Use of this report

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.

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 2019 on which we reported on 24 June 2019, 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.



Carl Williams
For and on behalf of Grant Thornton UK LLP, Manchester, United Kingdom
15 July 2019

Section 1 - Regulatory financial reporting

1A - Income statement

For the year ended 31 March 2019

	Statutory	Differences between statutory and RAG definitions	Non- appointed	Total adjustments	Total ¹
	£m	£m	£m	£m	£m
Revenue	395.363	-	306.592	306.592	88.771
Operating costs	(393.383)	-	(305.240)	(305.240)	(88.143)
Other operating income	-	-	-	-	-
Operating profit	1.980	-	1.352	1.352	0.628
Other income	-	-	-	-	-
Interest income	0.036	-	0.027	0.027	0.009
Interest expense	(5.058)	-	(3.793)	(3.793)	(1.265)
Other interest expense	-	-	-	-	-
Loss before tax and fair value movements	(3.042)	-	(2.414)	(2.414)	(0.628)
Fair value gains on financial instruments	-	-	-	-	-
Profit / (Loss) before tax	(3.042)	-	(2.414)	(2.414)	(0.628)
UK corporation tax	-	-	-	-	-
Deferred tax	(0.186)	-	(0.140)	(0.140)	(0.046)
Profit / (Loss) for the year	(3.228)	-	(2.554)	(2.554)	(0.674)

¹ The statutory accounts cover the period 1 April 2018 to 31 March 2019. However, Water Plus Select Limited only served customers under STW's instrument of appointment until 30 June 2018. Therefore, results covering the period 1 July to 31 March 2019 are included in the non-appointed column.

Section 1 - Regulatory financial reporting

1B - Statement of comprehensive income

For the year ended 31 March 2019

	Statutory	Differences between statutory and RAG definitions	Non- appointed	Total adjustments	Total
	£m	£m	£m	£m	£m
Loss for the year	(3.228)	-	(2.554)	(2.554)	(0.674)
Actuarial gains/(losses) on post-employment plans	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive expense for the year	(3.228)	-	(2.554)	(2.554)	(0.674)

Section 1 - Regulatory financial reporting

1C - Statement of financial position

As at 31 March 2019

	Statutory ¹	Differences between statutory and RAG definitions	Non- appointed ¹	Total adjustments	Total ¹
	£m	£m	£m	£m	£m
Non-current assets					
Fixed assets	0.646	-	0.646	0.646	-
Intangible assets	33.703	-	33.703	33.703	-
Deferred tax	-	-	-	-	-
Total non-current assets	34.349	-	34.349	34.349	-
Current assets					
Inventories	-	-	-	-	-
Trade and other receivables	156.258	-	156.258	156.258	-
Cash and cash equivalents	2.838	-	2.838	2.838	-
Total current assets	159.096	-	159.096	159.096	-
Current liabilities					
Trade and other payables	(57.588)	-	(57.588)	(57.588)	-
Capex creditor	-	-	-	-	-
Borrowings	(148.958)	-	(148.958)	(148.958)	-
Financial instruments	-	-	-	-	-
Current tax liabilities	2.316	-	2.316	2.316	-
Provisions	-	-	-	-	-
Total current liabilities	(204.230)	-	(204.230)	(204.230)	-
Net current assets / (liabilities)	(45.134)	-	(45.134)	(45.134)	-
Non-current liabilities					
Trade and other payables	-	-	-	-	-
Borrowings	-	-	-	-	-
Financial instruments	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-
Provisions	-	-	-	-	-
Deferred income - grants and contributions	-	-	-	-	-
Deferred tax	(1.467)	-	(1.467)	(1.467)	-
Total non-current liabilities	(1.467)	-	(1.467)	(1.467)	-
Net assets	(12.252)	-	(12.252)	(12.252)	-
Equity					
Called up share capital	-	-	-	-	-
Retained earnings and other reserves	12.252	-	12.252	12.252	-
Total equity	12.252	-	12.252	12.252	-

¹ As Water Plus Select Limited ceased serving customers under STW's instrument of appointment on 30 June 2018, all balances at the year-end are non-appointed.

Section 1 - Regulatory financial reporting

1D - Statement of cash flows

For the year ended 31 March 2019

	Statutory ¹	Differences between statutory and RAG definitions	Non- appointed ¹	Total adjustments	Total
	£m	£m	£m	£m	£m
Statement of cash flows					
Operating profit	1,980	-	1,352	1,352	0,628
Other income	-	-	-	-	-
Depreciation	4,612	-	4,576	4,576	0,036
Amortisation - grants and contributions	-	-	-	-	-
Changes in working capital	(3,940)	-	(3,134)	(3,134)	(0,806)
Pension contributions	-	-	-	-	-
Movement in provisions	-	-	-	-	-
Profit on sale of fixed assets	0,405	-	0,405	0,405	-
Cash used in operations	3,057	-	3,199	3,199	(0,142)
Net interest paid	0,037	-	0,037	0,037	-
Tax paid	(0,398)	-	(0,398)	(0,398)	-
Net cash used in operating activities	2,696	-	2,838	2,838	(0,142)
Investing activities					
Capital expenditure	-	-	-	-	-
Grants and contributions	-	-	-	-	-
Disposal of fixed assets	-	-	-	-	-
Net cash used in investing activities	-	-	-	-	-
Net cash used before financing activities	2,696	-	2,838	2,838	(0,142)
Cash flows from financing activities					
Equity dividends paid	-	-	-	-	-
Net loans received	-	-	-	-	-
Cash outflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	-	-	-	-	-
Increase/(decrease) in net cash	2,696	-	2,838	2,838	(0,142)

¹ The statutory column shows the movement in cash between 1 April 2018 and 31 March 2019. The Total column shows movement of appointed cash between 1 April 2018 to 30 June 2018. The non-appointed column shows the movement of non-appointed cash between 1 April 2018 and 30 June 2018 as well as movements between 1 July 2018 and 31 March 2019 when all movements related to non-appointed activities. On 1 July 2019, all assets and liabilities of the Company were used for non-appointed purposes and as such no cash remains for appointed activities.

Section 1 - Regulatory financial reporting

1E - Net debt analysis

As at 31 March 2019

	Interest rate risk profile			Total £m / %
	Fixed rate £m	Floating rate £m	Index linked £m	
Total borrowings	-	-	-	-
Cash				-
Net debt¹				-
Gearing				n/a
Full year equivalent nominal interest cost	-	-	-	-
Full year equivalent cash interest payment	-	-	-	-
Indicative interest rates				
Indicative weighted average nominal interest rate	-	-	-	-
Indicative weighted average cash interest rate	-	-	-	-

¹ As Water Plus Select Limited ceased serving customers under STW's instrument of appointment on 30 June 2018, all borrowings and cash at the year end are non-appointed.

Section 1 - Regulatory financial reporting

Current tax reconciliation

For the year ended 31 March 2019

A reduction to the UK corporation tax rate from 20% to 19% took effect from 1 April 2017. A further reduction to the UK corporation tax rate from 19% to 17% will take effect from 1 April 2020.

The tax charge for the period ended 31 March 2019 is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	£m
(Loss) on ordinary activities before tax	(0.628)
Tax at the standard rate of corporation tax in the UK 19%	(0.119)
Group relief surrendered for nil payment	0.119
Tax effect of expenditure not deductible in determining taxable profits	-
Adjustments in respect of prior period	-
Total tax charge	-

The current tax charge allowed in price limits is reconciled to the appointed current tax credit as follows:

	£m
Total current tax charge allowed in price limits	2.023
Difference in length of tax period	(1.517)
Difference in profit before tax	(0.506)
Appointed current tax charge	-

Section 1 - Regulatory financial reporting

Notes to the Annual Performance Report

For the year ended 31 March 2019

1 Regulatory reporting

Price control segments

The regulatory accounts have been prepared in accordance with RAG 2.07 'Guideline for classification of costs across the price controls'. Water Plus only operate in the Non-household Retail price control but have adhered to the principles of the guidance for allocation of costs between appointed and other activities.

The tables presented in section 2 of the Annual Performance Report have been prepared in accordance with our Accounting Separation Methodology Statement which can be found at www.water-plus.co.uk. The methodology statement explains the bases for allocation of operating and capital expenditure. Wherever possible, direct costs and assets have been directly attributed to price controls. Where this is not possible, appropriate cost allocations have been applied as described in the methodology.

Revenue and cost apportionment

Revenue and costs on appointed activities were incurred by Water Plus Select Limited for the period 1 April 2018 to 30 June 2018. Our process for allocating revenue and costs in this period is provided in the accompanying method statement published alongside the document on our website.

2 Accounting policies

Basis of preparation

The regulatory financial statements are separate from the statutory financial statements of the Company. They have been prepared on a going concern basis as set out in the Water Plus Select Limited Financial Statements 2019 on page 13.

The regulatory financial statements have been prepared in accordance with Condition F of the Instruments of Appointment of the Water and Sewerage Undertakers and the Regulatory Accounting Guidelines as issued by the WSRA.

Revenue recognition

There is one difference between statutory and RAG revenue recognition policy, which is described in note 1, above.

Revenue represents the fair value of consideration receivable, excluding value added tax and trade discounts in the ordinary course of business for goods and services provided.

Revenue is recognised at the time of service delivery. When the Company considers that the criteria for revenue recognition are not met by a transaction, revenue recognised is delayed until such time as collectability is reasonably assured. Payments received in advance of the revenue recognition criteria being met are recorded as deferred income.

Notes to the Annual Performance Report (continued)

Revenue recognition (continued)

Appointed income is comprised of income from customers served by Water Plus on an agency agreement, under the terms of Severn Trent appointee licence. These are customers in the Severn Trent area that have not switched supplier since the NHH retail market opened to competition on 1 April 2017. Non-appointed income includes the supply of water and waste water services to customers in Scotland, customers in England that have signed onto a contract with Water Plus Select Limited and customers served by Severn Trent Water Limited in Wales that meet the requirements to choose their own water and sewerage supplier. It also includes the supply of services to former Severn Trent Water customers that migrated to Water Plus Select upon market exit on 1 July 2018, for the period from 1 July 2018 to 31 March 2019.

Turnover is not recognised in respect of unoccupied properties. Properties are classified as unoccupied when:

- The Company is informed that a customer has left a property and it is not expected to be reoccupied immediately;
- New properties are connected but are not occupied;
- Properties are disconnected following a customer's request; or
- The identity of the customer is unknown.

The following activities are undertaken to ensure properties classified as unoccupied are in fact not occupied:

- Where the Company is informed that the customer has left a property and the property is expected to be occupied by someone else, a welcome letter is sent to the property encouraging the occupier to contact the Company.
- If there is no response to the welcome letter within two months a void letter is sent to the property explaining that we have classified the property as empty and may schedule the property for disconnection.
- Meter readings are taken for metered unoccupied properties; where consumption is recorded, a letter is sent to the property.
- Inspections are organised throughout the year by geographical area.

Bad debts

Provisions are charged to operating costs to reflect the Company's assessment of the risk of non-recoverability of debtors. Provisions are calculated based on the Company's previous collection experience. The bad debt provisioning rates are updated annually to reflect the latest collection performance data from the Company's billing system.

The Company's bad debt write off policy has remained unchanged and has been consistently applied in the current and prior year.

Notes to the Annual Performance Report (continued)

Bad debts (continued)

Debt can only be written off if it is a legitimate charge against the debtor (if it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note) and if one of the following criteria is met:

- The customer does not have any assets or has insufficient assets on which to levy execution;
- The customer is bankrupt or has gone into liquidation and no dividend has been, or is likely to be, received;
- The customer has died without leaving an estate or has left an insufficient estate on which to levy execution and the Company has been unable to prove its case in court; or
- All available economic options for collection of the debt have been pursued or that debt recovery procedures have proved to be ineffective or uneconomic to continue. Uneconomic circumstances are those where, following the application of debt recovery procedures:
 - the customer could not be traced without incurring an unreasonable degree of expenditure; or
 - the Company has an insufficiently sound case to justify further expenditure on debt recovery procedures; or
 - the likelihood of recovering the debt is so small in particular circumstances that further expenses on debt recovery cannot be justified.

The above write-off rules apply primarily to customers to whom the Company has ceased to provide a service. Only in exceptional circumstances is debt relating to continuing customers considered for write-off.

Within trade and other receivables, the trade receivables balance has decreased by £17.616m. This represents a £17.560m decrease in gross trade receivables added to a £0.056m increase in provision. The reason for this decrease in receivables is the collection of cash over the three-month period. Previously balances had grown as a result of operational challenges faced by the Company in operating in the open water market. Problems with market data quality and the impact this has had on collections is explained in the Strategic Report of the Water Plus Select Limited Financial Statements.

Other accounting policies

All other accounting policies applied to the regulatory financial reporting accounts are set out in pages 13 to 19 of the Financial Statements of Water Plus Select Limited, including the capitalisation policy which is outlined within the property, plant and equipment accounting policy note. The Company applies a £100 de-minimis limit on capital expenditure for orders in aggregate of less than £100. Any such items are expensed as operating costs.

Section 2 - Price review & other segmental reporting

2A - Segmental income statement

For the year ended 31 March 2019

	Retail ¹		Wholesale		Total £m
	Household £m	Non-Household £m	Water £m	Wastewater £m	
Revenue - price control	n/a	88.771	n/a	n/a	88.771
Revenue - non price control	n/a	-	n/a	n/a	-
Operating costs	n/a	(86.990)	n/a	n/a	(86.990)
Depreciation - Tangible fixed assets	n/a	(0.056)	n/a	n/a	(0.056)
Amortisation - Intangible fixed assets	n/a	(1.097)	n/a	n/a	(1.097)
Other operating income	n/a	-	n/a	n/a	-
Operating profit before recharges	n/a	0.628	n/a	n/a	0.628
Recharges from other segments	n/a	-	n/a	n/a	-
Recharges to other segments	n/a	-	n/a	n/a	-
Operating profit	n/a	0.628	n/a	n/a	0.628
Surface water drainage rebates					-

¹ Water Plus Select Limited recognises revenue per the amount billed to customers, which includes both retail and wholesale charges aggregated into one bill. Subsequently the Company is billed by STW for the wholesale element of the bill, which they in turn show as wholesale revenue in their wholesale price control. These charges for wholesale services are shown in cost of sales in the Financial Statements of the Company. The retail element of revenue in the period to 30 June 2018 was £6.341m. STW will show the wholesale charges as wholesale revenue.

Section 2 - Price review & other segmental reporting

2C - Operating costs analysis (retail)

For the year ended 31 March 2019

	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer services	n/a	1,422	1,422
Debt management	n/a	0,774	0,774
Doubtful debts	n/a	0,653	0,653
Meter reading	n/a	0,381	0,381
Services to developers	n/a	-	-
Other operating expenditure	n/a	1,776	1,776
Total operating expenditure excluding third party services	n/a	5,006	5,006
Third party services operating expenditure	n/a	-	-
Total operating expenditure	n/a	5,006	5,006
Depreciation – Tangible fixed assets	n/a	0,035	0,035
Amortisation – Intangible fixed assets	n/a	0,672	0,672
Total operating costs¹	n/a	5,713	5,713
Debt written off	n/a	0,633	0,633

Total operating costs of £5.713m are £1.041m or 22.3% higher than the £4.672m allocation in PR14. This is due to higher costs of operation following de-regulation of the market including market operator fees, additional cost of managing market interfaces and sale and marketing activities.

¹ Total operating costs disclosed in note 1A include wholesale charges of £82,430 (per table 2I) that are passed through the entity as it is solely a retailer. These must be added to total operating costs above to reconcile to table 1A.

Section 2 - Price review & other segmental reporting

2D - Historic cost analysis of fixed assets

As at 31 March 2019

	Wholesale		Retail		Total £m
	Water £m	Wastewater £m	Household £m	Non-household £m	
Cost					
At 1 April 2018	n/a	n/a	n/a	0.757	0.757
Additions	n/a	n/a	n/a	0.035	0.035
Disposals ¹	n/a	n/a	n/a	(0.792)	(0.792)
At 31 March 2019	n/a	n/a	n/a	-	-
Depreciation					
At 1 April 2018	n/a	n/a	n/a	-	-
Charge for the period	n/a	n/a	n/a	(0.035)	(0.035)
Disposals ¹	n/a	n/a	n/a	0.035	0.035
At 31 March 2019	n/a	n/a	n/a	-	-
Net book amount at 31 March 2019	n/a	n/a	n/a	-	-
Net book amount at 1 April 2018	n/a	n/a	n/a	0.757	0.757

¹ As Water Plus Select Limited ceased serving customers under STW's instrument of appointment on 30 June 2018, all assets were subsequently used for non-appointed purposes. This transfer of assets is reflected in the disposals lines.

Section 2 - Price review & other segmental reporting

2G - Non-household water revenues by customer type

For the year ended 31 March 2019

	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average non-household retail revenue per customer ¹
	£m	£m	£m	(thousand)	£
Non-default tariffs					
Non-default tariffs	-	-	-	-	-
Total non-default tariffs	-	-	-	-	-
Default tariffs					
Band 19 - Water: unmeasured and 0-5 Ml/a	19,074	2,594	21,669	158,797	65.34
Band 20 - Water: 5-50 Ml/a	8,510	0,392	8,902	3,056	513.09
Band 21 - Water: 50+ Ml/a	7,346	0,220	7,566	0,664	1,325.30
Total default tariffs	34,930	3,206	38,137	162,517	78.909
Total	34,930	3,206	38,137	162,517	78.909

¹ These numbers have been annualised by multiplying the retail revenue by four.

Section 2 - Price review & other segmental reporting

2H - Non-household wastewater revenues by customer type

For the year ended 31 March 2019

	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average non-household retail revenue per customer ¹
	£m	£m	£m	(number)	£
Non-default tariffs					
Non-default tariffs	–	–	–	–	–
Total non-default tariffs	–	–	–	–	–
Default tariffs					
Band 22 - Wastewater: unmeasured and 0-5 Ml/a	32.113	2.630	34.743	169.916	61.91
Band 23 - Wastewater: 5-50 Ml/a	7.665	0.292	7.957	2.929	398.77
Band 24 - Wastewater: 50+ Ml/a	7.722	0.213	7.935	1.425	597.89
Total default tariffs	47.500	3.135	50.635	174.270	71.957
Total	47.500	3.135	50.635	174.270	71.957

¹ These numbers have been annualised by multiplying the retail revenue by four.

Section 2 - Price review & other segmental reporting

2I - Revenue analysis and wholesale control reconciliation

For the year ended 31 March 2019

	Household	Non-household	Total
	£m	£m	£m
Wholesale charge - water			
Unmeasured	n/a	1.219	1.219
Measured	n/a	33.711	33.711
Third party revenue	n/a	-	-
Total	n/a	34.930	34.930
Wholesale charge - wastewater			
Unmeasured	n/a	1.263	1.263
Measured	n/a	46.237	46.237
Third party revenue	n/a	-	-
Total	n/a	47.500	47.500
Wholesale total	n/a	82.430	82.430
Retail revenue			
Unmeasured	n/a	0.505	0.505
Measured	n/a	5.836	5.836
Retail third party revenue	n/a	-	-
Total	n/a	6.341	6.341
Third party revenue - non-price control			
Bulk Supplies	n/a	-	-
Other third party revenue	n/a	-	-
Other appointed revenue	n/a	-	-
Third party revenue total	n/a	-	-
Total appointed revenue	n/a	88.771	88.771

Note that Water Plus Select Limited collects revenue from bills issued to customers containing both retail and wholesale elements. The wholesale element is subsequently paid to the wholesaler. See the APR for Severn Trent Water Limited for information on wholesale revenue.

Total retail revenue of £6.341m is £6.753m or 19.3% lower than the allowed revenue per the PR16 determination of £35.004m.

Supplementary disclosures

For the year ended 31 March 2019

Information in respect of transactions during the year with any other business or activity of the Company (acting on behalf of the appointee) or any associated company

a) Borrowings and intercompany lending

Sums borrowed and repaid by the Company during the period from associated companies in cash were as disclosed in the table below:

	Borrowed/(repaid) during period		Interest rates	Balance as at 31 March 2019	
		£m			£m
Water Plus Group Limited	Borrowed	(56.379)	3.19%	Payable	133,728

Borrowings are intercompany borrowings from the Company's immediate parent. These amounts have no fixed repayment date.

b) Omissions, waivers, guarantees

No guarantees were issued in favour of associated companies. There were no rights omitted to be exercised resulting in a reduction in the value of net assets of the Company and no waivers of any consideration, remuneration, or any other payment receivable by the Company.

c) Supply of services

Services supplied to the Company by associated companies are outlined in the table below.

Service	Company	Turnover of associate in the period £m	Terms of supply	Value £m
Transitional service arrangements	Severn Trent Water Limited	1,643.800	Cost recharge	0.682
Wholesale water and waste water charges	Severn Trent Water Limited	1,643.800	Contract price	338.026
Wholesale water and waste water charges	United Utilities Water Limited	1,798.030	Contract price	0.264
Management recharges	Water Plus Limited	518.499	Cost recharge	14.507
				373.247