Statutory accounts

Contents at a glance

Group income statement

for the year ended 31 March 2021

Notes		Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
4	**Revenue**	1,351.8	1,419.9
5	Other operating income	12.5	13.0
6	Operating costs		
	Operating costs before depreciation, amortisation and charge for bad and doubtful debts	(590.3)	(624.6)
	Depreciation and amortisation	(351.3)	(368.5)
	Charge for bad and doubtful debts	(31.1)	(40.7)
	Total operating costs	(972.7)	(1,033.8)
	Operating profit	391.6	399.1
	Finance income	2.0	4.8
	Finance costs, including fair value losses on derivative financial instruments	(274.6)	(360.3)
7	**Net finance costs**	(272.6)	(355.5)
	Profit before tax from continuing operations		
	Profit before fair value losses on derivative financial instruments	142.2	74.0
	Fair value losses on derivative financial instruments	(23.2)	(30.4)
	Profit before tax from continuing operations	119.0	43.6
8	Tax charge	(20.2)	(120.4)
	Profit/(loss) for the year from continuing operations	98.8	(76.8)

Notes 1 to 31 are an integral part of these financial statements.

Group statement of comprehensive income

for the year ended 31 March 2021

Notes		Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
	Profit/(loss) for the year	98.8	(76.8)
	Other comprehensive (expense)/income		
	Items that will not be reclassified to income statement		
23	Actuarial (losses)/gains on retirement benefit deficit	(162.7)	108.4
8	Income tax on items that will not be reclassified	30.9	(18.8)
		(131.8)	89.6
	Items that may be reclassified subsequently to income statement		
25	Gains on cash flow hedges recognised in equity	8.2	22.9
25	Gains/(losses) on cost of hedging recognised in equity	2.1	(0.6)
25	Losses on cash flow hedges transferred to income statement	10.2	3.9
25	Gains on cost of hedging transferred to income statement	(0.5)	(0.4)
8	Income tax on items that may be reclassified	(3.8)	(3.1)
		16.2	22.7
	Other comprehensive (expense)/income for the year, net of tax	(115.6)	112.3
	Total comprehensive (expense)/income for the year	(16.8)	35.5

Group balance sheet

at 31 March 2021

Notes		At 31 March 2021 £m	At 31 March 2020 £m
	Non-current assets		
12	Other intangible assets	257.4	217.3
13	Property, plant and equipment	10,041.7	9,940.3
20	Derivative financial instruments	112.6	317.8
23	Retirement benefit surplus	54.8	171.6
		10,466.5	10,647.0
	Current assets		
15	Inventories	13.9	12.4
16	Trade and other receivables	500.9	530.6
17	Investments - cash deposits	80.0	319.0
17	Cash and cash equivalents	205.9	729.1
20	Derivative financial instruments	84.8	16.8
		885.5	1,607.9
	Total assets	11,352.0	12,254.9
	Current liabilities		
18	Trade and other payables	(502.2)	(520.9)
	Current tax liabilities	(167.3)	(198.2)
19	Borrowings	(652.9)	(1,023.0)
20	Derivative financial instruments	(24.8)	(81.4)
21	Provisions	(6.6)	(6.2)
		(1,353.8)	(1,829.7)
	Net current liabilities	(468.3)	(221.8)
	Non-current liabilities		
19	Borrowings	(6,282.8)	(6,702.3)
20	Derivative financial instruments	(1,004.6)	(996.0)
22	Deferred tax liabilities	(1,092.2)	(1,093.6)
23	Retirement benefit deficit	(44.8)	(41.6)
21	Provisions	(9.4)	(10.5)
		(8,433.8)	(8,844.0)
	Total liabilities	(9,787.6)	(10,673.7)
	Net assets	1,564.4	1,581.2

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Notes		At 31 March 2021 £m	At 31 March 2020 £m
	Capital and reserves		
24	Share capital	32.0	32.0
	Retained earnings	1,567.4	1,600.4
25	Hedging reserve	(37.4)	(52.3)
25	Cost of hedging reserve	2.4	1.1
	Total equity	1,564.4	1,581.2

Notes 1 to 31 are an integral part of these financial statements. The financial statements were approved by the Board of Directors on 16 June 2021 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Company balance sheet

at 31 March 2021

(Company number: 02366656)

Notes		At 31 March 2021 £m	At 31 March 2020 £m
	Non-current assets		
12	Other intangible assets	257.4	217.3
13	Property, plant and equipment	10,041.7	9,940.3
20	Derivative financial instruments	112.6	317.8
23	Retirement benefit surplus	54.8	171.6
		10,466.5	10,647.0
	Current assets		
15	Inventories	13.9	12.4
16	Trade and other receivables	500.9	530.6
17	Investments - cash deposits	80.0	319.0
17	Cash and cash equivalents	180.7	729.0
20	Derivative financial instruments	84.8	16.8
		860.3	1,607.8
	Total assets	11,326.8	12,254.8
	Current liabilities		
18	Trade and other payables	(525.9)	(569.4)
	Current tax liabilities	(167.3)	(198.2)
19	Borrowings	(652.9)	(1,023.0)
20	Derivative financial instruments	(24.8)	(81.4)
21	Provisions	(6.6)	(6.2)
		(1,377.5)	(1,878.2)
	Net current liabilities	(517.2)	(270.4)
	Non-current liabilities		
19	Borrowings	(6,282.8)	(6,702.3)
20	Derivative financial instruments	(1,004.6)	(996.0)
22	Deferred tax liabilities	(1,092.2)	(1,093.6)
23	Retirement benefit deficit	(44.8)	(41.6)
21	Provisions	(9.4)	(10.5)
		(8,433.8)	(8,844.0)
	Total liabilities	(9,811.3)	(10,722.2)
	Net assets	1,515.5	1,532.6

Continued on next page.

Notes		At 31 March 2021 £m	At 31 March 2020 £m
	Capital and reserves		
24	Share capital	32.0	32.0
	Retained earnings	1,518.5	1,551.8
25	Hedging reserve	(37.4)	(52.3)
25	Cost of hedging reserve	2.4	1.1
	Total equity	1,515.5	1,532.6

The company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the company, is £98.5 million (2020: loss of £76.9 million).

Notes 1 to 31 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 June 2021 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Group statement of changes in equity

for the year ended 31 March 2021

	Stated capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2019	32.0	1,655.4	(75.9)	2.0	1,613.5
Loss for the year	–	(76.8)	–	–	(76.8)
Other comprehensive income/(expense)					
Actuarial gains on retirement benefit obligations	–	108.4	–	–	108.4
Income tax charge on items that will not be reclassified	–	(18.8)	–	–	(18.8)
Gains on cash flow hedges	–	–	22.9	–	22.9
Losses on cost of hedging	–	–	–	(0.6)	(0.6)
Amounts on hedging reserves transferred to income statement	–	–	3.9	(0.4)	3.5
Deferred tax movement on hedging reserves	–	–	(3.2)	0.1	(3.1)
	–	89.6	23.6	(0.9)	112.3
Total comprehensive income/(expense)	–	12.8	23.6	(0.9)	35.5
Dividends	–	(67.8)	–	–	(67.8)
At 31 March 2020	32.0	1,600.4	(52.3)	1.1	1,581.2
Profit for the year	–	98.8	–	–	98.8
Other comprehensive (expense)/income					
Actuarial losses on retirement benefit obligations	–	(162.7)	–	–	(162.7)
Income tax charge on items that will not be reclassified	–	30.9	–	–	30.9
Gains on cash flow hedges	–	–	8.2	–	8.2
Gains on cost of hedging	–	–	–	2.1	2.1
Amounts on hedging reserves transferred to income statement	–	–	10.2	(0.5)	9.7
Deferred tax movement on hedging reserves	–	–	(3.5)	(0.3)	(3.8)
	–	(131.8)	14.9	1.3	(115.6)
Total comprehensive (expense)/income	–	(33.0)	14.9	1.3	(16.8)
At 31 March 2021	32.0	1,567.4	(37.4)	2.4	1,564.4

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component (see note 25).

Company statement of changes in equity

for the year ended 31 March 2021

	Stated capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2019	32.0	1,606.9	(75.9)	2.0	1,565.0
Loss for the year	–	(76.9)	–	–	(76.9)
Other comprehensive (expense)/income					
Actuarial gains on retirement benefit obligations	–	108.4	–	–	108.4
Income tax charge on items that will not be reclassified	–	(18.8)	–	–	(18.8)
Gains on cash flow hedges	–	–	22.9	–	22.9
Losses on cost of hedging	–	–	–	(0.6)	(0.6)
Amounts on hedging reserves transferred to income statement	–	–	3.9	(0.4)	3.5
Deferred tax movement on hedging reserves	–	–	(3.2)	0.1	(3.1)
	–	89.6	23.6	(0.9)	112.3
Total comprehensive income/(expense)	–	12.7	23.6	(0.9)	35.4
Dividends	–	(67.8)	–	–	(67.8)
At 31 March 2020	32.0	1,551.8	(52.3)	1.1	1,532.6
Profit for the year	–	98.5	–	–	98.5
Other comprehensive (expense)/income					
Actuarial losses on retirement benefit obligations	–	(162.7)	–	–	(162.7)
Income tax charge on items that will not be reclassified	–	30.9	–	–	30.9
Gains on cash flow hedges	–	–	8.2	–	8.2
Gains on cost of hedging	–	–	–	2.1	2.1
Amounts on hedging reserves transferred to income statement	–	–	10.2	(0.5)	9.7
Deferred tax movement on hedging reserves	–	–	(3.5)	(0.3)	(3.8)
	–	(131.8)	14.9	1.3	(115.6)
Total comprehensive (expense)/income	–	(33.3)	14.9	1.3	(17.1)
At 31 March 2021	32.0	1,518.5	(37.4)	2.4	1,515.5

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component (see note 25).

Group and company cash flow statements

for the year ended 31 March 2021

Notes		Group Year ended 31 March 2021 £m	Group Year ended 31 March 2020 £m	Company Year ended 31 March 2021 £m	Company Year ended 31 March 2020 £m
	Operating activities				
	Operating profit	391.6	399.1	391.6	399.1
	Adjustments for:				
	Depreciation and amortisation	351.3	368.5	351.3	368.5
	Assets adopted for £nil consideration	(29.3)	(37.1)	(29.3)	(37.1)
	Profit on disposal of property, plant and equipment	(1.5)	(2.3)	(1.5)	(2.3)
	Difference between pension charge and cash contributions	(39.3)	(18.5)	(39.3)	(18.5)
	Net movement in provisions	0.6	5.2	0.6	5.2
	Working capital:				
	Increase in inventories	(1.5)	(0.8)	(1.5)	(0.8)
	Decrease/(increase) in trade and other receivables	29.3	(45.5)	29.3	(45.5)
	(Decrease)/increase in trade and other payables	(41.9)	17.4	(66.7)	19.3
	Cash generated from operations	659.3	686.0	634.5	687.9
	Income taxes paid[1]	(25.4)	(40.3)	(25.4)	(40.3)
	Net cash flows from operating activities	633.9	645.7	609.1	647.6
	Investing activities				
	Purchase of property, plant and equipment	(338.8)	(391.3)	(338.8)	(391.3)
	Purchase of intangible assets	(85.3)	(61.2)	(85.3)	(61.2)
	Proceeds from disposal of property, plant and equipment	1.8	2.3	1.8	2.3
	Interest received	2.0	4.8	1.7	4.6
	Decrease/(increase) in short-term bank deposits	239.0	(22.0)	239.0	(22.0)
	Net cash used in investing activities	(181.3)	(467.4)	(181.6)	(467.6)
	Financing activities				
	Interest paid	(218.8)	(229.3)	(218.8)	(229.3)
	Debt issue costs paid	(2.9)	(2.6)	(2.9)	(2.6)
	Borrowings premiums received	7.7	–	7.7	–
	Interest paid on leases	(1.0)	(0.7)	(1.0)	(0.7)
	Proceeds from amounts borrowed	242.6	815.9	242.6	815.9
	Repayment of amounts borrowed	(928.8)	(220.3)	(928.8)	(220.3)
	Repayment of principal on derivatives	(63.5)	(25.1)	(63.5)	(25.1)
	Receipt of principal on derivatives	–	34.7	–	34.7
	Repayment of principal on leases	(11.1)	(11.3)	(11.1)	(11.3)
	Dividends paid	–	(67.8)	–	(67.8)
	Net cash (used in)/from financing activities	(975.8)	293.5	(975.8)	293.5
	Net (decrease)/increase in cash and cash equivalents	(523.2)	471.8	(548.3)	473.5
	Cash and cash equivalents at 1 April	729.1	257.3	729.0	255.5
17	**Cash and cash equivalents at 31 March**	205.9	729.1	180.7	729.0

1 Income taxes paid are all inter-company with AWG Group Limited.

Notes to the financial statements

for the year ended 31 March 2021

1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all of the years presented.

a) Basis of accounting

The group and company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

Adjusted profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives that the group holds as economic hedges. These introduce volatility into the accounts due to the present value of future cash flows, which management believes is not representative of the underlying operational performance of the business.

b) Basis of preparation

The Anglian Water Services Group (the group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the company) and its subsidiary, Anglian Water Services Financing Plc, at 31 March. Inter-company sales and profit are eliminated fully on consolidation.

Going concern

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, as detailed below.

The review included a range of downside outcomes as a result of Covid-19 against the redetermination of our price review issued by the CMA in March 2021.

The downside outcomes were assessed for liquidity and impacts on debt covenants that form a fundamental part of the single debt platform. Anglian Water Services Limited has a single debt platform (sometimes known as a “common terms” or “CTA” debt platform) that has been structured so as to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and Anglian Water’s Licence (an “Aligned Debt Programme”). Aligned Debt Programmes operate on a single covenant package and shared security and intercreditor arrangement that binds all debt providers.

Under this structure, the failure to meet certain metrics can cause a Trigger Event (which would restrict the Group from paying dividends until such metric was remedied) and, in some circumstances, an Event of Default. There were no Trigger Events (or Events of Default) present at year end. As part of the going concern downside testing, no scenario resulted in an Event of Default from anticipated impacts to the financial ratios.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

In considering going concern the Directors have therefore considered:

- The liquidity of the group:
  - The group has significant cash balances and deposits, totalling £285.9 million (2020: £1,048.1 million), the reduction primarily due to the repayment of £575 million on the syndicated and bilateral revolving credit facilities. At the beginning of the year these general purpose facilities totalling £600 million were fully drawn to provide a short-term liquidity buffer in light of the Covid-19 uncertainty, however, they were repaid during the year as expectations of materially adverse impacts to cash flows were reduced.
  - Anglian Water has access to £575.0 million of undrawn facilities (2020: £50.0 million), to finance working capital and capital expenditure requirements as noted above. In addition, Anglian Water has access to a further £400.0 million of liquidity facilities (2020: £400.0 million), consisting of £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity.
- The challenges presented by the PR19 Final Determination (FD) and the ability of the business to mitigate this risk through a cost reduction programme – at the end of AMP6 the business conducted an organisational model review to enable the investment delivery process to drive better value solutions. As part of the commitment to continuous improvement and to deliver ongoing efficiency, there is a cost reduction programme. The confidence of delivery of this programme was assessed as part of the going concern review as, whilst the redetermination was favourable, we continue to live with the FD for year 2 of the AMP, only benefitting from the redetermination from 2022/23.
- Profitability – this is an efficient group with a history of outperformance. The revenues of the business are underpinned by the regulatory model and the business has a stretching 5-year plan to deliver in line with the redetermination.
- Interest and dividend cover ratios – the business has significant headroom against Default Events under its securitised covenants with no plausible scenario identified that would cause a Default Event. Whilst undesirable a Trigger Event, if it happened, would not impact on the going concern assumption for the reasons noted below.
- Covid-19 – as well as incorporating the impacts of Covid-19 into our base forecasts, we also conducted modelling of worst-case scenarios, including the possible recessionary impact on the wider economy. These demonstrate that we do not hit Default levels on our covenants with sufficient liquidity to support the business if we enter a Trigger Event. The downside outcomes included assumptions in relation to:
  - the timing of re-opening of the economy;
  - potential tier restrictions re-introduced later in the year;
  - a range of unemployment rates;
  - rates of business failure; and
  - withdrawal of Government support.

Based on the above, despite the net current liability position, the Directors believe that the business has sufficient liquidity to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements.

Whilst our most severe scenario did indicate the potential for a Trigger Event for Anglian Water Services Limited, the Directors do not consider this possibility to constitute a material uncertainty related to going concern. This is due to the intention of a Trigger Event being that it is an early warning event designed to reinforce credit worthiness and to protect the group and its finance creditors from an Event of Default occurring. It does not enable creditors to destabilise the group through enforcing their security.

The focus in this period will be on ensuring that the business continues to have sufficient liquidity to operate. The following mitigations ensure that the business remains a going concern through the period required to rectify a Trigger Event:

- The business has significant cash balances at 31 March 2021 to continue to operate the business, cope with the downside scenario and deliver the capital programme. This shows over £800 million of cash and Working Capital Facility at September 2022, sufficient to cover the severe downside scenario.
- Additional facilities totalling £250 million are available at OAL which can be injected into AWS to provide further liquidity support which would enable the severe scenario to be mitigated beyond September 2022.
- The business would have control over the timing of delivery of the capital programme to further improve the liquidity position as required.

An Event of Default would be far more serious than a Trigger Event and could have a significant impact on the ability of the business to operate as a going concern. In addition to the above mitigations the business has the following comfort:

- The severe downside scenario which is viewed as extremely remote does not result in an Event of Default, demonstrating that we have significant headroom.
- The Default covenant with the tightest headroom is based on deducting actual maintenance capital expenditure and therefore the business has significant control over the timing of this delivery to provide additional headroom if required.

Conclusion

In summary, the business has both sufficient liquidity and headroom to covenants to meet its liabilities as they fall due. In severe downside scenarios there is potential for a trigger event although this is not considered a going concern issue. In these scenarios there is significant headroom to default and therefore, for these reasons, the Directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Standards, amendments and interpretations effective or adopted

The following standards and amendments are effective in the group’s consolidated financial statements:

- Amendments to IFRS 9, IAS 39 and IFRS 7 ‘Interest rate benchmark reform’;
- Amendments to IAS 1 and IAS 8 ‘Definition of material’;
- Amendments to IFRS 3 ‘Definition of a business’; and
- Amendments to references to the Conceptual Framework in IFRS standards.

i IFRS 9, IAS 39 and IFRS 7 ‘Interest rate benchmark reform’

In September 2019, the IASB issued Phase 1 of the Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the reforms. The amendments permit continuation of hedge accounting even if the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

The group chose to early apply the amendments to IFRS 9 for the reporting period ending 31 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms. The adoption did not give rise to any amendments to earlier periods because of the reliefs provided by the IFRS 9 amendments applied to all of the group's hedge relationships and no hedge relationship was discontinued as a consequence.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

As part of the IASB's Phase 2 response to IBOR reform, a set of amendments has been introduced which specifically addresses the issues arising as part of the transition process and their potential impacts to financial instruments (and lease liabilities). The amendment provides relief that changes as a direct result of IBOR replacement do not detrimentally impact the financial accounts provided. This encompasses reliefs on the modification of debt items and the continuation of hedge accounting relationships which would ordinarily be impacted from the contractual change of the IBOR rate. The Phase 2 IBOR amendments are mandatory for accounting periods beginning 1 January 2021. The group intends to adopt this in its subsequent accounting reporting period ending 31 March 2022 in line with its timeline to transition its impacted financial instruments.

ii Other amendments

Other amendments effective during the reporting period did not have any significant impact on adoption.

Standards, amendments and interpretations not yet effective and not early adopted

The following standards and amendments have not been adopted in the group's consolidated financial statements as they are not yet effective:

- IFRS 17 'Insurance contracts' (effective from 1 April 2023, not yet endorsed in the EU or the UK);
- Amendments to IFRS 16 'Covid-19-related rent concessions' (effective from 1 June 2020);
- Amendments to IAS 1 'Classification of liabilities as current or non-current' (effective from 1 January 2023, not yet endorsed in the EU or the UK);
- Amendments to IAS 16 'Property, plant and equipment – proceeds before intended use' (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Annual Improvements 2018-2020 Cycle – amendments to IFRS 1, IFRS 9 and IAS 41 (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IFRS 3 'References to the Conceptual Framework' (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IAS 37 'Onerous contracts – cost of fulfilling a contract' (effective 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of accounting policies' (effective from 1 January 2023, not yet endorsed in the EU or the UK);
- Amendments to IAS 8 'Definition of accounting estimates' (effective from 1 January 2023, not yet endorsed in the EU or the UK).
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (mandatory for accounting periods beginning after 1 January 2021).

The group does not expect the future application of these amendments to have any significant impact on the consolidated financial statements.

c) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement except for transactions where hedge accounting has been applied in accordance with IFRS 9 'Financial instruments'.

d) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

e) Revenue recognition

Revenue is recognised to reflect the transfer of goods or services to customers at an amount that reflects the consideration to which the group expects to be entitled to in exchange for those goods or services.

Principal source of income

The group's principal source of income is from customers in respect of the provision of water and water recycling services within Anglian Water, the group's regulated water and sewerage company, at a price determined annually by its regulatory tariffs.

The majority of Anglian Water's household customers have meters, but there are a significant number who are not metered. This is relevant to how the group recognises the income over the year, since the unmeasured customers are billed at a flat rate based on the rateable value of the property, which reflects their right to an ongoing supply of water, while measured customers are billed in line with their usage, which tends to be seasonal.

Under IFRS 15, the performance obligation for measured customers has been assessed as the provision of water and sewerage services, and the performance obligation is met as water is supplied to the property. Accordingly for the variable element, revenue is recognised as water is supplied, based on volumes supplied at the relevant reporting date.

Related non-volumetric, or standing, charges reflect our obligation to stand-ready to deliver water, as is the case with unmeasured supply (see below), and is accounted for accordingly.

In respect of unmeasured customers, the performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS 15 as the stand-ready obligation is fulfilled over time. Accordingly, revenue from unmeasured customers is recognised on a time basis under IFRS 15.

Non-household revenue is charged and recognised on the basis of volumes supplied, based on data submitted by the market operator.

Grants and contributions

A secondary source of income for Anglian Water is from grants and contributions in respect of new connections for water and/or sewerage services. The significant components of grants and contributions, and their treatment, are as follows:

i New connection charges

The group considers that the developer requesting the connection is the customer, and that the group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income as the connection is completed.

ii Self-lay, requisitions and adoption fees

The group has reached the same conclusion as for new connection charges (see (i) above).

iii Fair value of assets adopted for £nil consideration

These are principally sewers and pumping stations that a developer has constructed and then contributed to the group, on a £nil consideration basis, in exchange for being relieved of any future liability. As the group does not have any performance obligation to the developer post adoption, the group has concluded that immediate recognition based on the fair value of the asset adopted is appropriate.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

iv Infrastructure charges

Infrastructure charges are a developer's contribution to fund network reinforcement by the group. While these charges are a contribution to reinforcement of the network, they have to be paid by the developer as a condition of obtaining connection to the network and, as such, the group has concluded that the developer is the customer, and that the group's performance obligation is satisfied by making the connection. As such, the income is recognised as the connection is made.

v Diversions

Diversions arise where a highways agency, or other authority, reimburses the group for the majority of the costs incurred in diverting assets that represent an obstruction to the construction or upgrade of roads and railway lines. Under IFRS 15, the group has concluded that the contributions should be recognised immediately as revenue since there is no performance obligation to the agency/authority beyond completing the diversion.

Other sources of revenue

i Other operating income

The principal sources of other operating income are from the generation of power, the sale of biosolids to farms, rents received and other minor income associated with operating activities.

f) Research and development

Research expenditure is charged to profit and loss in the period in which it is incurred. Expenditure relating to development projects is capitalised as equipment or intangible assets and is written off over the expected useful life of the asset.

g) Exceptional items

Exceptional items are one-off items that individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

h) Operating profit

Operating profit is stated after charging operational expenses but before finance income and finance costs.

i) Taxation

Current income tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantially enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

j) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the company has a constructive or legal commitment to pay the dividend.

k) Intangible assets

Other intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight line basis over their estimated useful lives, which are primarily three to 10 years.

l) Property, plant and equipment

Property, plant and equipment comprises:

- Land and buildings – comprising land and non-operational buildings.
- Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfall.
- Operational assets – comprising structures at sites used for water and wastewater treatment, pumping or storage, where not classed as infrastructure, along with associated fixed plant.
- Vehicles, mobile plant and equipment.
- Assets under construction.

All property, plant and equipment is shown at cost less subsequent depreciation and any impairment. Cost includes expenditure directly attributable to the acquisition or construction of the items.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight line basis over their estimated useful lives, which are primarily as follows:

Non-operational buildings	30—60 years
Infrastructure assets – water	50—120 years
Infrastructure assets – water recycling	50—160 years
Operational assets	30—80 years
Fixed plant, including meters	12—40 years
Vehicles, mobile plant and equipment	3—10 years

Items of property, plant and equipment that have no further operational use are treated as having been decommissioned and are written off immediately to profit or loss. In addition, property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of Assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

m) Leased assets

The group assesses whether a contract is, or contains a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as leases for individual assets with a value of less than £5,000). For these leases, the group recognises the lease payments as an operating expense on a straight line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group uses its incremental borrowing rate.

Notes to the financial statements continued
for the year ended 31 March 2021

1. Accounting policies continued

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of the probability in exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate, or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

n) Investments – cash deposits

After initial recognition at fair value, financial investments are held at amortised cost. This is based on the business' practice of acquiring financial assets to collect their contractual cash flows and the simple nature of the investments made, which consist solely of principle payments and interest on the principle outstanding.

The Expected Credit Loss (ECL) model requires the group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets, therefore this is no longer dependent on the group first identifying a credit loss event. This requires consideration of a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- where credit risk is low or has not increased significantly since recognition ('Stage 1');
- where credit risk is not low or has increased significantly since initial recognition ('Stage 2'); and
- where the financial asset is credit impaired (Stage 3).

'12-month expected credit losses' are recognised for Stage 1 while 'lifetime expected credit losses' are recognised for Stage 2.

Expected credit losses are defined as the weighted average of credit losses with the respective risk of default occurring as the weights.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The group manages credit risk exposures through a comprehensive counterparty credit risk policy. See the financial instruments disclosures for further details.

o) Inventories

Raw materials are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

p) Financial assets and liabilities

Financial assets and liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. Financial assets are initially classified as at fair value through profit and loss; fair value through other comprehensive income or amortised cost depending on the group's intention in regards to the collection of contractual cash flows (or sale) and whether the financial assets cash flows relate solely to the payment of principal and interest.

q) Trade receivables

Trade receivables are initially recognised at their transaction price. If there is objective evidence that the amount receivable is impaired it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

The group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the trade receivable.

In calculating the expected loss, the group applies expected recovery rates, based on actual historical cash performance and forward-looking information.

The group assesses impairment of trade receivables on a collective basis and where they possess shared credit risk characteristics they have been grouped; these groups are residential, non-household and developer services, and other customers.

r) Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less, and outstanding bank overdrafts.

Other short-term deposits with a tenor of more than three months are classified as investments – cash deposits.

s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

t) Derivative financial instruments

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no speculative trading in financial instruments is undertaken.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. The impact of the master netting agreements on the Group's financial position is disclosed in note 20. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities. The group designates certain derivatives as either a fair value or cash flow hedge in accordance with IFRS 9 'Financial Instruments'. At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with how the hedge aligns with the group's risk management strategy. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item.

The group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

In some hedge relationships the group excludes, from the designation, the currency basis spread of cross currency hedging instruments. In such cases the fair value change of the currency basis element of the cross currency interest rate swap is recognised in other comprehensive income and accumulated in the cost of hedging reserve and reclassified from equity to profit or loss on a straight-line basis over the term of the hedging relationship. The treatment for the currency basis element is optional and the option is applied on an individual hedge basis.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss (FVTPL).

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

The group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

i Fair value hedge

Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement within 'fair value gains/(losses) on derivative financial instruments', together with changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If a fair value hedge is discontinued, the hedged item is not adjusted for any subsequent movements in the hedged risk. The cumulative amount of fair value adjustment on the hedge item at the point of designation is then amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

ii Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'fair value gains/(losses) on derivative financial instruments'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, in the periods when interest income or expense is recognised, or when the forecast hedged cost takes place).

When a cash flow hedge is discontinued, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

iii Derivatives that do not qualify for hedge accounting

Certain derivative instruments, principally index-linked swaps, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and changes in fair value are recognised immediately in the income statement.

u) Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

v) Retirement benefit obligations

i Defined benefit schemes

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet.

ii Defined contribution schemes

The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

Notes to the financial statements continued

for the year ended 31 March 2021

2. Key assumptions and significant judgements

In preparing these consolidated financial statements, the Directors have made judgements, estimates and assumptions that affect the application of the group's accounting policies, which are described in note 1, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

A key consideration, but not one which the group views as representing a material estimation uncertainty, is climate change. Climate change is a global challenge and an emerging risk not only to the environment but markets, businesses and people throughout the world. Climate change is embedded into everything we do and our long-term strategy effectively identifies, manages and mitigates these key risks. As a business we took a leading role in working with other water companies in developing a routemap to zero carbon and have committed to achieving net zero carbon by 2030. We have also set out the risks posed by climate change and how we will address them in our latest Adaptation Report.

For further detail see the strategic ambitions, risk and climate-related financial disclosures sections of the Annual Integrated Report on pages 22–25 and 74–93.

a) Significant judgements

The areas where the most critical judgements have been applied are as follows:

i Capitalised expenditure

Additions to intangible assets, and to property, plant and equipment, include £101.7 million (2020: £72.4 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the group.

ii Asset lives

The property, plant and equipment used in the group is primarily the infrastructure and operational assets of the regulated water business. Infrastructure and operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets. Although considered during the review of asset lives, the group does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising. Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk.

iii Recognition of grants and contributions

Revenue is recognised when the performance obligations in a contract are met. For grants and contributions in respect of new housing developments our obligation to the developer is met when properties are connected to the network, and therefore this is considered the relevant trigger for income recognition. We believe the ongoing obligation to maintain the connection to the property is a separate contract with the property owner (in most cases the household customer) and separate from the contract with the developer.

A similar revenue recognition approach is taken with diversions. The obligation here is that we divert the sewer or water main at the request of the relevant authority or agency, and our obligation is fully met once the diversion is completed, and therefore the contribution is fully recognised as revenue at that point in time.

b) Areas involving estimation

The key areas involving estimation are discussed below.

i Measured income accrual

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall or rise of two cubic metres in average annual consumption will reduce revenue or increase by approximately £10.8 million respectively).

ii Bad debts

IFRS 9 requires that historical loss rates are adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The company starts by evaluating the estimated recoverability of trade receivables and records a provision for doubtful receivables based on experience, primarily cash collection history and then adjusts, as necessary, for forward looking factors such as a change in economic conditions.

The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Management's view is that the previous four years provides the best indication of collection performance, to go back further would not account for improvements in collection methods. A three year look back period would increase the bad debt provision by £3.7 million.

Management continue to take a prudent approach of providing for 100 per cent of balances over four years old.

In previous years management have not made any adjustment for macro-economic conditions as the UK has experience a period of relative stability. However, at March 2020 management adjusted the bad debt provision to account for the expectation that Covid-19 would impact our customers' ability to pay in future years, thus meaning historic collection rates would not represent future collection. At March 2021 management have made a similar adjustment to reflect the expected impact of Covid-19 on our customers' ability to pay.

The last major shock to the economy was the Financial Crisis and subsequent to that we saw unemployment rates rise, which is similar to what is being predicted for the coming years.

Using data from this period, management anticipate that the forecast unemployment rate for the years to 2024/25, after which we fully provide for unpaid amounts, will increase the bad debt charge by £18.7 million over that period, of which £13.5 million relates to invoices outstanding at March 2021. Management have therefore increased their provision at March 2020 of £12.0 million by £1.5 million.

Management have based their calculation on the assumption that unemployment will peak at 7.0 per cent in 2021/22 before falling back to normal levels by 2024/25. If unemployment levels were to stay at 7.0 per cent for the period, this would increase the excess bad debt charge over the period by £14.0 million to £32.7 million. Management note that subsequent unemployment forecasts suggest a lower peak, however accounting standards require us to make the assessment based on information available at the 31 March 2021. This is not deemed to be an adjusting post balance sheet event therefore no adjustment has been made to reflect the revised forecasts.

iii Retirement benefit actuarial assumptions

The company operates one defined benefit scheme (which is closed to new members and future accrual), a defined contribution scheme and an unfunded arrangement for former employees. Under IAS 19 'Employee Benefits' the company has recognised an actuarial loss of £162.7 million (2020: gain of £108.4 million) in respect of the defined benefit scheme which affects other comprehensive income and net assets. The actuarial valuation of the scheme liabilities is reliant on key assumptions which include: the discount rate, salary inflation and life expectancy. The main assumptions and associated sensitivities are set out in note 23 of the financial statements.

Notes to the financial statements continued

for the year ended 31 March 2021

3. Segmental information

The Directors believe that the whole of the group's activities constitute a single class of business.

The group's revenue is wholly generated from within the United Kingdom.

4. Revenue

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Water and water recycling services:		
Anglian Water		
Household – measured	813.4	791.0
Household – unmeasured	219.8	235.7
Non-household – measured	206.3	265.2
Grants and contributions	75.6	89.3
Other	36.7	38.7
	1,351.8	1,419.9

The group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the above revenue categories.

The above analysis excludes other operating income (see note 5) and finance income (see note 7).

5. Other operating income

Other operating income comprises principally income from sustainable power generation, biosolid sales and rents received.

6. Operating costs

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Raw materials and consumables	21.9	22.2
Staff costs	233.6	226.9
Research and development	7.6	3.2
Contribution to Anglian Water Assistance Fund	1.2	1.0
Short-term lease costs	2.8	2.2
Other operating costs	426.4	443.8
Own work capitalised	(101.7)	(72.4)
Profit on disposal of property, plant and equipment[1]	(1.5)	(2.3)
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	590.3	624.6
Depreciation of property, plant and equipment	302.5	323.6
Amortisation of intangible assets	48.8	44.9
Depreciation and amortisation	351.3	368.5
Charge for bad and doubtful debts	31.1	40.7
Operating costs	972.7	1,033.8

1 The profit on disposal of property, plant and equipment relates to various sales of surplus land and assets.

During the year the group obtained the following services from the company's Auditor:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Fees payable to the company's Auditor for the audit of the company and the consolidated financial statements	0.3	0.3
Fees payable to the company's Auditor for other services		
Audit-related assurance services	0.2	0.1
Other non-audit services	–	0.2
	0.5	0.6

The company's auditor for the year ended 31 March 2021 and 31 March 2020 was Deloitte LLP. Audit related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the group's half-year results.

Notes to the financial statements continued

for the year ended 31 March 2021

7. Net finance costs

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Finance income		
Interest income on short-term bank deposits	2.0	4.8
	2.0	4.8
Finance costs		
Interest expense on bank loans and overdrafts	(3.3)	(0.1)
Interest expense on other loans including financing expenses	(213.2)	(226.7)
Indexation of loan stock	(48.6)	(114.5)
Amortisation of debt issue costs	(4.2)	(3.9)
Interest on leases	(1.0)	(0.7)
Unwinding of discount on provision	(0.1)	(2.1)
Defined benefit pension scheme interest	3.4	0.3
Total finance costs	(267.0)	(347.7)
Less: amounts capitalised on qualifying assets	15.6	17.8
	(251.4)	(329.9)
Fair value losses on derivative financial instruments		
Fair value gains/(losses) on energy hedges	2.3	(1.8)
Hedge ineffectiveness on cash flow hedges[1]	1.4	0.5
Hedge ineffectiveness on fair value hedges[2]	2.3	(2.0)
Amortisation of adjustment to debt in fair value hedge	(0.1)	(0.3)
Derivative financial instruments not designated as hedges	(16.6)	(18.8)
Recycling of de-designated cash flow hedge relationship	(12.5)	(8.0)
	(23.2)	(30.4)
Finance costs, including fair value losses on derivative financial instruments	(274.6)	(360.3)
Net finance costs	(272.6)	(355.5)

1 Hedge ineffectiveness on cash flows hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk. See note 20 for details.

2 Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £60.8 million (2020: gains of £52.8 million), offset by fair value gains of £63.1 million on hedged risks (2020: losses of £54.8 million).

8. Taxation

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Current tax:		
In respect of the current period	(0.1)	(11.4)
Adjustments in respect of prior periods	(5.4)	(3.1)
Total current tax credit	(5.5)	(14.5)
Deferred tax:		
Origination and reversal of temporary differences	24.1	21.1
Adjustments in respect of previous periods	1.6	–
Reversal of decrease in corporation tax rate	–	113.8
Total deferred tax charge	25.7	134.9
Total tax charge on profit on continuing operations	20.2	120.4

The current tax credit for both years reflects receipts from other group companies for losses surrendered to those group companies. The tax losses arise mainly because capital allowances exceed the depreciation charged in the accounts, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year.

The deferred tax charge for both years mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts.

The current and deferred tax adjustments in respect of previous periods for both years relate mainly to the agreement of prior year tax computations.

In 2020 there was a charge relating to the reversal of the corporation tax rate, which was originally expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020. The deferred tax balances at 31 March 2019 were therefore measured using the rate of 17 per cent. This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances were re-measured using the rate of 19 per cent, giving rise to a charge in 2020.

In the March 2021 Budget, it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19 per cent. If the amended tax rate had been used, the deferred tax liability would have been £345 million higher.

Notes to the financial statements continued

for the year ended 31 March 2021

8. Taxation continued

The tax charge on the group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2020: 19 per cent) to the profit before tax from continuing operations as follows:

	Year ended 31 March 2021 £m	Year ended 31 March 2021 £m
Profit before tax from continuing operations	119.0	43.6
Profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2020: 19%)	22.6	8.3
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	0.9	0.8
Disallowable expenditure	0.5	0.6
	24.0	9.7
Effects of non-recurring items:		
Reversal of decrease in corporation tax rate	–	113.8
Adjustments in respect of prior periods	(3.8)	(3.1)
Tax charge for the year	20.2	120.4

In addition to the tax charged to the income statement, the following amounts of tax relating to components of other comprehensive income were recognised:

	Year ended 31 March 2021 £m	Year ended 31 March 2021 £m
Deferred tax:		
Defined benefit pension schemes	(30.9)	20.6
Cash flow hedges	3.8	4.9
Reversal of decrease in corporation tax rate – pension	–	(1.8)
Reversal of decrease in corporation tax rate – hedges	–	(1.8)
Total deferred tax (credit)/charge	(27.1)	21.9
Total tax (credit)/charge recognised in other comprehensive income	(27.1)	21.9

9. Employee information and Directors' emoluments

a) Employee information

	Year ended 31 March 2021 £m	Year ended 31 March 2021 £m
Staff costs		
Wages and salaries	194.9	189.3
Social security costs	21.2	19.9
Pension costs – defined contribution	17.5	17.7
	233.6	226.9

Staff costs for the year ended 31 March 2021 in the table above are shown gross of £83.0 million (2020: £59.6 million) of costs that have been capitalised, as shown within 'own work capitalised' in note 6.

Average monthly number of full-time equivalent persons (including Executive Directors) employed by the group:

	Year ended 31 March 2021	Year ended 31 March 2021
Water Services	989	989
Water Recycling Services	1,552	1,568
Customer Services	518	507
Asset Management and Other	1,823	1,920
	4,882	4,984

b) Directors' emoluments

	Year ended 31 March 2021 £'000	Year ended 31 March 2021 £'000
Aggregate emoluments	1,908	1,771
Pension costs – defined contribution	2	–
Benefits received under long-term incentive plans	141	131

Aggregate emoluments of the Directors comprise charges for salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. Retirement benefits are accruing to zero Directors (2020: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2020: two Directors) under a defined contribution pension scheme. In addition to the aggregate emoluments above, certain Directors receive emoluments from other Anglian Water Group Limited Group undertakings.

Notes to the financial statements continued

for the year ended 31 March 2021

9. Employee information and Directors' emoluments continued

c) Highest paid Director

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on page 125.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Aggregate emoluments	1,198	761
Benefits received under long-term incentive plans	141	131

10. Profit/(loss) of the parent company

The company does not present its own income statement as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the company, was £98.5 million (2020: loss of £76.9 million).

11. Dividends

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Paid by the group:		
Previous year final dividend	–	67.8
	–	67.8

No dividends were paid by the company or out of the Anglian Water Services Financing Group for the year ended 31 March 2021 (2020: £67.8 million). No dividends were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2020: £nil). See note 31 for details of dividends declared after the end of the year.

12. Other intangible assets

	Group and company		
	Computer Software £m	Internally generated £m	Total £m
Cost			
At 1 April 2019	389.3	113.1	502.4
Additions	45.0	19.9	64.9
Disposals	(3.2)	–	(3.2)
At 31 March 2020	431.1	133.0	564.1
Additions	64.5	24.4	88.9
At 31 March 2021	495.6	157.4	653.0
Accumulated amortisation			
At 1 April 2019	(242.0)	(63.1)	(305.1)
Charge for the year	(25.7)	(19.2)	(44.9)
Disposals	3.2	–	3.2
At 31 March 2020	(264.5)	(82.3)	(346.8)
Charge for the year	(30.6)	(18.2)	(48.8)
At 31 March 2021	(295.1)	(100.5)	(395.6)
Net book amount			
At 31 March 2021	200.5	56.9	257.4
At 31 March 2020	166.6	50.7	217.3

The internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £3.6 million (2020: £3.7 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.4 per cent (2020: 4.8 per cent).

No intangible assets were disposed of during the year (2020: cost £3.2 million, £nil net book value).

Included within intangible assets above are assets under construction of £119.3 million (2020: £87.9 million), which are not yet subject to amortisation.

Notes to the financial statements continued

for the year ended 31 March 2021

13. Property, plant and equipment

	Group and company					
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2019	80.1	6,855.6	6,035.8	840.5	408.6	14,220.6
Additions	–	–	–	–	462.4	462.4
Transfers on commissioning	5.9	205.7	214.2	74.5	(500.3)	–
Disposals	(2.2)	–	(11.1)	(24.1)	–	(37.4)
At 31 March 2020	83.8	7,061.3	6,238.9	890.9	370.7	14,645.6
Additions	–	–	–	–	404.2	404.2
Transfers on commissioning	1.5	98.3	164.3	74.6	(338.7)	–
Disposals	–	–	(2.9)	(23.6)	–	(26.5)
At 31 March 2021	85.3	7,159.6	6,400.3	941.9	436.2	15,023.3
Accumulated depreciation						
At 1 April 2019	(7.6)	(725.6)	(3,104.9)	(579.2)	–	(4,417.3)
Charge for the year	(4.2)	(57.1)	(210.6)	(51.7)	–	(323.6)
Disposals	0.7	–	11.1	23.8	–	35.6
At 31 March 2020	(11.1)	(782.7)	(3,304.4)	(607.1)	–	(4,705.3)
Charge for the year	(3.6)	(58.1)	(189.5)	(51.3)	–	(302.5)
Disposals	–	–	2.9	23.3	–	26.2
At 31 March 2021	(14.7)	(840.8)	(3,491.0)	(635.1)	–	(4,981.6)
Net book amount						
At 31 March 2021	70.6	6,318.8	2,909.3	306.8	436.2	10,041.7
At 31 March 2020	72.7	6,278.6	2,934.5	283.8	370.7	9,940.3

Property, plant and equipment at 31 March 2021 includes land of £28.3 million (2020: £28.0 million) which is not subject to depreciation. Included within additions above is £12.0 million (2020: £14.2 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.4 per cent (2020: 4.8 per cent).

Right-of-use assets held under leases

Included within the amounts shown above are the following amounts in relation to right-of-use assets held under leases:

	Group and company				
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	Total £m
At 31 March 2021					
Opening net book value	29.4	5.0	39.5	4.0	77.9
Additions	0.8	–	–	0.4	1.2
Depreciation charge	(3.2)	–	(1.3)	(1.4)	(5.9)
Net book value	27.0	5.0	38.2	3.0	73.2
At 31 March 2020					
Opening net book value	30.3	5.1	40.9	1.6	77.9
Additions	4.0	–	0.1	3.4	7.5
Disposals	(2.1)	–	(1.2)	(0.3)	(3.6)
Depreciation charge	(3.5)	(0.1)	(1.5)	(1.0)	(6.1)
Depreciation on disposals	0.7	–	1.2	0.3	2.2
Net book value	29.4	5.0	39.5	4.0	77.9

14. Investments

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. The value of the investment is £12,502. It is 100 per cent owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2021. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

15. Inventories

	Group and Company	
	2021 £m	2020 £m
Raw materials and consumables	13.9	12.4
	13.9	12.4

Notes to the financial statements continued

for the year ended 31 March 2021

16. Trade and other receivables

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade receivables	397.8	355.8	397.8	355.8
Provision for bad and doubtful debts	(233.6)	(212.0)	(233.6)	(212.0)
Net trade receivables	164.2	143.8	164.2	143.8
Amounts receivable by other Anglian Water Group Limited group undertakings	0.1	0.7	0.1	0.7
Other amounts receivable	35.7	21.5	35.7	21.5
Prepayments and accrued income	300.9	364.6	300.9	364.6
	500.9	530.6	500.9	530.6

Other amounts receivable includes £21.0 million VAT debtor (2020: £12.7 million) and various other sundry debtors.

Prepayments and accrued income as at 31 March 2021 includes water and water recycling income not yet billed of £294.1 million (2020: £357.6 million). Of the trade receivables, £372.2 million (2020: £332.5 million) relates to residential customers, £16.4 million (2020: 19.7 million) relates to non-household retailer balances and the remaining balance of £9.2 million (2020: £3.6 million) relates to developer services and other receivables. The majority of non-household customers are billed in arrears and are therefore included within accrued income above.

The carrying values of trade and other receivables are reasonable approximations of their fair values.

The group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water customer base consisting of a large number of unrelated households. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. The Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables.

Following the introduction of market reform on 1 April 2017, the provision of water and wastewater services to non-household customers was transferred to a relatively small number of licensed retailers. Anglian Water bills the retailers on a monthly basis, and they are contractually obliged to pay in full within one month and therefore the credit risk is limited to one month's revenue relating to non-household customers. The principal retailer that Anglian Water transacts with is Wave Ltd, with £14.2 million receivables (2020: £9.4 million) and £5.4 million of income accrued at 31 March 2021 (2020: £18.2 million).

The movement on the doubtful debts provision, all of which relates to trade receivables, was as follows:

	Group and company	
	2021 £m	2020 £m
At 1 April	212.0	193.3
Charge for bad and doubtful debts	31.1	40.7
Amounts written off during the year	(9.9)	(22.0)
Amounts recovered during the year	0.4	–
At 31 March	233.6	212.0

It is expected that the economic consequences of Covid-19 will impact our customers' ability to pay in 2021 and potentially subsequent years. Forecast unemployment rates for the years to 2024/25, after which we fully provide for unpaid amounts, are expected to increase the bad debt charge by £18.7 million over that period, of which £13.5 million relates to invoices outstanding at March 2021. Management have therefore increased their additional provision at March 2020 of £12.0 million by £1.5 million.

17. Analysis of net debt

	Group				
			Liabilities from financing activities		
	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[1] £m	Total £m
At 1 April 2019	257.3	297.0	(6,968.0)	(779.5)	(7,193.2)
Cash flows					
Interest paid	(229.3)	–	31.9	2.1	(195.3)
Issue costs paid	(2.6)	–	2.6	–	–
Interest on leases	(0.7)	–	–	–	(0.7)
Increase in amounts borrowed	815.9	–	(815.9)	–	–
Repayment of amounts borrowed	(220.3)	–	220.3	–	–
Principal settlement on derivatives	(25.1)	–	–	25.1	–
Repayment of principal on derivatives	34.7	–	–	(34.7)	–
Repayment of principal on leases	(11.3)	–	11.3	–	–
Non-financing cash flows[2]	110.5	22.0	–	–	132.5
	471.8	22.0	(549.8)	(7.5)	(63.5)
Movement in interest accrual on debt	–	–	(2.1)	–	(2.1)
New lease agreements	–	–	(7.8)	–	(7.8)
Termination of leases	–	–	1.8	–	1.8
Amortisation of issue costs	–	–	(3.9)	–	(3.9)
Indexation of borrowings and RPI swaps	–	–	(77.8)	(36.7)	(114.5)
Fair value gains and losses and foreign exchange	–	–	(117.7)	85.5	(32.2)
At 31 March 2020	729.1	319.0	(7,725.3)	(738.2)	(7,415.4)

1 Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

2 Non-financing cash flows comprise: net cash flows from operating activities of £633.9 million (2020: £645.7 million), less net cash used in investing activities, excluding decrease/(increase) in short term bank deposits, of £420.3 million (2020: £445.4 million) and dividends paid of £nil (2020: £67.8 million).

Notes to the financial statements continued

for the year ended 31 March 2021

17. Analysis of net debt continued

	Group				
			Liabilities from financing activities		
	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[1] £m	Total £m
At 1 April 2020	729.1	319.0	(7,725.3)	(738.2)	(7,415.4)
Cash flows					
Interest paid	(218.8)	–	31.5	(5.4)	(192.7)
Issue costs paid	(2.9)	–	2.9	–	–
Borrowings premiums received	7.7	–	(7.7)	–	–
Interest on leases	(1.0)	–	–	–	(1.0)
Increase in amounts borrowed	242.6	–	(242.6)	–	–
Repayment of amounts borrowed	(928.8)	–	928.8	–	–
Repayment of principal on derivatives	(63.5)	–	–	63.5	–
Receipt of principal on derivatives	–	–	–	–	–
Repayment of principal on leases	(11.1)	–	11.1	–	–
Non-financing cash flows[2]	452.6	(239.0)	–	–	213.6
	(523.2)	(239.0)	724.0	58.1	19.9
Movement in interest accrual on debt	–	–	3.0	–	3.0
New lease agreements	–	–	(1.2)	–	(1.2)
Termination of leases	–	–	–	–	–
Amortisation of issue costs	–	–	(4.2)	–	(4.2)
Indexation of borrowings and RPI swaps	–	–	(32.0)	(16.6)	(48.6)
Fair value gains and losses and foreign exchange	–	–	100.0	(144.3)	(44.3)
At 31 March 2021	205.9	80.0	(6,935.7)	(841.0)	(7,490.8)
Net debt at 31 March 2021 comprises:					
Non-current assets	–	–	–	108.7	108.7
Current assets	205.9	80.0	–	79.7	365.6
Current liabilities	–	–	(652.9)	(24.8)	(677.7)
Non-current liabilities	–	–	(6,282.8)	(1,004.6)	(7,287.4)
	205.9	80.0	(6,935.7)	(841.0)	(7,490.8)

1 Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

2 Non-financing cash flows comprise: net cash flows from operating activities of £633.9 million (2020: £645.7 million), less net cash used in investing activities, excluding decrease/(increase) in short term bank deposits, of £420.3 million (2020: £445.4 million) and dividends paid of £nil (2020: £67.8 million).

Energy hedges, excluded from net debt, are included within derivative financial instruments as follows:

	Group and company	
	2021 £m	2020 £m
Non-current assets	3.9	0.5
Current assets	5.1	–
Current liabilities	–	(3.0)
Non-current liabilities	–	(2.1)
	9.0	(4.6)

	Company				
			Liabilities from financing activities		
	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[1] £m	Total £m
At 1 April 2019	255.5	297.0	(6,968.0)	(779.5)	(7,195.0)
Cash flows					
Interest paid	(229.3)	–	31.9	2.1	(195.3)
Issue costs paid	(2.6)	–	2.6	–	–
Interest on leases	(0.7)	–	–	–	(0.7)
Increase in amounts borrowed	815.9	–	(815.9)	–	–
Repayment of amounts borrowed	(220.3)	–	220.3	–	–
Principal settlement on derivatives	(25.1)	–	–	25.1	–
Repayment of principal on derivatives	34.7	–	–	(34.7)	–
Repayment of principal on leases	(11.3)	–	11.3	–	–
Non-financing cash flows[2]	112.2	22.0	–	–	134.2
	473.5	22.0	(549.8)	(7.5)	(61.8)
Movement in interest accrual on debt	–	–	(2.1)	–	(2.1)
New lease agreements	–	–	(7.8)	–	(7.8)
Termination of leases	–	–	1.8	–	1.8
Amortisation of issue costs	–	–	(3.9)	–	(3.9)
Indexation of borrowings and RPI swaps	–	–	(77.8)	(36.7)	(114.5)
Fair value gains and losses and foreign exchange	–	–	(117.7)	85.5	(32.2)
At 31 March 2020	729.0	319.0	(7,725.3)	(738.2)	(7,415.5)

1 Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

2 Non-financing cash flows comprise: net cash flows from operating activities of £609.1 million (2020: £647.6 million), less net cash used in investing activities, excluding decrease/(increase) in short term bank deposits, of £420.6 million (2020: £445.6 million) and dividends paid of £nil (2020: £67.8 million).

Notes to the financial statements continued

for the year ended 31 March 2021

17. Analysis of net debt continued

	Company				
			Liabilities from financing activities		
	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[1] £m	Total £m
At 1 April 2020	729.0	319.0	(7,725.3)	(738.2)	(7,415.5)
Cash flows					
Interest paid	(218.8)	–	31.5	(5.4)	(192.7)
Issue costs paid	(2.9)	–	2.9	–	–
Borrowings premiums received	7.7	–	(7.7)	–	–
Interest on leases	(1.0)	–	–	–	(1.0)
Increase in amounts borrowed	242.6	–	(242.6)	–	–
Repayment of amounts borrowed	(928.8)	–	928.8	–	–
Repayment of principal on derivatives	(63.5)	–	–	63.5	–
Receipt of principal on derivatives	–	–	–	–	–
Repayment of principal on leases	(11.1)	–	11.1	–	–
Non-financing cash flows[2]	427.5	(239.0)	–	–	188.5
	(548.3)	(239.0)	724.0	58.1	(5.2)
Movement in interest accrual on debt	–	–	3.0	–	3.0
New lease agreements	–	–	(1.2)	–	(1.2)
Termination of leases	–	–	–	–	–
Amortisation of issue costs	–	–	(4.2)	–	(4.2)
Indexation of borrowings and RPI swaps	–	–	(32.0)	(16.6)	(48.6)
Fair value gains and losses and foreign exchange	–	–	100.0	(144.3)	(44.3)
At 31 March 2021	180.7	80.0	(6,935.7)	(841.0)	(7,516.0)
Net debt at 31 March 2021 comprises:					
Non-current assets	–	–	–	108.7	108.7
Current assets	180.7	80.0	–	79.7	340.4
Current liabilities	–	–	(652.9)	(24.8)	(677.7)
Non-current liabilities	–	–	(6,282.8)	(1,004.6)	(7,287.4)
	180.7	80.0	(6,935.7)	(841.0)	(7,516.0)

1 Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

2 Non-financing cash flows comprise: net cash flows from operating activities of £609.1 million (2020: £647.6 million), less net cash used in investing activities, excluding decrease/(increase) in short term bank deposits, of £420.6 million (2020: £445.6 million) and dividends paid of £nil (2020: £67.8 million).

18. Trade and other payables

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade payables	40.4	34.7	40.4	34.7
Capital creditors and accruals	115.9	97.2	115.9	97.2
Receipts in advance	288.6	324.6	288.6	324.6
Amounts owed to group undertakings	1.2	1.3	24.9	49.8
Other taxes and social security	4.8	4.8	4.8	4.8
Accruals and deferred income	47.5	51.0	47.5	51.0
Other payables	3.8	7.3	3.8	7.3
	502.2	520.9	525.9	569.4

Receipts in advance includes £238.5 million (2020: £281.6 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

Amounts relating to capital creditors and accruals have been separately presented in the above table to aid consistency with the presentation required by Ofwat in the Annual Performance Report of Anglian Water Services Limited.

The Directors consider that the carrying values of trade and other payables are not materially different from their fair values.

There is no fixed payment date for amounts owed to group undertakings and no interest is applied. Amounts are payable on demand.

Notes to the financial statements continued

for the year ended 31 March 2021

19. Loans and other borrowings

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
£250 million 5.837% fixed rate 2022	259.3	259.1	259.3	259.1
£200 million 6.875% fixed rate 2023	208.4	208.4	208.4	208.4
£200 million 6.625% fixed rate 2029	202.7	202.8	202.7	202.8
£246 million 6.293% fixed rate 2030	256.6	257.5	256.6	257.5
£150 million 4.125% index-linked 2020	–	264.6	–	264.6
£75 million 3.666% index-linked 2024	127.0	125.7	127.0	125.7
£200 million 3.07% index-linked 2032	336.4	333.1	336.4	333.1
£60 million 3.07% index-linked 2032	102.2	100.9	102.2	100.9
IFRS 16 leases	39.5	49.4	39.5	49.4
£402 million 2.4% index-linked 2035	629.2	623.7	629.2	623.7
£50 million 1.7% index-linked 2046	75.5	74.8	75.5	74.8
£50 million 1.7% index-linked 2046	75.7	74.7	75.7	74.7
£40 million 1.7146% indexation bond 2056	60.7	60.2	60.7	60.2
£50 million 1.6777% indexation bond 2056	75.9	75.2	75.9	75.2
£60 million 1.7903% indexation bond 2049	91.1	90.2	91.1	90.2
£100 million 1.3784% indexation bond 2057	151.6	149.7	151.6	149.7
£50 million 1.3825% indexation bond 2056	75.7	74.8	75.7	74.8
£100 million Class A wrapped floating rate bonds	99.9	100.1	99.9	100.1
£75 million 1.449% indexation bond 2062	109.0	106.9	109.0	106.9
£50 million 1.52% indexation bond 2055	72.6	71.2	72.6	71.2
£110 million Class A unwrapped floating rate bonds 2043	110.0	110.1	110.0	110.1
£25 million 6.875% private placements 2034	25.0	25.0	25.0	25.0
£130 million 2.262% indexation bond 2045	173.8	171.8	173.8	171.8
US$160 million 4.52% private placements 2021	118.4	135.3	118.4	135.3
US$410 million 5.18% private placements 2021	302.1	335.1	302.1	335.1
EIB £75 million 0.53% index-linked term facility 2027[1]	55.8	64.4	55.8	64.4
EIB £75 million 0.79% index-linked term facility 2027[1]	55.8	64.4	55.8	64.4
£250 million 4.5% fixed rate 2027	253.0	252.7	253.0	252.7
£15 million 1.37% index-linked private placements 2022	18.3	18.1	18.3	18.1
£50 million 2.05% index-linked private placements 2033	61.0	60.3	61.0	60.3
£31.9 million 3.983% private placements 2022	32.5	32.5	32.5	32.5
£73.3 million 4.394% private placements 2028	77.5	79.6	77.5	79.6
£22.3 million 3.983% private placements 2022	22.7	22.7	22.7	22.7
US$47 million 5% private placements 2022	34.9	38.7	34.9	38.7
EIB £150 million 0% index-linked term facility 2028[2]	126.4	142.8	126.4	142.8
£200 million Class B 4.5% fixed rate 2026	207.6	209.8	207.6	209.8
£35 million 1.141% index-linked bond 2042	41.7	41.3	41.7	41.3
US$170 million 3.84% private placements 2023	132.9	150.7	132.9	150.7
£93 million 3.537% private placements 2023	94.3	94.3	94.3	94.3
US$160 million 4.99% private placements 2023	117.8	130.6	117.8	130.6
EIB £65 million 0.41% index-linked term facility 2029	60.8	67.5	60.8	67.5
EIB Tranche 2 £125 million 0.1% 2029[(3)]	122.9	135.6	122.9	135.6
EIB Tranche 3 £60 million 0.01% 2030[(4)]	62.1	68.2	62.1	68.2
RCF £550 million	23.0	548.0	23.0	548.0
RCF £50 million bilaterals[(5)]	(0.1)	49.9	(0.1)	49.9
US$150 million 3.29% private placements 2026	113.7	130.4	113.7	130.4
£55 million 2.93% fixed rate private placements 2026	55.4	55.3	55.4	55.3
£20 million 2.93% fixed rate private placements 2026	20.0	20.0	20.0	20.0
Sub-total carried forward	5,568.3	6,558.1	5,568.3	6,558.1

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Sub-total brought forward	5,568.3	6,558.1	5,568.3	6,558.1
£35 million floating rate private placements 2031	34.7	34.7	34.7	34.7
£200 million Class B 2.6225% fixed rate 2027	202.3	203.6	202.3	203.6
£250 million Green Bond 1.625% 2025	256.9	258.7	256.9	258.7
£300 million Green bond 2.75% 2029	300.1	299.7	300.1	299.7
£25 million 3.0% fixed rate 2031	24.9	24.9	24.9	24.9
US$53 million 3.053% fixed rate 2029	38.4	42.7	38.4	42.7
£85 million 2.88% fixed rate 2029	84.8	84.8	84.8	84.8
£65 million 2.87% fixed rate 2029	65.4	65.4	65.4	65.4
£65 million CPI 0.835% 2040	65.2	(0.4)	65.2	(0.4)
JPY 7 billion 0.855% fixed rate 2039	45.8	52.4	45.8	52.4
EDC £100 million 1.588% fixed rate 2028	100.2	100.2	100.2	100.2
£50 million 1.76% fixed rate 2035	49.9	–	49.9	–
JPY 7 billion 0.85% fixed rate 2040	39.3	–	39.3	–
JR £26.1 million CPI 0.01% 2035	29.9	–	29.9	–
BPPT £26.1 million CPI 0.01% 2035	29.7	–	29.7	–
£35 million 2.14% fixed rate 2036[(6)]	(0.3)	–	(0.3)	–
£40 million 2.14% fixed rate 2036[(6)]	(0.3)	–	(0.3)	–
Liquidity facilities	0.5	0.5	0.5	0.5
Total loans and other borrowings	6,935.7	7,725.3	6,935.7	7,725.3
Included in:				
Current liabilities	652.9	1,023.0	652.9	1,023.0
Non-current liabilities	6,282.8	6,702.3	6,282.8	6,702.3
Of which are leases:				
Current liabilities	12.6	10.7	12.6	10.7
Non-current liabilities	26.9	38.7	26.9	38.7

1 These instruments are amortising from 2017 until the date of maturity shown.

2 This instrument is amortising from 2018 until the date of maturity shown.

3 This instrument is amortising from 2019 until the date of maturity shown.

4 This instrument is amortising from 2020 until the date of maturity shown.

5 The bilateral facility was decreased to £50.0 million in May 2020 (31 March 2020: £100.0 million).

6 These instruments were transacted in March 2021 with debt cash proceeds received in April 2021 after the current period end.

The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £32.0 million (2020: £77.8 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs and premiums of £22.1 million (2020: £31.7 million). The issue costs and premiums are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

Notes to the financial statements continued

for the year ended 31 March 2021

19. Loans and other borrowings continued

A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) created a fixed and floating charge over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition, there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services UK Parent Co Limited. At 31 March 2021, this charge applies to £6,896.3 million (2020: £7,675.8 million) of the debt listed above.

With the exception of issue costs capitalised and leases, all of the company's borrowings are payable to Anglian Water Services Financing Plc, but on terms set out above.

Loans and other borrowing liabilities disclosed within borrowings on the balance sheet are the only instruments designated as fair value hedge items by the group. The table below details the impact of fair value hedge adjustments on the instruments subject to fair value hedge accounting:

	Group and company			
	Carrying value £m	Proportion hedged %	Accumulated hedge adjustment[2] £m	Discounted hedge adjustment £m
At 31 March 2021				
US$150 million 3.29% private placements 2026	113.7	76	(4.1)	–
US$160 million 4.52% private placements 2021	118.4	100	(1.0)	–
US$170 million 3.84% private placements 2023	132.9	94	(7.6)	–
£200 million Class B 2.6225% fixed rate 2027	202.3	41	(2.2)	–
£200 million Class B 4.5% fixed rate 2026	207.6	50	(8.0)	–
£246 million 6.293% fixed rate 2030	256.6	20	(1.7)	–
£250 million Green Bond 1.625% 2025	256.9	100	(6.0)	–
£73.3 million 4.394% private placements 2028	77.5	100	(2.7)	–
US$410 million 5.18% private placements 2021[1]	302.1	–	0.1	0.1
JPY 7 billion 0.85% fixed rate 2040	39.3	100	6.3	–
£35 million 2.14% fixed rate 2036	(0.3)	100	0.3	–
£40 million 2.14% fixed rate 2036	(0.3)	100	0.3	–
	1,706.7		(26.3)	0.1
At 31 March 2020				
US$150 million 3.29% private placements 2026	130.4	76	(8.7)	–
US$160 million 4.52% private placements 2021	135.3	100	(5.0)	–
US$170 million 3.84% private placements 2023	150.7	94	(11.8)	–
£200 million Class B 2.6225% fixed rate 2027	203.6	41	(3.7)	–
£200 million Class B 4.5% fixed rate 2026	209.8	50	(10.4)	–
£246 million 6.293% fixed rate 2030	257.5	20	(2.6)	–
£250 million Green Bond 1.625% 2025	258.7	100	(8.2)	–
£73.3 million 4.394% private placements 2028	79.6	100	(4.8)	–
US$410 million 5.18% private placements 2021[1]	334.9	–	0.2	0.2
	1,760.5		(55.0)	0.2

1 This debt instrument was changed from a fair value hedge to a cash flow hedge in June 2015 resulting in the discontinued hedge adjustment.

2 The movement in the accumulated hedge adjustment is shown within fair value losses on derivative financial instruments in the income statement. The accumulated hedge adjustment noted above is included within the carrying value of each instrument.

20. Financial instruments

Financial assets by category

	Group				
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m	Investments at amortised cost £m	Total £m
At 31 March 2021					
Investments					
Current – cash deposits	–	–	–	80.0	80.0
Cash and cash equivalents					
Current	–	–	205.9	–	205.9
Trade and other receivables					
Current	–	–	494.1	–	494.1
Derivative financial instruments					
Current	10.4	74.4	–	–	84.8
Non-current	37.6	75.0	–	–	112.6
	48.0	149.4	700.0	80.0	977.4
At 31 March 2020					
Investments					
Current – cash deposits	–	–	–	319.0	319.0
Cash and cash equivalents					
Current	–	–	729.1	–	729.1
Trade and other receivables					
Current	–	–	523.6	–	523.6
Derivative financial instruments					
Current	–	16.8	–	–	16.8
Non-current	68.8	249.0	–	–	317.8
	68.8	265.8	1,252.7	319.0	1,906.3

Trade and other receivables above exclude prepayments.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Financial assets by category continued

	Company				
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m	Investments at amortised cost £m	Total £m
At 31 March 2021					
Investments					
Current – cash deposits	–	–	–	80.0	80.0
Cash and cash equivalents					
Current	–	–	180.7	–	180.7
Trade and other receivables					
Current	–	–	494.1	–	494.1
Derivative financial instruments					
Current	10.4	74.4	–	–	84.8
Non-current	37.6	75.0	–	–	112.6
	48.0	149.4	674.8	80.0	952.2
At 31 March 2020					
Investments					
Current – cash deposits	–	–	–	319.0	319.0
Cash and cash equivalents					
Current	–	–	729.0	–	729.0
Trade and other receivables					
Current	–	–	523.6	–	523.6
Derivative financial instruments					
Current	–	16.8	–	–	16.8
Non-current	68.8	249.0	–	–	317.8
	68.8	265.8	1,252.6	319.0	1,906.2

Financial liabilities by category

	Group			
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2021				
Borrowings				
Current	–	–	652.9	652.9
Non-current	–	–	6,282.8	6,282.8
Trade and other payables				
Current	–	–	213.6	213.6
Derivative financial instruments				
Current	17.6	7.2	–	24.8
Non-current	985.8	18.8	–	1,004.6
	1,003.4	26.0	7,149.3	8,178.7
At 31 March 2020				
Borrowings				
Current	–	–	1,023.0	1,023.0
Non-current	–	–	6,702.3	6,702.3
Trade and other payables				
Current	–	–	196.3	196.3
Derivative financial instruments				
Current	76.5	4.9	–	81.4
Non-current	976.4	19.6	–	996.0
	1,052.9	24.5	7,921.6	8,999.0

Trade and other payables above exclude receipts in advance.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Financial liabilities by category continued

	Company			
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2021				
Borrowings				
Current	–	–	652.9	652.9
Non-current	–	–	6,282.8	6,282.8
Trade and other payables				
Current	–	–	237.3	237.3
Derivative financial instruments				
Current	17.6	7.2	–	24.8
Non-current	985.8	18.8	–	1,004.6
	1,003.4	26.0	7,173.0	8,202.4
At 31 March 2020				
Borrowings				
Current	–	–	1,023.0	1,023.0
Non-current	–	–	6,702.3	6,702.3
Trade and other payables				
Current	–	–	244.8	244.8
Derivative financial instruments				
Current	76.5	4.9	–	81.4
Non-current	976.4	19.6	–	996.0
	1,052.9	24.5	7,970.1	9,047.5

Derivative financial instruments

	Group and company			
	2021		2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Designated as cash flow hedges				
Interest rate swaps	–	(10.6)	–	(14.9)
Cross currency interest rate swaps	67.3	(8.9)	138.0	(4.5)
Energy swaps	9.0	–	0.5	(5.1)
	76.3	(19.5)	138.5	(24.5)
Designated as fair value hedges				
Interest rate swaps	24.0	(0.3)	32.1	–
Cross currency interest rate swaps	49.1	(6.2)	95.2	–
	73.1	(6.5)	127.3	–
Derivative financial instruments designated as hedges	149.4	(26.0)	265.8	(24.5)
Derivative financial instruments not designated as hedges				
Interest rate swaps and swaptions	34.5	(233.5)	17.5	(259.4)
RPI swaps	–	(568.3)	–	(631.1)
CPI swaps	13.5	(201.6)	51.3	(162.4)
Total derivative financial instruments	197.4	(1,029.4)	334.6	(1,077.4)
Derivative financial instruments can be analysed as follows:				
Current	84.8	(24.8)	16.8	(81.4)
Non-current	112.6	(1,004.6)	317.8	(996.0)
	197.4	(1,029.4)	334.6	(1,077.4)

At 31 March 2021, the fixed interest rates vary from 2.84 per cent to 5.99 per cent, floating rates vary from 0.09 per cent (LIBOR plus 0.0 bps) to 3.10 per cent (LIBOR plus 298.70 bps), RPI-linked interest rates vary from 1.27 per cent to 2.97 per cent plus RPI and CPI-linked interest rates vary from (1.21) per cent plus CPI to 1.69 per cent plus CPI. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on interest rate and cross-currency interest rate swap contracts will be continuously released to the income statement within finance costs in line with the repayment of the related borrowings. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on energy hedges will be released to the income statement within operating costs in line with the expiry of the power season to which the gains and losses relate.

In accordance with IFRS 9, the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2021 (2020: £nil).

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Leases

The minimum lease payments in respect of all leases fall due as follows:

	Group and company	
	2021 £m	2020 £m
Within one year	12.6	12.0
Between two and five years	15.0	24.0
After five years	20.5	22.7
	48.1	58.7
Future finance charges on leases	(8.6)	(9.3)
Present value of lease liabilities	39.5	49.4

Fair value of financial assets and liabilities

	Group			
	2021		2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	205.9	205.9	729.1	729.1
Current asset investments – cash deposits	80.0	80.0	319.0	319.0
Borrowings				
Current	(652.9)	(605.0)	(1,023.0)	(1,023.6)
Non-current	(6,282.8)	(7,883.6)	(6,702.3)	(8,477.6)
Interest and cross currency interest rate swaps – assets				
Current	75.0	75.0	12.1	12.1
Non-current	99.9	99.9	270.7	270.7
Interest and cross currency interest rate swaps – liabilities				
Current	(15.3)	(15.3)	(6.3)	(6.3)
Non-current	(244.2)	(244.2)	(272.5)	(272.5)
RPI swaps – liabilities				
Current	(9.5)	(9.5)	(72.1)	(72.1)
Non-current	(558.8)	(558.8)	(559.0)	(559.0)
CPI swaps – assets				
Current	4.7	4.7	4.7	4.7
Non-current	8.8	8.8	46.6	46.6
CPI swaps – liabilities				
Non-current	(201.6)	(201.6)	(162.4)	(162.4)
Net debt	(7,490.8)	(9,043.7)	(7,415.4)	(9,191.3)
Energy derivatives – assets				
Current	5.1	5.1	–	–
Non-current	3.9	3.9	0.5	0.5
Energy derivatives – liabilities				
Current	–	–	(3.0)	(3.0)
Non-current	–	–	(2.1)	(2.1)
	(7,481.8)	(9,034.7)	(7,420.0)	(9,195.9)

	Company			
	2021		2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	180.7	180.7	729.0	729.0
Current asset investments – cash deposits	80.0	80.0	319.0	319.0
Borrowings				
Current	(652.9)	(605.0)	(1,023.0)	(1,023.6)
Non-current	(6,282.8)	(7,883.6)	(6,702.3)	(8,477.6)
Interest and cross currency interest rate swaps – assets				
Current	75.0	75.0	12.1	12.1
Non-current	99.9	99.9	270.7	270.7
Interest and cross currency interest rate swaps – liabilities				
Current	(15.3)	(15.3)	(6.3)	(6.3)
Non-current	(244.2)	(244.2)	(272.5)	(272.5)
RPI swaps – liabilities				
Current	(9.5)	(9.5)	(72.1)	(72.1)
Non-current	(558.8)	(558.8)	(559.0)	(559.0)
CPI swaps – assets				
Current	4.7	4.7	4.7	4.7
Non-current	8.8	8.8	46.6	46.6
CPI swaps – liabilities				
Non-current	(201.6)	(201.6)	(162.4)	(162.4)
Net debt	(7,516.0)	(9,068.9)	(7,415.5)	(9,191.4)
Energy derivatives – assets				
Current	5.1	5.1	–	–
Non-current	3.9	3.9	0.5	0.5
Energy derivatives – liabilities				
Current	–	–	(3.0)	(3.0)
Non-current	–	–	(2.1)	(2.1)
	(7,507.0)	(9,059.9)	(7,420.1)	(9,195.9)

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publicly traded, the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined by calculating the net realisable value that would have arisen if these contracts were terminated on 31 March with reference to discounted estimated future cash flows using observable yield curves. The fair value of cross-currency interest rate derivatives is determined using discounted cash flow methodology, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the foreign exchange rate as at 31 March. The fair value of the group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market energy prices at 31 March.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Fair values of other non-current investments, non-current trade and other receivables and non-current trade and other payables have been estimated as being materially equal to carrying value.

Derivative transactions expose the group to credit risk against the counterparties concerned. The group has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The group only enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

In accordance with IFRS 13 'Fair Value Measurement', the financial instruments carried at fair value on the balance sheet have been classified as either level 2 or level 3 for fair valuation purposes. Both classifications are valued by reference to valuation techniques using observable inputs other than quoted prices in active markets. Level 2 instruments are valued using inputs that are observable for the asset or liability either directly or indirectly. The level 3 instrument valuation relates to CPI-linked transactions where inputs are obtained from a less liquid market. In both cases, valuations have been obtained by discounting the estimated future cash flows at a rate that reflects credit risk.

There have been no transfers between level 1, level 2 and level 3 fair value measurements in the year. The group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer occurred.

Level 3 derivative financial instruments

Level 3 derivative financial instruments comprise CPI-linked inflation swaps which are traded based on a spread to liquid RPI inflation markets often referred to as 'the wedge'. As the market for CPI swaps is still developing, the wedge is not currently observable in a liquid market and as such these swaps have been classified as level 3 instruments.

Movements in the year to 31 March for assets and liabilities measured at fair value using level 3 valuation inputs are presented below:

	Group and company	
	2021 £m	2020 £m
At 1 April	(111.0)	(110.4)
Net loss for the period	(93.5)	(0.6)
Settlements	16.3	–
At 31 March	(188.2)	(111.0)

Gains and losses in the period are recognised in fair value losses on derivatives within the income statement.

The impact (on a post-tax basis) on the income statement of reasonably possible changes in the CPI inflation rate assumptions used in valuing instruments classified as level 3 within the fair value hierarchy are as follows:

	Group and company	
	2021 £m	2020 £m
Gain/(loss)		
1% increase in inflation rates	(188.7)	(182.0)
1% decrease in inflation rates	150.6	152.8

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

Control of treasury

The treasury team, which reports directly to the Chief Financial Officer, substantially manages the financing, including debt, interest costs and foreign exchange for the group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The activities of the treasury function include the following:

- ensure that lenders' covenants are met
- secure funds through a balanced approach to financial markets and maturities
- manage interest rates to minimise financial exposures and minimise interest costs
- invest temporary surplus cash to best advantage at minimal financial risk
- maintain an excellent reputation with providers of finance and rating agencies
- enhance control of financial resources
- monitor counterparty credit exposure.

Financing structure

The group's regulated water and water recycling business, Anglian Water Services Limited, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2021, Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 82.0 per cent (2020: 78.4 per cent).

Borrowing covenants

With the exception of asset-based funding, the Group's borrowings are raised by Anglian Water Services Financing Plc. The Treasury function monitors compliance against all financial obligations and it is the Group's policy to manage the balance sheet so as to ensure operation within covenant restrictions. There were no covenant breaches in the year.

Management of financial risk

Financial risks faced by the group include funding, interest rate, contractual, currency, liquidity and credit risks. The group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks.

A Finance, Treasury and Energy Policy Group, including the Chief Financial Officer and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters. Relevant treasury matters are reported to the board.

The group aims to meet its funding requirements primarily through accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposit, treasury bills and AAA rated money funds.

The group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to economically manage the interest, currency and commodity risks to which the group is exposed.

a) Market risk

i) Foreign currency

The group has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The group's foreign exchange policy allows for a range of hedge instruments, including forward foreign exchange, swaps and options, to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation, and has no material net exposure to movements in currency rates.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Where exposures arise out of debt issuances in currencies other than sterling, this risk is hedged using cross currency interest rate swaps on the date the debt issuance is contracted. The group assesses the economic relationship by comparing the currency cash flows on the underlying debt item with the currency cash flows on the hedge instrument to ensure an exact offset of the specific foreign currency flows of the debt is achieved.

This results in a notional hedge ratio of one for all foreign currency hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied to manage foreign currency risks as appropriate and detailed below.

	Group and company			
	Within one year m	Between one and five years m	Between five and 25 years m	Total m
At 31 March 2021				
Foreign currency borrowings – hedged item				
JPY	–	–	14,000.0	14,000.0
USD	570.0	377.0	203.0	1,150.0
Cross currency interest rate swap – cashflow hedge				
JPY	–	–	(7,000.0)	(7,000.0)
USD	(410.0)	(217.8)	(89.0)	(716.8)
Cross currency interest rate swap – fair value hedge				
JPY	–	–	(7,000.0)	(7,000.0)
USD	(160.0)	(159.2)	(114.0)	(433.2)
Net currency exposure	–	–	–	–
Weighted average spot rate				
JPY	–	–	138.3	
USD	1.6	1.6	1.4	
At 31 March 2020				
Foreign currency borrowings – hedged item				
JPY	–	–	7,000.0	7,000.0
USD	–	947.0	203.0	1,150.0
Cross currency interest rate swap – cashflow hedge				
USD	–	(627.8)	(89.0)	(716.8)
Cross currency interest rate swap – fair value hedge				
JPY	–	–	(7,000.0)	(7,000.0)
USD	–	(319.2)	(114.0)	(433.2)
Net currency exposure	–	–	–	–
Weighted average spot rate				
JPY	–	–	137.6	
USD	–	1.6	1.4	

Hedge ineffectiveness on currency hedging primarily results from situations where we have taken the economic decision (in line with Treasury policy) to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate effectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

Fair valuation movements related to foreign currency basis which forms part of the pricing of cross currency interest rate swaps are treated as a cost of hedging for all foreign currency hedge designations within the Group. As such, it is excluded from hedge relationships and is only a source of ineffectiveness where hedge accounting has been interrupted.

The changes in fair value of the foreign currency basis spread accumulated in the cash flow hedging reserve, are amortised to profit or loss on a rational basis over the term of the hedging relationship.

ii) Interest rate and inflation rate risk

The group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI or CPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained at between 45 and 55 per cent of RCV for index-linked debt and between 5 per cent and 15 per cent for floating rate debt, with the remaining being fixed rate. Within these hedging levels, the group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, i.e. the provision of adequate finance for Anglian Water Services Group at all times and maintaining security of principal on investments.

The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk, which is partially offset by cash held at variable rates. Borrowings issued at fixed rate expose the group to fair value interest rate risk. Treasury manages its interest rate risk by monitoring market rates in relation to the debt (and investment) portfolios, analysing the effect of likely movements in interest rates and taking action as deemed appropriate, within the hedging limits outlined above.

The table below summarises the impact of derivatives on interest rate and inflation risks within the debt portfolio:

	Group and company			
	Debt position £m	Swap impact £m	Post swap position £m	Effective interest rate %
At 31 March 2021				
Fixed	(3,598.0)	1,478.0	(2,120.0)	5.1
Floating	(270.0)	(146.0)	(416.0)	1.3
Index-linked	(2,872.8)	(1,388.9)	(4,261.7)	3.5
Leases	(29.0)	–	(29.0)	2.6
	(6,769.8)	(56.9)	(6,826.7)	
At 31 March 2020				
Fixed	(3,522.0)	967.5	(2,554.5)	5.0
Floating	(859.7)	(182.6)	(1,042.3)	2.0
Index-linked	(3,052.4)	(857.7)	(3,910.1)	5.0
Leases	(31.0)	–	(31.0)	3.0
	(7,465.1)	(72.8)	(7,537.9)	

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Where exposures arising out of debt issuances are swapped this risk is hedged using cross currency interest rate swaps, interest rate swaps or inflation swaps. The group assesses the economic relationship by comparing the cash flows on the underlying debt instrument with the offsetting cash flows on the hedge to ensure an exact offset of the specified notional value of the debt is achieved. This results in a notional hedge ratio of one for all interest rate hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as appropriate. Derivatives that do not qualify for hedge accounting primarily consist of relationships which swap debt into inflation. The table below outlines the Group's exposures to interest rates from derivative swaps in isolation (excluding offsetting debt instrument cashflows).

	Group and company						
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Mark to market £m	Interest rate (weighted average)	
						payable	receivable
At 31 March 2021							
Interest rate swaps							
Floating to fixed rate	269.6	225.5	74.0	200.0	(166.3)	4.4	0.8
Floating from fixed rate	50.0	800.5	279.5	–	58.2	0.4	1.4
Fixed to fixed interest rate swaps	–	100.2	581.3	–	(77.8)	3.7	2.3
Inflation swaps							
Floating to RPI	25.0	150.0	225.0	165.9	(568.2)	3.1	0.7
Fixed to CPI	–	–	365.9	300.0	(92.2)	0.8	3.6
Floating to CPI	–	–	50.4	100.0	(96.0)	1.2	0.6
Cross currency swaps							
JPY	–	–	101.2	–	(15.2)	2.0	0.9
USD	359.8	240.7	144.3	–	116.4	2.8	4.6
Total	704.4	1,516.9	1,821.6	765.9	(841.1)		
At 31 March 2020							
Interest rate swaps							
Floating to fixed rate	–	456.0	40.8	258.3	(212.9)	4.4	1.4
Floating from fixed rate	–	325.5	729.5	–	75.5	0.9	1.3
Fixed to fixed interest rate swaps	–	100.2	581.3	–	(87.4)	3.7	2.3
Inflation swaps							
Floating to RPI	–	175.0	225.0	165.9	(631.9)	2.8	1.0
Fixed to CPI	–	–	365.9	300.0	(16.0)	0.8	3.6
Floating to CPI	–	–	–	100.0	(94.2)	1.7	0.6
Cross currency swaps							
JPY	–	–	50.9	–	(4.5)	2.7	0.9
USD	–	600.6	144.3	–	233.2	3.2	4.6
Total	–	1,657.3	2,137.7	824.2	(738.2)		

Hedge ineffectiveness on interest rate hedging primarily results from situations where we have taken the economic decisions, in line with policy, to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate ineffectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging derivatives. Based on these scenarios, the group calculates the impact on profit and loss of a defined interest rate shift.

The sensitivity of the group's profits and equity, including the impact on derivative financial instruments, to potential changes in interest rates at 31 March is as follows:

	Group and company	
	2021 £m	2020 £m
Increase/(decrease) in equity		
1% increase in interest rates	(1.0)	(2.4)
1% decrease in interest rates	(2.5)	2.7
Increase/(decrease) in profit before tax		
1% increase in interest rates	255.6	269.4
1% decrease in interest rates	(340.3)	(358.3)

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

The following assumptions were made in calculating the interest rate sensitivity analysis:

- cash flow and fair value hedge relationships remain effective;
- the main fair value sensitivity to interest rates is in relation to inflation-linked derivatives;
- cash flow sensitivity is calculated on floating interest rate net debt; and
- all other factors are held constant.

Debt instruments

The following analysis shows the impact of a one per cent change in RPI and a one per cent change in CPI over the 12 month period to the reporting date on index-linked debt instruments.

The finance cost of the group's index-linked debt instruments and derivatives varies with changes in inflation rather than interest rates. These instruments form an economic hedge with the group's revenues and regulatory assets, which are linked to RPI and CPI-H inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary.

The sensitivity at 31 March of the group's profit before tax to changes in RPI and CPI on debt and derivative instruments is set out in the following tables:

	Group and company	
	2021 £m	2020 £m
Increase/(decrease) in profit before tax		
1% increase in inflation	(21.9)	(27.9)
1% decrease in inflation	21.9	26.0

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

RPI-linked derivatives

The fair values of the group's RPI-linked derivatives are based on estimated future cash flows, discounted to the reporting date, and these will be impacted by an increase or decrease in RPI rates as shown in the following table. The sensitivity to CPI rates has been included in the level 3 disclosure and as such has not been repeated.

	Group and company	
	2021 £m	2020 £m
Increase/(decrease) in profit before tax		
1% increase in RPI	(220.2)	(229.0)
1% decrease in RPI	173.4	178.8

One per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

Anglian Water continues to closely monitor the impact of Interest Rate Benchmark Reform in both the debt and derivative markets. This includes announcements made by LIBOR regulators, including the Financial Conduct Authority (FCA), regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA announced on 5 March the formal cessation of LIBOR would occur at the end of 2021, at which point representative LIBOR relates will no longer be available (with the exception of some USD LIBOR fixings).

LIBOR-linked instruments make up 6 per cent or circa £400 million of the group's long-term debt portfolio when factoring in the economic impact of derivative swaps. There are three debt issuances totalling £245 million held in the portfolio linked to three- or six-month sterling LIBOR, which are subject to economic hedging but are not designated in hedging relationships. In addition to debt instruments, the group retains a net £416 million floating position as a result of the swap portfolio. These swaps are designated in a number of fair value hedge relationships. In maintaining these fair value hedge relationships, the group has assumed, as permitted by the Interest Rate Benchmark Reform Phase 1 amendment to IFRS 9, that the LIBOR benchmarks used will continue to provide a valid hedge to fair value movements due to floating rates of interest over the remaining life of the underlying transactions. In total, a notional amount of £962 million of swaps are included in fair value hedge relationships.

The group will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms that the group is exposed ends. The group has assumed that this uncertainty will not end until the group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. At the point that the instruments are transitioned from LIBOR to the respective risk-free rate (e.g. to SONIA from GBP LIBOR) this assumption will cease to be applied.

Within the year the group has concluded its assessment and transition plan for IBOR reform on its financial instruments which is anticipated to have an overall immaterial impact to its financial statements. The group intends to actively transition its three floating rate debt notes in the first half the upcoming financial year. Similarly, the group's derivative swap portfolio containing IBOR referenced legs will also look to be actively transitioned via bilateral negotiation with counterparty banks within FY21/22. However, should this not be achievable, the group will look to utilise the International Swaps and Derivatives Association's (ISDA) fall-back clauses that were made available at the end of 2019.

Within the year the group entered into two interest rate swap derivatives, swapping a fixed coupon amount into a SONIA referenced floating amount. Both swaps existed in a fair value hedge relationship against firmly committed debt at year end.

iii) Commodity price risk

The group recovers its electricity costs through revenue, set in real terms by Ofwat, to cover costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flow. The group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, through the purchase of wholesale electricity swaps with financial counterparties, or through direct generation. Where swap contracts are utilised, the group designates the swaps in cash flow hedge relationships.

	Group and company			
	Within one year MW	Between one and five years MW	Between five and 25 years MW	Mark to market £m
At 31 March 2021				
Electricity swap	60.0	123.4	–	9.0
At 31 March 2020				
Electricity swap	–	171.8	71.7	(4.6)

Hedge ineffectiveness primarily results from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

Assuming all energy hedges were in effective hedging relationships, a 10 per cent increase/decrease in commodity prices would have the following impact:

	Group and company	
	2021 £m	2020 £m
Increase/(decrease) in equity		
10% increase in original prices	4.2	3.9
10% decrease in original prices	(4.2)	(3.9)

10 per cent has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships and through the collateralisation inherent in the licensing of business retail activities. The group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 16.

Placements of cash on deposit expose the group to credit risk against the counterparties concerned. The group has credit protection measures in place within agreements that provide protection in the event of counterparty rating downgrade or default. The group only places cash deposits with banks of upper investment grade (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided. The credit rating applied to all counterparties is reviewed monthly and on an ongoing basis.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

All cash and cash deposits are held with institutions with a minimum of two short-term ratings of P1/A1/F1 or higher, or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmmf or higher.

In the case of derivatives, the following table sets out the group's financial assets and liabilities and the impact of any enforceable master netting arrangements.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis. Amounts that do not meet the criteria for offsetting on the balance sheet but could be settled net in the event of default of either party have been reflected in the offsetting column below.

Group policy requires that transactions are only executed with counterparties which are both (a) from the lending group and (b) rated at least A- (long-term) or A1 (short-term) by Standard & Poor's, Moody's or Fitch.

	Group and company				
	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2021					
Derivative financial assets	217.4	(20.0)	197.4	(113.8)	83.6
Derivative financial liabilities	(1,049.4)	20.0	(1,029.4)	113.8	(915.6)
At 31 March 2020					
Derivative financial assets	360.6	(26.0)	334.6	(140.4)	194.2
Derivative financial liabilities	(1,103.4)	26.0	(1,077.4)	140.4	(937.0)

Gross amounts offset represent equal and opposite transactions with the same counterparties and same terms on which no settlements are paid. Offsetting not presented in the balance sheet reflects the extent to which derivative assets and liabilities could be offset with the same counterparty in the event of counterparty default.

At 31 March, the maximum exposure to credit risk for the group is represented by the carrying amount of each financial asset in the group balance sheet:

	Group	
	2021 £m	2020 £m
Cash and cash equivalents	205.9	729.1
Trade and other receivables	500.9	530.6
Investments – cash deposits	80.0	319.0
Derivative financial assets	197.4	334.6

	Company	
	2021 £m	2020 £m
Cash and cash equivalents	180.7	729.0
Trade and other receivables	500.9	530.6
Investments – cash deposits	80.0	319.0
Derivative financial assets	197.4	334.6

c) Capital risk management

The prime responsibility of the group's treasury function is the efficient and effective management of financial resources within the group, i.e. the provision of adequate finance and liquidity at all times while maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow certainty and profitability. The treasury function will actively seek opportunities to raise debt, to reduce the cost of funding and the cost of hedging interest rate and foreign exchange risk while maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the level of gearing in the group, and the long-term nature of the group's asset base, the group is primarily funded from the debt capital markets. It is the group's policy to maintain sufficient cash and/or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short-term difficulties in the capital markets. The treasury team actively maintain a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings.

d) Liquidity risk

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity, covenant compliance and to inform investment strategy. Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

The group maintains sufficient liquidity to cover 12 months' working capital requirements, and the non-regulated businesses are run on a cash-positive basis. Internal policy is to maintain 18 months' liquidity in terms of capital expenditure and operating costs in Anglian Water Services Limited, and to refinance maturing debt at least three months in advance, to ensure covenant compliance.

The group has the following undrawn committed borrowing facilities available at 31 March in respect of which all conditions precedent had been met at that date:

	Group and company	
	2021 £m	**2020 £m**
Expires:		
Within one year	400.0	450.0
Between two and five years	575.0	–
	975.0	450.0

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

The group's borrowing facilities of £1,000.0 million (2020: £1,050.0 million) comprise Class A and Class B debt service reserve facilities totalling £279.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, JP Morgan Chase N.A. and Lloyds TSB Bank Plc; a £121.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Bank of Nova Scotia and Commonwealth Bank Of Australia; a syndicated £550.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and a bilateral facility of £50.0 million with Bank of China Limited for general corporate purposes. As at 31 March 2021, £25.0 million (2020: £600.0 million) of the group's borrowing facilities were drawn.

The table below analyses the group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable:

	Group				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2021					
Trade and other payables	(213.6)	–	–	–	(213.6)
Borrowings	(636.9)	(2,536.5)	(6,112.0)	(2,584.1)	(11,869.5)
Derivative financial instruments (net settled)	(10.4)	(99.3)	(817.2)	(635.8)	(1,562.6)
Derivative financial instruments (gross settled outflow)	(382.2)	(279.8)	(287.8)	–	(949.8)
Derivative financial instruments (gross settled inflow)	449.8	320.3	256.9	–	1,027.0
Leases	(12.6)	(15.0)	(16.7)	(3.9)	(48.1)
	(805.8)	(2,610.2)	(6,976.8)	(3,223.7)	(13,616.6)
At 31 March 2020					
Trade and other payables	(196.3)	–	–	–	(196.3)
Borrowings	(1,079.7)	(2,624.1)	(5,758.4)	(2,666.4)	(12,128.6)
Derivative financial instruments (net settled)	(75.0)	(69.6)	(828.5)	(434.7)	(1,407.8)
Derivative financial instruments (gross settled outflow)	(25.2)	(652.6)	(222.6)	–	(900.4)
Derivative financial instruments (gross settled inflow)	42.7	846.3	235.6	–	1,124.6
Leases	(12.0)	(24.0)	(22.7)	–	(58.7)
	(1,345.5)	(2,524.0)	(6,596.6)	(3,101.1)	(13,567.2)

	Company				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2021					
Trade and other payables	(237.3)	–	–	–	(237.3)
Borrowings	(636.9)	(2,536.5)	(6,112.0)	(2,584.1)	(11,869.5)
Derivative financial instruments (net settled)	(10.4)	(99.3)	(817.2)	(635.8)	(1,562.6)
Derivative financial instruments (gross settled outflow)	(382.2)	(279.8)	(287.8)	–	(949.8)
Derivative financial instruments (gross settled inflow)	449.8	320.3	256.9	–	1,027.0
Leases	(12.6)	(15.0)	(16.7)	(3.9)	(48.1)
	(829.5)	(2,610.2)	(6,976.8)	(3,223.7)	(13,640.3)
At 31 March 2020					
Trade and other payables	(244.8)	–	–	–	(244.8)
Borrowings	(1,079.7)	(2,624.1)	(5,758.4)	(2,666.4)	(12,128.6)
Derivative financial instruments (net settled)	(75.0)	(69.6)	(828.5)	(434.7)	(1,407.8)
Derivative financial instruments (gross settled outflow)	(25.2)	(652.6)	(222.6)	–	(900.4)
Derivative financial instruments (gross settled inflow)	42.7	846.3	235.6	–	1,124.6
Leases	(12.0)	(24.0)	(22.7)	–	(58.7)
	(1,394.0)	(2,524.0)	(6,596.6)	(3,101.1)	(13,615.7)

21. Provisions

	Group and company			
	Legal and other £m	Coupon enhancement £m	Restructuring £m	Total £m
At 1 April 2019	5.2	6.4	–	11.6
Additional provisions recognised	1.8	–	4.7	6.5
Unused amounts reversed	(1.2)	–	–	(1.2)
Unwinding of discount	–	2.1	–	2.1
Utilised in the year	(0.3)	(2.0)	–	(2.3)
At 31 March 2020	5.5	6.5	4.7	16.7
Additional provisions recognised	6.0	–	–	6.0
Unused amounts reversed	(0.4)	–	–	(0.4)
Unwinding of discount	–	0.1	–	0.1
Utilised in the year	(0.6)	(1.4)	(4.4)	(6.4)
At 31 March 2021	10.5	5.2	0.3	16.0

Notes to the financial statements continued

for the year ended 31 March 2021

21. Provisions continued

Maturity analysis of total provisions:

	Group and company	
	2021 £m	2020 £m
Current	6.6	6.2
Non-current	9.4	10.5
	16.0	16.7

Provisions for legal and other claims includes legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years.

As part of the Anglian Water securitisation that took place in 2002, the bond that formed part of the transfer of debt from Anglian Water Plc to Anglian Water Services Financing Plc were restructured with enhanced coupon rates. A provision was created in Anglian Water Services Limited for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date and expected to be utilised over the next 20 years.

The restructuring provision of £0.3 million (2020: £4.7 million) relates to costs associated with an organisational model review.

22. Deferred tax

	Group and company				
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Other £m	Total £m
At 1 April 2019	1,085.8	(147.1)	0.7	(2.6)	936.8
Charged/(credited) directly to income statement	153.7	(21.4)	5.2	(2.6)	134.9
Charged directly to other comprehensive income	–	3.1	18.8	–	21.9
At 31 March 2020	1,239.5	(165.4)	24.7	(5.2)	1,093.6
Charged/(credited) directly to income statement	24.7	(4.1)	8.1	(3.0)	25.7
Charged/(credited) directly to other comprehensive income	–	3.8	(30.9)	–	(27.1)
At 31 March 2021	1,264.2	(165.7)	1.9	(8.2)	1,092.2

Deferred tax assets and liabilities have been offset in accordance with IAS 12 ‘Income Taxes’.

23. Net retirement benefit deficit

Pension arrangements for the majority of the company's UK employees are of the funded defined benefit type through the AWG Pension Scheme ('AWGPS') Main section and Hartlepool section (a defined benefit scheme for the employees of the former Hartlepool Water Limited where the pension scheme was transferred on 1 April 2000 which is now a section of the AWGPS). The defined benefit pension arrangements are closed to new pension accrual with effect from 31 March 2018.

The company also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of IAS19 as at 31 March 2021. The provision for unfunded pension obligations relates to the cost of enhancements of former employees, over and above their entitlement in the company's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between 10 and 20 years ago. These pension enhancements are payable until the death of these former employees (or their dependants) and payments are expected to be made over approximately 25 years.

The assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited are held in a segregated section of the AWGPS. Hartlepool Water Limited was acquired in July 1997, with trade and assets transferred to Anglian Water on 1 April 2000. However, as the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving, or closure of, the schemes, payable on attainment of retirement age (or earlier death).

On 31 March 2018, following a period of consultation with representatives of all employees, the defined benefit sections of the AWGPS (including the Hartlepool section) were closed for future accruals. From 1 April 2018 all employees now have the option to participate in a new high quality defined contribution scheme which offers an equitable scheme with more flexible benefits.

Full valuations as at 31 March 2017 have been completed for the AWGPS Main and Hartlepool sections, the results of which have been used as a basis for the IAS 19 'Employee Benefits' disclosures as at 31 March 2021.

The group has a plan in place with the scheme's trustees to address the funding deficit for the Main Section of the AWGPS by 2026, through a series of annual deficit recovery contributions.

With effect from 1 April 2018, future service contributions for both the Main Section and Hartlepool Section of the AWGPS ceased as there was no future accrual of benefits. During the year, the group contributed £36.5 million (2020: £15.1 million) deficit reduction payments. There were no deficit reduction payments (2020: none) for the Hartlepool Section due to the funding position on the funding basis at the 31 March 2017 valuation.

In the year to 31 March 2022 employers' contributions are expected to be £13.2 million.

There is one defined contribution scheme which operates predominantly in the UK, and contributions to this scheme amounted to £17.5 million (2020: £18.1 million).

Notes to the financial statements continued

for the year ended 31 March 2021

23. Net retirement benefit deficit continued

a) Principal actuarial assumptions

The liabilities of the group's pension schemes have been valued using the projected unit method and using the following assumptions:

	Group and company	
	2021 % pa	2020 % pa
Discount rate	2.1	2.4
Inflation rate		
RPI	3.1	2.7
CPI	2.7	1.9
Increases to deferred benefits during deferment		
RPI	3.1	2.7
CPI	2.7	1.9
Increases to inflation related pensions in payment[1]		
RPI	3.1	2.6
CPI	2.7	1.9

	years	years
Longevity at age 65 for current pensioners		
Men	22.5	22.5
Women	24.6	24.5
Longevity at age 65 for future pensioners[2]		
Men	23.8	23.8
Women	26.1	25.9

1 For RPI pension increases capped at 5 per cent per annum.

2 The life expectancy shown for future pensioners is for those reaching 65 in 2041.

b) Sensitivity analysis

The following table sets out the sensitivity of the liabilities within the schemes to changes in the financial and demographic assumptions.

	Group and company				
	Change in assumption	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 31 March 2021					
Discount rate	+/− 0.5% pa	−130/148	−2/+2	−3/+3	−135/153
Rate of RPI inflation	+/− 0.5% pa	+130/−115	+1/−1	+3/−3	+134/−119
Life expectancy	+/− 1 year	+63/−58	+1/−1	+2/−2	+66/−61

Changes to market conditions that influence the assumptions above may also have an impact on the value of the schemes' investment holdings. The extent to which these are managed is discussed in section (c) below. The sensitivities in the table above have been calculated by changing the key assumption and leaving all others fixed, with the exception of the RPI inflation assumption, which has a corresponding impact on Consumer Prices Index ('CPI') inflation, pension increases and salary increases due to the way the assumptions are derived. These changes in assumptions represent a reasonable alternative range, as well as a useful benchmark change.

c) Risk and risk management

The group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the group) and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the group's financial statements.

Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The return on these assets may be volatile and are not correlated to the value of the liabilities. This means that the deficit may be volatile in the shorter term, which may lead to an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the balance sheet.

The group believes that return-seeking assets offer an appropriate level of return over the long-term for the level of risk that is taken. The schemes' other assets are well diversified by investing in a range of asset classes including government bonds and corporate bonds. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

Change in bond yields

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the group's contribution requirements. However, in this scenario the schemes' investment in corporate and government bonds and liability-driven investments is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

Notes to the financial statements continued

for the year ended 31 March 2021

23. Net retirement benefit deficit continued

Price inflation

The majority of the schemes' benefit obligations are linked to inflation and higher out-turn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). A significant proportion of the schemes' assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature (corporate bonds and government bonds), or have an indirect link to inflation (equities).

Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The schemes do not contain a hedge against increases in future life expectancy.

d) Amounts recognised in comprehensive income

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2021				
Amounts credited/(charged) to finance costs				
Interest income on scheme assets	34.3	0.5	–	34.8
Interest cost on scheme liabilities	(30.1)	(0.4)	(0.9)	(31.4)
Net interest income/(expense)	4.2	0.1	(0.9)	3.4
Amounts credited/(charged) to the income statement	4.2	0.1	(0.9)	3.4
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	61.6	(4.1)	–	57.5
Actuarial losses arising from:				
Changes in financial assumptions	(211.9)	(2.8)	(5.1)	(219.8)
Experience adjustments	(0.4)	–	–	(0.4)
Net (charge)/credit to other comprehensive income	(150.7)	(6.9)	(5.1)	(162.7)
2020				
Amounts credited/(charged) to finance costs:				
Interest income on scheme assets	35.8	0.7	–	36.5
Interest cost on scheme liabilities	(34.7)	(0.5)	(1.0)	(36.2)
Net interest income/(expense)	1.1	0.2	(1.0)	0.3
Amounts credited/(charged) to the income statement	1.1	0.2	(1.0)	0.3
Amounts credited/(charged) to other comprehensive income:				
Return on plan assets (excluding amounts included in net interest)	(4.8)	0.7	–	(4.1)
Actuarial gains arising from:				
Changes in financial assumptions	109.1	1.0	2.4	112.5
Net credit/(charge) to other comprehensive income	104.3	1.7	2.4	108.4

e) Amounts recognised in the balance sheet

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2021				
Equities	168.6	-	-	168.6
Corporate bonds	606.0	-	-	606.0
Government bonds	1,500.1	0.5	-	1,500.6
Property	64.8	-	-	64.8
Alternatives	87.3	-	-	87.3
Pooled LDI investments (with def of LDI)	70.6	-	-	70.6
Derivatives	(7.6)	-	-	(7.6)
Repurchases	(1,108.5)	-	-	(1,108.5)
Cash and cash equivalents	163.4	1.2	-	164.6
Insurance contract	-	18.5	-	18.5
Total assets	1,544.7	20.2	-	1,564.9
Present value of scheme liabilities	(1,491.6)	(18.5)	(44.8)	(1,554.9)
Net pension deficit	53.1	1.7	(44.8)	10.0
Comprising:				
Pension schemes with a net surplus, included in non-current assets	53.1	1.7	-	54.8
Pension schemes with a net deficit, included in non-current liabilities	-	-	(44.8)	(44.8)
	53.1	1.7	(44.8)	10.0
2020				
Equities	105.9	-	-	105.9
Corporate bonds	567.4	-	-	567.4
Government bonds	1,802.6	24.5	-	1,827.1
Property	65.3	-	-	65.3
Alternatives	94.7	-	-	94.7
Pooled LDI investments (with def of LDI)	92.4	-	-	92.4
Derivatives	(42.3)	-	-	(42.3)
Repurchases	(1,515.3)	-	-	(1,515.3)
Cash and cash equivalents	303.6	-	-	303.6
Total assets	1,474.3	24.5	-	1,498.8
Present value of scheme liabilities	(1,311.2)	(16.0)	(41.6)	(1,368.8)
Liability arising from minimum funding requirement	-	-	-	-
Net pension surplus	163.1	8.5	(41.6)	130.0
Comprising:				
Pension schemes with a net surplus, included in non-current assets	163.1	8.5	-	171.6
Pension schemes with a net deficit, included in non-current liabilities	-	-	(41.6)	(41.6)
	163.1	8.5	(41.6)	130.0

The scheme assets do not include any of the group's own financial instruments, nor any property occupied by, nor other assets used by, the group. All scheme assets are quoted at their market values.

Notes to the financial statements continued

for the year ended 31 March 2021

23. Net retirement benefit deficit continued

f) Reconciliation of fair value of scheme assets

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2020	1,538.1	25.1	–	1,563.2
Interest income on scheme assets	35.8	0.7	–	36.5
Employers' contributions	15.0	–	2.8	17.8
Benefits paid	(109.8)	(2.0)	(2.8)	(114.6)
Return on plan assets (excluding interest income)	(4.8)	0.7	–	(4.1)
At 31 March 2020	1,474.3	24.5	–	1,498.8
Interest income on scheme assets	34.3	0.5	–	34.8
Employers' contributions	36.5	–	2.8	39.3
Benefits paid	(62.0)	(0.7)	(2.8)	(65.5)
Return on plan assets (excluding interest income)	61.6	(4.1)	–	57.5
At 31 March 2021	1,544.7	20.2	–	1,564.9

g) Reconciliation of scheme liabilities

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2020	(1,495.4)	(18.5)	(45.8)	(1,559.7)
Interest cost on scheme liabilities	(34.7)	(0.5)	(1.0)	(36.2)
Benefits paid	109.8	2.0	2.8	114.6
Actuarial gains	109.1	1.0	2.4	112.5
At 31 March 2020	(1,311.2)	(16.0)	(41.6)	(1,368.8)
Interest cost on scheme liabilities	(30.1)	(0.4)	(0.9)	(31.4)
Benefits paid	62.0	0.7	2.8	65.5
Actuarial losses	(212.3)	(2.8)	(5.1)	(220.2)
At 31 March 2021	(1,491.6)	(18.5)	(44.8)	(1,554.9)

24. Share capital

	Group and company	
	2021 £m	2020 £m
Allotted, issued and fully paid		
32 million ordinary shares of £1 each	32.0	32.0
	32.0	32.0

25. Hedging reserve

	Group and company	
	2021 £m	2020 £m
At 1 April	(52.3)	(75.9)
Gains/(losses) on cash flow energy hedges	11.3	(1.7)
Amounts transferred to the income statement	(2.3)	(4.1)
(Losses)/gains on cash flow hedges	(66.6)	53.8
Amounts transferred to the income statement from discontinuation of cash flow hedges	12.5	8.0
Exchange movement on hedging instruments related to debt in cash flow hedges	63.5	(29.2)
Deferred tax movement on cash flow hedges	(3.5)	(3.2)
At 31 March	(37.4)	(52.3)

Cost of hedging reserve

	Group and company	
	2021 £m	2020 £m
At 1 April	1.1	2.0
Amounts transferred to the income statement	(0.5)	(0.4)
Gains/(losses) on cash flow hedges	2.1	(0.6)
Deferred tax movement on cash flow hedges	(0.3)	0.1
At 31 March	2.4	1.1

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments, excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component.

The table below provides additional information in relation to the annual movements and cumulative closing positions on the cash flow hedge reserves.

	Group and company					
	Annual movements			Cumulative reserves		
	Hedged item gain/(loss) £m	Hedge ineffectiveness gain/(loss) £m	Total reserves continuing £m	Total hedge reserves discontinued £m	Deferred tax on hedge reserves £m	Total hedge reserves £m
At 31 March 2021						
Cash flow hedge of interest rate risk	(58.7)	1.4	19.4	(63.0)	8.6	(35.0)
At 31 March 2020						
Cash flow hedge of interest rate risk	46.6	0.5	8.8	(72.5)	12.5	(51.2)

Notes to the financial statements continued

for the year ended 31 March 2021

26. Capital commitments

The group has a substantial long-term investment programme within Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March.

	Group and company	
	2021 £m	2020 £m
Property, plant and equipment	69.8	48.5
Intangible assets	46.0	22.5
	115.8	71.0

27. Lease arrangements

The group leases various items of property, plant and equipment. Right-of-use assets are included within property, plant and equipment on the balance sheet, further details can be found in note 13. Lease liabilities are included within borrowings on the balance sheet, further details can be found in note 19.

	Group and company	
	2021 £m	2020 £m
Additions to right-of-use assets	1.2	7.5
Depreciation charge for right-of-use assets	(5.9)	(6.1)
Carrying amount of right-of-use assets	73.2	77.9
Interest expense on lease liabilities	(1.0)	(0.7)
Expense relating to short-term leases	2.8	2.2
Total cash outflow for leases comprising interest and capital payments	(12.1)	(12.0)
Reconciliation of lease liability		
Contractual undiscounted cash flows	48.1	58.7
Effect of discounting	(8.6)	(9.3)
Lease liability	39.5	49.4

The group leases certain items of plant and equipment, as well as vehicles, under short-term leases. At 31 March 2021, the group had £0.1 million (2020: £0.3 million) outstanding commitments in respect of future minimum lease payments under non-cancellable short-term leases. The group does not typically lease low value assets and therefore no material costs were incurred individually or in aggregate in relation to such assets.

Leases recognised as debt under IFRS 16 can be analysed as follows:

	Group and company		
	Interest £m	IFRS debt £m	Permitted indebtedness £m
At 31 March 2021			
Vehicles operating leases	–	2.8	–
Property operating leases	0.8	29.0	29.0
Existing finance leases	0.2	7.7	–
At 31 March 2020			
Vehicles operating leases	–	3.8	–
Property operating leases	0.8	30.8	30.8
Existing finance leases	(0.1)	14.7	–

Permitted indebtedness is a category of debt within the Group which captures leases previously considered as operating leases which do not qualify as secured creditors. All interest has been paid/(received) in the year.

28. Contingencies

The company, as part of the Anglian Water Services Financing Group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, which at 31 March 2021 amounted to £7,921.6 million (2020: £8,724.3 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited are also guaranteed unconditionally and irrevocably by the Company. Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited had no outstanding indebtedness at 31 March 2021 (2020: £nil).

The Group has received indications of claims from four groups of property search companies who, pursuant to the Environmental Information Regulations, assert that certain information that Anglian Water Services Limited provided to them should have been provided free of charge. In April 2020, circa 100 property search companies (an amalgamation of two of the four groups) served proceedings on all of the Water and Sewerage Undertakers in England and Wales, including Anglian Water Services Limited. Anglian Water Services, in common with its co-defendants, has filed a robust defence and the company has been advised that the claimants face a number of significant hurdles in order to establish liability on the part of Anglian Water (and other defendants). Given the uncertainties noted, we are not able to reliably estimate any potential liability, however the Directors consider that it would not be material to the financial standing of the company.

As is normal for a company of this size and nature, it is subject to a number of other claims, disputes and litigation. The Directors consider an appropriate position has been taken in reflecting such items in these financial statements.

Notes to the financial statements continued
for the year ended 31 March 2021

29. Ultimate parent undertaking and controlling party

Anglian Water Services Limited is incorporated and domiciled in the UK.

The company's immediate parent undertaking is Anglian Water Services UK Parent Co Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey but domiciled in the UK, to be the ultimate parent undertaking. Anglian Water Group Limited is owned and ultimately controlled by a consortium of investors consisting of the CPPIB (Hong Kong) Limited, First Sentier Investors, Infinity Investments S.A., Global InfraCo (HK) E. Limited and Camulodunum Investments Ltd.

Osprey Acquisitions Limited is the parent company of the smallest group to consolidate the financial statements of the company, and Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the company. Copies of the Anglian Water Group Limited financial statements and Osprey Acquisitions Limited's financial statements can be obtained from the Company Secretary at the registered address: Anglian Water Services Limited, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

30. Related party transactions

a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group.

In August 2019, the Commonwealth Bank of Australia ceased to be the parent company of First Sentier, one of the consortium of investors owning Anglian Water Group Limited, as the business was acquired by Mitsubishi UFJ Financial Group, Inc. Prior to the transfer of the business, the Commonwealth Bank of Australia agreed to the extension of its participation in the £550 million revolving credit facility with an allocation of £45 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25 million. The fees earned on these facilities totalled £98,750.

During the year to 31 March 2021, there were no transactions, (2020: none other than £67.8 million of dividends) with the shareholders.

b) Remuneration of key management personnel

Key management personnel comprise all the Directors and members of the Management Board during the year. The remuneration of Directors is included within the amounts disclosed below. Further information about the Directors' remuneration is provided in the Directors' Remuneration Report on pages 123–143.

	Group and company	
	2021 £m	2020 £m
Short-term employee benefits	5.6	4.6
Post-employment benefits	0.4	0.4
Other long-term benefits	0.9	0.6
	6.9	5.6

(c) Parent company

The company's related party transactions are summarised below:

	2021 £m	2020 £m
Sale of goods/services to		
Fellow subsidiaries of Anglian Water Group Limited	0.2	0.3
Purchase of goods/services from		
Fellow subsidiaries of Anglian Water Group Limited	6.8	7.0
Management fees paid to		
Subsidiaries	0.3	0.3
Interest paid to		
Subsidiaries	266.1	343.0
Dividends paid to		
Parent company	–	67.8
Trade and other receivables due from		
Fellow subsidiaries of Anglian Water Group Limited	0.1	0.7
Trade and other payables due to		
Subsidiaries	23.7	48.6
Fellow subsidiaries of Anglian Water Group Limited	1.2	1.3
Loans and other borrowings due to		
Subsidiaries	6,892.2	7,652.0

31. Events after the balance sheet date

On 29 April 2021 the company issued one £1 ordinary share to its immediate parent undertaking in return for £110.0 million of cash. This is part of an equity injection programme intended by the Directors to reduce gearing.

On 26 May 2021, the Board agreed to recommend a final dividend for 2020/21 of £96.3million to the Company's sole member. To facilitate this, a committee of the two executive directors was appointed to finalise the payment date before issuing the requisite member's written resolution.

Other than the above there have been no events between the balance sheet date, and the date on which the financial statements were approved by the Board, which would require adjustment to the financial statements or any additional disclosures.

Independent Auditor's Report

To the members of Anglian Water Services Limited

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Anglian Water Services Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- the group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs issued by the International Accounting Standards Board (IASB); and
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group and parent company statements of changes in equity;
- the group and parent company cash flow statements; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law, and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and as issued by the IASB.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Bad debt provisioning; • Revenue recognition – estimating metered household revenue; and • Derivative accounting Within this report, key audit matters are identified as follows: ! Newly identified ↑ Increased level of risk ↔ Similar level of risk ↓ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £22.3m (2020: £18.6m) which was determined on the basis of 3% of EBITDA (2020: 3% of EBITDA).
Scoping	The group comprises Anglian Water Services Limited (the regulated water and water recycling business) and its only subsidiary company Anglian Water Services Financing Plc (the Group's financing entity). We performed full scope audit procedures, which accounted for 100% of the Group's net assets and 100% of Group's EBITDA.
Significant changes in our approach	Two audit matters, being the valuation of defined benefit pension scheme balances and going concern basis of accounting, were identified as key audit matters in the prior year, but are not considered key audit matters in the current year. This is due to a reduction in the level of judgement associated with these items in the current year. In addition, the key audit matter around revenue recognition – estimating unbilled household revenue has been extended to include the estimated element of billed household revenue, as the risk around estimated consumption for billed household revenue has increased due to the impacts of Covid-19. No other significant changes were noted to the key audit matters or our overall audit approach as compared to the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Understanding management's process to model the impact of going concern and agreeing relevant data points in the model to supporting documentation;
- Assessing the assumptions used in establishing management's base case, including comparison of the assumptions used in respect of the impact of Covid-19 to independent data sources;
- Evaluating liquidity, including in the scenario where future financing is restricted;
- Evaluating the external financing to establish the covenant requirements attached to this financing;
- Assessing the amount of headroom in the forecasts (cash and covenants);
- Evaluating the sensitivity analysis; and
- Assessing the sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

Independent Auditor's Report continued

To the members of Anglian Water Services Limited

4. Conclusions relating to going concern continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Bad debt provisioning ↔

Key audit matter description	At 31 March 2021, the bad debt provision was £234m (2020: £212m). The bad debt charge of £31.1m represented 3.0% of total household turnover (2020: £40.7m and 4.0% of total household turnover), as disclosed in note 16 to the financial statements. A proportion of the group's customers do not or cannot pay their water bills, which results in the need for a provision to be made for the risk of non-payment of the customer balance. The bad debt provision is material, a key area of estimation uncertainty within the group and an area of scrutiny by Ofwat. Provisions are made against the group's trade receivables based on historical cash collection rates for debt over a 4 year period, which is considered by management to be representative of collection risk on the whole population of household debtors. A top-up to the provision has been recorded to reflect anticipated changes to cash collection as a result of the anticipated impact of Covid-19 on economic activity and particularly unemployment rates. The key audit matter, which is also a potential fraud risk, is focused on the estimation of the household bad debt provision, including whether the experience of cash collection in historical periods provides an appropriate expectation of future credit losses under IFRS 9 'Financial Instruments'. In response to an expected deterioration in future cash collection due to the economic disruption caused by Covid-19, the bad debt provision at 31 March 2021 includes an additional £13.5m (2020: £12.0m) to reflect that future cash collection may not be consistent with historical cash collection trends. Management determined this additional provision considering a range of external data points and the correlation between unemployment rates and cash collections. The Audit Committee have also considered this as a significant issue, and it is discussed in the Audit Committee Report on page 119. It is also included as an area involving estimation in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(p).

How the scope of our audit responded to the key audit matter	In response to this matter, we have performed the following procedures: • obtained an understanding of, and tested, relevant controls within the bad debt provision estimation process; • assessed the accuracy of information within the aged debt report to assess whether the customer debt is accurately categorised based on information contained within the group's billing system; • assessed that the provision, including the additional provision due to Covid-19, has been calculated in line with the policy of the group through testing the mechanical accuracy of the provision and reviewing its consistency with IFRS 9 'Financial Instruments'; • inspected management's bad debt policy, specifically challenging whether the recoverability assumptions are reflective of current cash collection rates; • assessed whether any discrepancies exist between the provision recognised and provision indicated by current cash collection ratios and other macroeconomic indicators that may impact the ability of customers to make payments; • assessed the accuracy and completeness of the cash collection trends used in the provision rate calculation by performing regression analysis; • assessed the assumptions underpinning the market data used by management in assessing the impact of Covid-19 by comparing these with the wider range of external market forecasts; • considered whether post year-end cash collection trends throughout April and May 2021 supported management's best estimate of additional provision due to Covid-19; and • engaged our IT analytics team to perform a recalculation on the debtor ageing.
Key observations	Based on the work performed above, we are satisfied that the bad debt provision, including the potential impact of Covid-19, is reasonable and in accordance with the requirements of IFRS 9.

5.2. Revenue recognition – estimating metered household revenue

Key audit matter description	For customers with water meters, the revenue recognised depends on the volume of water supplied, including an estimate of the sales value of water supplied between the date of the last meter reading and the year end (the "estimated metered household revenue"). This estimated metered household revenue includes both estimated unbilled metered household revenue and estimated billed metered household revenue. The household element of the unbilled income accrual is £272m (2020: £304m). The estimated element of billed metered household revenue is £32m. The total household revenue is £1,033.2m (2020: £1,026.7m). The usage estimates are based on historical data and assumptions around consumption patterns. Incorrect estimates of water consumption could lead to overstatement or understatement of revenue in the period. Due to the level of management judgement, we identified the estimation of metered household revenue as a key audit matter and area of potential fraud. The Audit Committee considers estimating unbilled household revenue as a significant issue, as discussed in the Audit Committee Report on page 119. It is also included as an area involving estimation in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(e).

Independent Auditor's Report continued

To the members of Anglian Water Services Limited

5.2. Revenue recognition – estimating metered household revenue continued

How the scope of our audit responded to the key audit matter	In response to this matter, we have performed the following procedures: • obtained an understanding of, and tested, relevant controls within the billed and unbilled household revenue process, including controls around the estimation techniques used with regard to consumption and other key data inputs into the model; • assessed management's assumptions for household consumption and the data sources used in estimating household unbilled revenue, including updates for impact of Covid; • assessed the 'look-back' testing of the prior year accrued revenue by comparing bills raised during 2020/21 relating to the 2019/20 accrual, including any adjustments included in the 2020/21 accrual; and • assessed the accuracy of the reports utilised by management in determining the appropriate accrual, with the involvement of IT specialists.
Key observations	We are satisfied that management's estimates in relation to the recognition of metered household revenue is appropriate.

5.3. Derivative accounting

Key audit matter description	The group and the parent company have a total net derivative liability of £832.0m (2020: £742.8m), disclosed in note 20 to the financial statements, including interest rate swaps, index-linked swaps, cross currency swaps and contracts to fix energy prices. IFRS 9 'Financial Instruments' requires derivatives to be accounted for at fair value with movements recognised as profit or loss, unless designated as hedge relationships. Where possible, management have elected to apply hedge accounting. We identified a key audit matter relating to the valuation of derivatives and the related credit risk adjustments, which can be both complex and judgemental. We have focused in particular on the risk of error arising on the valuation of the index-linked swaps due to their complexity. The relevant accounting policy adopted is disclosed in note 1(s).
How the scope of our audit responded to the key audit matter	In response to this matter, we have performed the following procedures: • obtained an understanding of, and tested, relevant controls around the valuation techniques used in determining the fair value of derivatives; • performed valuation testing, through independent recalculation, of a sample of complex derivative financial instruments, including an assessment of the credit risk adjustment; • inspected the hedge documentation and tested hedge effectiveness against the criteria documented; • inspected the accounting for derivative positions to assess whether they are in accordance with IFRS 9; and • reviewed the disclosures required by IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair Value Measurement' to assess whether they are compliant with the standard and observed industry practice.
Key observations	We are satisfied that derivative financial instruments have been accounted for appropriately and that the valuations adopted are reasonable.

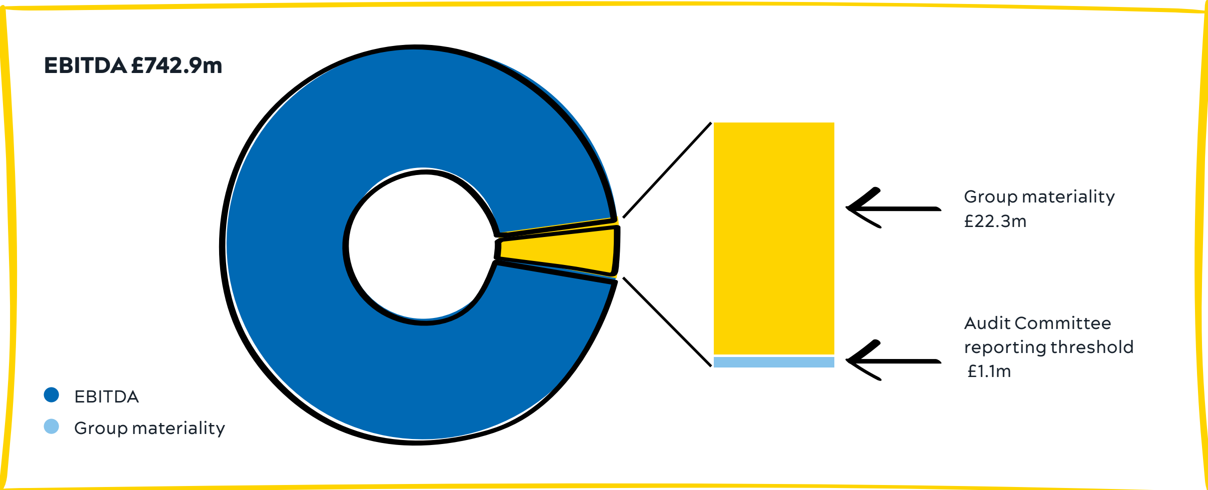
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£22.3m (2020: £18.6m)	£22.2m (2020: £18.5m)
Basis for determining materiality	In both years, we considered 3% of EBITDA as a benchmark for determining materiality. The parent company materiality was set at £0.1m (2020: £0.1m) lower than group materiality.	
Rationale for the benchmark applied	We have used EBITDA as the benchmark for materiality as this is deemed a key driver of business value, is a critical component of the financial statements and is a focus for users of the financial statements. EBITDA is disclosed on page 35 of the Financial Performance Report section. The substantial majority of the group's operations are carried out by the parent company.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance Materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: · our consideration of the group's control environment, including our control reliance approach across several business cycles; · no significant deficiencies noted in the functioning of the key business operations due to Covid-19 or otherwise; · the limited number of changes to the business and the limited turnover of management and key accounting personnel during the year; and · the history of a low number of corrected and uncorrected misstatements identified in previous periods.	

Independent Auditor's Report continued

To the members of Anglian Water Services Limited

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.1m (2020: £0.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Anglian Water Services Limited and Anglian Water Services Financing Plc were subject to full-scope audits and together account for 100% (2020: 100%) of the group's total assets and EBITDA. All procedures were carried out directly by the Group audit team.

7.2. Our consideration of the control environment

Our work in relation to the group's internal control environment involved testing of the group's key reporting system. We, with the involvement of our IT specialists, obtained an understanding of, and tested, relevant General Information Technology Controls (GITCs) within the group's key reporting system, including the access controls, change management controls and controls around segregation of duties.

We also tested the relevant controls within the household revenue, capital expenditure and operating expenses business processes, which are supported by the group's key reporting system. We performed a walkthrough and inquiry of management to test the design and implementation of the relevant controls within each of the business processes. We tested, on a sample basis, the operating effectiveness of these controls.

We were able to adopt a controls reliance approach for each of these business processes, including automated controls in these business processes and no significant control deficiencies were identified as a result of our work.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group’s remuneration policies, key drivers for directors’ remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group’s documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas of bad debt provisioning, estimating metered household revenue and classification of costs between capital and operating. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, Environment Agency regulations, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group’s ability to operate or to avoid a material penalty. These included the group’s operating licence and the regulatory solvency requirements.

Independent Auditor's Report continued

To the members of Anglian Water Services Limited

11.2. Audit response to risks identified

As a result of performing the above, we identified bad debt provisioning and estimating metered household revenue as key audit matters also related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofwat;
- in addressing the risk of fraud in the classification of costs between capital and operating, testing a sample of capital projects by assessing the costs incurred to third-party documentation and assessing the appropriateness of the classification in accordance with the capitalisation policy; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by our engagement letter

In our opinion, the part of the Director's Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors on 1 September 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 March 2017 to 31 March 2021.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report 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 company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Leigh
Senior statutory auditor
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
16 June 2021

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