

# **Severn Trent Services (Water and Sewerage) Limited**

## **Annual report and financial statements for the year ended 31 March 2022**

Company number: 08880470

# Severn Trent Services (Water and Sewerage) Limited

## Annual report and financial statements for the year ended 31 March 2022

### Contents

|                                                                                                         |    |
|---------------------------------------------------------------------------------------------------------|----|
| Company information .....                                                                               | 2  |
| Strategic report.....                                                                                   | 3  |
| Directors' report.....                                                                                  | 4  |
| Independent auditor's report to the members of Severn Trent Services (Water and Sewerage) Limited ..... | 6  |
| Income statement.....                                                                                   | 9  |
| Balance sheet .....                                                                                     | 10 |
| Statement of changes in equity .....                                                                    | 11 |
| Notes to the financial statements .....                                                                 | 11 |

# Severn Trent Services (Water and Sewerage) Limited

## Company information

|                          |                                                                                        |
|--------------------------|----------------------------------------------------------------------------------------|
| <b>Company number</b>    | 08880470                                                                               |
| <b>Directors</b>         | C Stoyell<br>R Eadie<br>A J Durham (appointed on 3 May 2022, resigned 14 July 2022)    |
| <b>Secretary</b>         | G Eagle                                                                                |
| <b>Registered office</b> | Severn Trent Centre<br>2 St John's Street<br>Coventry<br>CV1 2LZ                       |
| <b>Banker</b>            | Barclays Bank PLC<br>1 Churchill Place<br>London<br>E14 5HP                            |
| <b>Solicitor</b>         | Herbert Smith Freehills LLP<br>Exchange House<br>Primrose Street<br>London<br>EC2A 2EG |
| <b>Auditor</b>           | Deloitte LLP<br>2 New Street Square<br>London<br>EC4A 3BZ                              |

# Severn Trent Services (Water and Sewerage) Limited

## Strategic report

The Directors present their Strategic report for the year ended 31 March 2022.

### Business review and principal activities

The Company is a wholly owned subsidiary of Severn Trent Plc and operates as part of the Severn Trent Group's Business Services segment.

The principal activity of the Company is to provide regulated sewerage and sewerage disposal services.

There have not been any significant changes in the Company's principal activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

During the year, the Company adopted approximately 9,000 meters of underground assets and associated infrastructure such as surface water attenuation systems which is in line with the Company's statutory adoptions processes.

The Company have also completed a £2.5 million capital works upgrade to the waste water treatment works at Camp Farm, Aldershot.

Severn Trent Plc manages its operations on a divisional basis and the Company's Directors do not believe that further key performance indicators for the Company are necessary to enhance the understanding of the development, performance or position of the business. The performance of the Business Services segment, which includes this company, is discussed in Severn Trent Plc's Annual Report and Accounts (which does not form part of this report).

### Results and dividends

The Company's profit for the financial year after taxation was £103,000 (2021: £82,000).

The Directors do not recommend the payment of a dividend (2021: nil).

### Principal risks and uncertainties

#### *Treasury management*

The Severn Trent Group manages its treasury operations on a group basis. Financial risk management is performed by Severn Trent's Group Treasury department. This includes assessment and mitigation of price risk, credit risk, liquidity risk and interest rate cash flow risk. The Group's treasury management policies and operations are discussed in Severn Trent Plc's Annual Report and Financial Statements (which does not form part of this report).

### Financial position and going concern

As at 31 March 2022, the Company has net assets of £1,233,000 (2021: £1,130,000) and a net current asset position of £827,000 (2021: £588,000).

The Directors have considered the financial position and future prospects of the Company. The Directors have a reasonable expectation that the Company has adequate resources, including financial resources available from other group companies, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the report and annual financial statements.

Throughout the year and following the year end, the Board has considered and monitored the impact of COVID-19, in particular to evaluate its impact on financing and liquidity. This indicates that, while there has been a financial impact, it has been relatively minor and has not resulted in a significant impact to the Company's expected liquidity or solvency that cannot be addressed by mitigating actions.

Approved by the Board and signed on its behalf by:



**C Stoyell**  
Director  
15 July 2022

# Severn Trent Services (Water and Sewerage) Limited

## Directors' report

The Directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 March 2022.

### Matters included in the Strategic report

The following matters are included in the Company's Strategic report on the preceding page:

- Business review, future developments and principal activities of the Company
- Results and dividends
- Principal risks and uncertainties, including financial risk management
- Financial position and going concern.

### Directors

The Directors who served during the year are shown on page 2.

### Directors' indemnities

The Company's Articles of Association provide that directors of the Company shall be indemnified by the Company against any costs incurred by them in carrying out their duties, including defending any proceedings arising out of their positions as directors in which they are acquitted or judgment is given in their favour or relief from any liability is granted to them by the court. These indemnities were in force throughout the year and up to the date of signing of the financial statements

### Employees

The Company operates a non-discriminatory employment policy and full and fair consideration is given to applications for employment by disabled persons where they have the appropriate skills and abilities. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Severn Trent Group continues and that appropriate training adjustments are made. It is the policy of the Group that training, career development and promotion opportunities of disabled persons should, as far as possible, be identical to that of other employees.

The Severn Trent Group actively encourages employee involvement and consultation and places emphasis on keeping its employees informed of its activity and financial performance by way of briefings and publication to staff of all relevant information and corporate announcements. The Severn Trent Sharesave Scheme, an all employee SAYE plan, is offered by the Group on an annual basis and helps to develop employees' interest in the Company's performance.

### Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities. The Company operates in accordance with the group policies of Severn Trent Plc which are described in the Group's Annual Report and Financial Statements (which does not form part of this report).

### Post balance sheet events

There have been no significant post balance sheet events.

### Auditor and disclosure of information to the auditor

In the case of each of the persons who are directors of the Company at the date when this report is approved:

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

Relevant audit information means information needed by the Company's auditor in connection with preparing its report. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## Severn Trent Services (Water and Sewerage) Limited

### Directors' report (continued)

Deloitte LLP have expressed their willingness to continue in office as auditors and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

#### Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting standards, including Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board and signed on its behalf by:



**C Stoyell**  
**Director**  
**15 July 2022**

Severn Trent Centre  
2 St John's Street  
Coventry  
CV1 2LZ

# Severn Trent Services (Water and Sewerage) Limited

## Independent auditor's report to the members of Severn Trent Services Water & Sewerage Limited

### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of Severn Trent Services Water & Sewerage Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### 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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### 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.

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 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.

#### 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.

## Severn Trent Services (Water and Sewerage) Limited

### 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### 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: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with HMRC.



# Severn Trent Services (Water and Sewerage) Limited

## Report on other legal and regulatory requirements

### 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

### 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.

*Marianne Milnes*

Marianne Milnes FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

15 July 2022

## Severn Trent Services (Water and Sewerage) Limited

### Income statement

For the year ended 31 March 2022

|                                                                            | Note | 2022<br>£'000  | 2021<br>£'000 |
|----------------------------------------------------------------------------|------|----------------|---------------|
| <b>Revenue</b>                                                             | 3    | <b>1,335</b>   | 860           |
| Operating costs before charge for bad and doubtful debts                   | 4    | <b>(1,172)</b> | (755)         |
| Charge for bad and doubtful debts                                          | 4    | <b>48</b>      | (3)           |
| <b>Total operating costs</b>                                               | 4    | <b>(1,124)</b> | (758)         |
| <b>Profit before taxation</b>                                              |      | <b>211</b>     | 102           |
| Current tax                                                                | 7    | <b>175</b>     | (20)          |
| Deferred tax                                                               | 7    | <b>(283)</b>   | –             |
| Taxation on profit on ordinary activities                                  | 7    | <b>(108)</b>   | (20)          |
| <b>Profit for the financial year attributable to owners of the Company</b> |      | <b>103</b>     | 82            |

All results are from continuing operations in both the current and preceding year.

The Company has no recognised gains or losses other than the results above and therefore no separate statement of comprehensive income has been presented.

## Severn Trent Services (Water and Sewerage) Limited

### Balance sheet

At 31 March 2022

|                                              | Note | 2022<br>£'000  | 2021<br>£'000 |
|----------------------------------------------|------|----------------|---------------|
| <b>Non-current assets</b>                    |      |                |               |
| Property, plant and equipment                | 8    | 6,569          | 111           |
| Trade and other receivables                  | 9    | 419            | 432           |
|                                              |      | <b>6,988</b>   | <b>543</b>    |
| <b>Current assets</b>                        |      |                |               |
| Trade and other receivables                  | 9    | 366            | 172           |
| Current tax receivable                       |      | 158            | –             |
| Cash and cash equivalents                    |      | 748            | 778           |
|                                              |      | <b>1,272</b>   | <b>950</b>    |
| <b>Current liabilities</b>                   |      |                |               |
| Trade and other payables                     | 10   | (445)          | (285)         |
| Current tax payable                          |      | –              | (77)          |
|                                              |      | <b>(445)</b>   | <b>(362)</b>  |
| <b>Net current assets</b>                    |      |                |               |
|                                              |      | <b>827</b>     | <b>588</b>    |
| <b>Total assets less current liabilities</b> |      |                |               |
|                                              |      | <b>7,815</b>   | <b>1,131</b>  |
| <b>Non-current liabilities</b>               |      |                |               |
| Trade and other payables                     | 10   | (6,298)        | –             |
| Deferred tax                                 | 11   | (284)          | (1)           |
|                                              |      | <b>(6,582)</b> | <b>(1)</b>    |
| <b>Net assets</b>                            |      |                |               |
|                                              |      | <b>1,233</b>   | <b>1,130</b>  |
| Called up share capital                      | 12   | 954            | 954           |
| Total retained earnings                      |      | 279            | 176           |
|                                              |      | <b>1,233</b>   | <b>1,130</b>  |

The financial statements were approved by the Board of Directors on 15 July 2022. They were signed on its behalf by:



**C Stoyell**  
**Director**  
**15 July 2022**  
**Company Number: 08880470**

## Severn Trent Services (Water and Sewerage) Limited

### Statement of changes in equity For the year ended 31 March 2022

|                         | Share capital | Retained earnings | Total        |
|-------------------------|---------------|-------------------|--------------|
|                         | £'000         | £'000             | £'000        |
| At 31 March 2020        | 954           | 94                | 1,048        |
| Profit for the year     | –             | 82                | 82           |
| At 31 March 2021        | <b>954</b>    | <b>176</b>        | <b>1,130</b> |
| Profit for the year     | –             | 103               | 103          |
| <b>At 31 March 2022</b> | <b>954</b>    | <b>279</b>        | <b>1,233</b> |

# Severn Trent Services (Water and Sewerage) Limited

## Notes to the financial statements

### 1. Accounting policies

#### a) Accounting convention

The financial statements have been prepared on the going concern basis (see Strategic report) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value, and in accordance with applicable United Kingdom Accounting Standards and comply with the requirements of the Companies Act 2006.

As at 31 March 2022, the Company has net assets of £1,233,000 (2021: £1,130,000) and a net current asset position of £827,000 (2021: £588,000). The Directors have considered the financial position and future prospects of the Company. The Company participates in the Group's pooled banking arrangements and may draw down on funding, when required, from the Severn Trent Group in the form of intra-group loans. The Directors have a reasonable expectation that the Company has adequate resources, including financial resources available from other group companies, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the report and annual financial statements.

The principal accounting policies, which have been applied consistently in the current and preceding year are set out below.

Severn Trent Services (Water and Sewerage) Limited (the Company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales.

#### b) Basis of preparation

##### (i) General

The Company is a wholly owned subsidiary of Severn Trent Plc and is included in the consolidated financial statements of Severn Trent Plc.

The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'. Therefore the recognition and measurement requirements of United Kingdom adopted International Financial Reporting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as these are Companies Act 2006 accounts.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the Group financial statements of Severn Trent Plc which are available to the public and can be obtained as set out in note 15.

#### c) Revenue recognition

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter-company sales, in the ordinary course of business services provided.

Turnover is not recognised until the service has been provided to the customer.

Water and waste water revenue is recognised when the service is provided and includes an estimate of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

# Severn Trent Services (Water and Sewerage) Limited

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### d) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

#### e) Property, plant and equipment

Property, plant and equipment is held at cost less accumulated depreciation.

Property, plant and equipment is depreciated, using the straight-line method, to its estimated residual value over its estimated useful life. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The cost of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Where items of property, plant and equipment are transferred to the Group from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. The transfer is considered to be linked to the provision of ongoing services therefore the corresponding credit is recorded in deferred income and released to turnover over the expected useful lives of the related assets. Further details regarding the judgment applied is detailed in note 2.

The estimated useful lives are:

| Fixed asset category        | Estimated useful life |
|-----------------------------|-----------------------|
| Infrastructure assets       | 10 – 150 years        |
| Movable plant and equipment | 2 – 15 years          |

#### f) Impairment of non-current assets

If the recoverable amount of an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the estimated cost of capital adjusted for the risk profiles of the business.

Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairment losses are recognised in the income statement.

# Severn Trent Services (Water and Sewerage) Limited

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### g) Trade receivables and accrued income

Trade receivables and accrued income are measured at fair value on initial recognition. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

The Company applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Company's historical experience of trade receivable write-offs.

#### h) Pre-contract costs

Incremental costs incurred in obtaining contracts with customers are recognised as a prepayment and written off to the income statement over the life of the contract where it is expected that the costs will be recovered. All other costs of obtaining contracts are written off to the income statement as incurred.

### 2. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, the Company is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The critical accounting judgment was:

- i) *Income from connections to the water and waste water networks*

The Company receives income from developers and domestic customers for new connections to the water and waste water networks either in the form of infrastructure assets or cash. The more significant examples of these transactions are:

- Developers transfer to the Company infrastructure assets that they have installed in a new development. Usually there is no monetary consideration exchanged when the Company adopts assets in this manner.
- When new properties are connected to the network, the Company is permitted, under the Water Industry Act, to obtain a contribution from the developer towards the cost of reinforcing its network to meet the additional demands arising from the new connections. These are referred to as Infrastructure charges. The charges are a standard amount per property and are not linked to specific reinforcement expenditure.
- When developers require properties to be connected to the Company's network, the Company installs a meter and connection to each property but retains ownership of the assets and responsibility for their maintenance.

Assessing whether this income is received in relation to the provision of the connection to the Company's infrastructure networks or is to facilitate the ongoing provision of water and waste water services to the properties in question requires judgment about the nature of the ongoing relationship between the Company and the customer. During the period the Company received infrastructure assets with a fair value of £6,467,000 (2021: £nil).

There were no significant estimation uncertainties.

## Severn Trent Services (Water and Sewerage) Limited

### Notes to the financial statements (continued)

#### 3. Revenue

The Company's activities are solely based in the UK.

|                                | 2022         | 2021  |
|--------------------------------|--------------|-------|
|                                | £'000        | £'000 |
| Water and waste water services | <b>1,335</b> | 860   |

Deferred income arising from connections to the Company's water and waste water networks represents a contract liability and is recognised in line with the Company's accounting policy set out in note 1 and the judgment described in note 2. Changes in the Company's contract liabilities from deferred income were as follows:

|                                      | 2022         | 2021  |
|--------------------------------------|--------------|-------|
|                                      | £'000        | £'000 |
| At 1 April                           | –            | –     |
| Assets transferred at no cost        | <b>6,467</b> | –     |
| Amounts released to income statement | <b>(33)</b>  | –     |
| At 31 March                          | <b>6,434</b> | –     |

No revenue (2021: £nil) that was included in the opening balance of the contract liability was recognised in the income statement during the year. No revenue was recognised in the year from performance obligations relating to connections to the Group's water and waste water networks that were satisfied or partially satisfied in previous years (2021: nil).

Payments for infrastructure charges and other charges relating to connection to the networks occur when the connections are made. The performance obligations, including provision of an ongoing water and waste water service, are provided over the life of the relevant property.

Revenue from the remaining performance obligations is expected to be recognised as follows:

|                            | 2022         | 2021  |
|----------------------------|--------------|-------|
|                            | £'000        | £'000 |
| In the next year           | <b>136</b>   | –     |
| Between one and five years | <b>544</b>   | –     |
| After more than five years | <b>5,754</b> | –     |
|                            | <b>6,434</b> | –     |



## Severn Trent Services (Water and Sewerage) Limited

### Notes to the financial statements (continued)

#### 4. Operating costs

|                                       | 2022         | 2021       |
|---------------------------------------|--------------|------------|
|                                       | £'000        | £'000      |
| Wages and salaries                    | 402          | 301        |
| Power                                 | 23           | 9          |
| Raw materials and consumables         | –            | 1          |
| Rates                                 | 115          | 115        |
| Charge for bad and doubtful debts     | (48)         | 3          |
| Depreciation of tangible fixed assets | 62           | 27         |
| Hired and contracted services         | 468          | 225        |
| Other operating costs                 | 102          | 77         |
|                                       | <b>1,124</b> | <b>758</b> |

The wages and salaries costs stated above have been recharged from Severn Trent Services Operations UK Limited, a fellow group undertaking. Included in the above are audit fees of £9,000 (2021: £7,000) payable for the audit of the financial statements. No other fees were payable to the auditor (2020: nil).

#### 5. Employee numbers

The average number of employees during the year (including Executive Directors) was nil (2021: nil).

#### 6. Directors' remuneration

The Directors do not receive remuneration for their services within the Company. The emoluments of the Directors are paid by other companies within the Severn Trent Group.

#### 7. Taxation

##### a) Analysis of tax charge in the year

|                                                    | 2022         | 2021      |
|----------------------------------------------------|--------------|-----------|
|                                                    | £'000        | £'000     |
| <b>Current tax at 19% (2021: 19%)</b>              |              |           |
| Current year                                       | (175)        | 20        |
| <b>Total current tax (credit)/charge</b>           | <b>(175)</b> | <b>20</b> |
| <b>Deferred tax</b>                                |              |           |
| Origination and reversal of temporary differences: |              |           |
| - current year                                     | 283          | –         |
| <b>Total deferred tax charge</b>                   | <b>283</b>   | <b>–</b>  |
|                                                    | <b>108</b>   | <b>20</b> |

# Severn Trent Services (Water and Sewerage) Limited

## Notes to the financial statements (continued)

### 7. Taxation (continued)

#### b) Factors affecting the tax charge in the year

The tax assessed for the current year is higher than (2021: equal to) than the standard rate of corporation tax in the UK of 19% (2021: 19%).

The differences are explained below:

|                                                                       | 2022<br>£'000 | 2021<br>£'000 |
|-----------------------------------------------------------------------|---------------|---------------|
| <b>Profit before taxation</b>                                         | <b>211</b>    | 102           |
| Tax at the standard rate of corporation tax in the UK 19% (2021: 19%) | 40            | 20            |
| Current year impact of rate change                                    | 68            | –             |
| <b>Total tax charge</b>                                               | <b>108</b>    | 20            |

### 8. Property, plant and equipment

|                         | Infrastructure<br>assets<br>£'000 | Moveable<br>plant and<br>equipment<br>£'000 | Total<br>£'000 |
|-------------------------|-----------------------------------|---------------------------------------------|----------------|
| <b>Cost</b>             |                                   |                                             |                |
| At 1 April 2021         | –                                 | 204                                         | 204            |
| Additions               | 6,467                             | 53                                          | 6,520          |
| <b>At 31 March 2022</b> | <b>6,467</b>                      | <b>257</b>                                  | <b>6,724</b>   |
| <b>Depreciation</b>     |                                   |                                             |                |
| At 1 April 2021         | –                                 | (93)                                        | (93)           |
| Charge for the year     | (33)                              | (29)                                        | (62)           |
| <b>At 31 March 2022</b> | <b>(33)</b>                       | <b>(122)</b>                                | <b>(155)</b>   |
| <b>Net book value</b>   |                                   |                                             |                |
| <b>At 31 March 2022</b> | <b>6,434</b>                      | <b>135</b>                                  | <b>6,569</b>   |
| At 31 March 2021        | –                                 | 111                                         | 111            |

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £6,467,000 (2021: £nil).

## Severn Trent Services (Water and Sewerage) Limited

### Notes to the financial statements (continued)

#### 9. Trade and other receivables

|                                            | 2022       | 2021       |
|--------------------------------------------|------------|------------|
|                                            | £'000      | £'000      |
| <b>Current assets</b>                      |            |            |
| Net trade receivables                      | 237        | 5          |
| Amounts receivable from group undertakings | –          | 8          |
| Other amounts receivable                   | –          | 5          |
| Prepayments                                | 22         | 74         |
| Accrued income                             | 107        | 80         |
|                                            | <b>366</b> | <b>172</b> |
| <b>Non-current assets</b>                  |            |            |
| Prepayments                                | 419        | 432        |

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

Prepayments includes unamortised pre-contract costs, paid as a result of winning the contract to provide waste water services to a housing development in Aldershot, amounting to £432,000 (2021: £445,000). These costs are being amortised over 40 years on a straight line basis.

Accrued income is shown net of expected credit loss allowance and is not yet due.

Movements on the expected credit loss allowances were as follows:

|                                                        | £'000    |
|--------------------------------------------------------|----------|
| At 1 April 2021                                        | 53       |
| Provision released to income statement during the year | (48)     |
| <b>As at 31 March 2022</b>                             | <b>5</b> |

#### 10. Trade and other payables

|                                                                                                                  | 2022       | 2021       |
|------------------------------------------------------------------------------------------------------------------|------------|------------|
|                                                                                                                  | £'000      | £'000      |
| <b>Current liabilities</b>                                                                                       |            |            |
| Trade payables                                                                                                   | 45         | 18         |
| Amounts owed to fellow subsidiary undertakings relating to intercompany trading in the normal course of business | 143        | 114        |
| Social security and other taxes                                                                                  | 6          | 3          |
| Other payables                                                                                                   | –          | 93         |
| Deferred income                                                                                                  | 136        | –          |
| Accruals                                                                                                         | 115        | 57         |
|                                                                                                                  | <b>445</b> | <b>285</b> |
| <b>Non-current liabilities</b>                                                                                   |            |            |
| Deferred income                                                                                                  | 6,298      | –          |

# Severn Trent Services (Water and Sewerage) Limited

## Notes to the financial statements (continued)

### 11. Deferred tax

An analysis of the movement in the deferred tax liability recognised by the Company is set out below:

|                            | Accelerated tax<br>depreciation<br>£'000 |
|----------------------------|------------------------------------------|
| As at 1 April 2021         | (1)                                      |
| Charge to income           | (283)                                    |
| <b>As at 31 March 2022</b> | <b>(284)</b>                             |

### 12. Share capital

|                                                    | 2022<br>£'000 | 2021<br>£'000 |
|----------------------------------------------------|---------------|---------------|
| <b>Total issued and fully paid share capital</b>   |               |               |
| 953,926 ordinary shares of £1 each (2021: 953,926) | <b>954</b>    | 954           |

### 13. Post balance sheet events

There have been no significant post balance sheet events.

### 14. Related party transactions

There have been no transactions with the Directors of the Company during the last financial year.

In accordance with the exemption allowed by FRS 101, no disclosure is made of transactions with other wholly owned subsidiary companies which are consolidated into the Severn Trent Plc Group.

### 15. Ultimate parent undertaking

The immediate parent undertaking is Severn Trent Services International (Overseas Holdings) Limited.

The ultimate parent undertaking and controlling party is Severn Trent Plc, which is the parent undertaking and controlling party of the smallest and largest group to consolidate these financial statements. Copies of the Severn Trent Plc consolidated financial statements can be obtained from Severn Trent Plc's registrars at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.