

Severn Trent Water

286686



Accounts 1989-90

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Financial Statements

Year ended 31 March 1990

Contents	Page
Directors' Report	2
Historical Cost Financial Statements:	
Profit and Loss Account	5
Balance Sheet	6
Statement of Source and Application of Funds	7
Notes to the Financial Statements	8
Supplementary Current Cost Financial Statements:	
Profit and Loss Account	20
Balance Sheet	21
Notes to the Current Cost Financial Statements	22
Auditors' Reports	26

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 March 1990.

Principal activities

The principal activities of the Company are the supply of water and the treatment and disposal of sewage.

Business review

The Company's turnover in 1989/90 was £541.6 million. Operating profit was £164.0 million. Profit on ordinary activities after interest was £126.2 million.

The greatest benefit of privatisation is that for the first time the Company has the resources it needs to meet the quality and service standards required. The investment programme (called the "K" investment programme), at today's prices, is some £4 billion over the next 10 years and a sound start has been made in achieving the 1989/90 investment objectives.

Investment has increased by 25 per cent over the previous year. This expenditure has ensured that drinking water quality meets the new European Community standards for the great majority of supplies and action for full compliance is in progress. In addition, the Company now meets its sewage discharge consents, and further improvements are being achieved. The Company also complied with the legal and environmental needs in respect of the disposal of all sewage sludge to land.

With respect to operating costs, the year saw a continuation of productivity improvements, the eighth year in succession in which the Company has been able to demonstrate such achievements.

A continuing objective is the improvement in customer service and new systems have been developed to monitor and measure the service given to customers, both in terms of product quality and service in response to customer enquiries.

A complete review of the Company's activities is contained within the Annual Report and Accounts of Severn Trent Plc. A copy of this report can be obtained on written request to the Director of Corporate Communications at the address given on page 28. There is no charge for this publication.

Future developments

Whilst in the year just ended the Company has begun to make significant improvements in drinking water quality and compliance with sewage consents, further improvements will be made in the future to ensure that all standards are met. The commitment to drinking water quality is total and the Company will meet all standards; its own high standards, those set by government and the European Community, and the rising expectations of customers in respect of the taste and appearance of water.

The Company is an environmental business and nowhere is this more evident than in the treatment of sewage. The Company is committed to full compliance with effluent standards and will continue to ensure that by-products are safely returned to the environment and that quality standards are further improved.

Environmental needs will be protected and recreational facilities will continue to be developed.

The Company is now equipped with resources to manage its business, free of the ravages of government fiscal ups and downs so injurious to the long term needs of this vital business.

Dividend and reserves

An interim dividend of £38.9 million was paid on 25 January 1990. A second interim dividend of £51.7 million was paid on 29 June 1990. Proposed transfers to reserves are set out in note 16 to the financial statements on page 17

Directors' Report

Directors

The Directors of the Company, during the period are listed below:

	Date appointed Director of Severn Trent Water Limited	
J G Bellak	1 September 1989	
R S Paul	1 September 1989	
F Earnshaw	1 September 1989	
V Cocker	1 September 1989	
C G McMillan	18 December 1989	
B Duckworth	1 September 1989	
G Fisher	1 September 1989	
J Gunn	1 April 1989	} Resigned on 31 August 1989
A Whetnall	1 April 1989	

Messrs Bellak, Paul, Earnshaw, Cocker and McMillan are also Directors of Seven Trent Plc, the ultimate holding company and their interests in the share capital of that company are disclosed in its Directors' Report for the year ended 31 March 1990. The interests of the other Directors in the Ordinary Share capital of Severn Trent Plc, according to the register maintained under the provisions of the Companies Act 1985 as at 31 March 1990, were:

	Beneficial holdings in Ordinary Shares	Share options under approved schemes
B. Duckworth	1,591	62,977
G. Fisher	1,271	62,977

None of the Directors had an interest in the Ordinary Share capital of Severn Trent Plc at the date of their appointment.

Fixed assets

The changes in tangible fixed assets during the year are shown in note 8 to the financial statements on pages 13 and 14.

Share capital

Details on movements in share capital are shown in note 15 to the financial statements on page 17.

Research and development

The Company has a positive view of research and development. It is directing investment into those areas which can positively contribute to continuing improvements in operational efficiency and the achievement of national and international standards for potable water, sewage effluent and sewage sludge.

The Company is developing appropriate technologies, captured from any appropriate sources throughout the world, to meet these objectives. The aim is to successfully apply these technologies to the core business.

Contributions for political and charitable purposes

Donations to charitable organisations during the period amounted to £20,034. No political donations were made.

Directors' Report

Disabled persons

The Company has a policy of employing disabled people in suitable posts and of making arrangements, whenever possible, to encourage employees who develop a disability to continue working within the Company.

Health and safety

The Company has a continuing commitment to health and safety and has been rewarded by a British Safety Council award for its safety record during 1989. The aim in the coming year is to improve this good performance. The COSHH (Control of Substances Hazardous to Health) Regulations are now in force and the use of all hazardous substances in the Company has been reviewed and it has been confirmed that controls achieve their purpose.

Close liaison has been maintained with the Health and Safety Executive and good working relationships with their inspectors have continued.

Employees

The number of people working for the Company at 31 March 1990 was 6,986 (including full time equivalents for part-time and temporary employees).

The equivalent figure for Severn Trent Water Authority for the previous year was 7,787, but on 31 August 1989, 738 employees transferred to the National Rivers Authority.

Employee consultation arrangements have been restructured to improve communications. Much of the recent work has been associated with the setting up of a new consultative machinery, a function formerly covered in industry wide negotiation.

The year has been marked by a sharp re-focusing on the skills, knowledge and behaviour required of managers. In addition, this year has seen an increase in the recruitment of graduates in engineering, operations, accountancy and computing. In addition placements have been offered to sandwich course students.

"Ring fencing"

As at 31 March 1990, the Company had available to it sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company in order that the purposes of a special administration order could be achieved if such an order were made.

Auditors

A resolution proposing the re-appointment of Price Waterhouse as auditors will be put to the Annual General Meeting.



By order of the Board
D W Martin, Secretary
16 July 1990

Profit and Loss Account

Year ended 31 March 1990

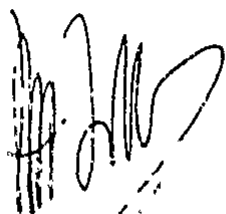
	Notes	1990 £m	1989 £m
Turnover	2	541.6	476.4
Operating profit before interest payable	2	164.0	178.4
Net interest	4	(37.8)	(80.9)
Profit on ordinary activities before taxation		126.2	97.5
Taxation on profit on ordinary activities	5	—	—
Profit on ordinary activities after taxation		126.2	97.5
Extraordinary item	6	(8.9)	(2.8)
Profit for the financial year		117.3	94.7
Dividends	7	(90.6)	—
Retained profit for the financial year	16	26.7	94.7

Balance Sheet

as at 31 March 1990

	Notes	1990 £m	1989 £m
Fixed assets			
Tangible assets	8	1,526.5	1,356.1
Investments	9	0.6	—
		<u>1,527.1</u>	<u>1,356.1</u>
Current assets			
Stores and work in progress		8.3	6.4
Debtors	10	67.4	64.0
Short term deposits and investments	11	368.8	1.1
		<u>444.5</u>	<u>71.5</u>
Creditors: amounts falling due within one year	12	(202.5)	(261.2)
Net current assets/(liabilities)		<u>242.0</u>	<u>(189.7)</u>
Total assets less current liabilities		<u>1,769.1</u>	<u>1,166.4</u>
Creditors: amounts falling due after more than one year	13	(55.7)	(744.5)
Provisions for liabilities and charges	14	(45.3)	(7.9)
		<u>1,668.1</u>	<u>414.0</u>
Capital and reserves			
Called up share capital	15	400.0	—
Reserves and retained profits	16	1,268.1	414.0
		<u>1,668.1</u>	<u>414.0</u>

Signed on behalf of the Board who approved
the accounts on 16 July 1990



J.G. BELLAK
Chairman



B. DUCKWORTH
Director of Finance




Statement of Source and Application of Funds

Year ended 31 March 1990

	Notes	1990 £m	1989 £m
Funds generated from operations			
Profit before interest		164.0	178.4
Depreciation		39.9	33.8
Infrastructure renewals provision		35.3	—
Working capital movement	19	22.6	21.6
Fixed assets:			
Capital expenditure (net of grants)		(213.7)	(145.5)
Operating disposals		3.4	1.9
Operating cash flow		<u>51.5</u>	<u>90.2</u>
Interest		(37.8)	(30.9)
Dividend paid		(38.9)	—
Net funds (absorbed)/generated		<u>(25.2)</u>	<u>9.3</u>
Other sources of funds			
Issue of shares		400.0	—
Utilisation of funds			
Investments		(0.6)	—
Restructuring and flotation		(10.8)	(6.8)
Net cash flow		<u>363.4</u>	<u>2.5</u>

Notes to the Financial Statements

Year ended 31 March 1990

1 Accounting policies

a Accounting convention

The financial information has been prepared under the historical cost convention.

b Basis of preparation

On 1 September 1989 the property, rights and liabilities of Severn Trent Water Authority, other than those applicable to the National Rivers Authority, were vested in Severn Trent Water Limited, a wholly owned subsidiary of Severn Trent Plc. The prior year financial information is based on the audited financial statements of Severn Trent Water Authority which have been adjusted to exclude those assets, liabilities, profits and losses attributable to the functions transferred to the National Rivers Authority.

The accounts have been prepared in accordance with the requirements contained in Condition F of the Instrument of Appointment of the Water and Sewerage Undertakers.

The accounts do not indicate what the results of Severn Trent Water Limited would have been had it been in the private sector operating in the new regulatory environment from 1 April 1989.

c Turnover

Turnover represents the income receivable in the ordinary course of business for services provided.

d Tangible fixed assets and depreciation

Tangible fixed assets comprise:

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines); and other assets (including properties, overground plant and equipment).

(i) Infrastructure assets

Infrastructure assets comprise a network of systems:

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

(ii) Other assets

Other assets are included at cost less accumulated depreciation. Additions are included at cost, after deducting grants and contributions.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Buildings	30-60 years
Operational structures	40-80 years
Fixed plant	20-40 years
Vehicles, mobile plant and computers	4-10 years

Assets in the course of construction are not depreciated until commissioning.

Notes to the Financial Statements

continued

(iii) Leased assets

Where assets are financed by leasing arrangements, which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. The assets are depreciated over the shorter of their estimated useful lives and the lease periods. All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed in the year they are incurred.

e Infrastructure renewals accounting

The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the "K" Investment Programme; these may differ from those operational policies and standards adopted prior to 1 April 1989 and reflect the impact of price changes by indexation since the programme was prepared. The timing of the "K" Investment Programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations in actual or planned expenditure.

f Investments

Investments held as fixed assets are stated at cost less amounts written off. Those held as current assets are stated at the lower of cost and net realisable value.

g Stores and work in progress

Stores 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. Cost includes labour, materials, transport and an element of overheads.

h Pension costs

Pension costs are determined actuarially so as to spread the cost of providing pension benefits over the estimated period of employees' pensionable service with the Company.

i Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances on which the exchange movements are covered are translated into sterling at the covered rates. Other foreign currency balances are translated at the rates ruling at the balance sheet date.

j Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

k Deferred taxation

Deferred taxation relating to capital allowances and other timing differences is provided for to the extent that it is probable that a liability will crystallise. Deferred taxation is not provided for on timing differences where it is probable that a liability will not crystallise.

Notes to the Financial Statements

continued

	Water supply £m	Sewerage services £m	Other £m	Total £m	1989 £m
2 Analysis of turnover and operating profit allocated by class of business					
Unmetered charges	130.5	245.8		376.3	390.4
Metered charges	79.7	26.0		105.7	93.8
Trade effluent charges		26.5		26.5	23.9
Grants	0.1	0.6		0.7	0.8
Other	26.0	4.2	2.2	32.4	17.5
Turnover	236.3	303.1	2.2	541.6	476.4
Manpower costs	44.3	45.2	0.6	90.1	81.8
Other costs of employment	5.9	5.5	0.1	11.5	4.5
Power	18.1	8.2		26.3	23.5
Local authority rates	18.6	8.7		27.3	27.5
Water charges	14.7	0.8		15.5	4.5
Agencies	2.0	17.5		19.5	18.3
Materials and consumables	12.8	12.2	0.3	25.3	21.1
Hired and contracted services	10.5	11.9	0.1	22.5	16.8
Charge for doubtful debts	3.1	3.9		7.0	7.0
Depreciation	17.4	22.0	0.2	39.6	33.2
Infrastructure renewals expenditure	25.2	44.4		69.6	49.9
Exceptional items	3.5	3.2		6.7	4.5
Profit on disposal of assets	(1.4)	(3.9)		(5.3)	(6.3)
Other	10.7	11.2	0.1	22.0	11.7
Operating costs	185.4	190.8	1.4	377.6	298.0
Operating profit	50.9	112.3	0.8	164.0	178.4

	1990 £m	1989 £m
(i) Included within the above are:		
Auditors' remuneration	0.1	0.1
Research and development	2.5	2.3
Hire of plant and machinery	2.3	1.3
Other operating leases	0.3	0.3
Abstraction charges payable to the National Rivers Authority	10.2	—
Exceptional items:		
Share of national awareness campaign	2.9	—
Commitment fees for revolving credit facility	3.0	—
Premium for early redemption of foreign debt	0.8	4.5

(ii) The infrastructure renewals charge for the year ended 31 March 1989 reflects only the actual expenditure incurred on maintaining the operating capability of the infrastructure network, as the Company did not have a "K" Investment Programme in the current form during this period.

(iii) The Company has not identified for the purpose of its 1990 accounts any businesses or activities other than the Appointed Business.

Notes to the Financial Statements

continued

	1990	1989
	£000	£000
3 Information regarding directors and employees		
Directors emoluments:		
Emoluments including pension contributions	<u>127.3</u>	<u>375.8</u>
Emoluments (excluding pension contributions) of the chairman	<u>—</u>	<u>51.1</u>
Emoluments (excluding pension contributions) of the highest paid director	<u>61.3</u>	<u>70.0</u>
	1990	1989
	No	No
Scale of directors emoluments (excluding pension contributions):		
£0 — 5,000	7	2
£ 5,001 — 10,000	—	3
£ 10,001 — 15,000	—	1
£ 20,001 — 25,000	—	1
£ 40,001 — 45,000	—	1
£ 45,001 — 50,000	—	1
£ 50,001 — 55,000	1	2
£ 60,001 — 65,000	1	—
£ 70,001 — 75,000	—	1
	<u>9</u>	<u>12</u>

Excluded from the above information are five former directors of Severn Trent Water Authority who were not appointed directors of Severn Trent Water Limited.

A loan to C. G. McMillan of £12,500 was repaid during the year. There are no other transactions or arrangements of a disclosable nature with directors and officers.

	1990	1989
	£m	£m
Employee emoluments:		
Staff costs	95.9	87.1
Social security costs	7.0	6.4
Pension costs	11.5	6.4
Total employment costs	<u>114.4</u>	<u>99.9</u>
Charged as follows:		
Capital and infrastructure renewals expenditure	24.3	18.1
Operating costs (note 2)	90.1	81.8
	<u>114.4</u>	<u>99.9</u>

Notes to the Financial Statements

continued

3 Information regarding directors and employees (continued)

Emoluments of senior employees (excluding pension contributions) fall within the following ranges:

	1990	1989
	No	No
£ 30,001 — 35,000	32	41
£ 35,001 — 40,000	42	6
£ 40,001 — 45,000	6	8
£ 45,001 — 50,000	3	1
£ 50,001 — 55,000	3	—

	1990	1989
	No	No
Average number of employees during year (full time equivalent)	7,105	7,757

The 1989 employee numbers include staff engaged on activities transferred to the National Rivers Authority. On 31 August 1989, 738 employees transferred to the National Rivers Authority.

	1990	1989
	£m	£m
4 Net interest		
Interest payable		
Bank loans, overdrafts and other loans repayable within five years	55.5	43.1
Other loans	—	39.3
Finance charges in respect of finance leases	3.5	4.5
	<u>59.0</u>	<u>86.9</u>
Interest receivable	(21.2)	(6.0)
Net interest	<u>37.8</u>	<u>80.9</u>

	1990	1989
	£m	£m
5 Taxation		
a Taxation on profit on ordinary activities		
U.K. Corporation tax at 35%	—	—

At 31 March 1990, the Company had tax losses of approximately £55 million which will be available for offset against future trading profits or for surrender as group relief. The Company was not subject to U.K. Corporation Tax in 1989.

	1990	1989
	£m	£m
b Deferred taxation		
The potential liability for deferred taxation calculated under the liability method at a U.K. tax rate of 35% is		
Accelerated capital allowances	149.6	—
Other timing differences	(12.7)	—
Available tax losses	(18.9)	—
	<u>118.0</u>	<u>—</u>

	1990	1989
	£m	£m
6 Extraordinary item		
Expenditure relating to preparation for the vesting of Severn Trent Water Authority's assets and liabilities and the subsequent flotation of the company.	8.9	2.8

Notes to the Financial Statements

continued

	1990	1989
	£m	£m
7 Dividends		
Interim paid	38.9	—
Second interim payable	51.7	—
	<u>90.6</u>	<u>—</u>

	Water supply	Sewerage services	Other	Total
	£m	£m	£m	£m
8 Tangible fixed assets				
a Analysis by service				
Cost				
Balance 1 April 1989	619.0	883.2	170.3	1,672.5
Transfers to group companies	—	—	(2.4)	(2.4)
Additions	88.3	107.4	29.3	225.0
Grants and contributions	(4.9)	(5.7)	(0.7)	(11.3)
Assets sold or written out	(1.4)	(0.8)	(19.7)	(21.9)
Balance 31 March 1990	<u>701.0</u>	<u>984.1</u>	<u>176.8</u>	<u>1,861.9</u>
Depreciation				
Balance 1 April 1989	108.7	148.6	59.1	316.4
Transfer to group companies	—	—	(1.0)	(1.0)
Provision for year	9.0	13.7	17.2	39.9
Assets sold or written out	(1.0)	(0.2)	(18.7)	(19.9)
Balance 31 March 1990	<u>116.7</u>	<u>162.1</u>	<u>56.6</u>	<u>335.4</u>
Net book value				
At 31 March 1990	584.3	822.0	120.2	1,526.5
At 31 March 1989	510.3	734.6	111.2	1,356.1

(i) Tangible fixed assets at 31 March 1990 include £202.6 million (1989 £133.7 million) of assets in the course of construction, which are not depreciated until commissioning.

(ii) The book value of tangible fixed assets held under finance leases at 31 March 1990 was £55.6 million and accumulated depreciation thereon was £22.3 million (in 1989 the net book value was £36.0 million).

(iii) Depreciation incurred during the year has been charged as follows:

	1990	1989
	£m	£m
On owned assets	37.0	30.2
On assets held under finance leases	2.6	3.0
Profit and loss account	<u>39.6</u>	<u>33.2</u>
Capital, rechargeable works and other	0.3	0.6
	<u>39.9</u>	<u>33.8</u>

Notes to the Financial Statements

continued

	Assets acquired prior to 1 April 1974 £m	Specialised operational properties and structures £m	Non- specialised operational properties £m	Infra- structure assets £m	Plant machinery and vehicles £m	Other £m	Total £m
8 Tangible fixed assets (continued)							
b Analysis by asset type							
Cost:							
Balance 1 April 1989	152.0	409.8	52.0	759.5	214.8	80.4	1,672.5
Transfer to group companies	—	—	—	—	—	(2.4)	(2.4)
Additions	—	52.8	6.8	93.6	55.9	15.9	225.0
Grants and contributions	—	(1.2)	(0.8)	(9.0)	(0.3)	—	(11.3)
Assets sold or written out	(1.1)	(0.1)	(0.9)	(0.1)	(3.5)	(16.2)	(21.9)
Balance 31 March 1990	150.9	461.3	57.1	844.0	270.9	77.7	1,861.9
Depreciation:							
Balance 1 April 1989	139.2	72.6	6.9	—	64.1	33.6	316.4
Transfer to group companies	—	—	—	—	—	(1.0)	(1.0)
Provision for year	7.0	5.9	1.4	—	13.3	12.3	39.9
Assets sold or written out	(0.8)	(0.1)	(0.2)	—	(3.3)	(15.5)	(19.9)
Balance 31 March 1990	145.4	78.4	8.1	—	74.1	29.4	335.4
Net book value:							
At 31 March 1990	5.5	382.9	49.0	844.0	196.8	48.3	1,526.5
At 31 March 1989	12.8	337.2	45.1	759.5	154.7	46.8	1,356.1

- (i) Specialised operational properties and structures principally comprise intake works, pumping stations, treatment works and boreholes.
- (ii) Non-specialised operational properties comprise offices, depots, workshops, residential properties directly connected with water and sewerage services and land held for the purpose of protecting the wholesomeness of water supplies.

Included in the above are the following tangible fixed assets not subject to depreciation:

	Land £m	Infrastructure assets £m	Total £m
As at 31 March 1990	8.5	844.0	852.5
As at 31 March 1989	8.7	759.5	768.2

Notes to the Financial Statements

continued

	Loans to	Other	Total
	related companies	investments	£ m
9 Investments			
Cost			
At 1 April 1989	—	—	—
Additions	0.3	0.3	0.6
At 31 March 1990	<u>0.3</u>	<u>0.3</u>	<u>0.6</u>

	Country of Registration or Incorporation (and operation)	Class of Share Capital held	Nature of Business
	Related companies		
Graham Carbons Limited	England	50% ordinary	Carbon regeneration
(Cost of investment £20,000)			
		1990	1989
10 Debtors		£m	£m
Trade debtors		25.0	29.7
Amounts owed by group companies		1.4	—
Loans due from group companies		5.2	—
Other debtors		16.2	12.9
Prepayments and accrued income		19.6	21.4
		<u>67.4</u>	<u>64.0</u>
		1990	1989
11 Short term deposits and investments		£m	£m
Short term deposits		367.8	—
Investments listed on a recognised investment exchange		1.0	1.1
		<u>368.8</u>	<u>1.1</u>

The market value of listed investments held on 31 March 1990 was £1.0 million (1989 £1.1 million).

Notes to the Financial Statements

continued

		1990	1989
		£m	£m
12 Creditors: amounts falling due within one year			
Bank loans, overdrafts and temporary borrowings		2.4	18.4
Loans		0.3	0.4
Current portion of long term loans (note 13)		—	122.9
Obligations under finance leases (note 17)		3.4	3.1
Trade creditors		39.2	41.7
Amounts owed to group companies		8.3	—
Proposed dividend payable to parent company		51.7	—
Other creditors		0.8	25.4
Taxation and social security		3.4	3.2
Accruals and deferred income		93.0	46.1
		<u>202.5</u>	<u>261.2</u>
	Average rate of Interest	1990	1989
	%	£m	£m
13 Creditors: amounts falling due after more than one year			
Loans Total amount outstanding*		—	805.8
Less: current portion of long term loans (note 12)		—	(122.9)
		<u>—</u>	<u>682.9</u>
Local authority loans — repayable 1991-2035	9.3-12.0	17.3	17.6
Water annuities	4.0-5.0	0.1	0.1
		<u>17.4</u>	<u>700.6</u>
Obligations under finance leases (note 17)		30.1	35.3
Other creditors		8.2	8.6
		<u>55.7</u>	<u>744.5</u>

*This amount is included in note 16 within the write off of relevant loans as a result of the capital restructuring of the Company.

	1990	1989
	£m	£m
Loans outstanding are repayable as follows:		
Between one and two years	0.4	49.2
Between two and five years	1.1	140.9
After five years — by instalments	15.8	335.4
— other than by instalments	0.1	175.1
	<u>17.4</u>	<u>700.6</u>

Notes to the Financial Statements

continued

	Balance at 1 April 1989	Charged to Profit and Loss Account	Applied	Balance at 31 March 1990
	£m	£m	£m	£m
14 Provisions for liabilities and charges				
Reorganisation provision	7.9	6.4	4.3	10.0
Infrastructure renewals provision	—	69.6	34.3	35.3
Total	<u>7.9</u>	<u>76.0</u>	<u>38.6</u>	<u>45.3</u>

	1990	1989
	£m	£m
15 Called up share capital		
Authorised		
500,000,000 Ordinary Shares of £1 each	<u>500.0</u>	<u>—</u>
Issued and fully paid		
400,000,000 Ordinary Shares of £1 each	<u>400.0</u>	<u>—</u>

The ultimate holding company is Severn Trent Plc which is incorporated in England

- a Severn Trent Water Limited was incorporated on 1 April 1989. The Company's authorised share capital on incorporation was £100 divided into 100 shares of £1 each, of which two were subscribed at par by nominees of the Crown which were subsequently repurchased by Severn Trent Plc. On 29 August 1989 the authorised share capital was increased to £50,000 by the creation of 49,900 Ordinary Shares of £1 each, and the existing shares of the Company were re-designated as Ordinary Shares. On 1 September 1989 49,998 Ordinary Shares were issued at par to Severn Trent Plc.
- b On 20 November 1989 the authorised share capital of the Company was further increased to £500,000,000 by the creation of 499,950,000 additional Ordinary Shares of £1 each.
- c On 25 January 1990, a further 399,950,000 Ordinary Shares were issued at par to Severn Trent Plc for cash.

	Total £m
16 Reserves and retained profits	
Balance	
At 1 April 1989 as stated in prospectus	414.0
National Rivers Authority and other vesting adjustments	(4.0)
Reserves as restated	<u>410.0</u>
Write-off of relevant loans as a result of the capital restructuring of the Company	831.4
Profit retained for the year	26.7
Balance at 31 March 1990	<u>1,268.1</u>

Notes to the Financial Statements

continued

	1990	1989
	£m	£m
17 Commitments and contingent liabilities		
a Investment expenditure commitments:		
Contracted for but not provided in the financial statements	<u>139.3</u>	<u>76.0</u>
Authorised but not yet contracted for	<u>182.1</u>	<u>56.0</u>
In addition to these commitments, the Company has longer term expenditure plans which include investments to meet improvements in performance and to provide for new demand and growth.		
b Operating lease commitments		
At 31 March 1990 Severn Trent was committed to making the following payments during the next year in respect of operating leases:		
	Land and buildings	Other
	£m	£m
Leases which expire:		
Within one year	—	0.6
Within 2 to 5 years	0.1	1.4
After 5 years	0.2	—
	<u>0.3</u>	<u>2.0</u>
c Finance lease commitments		
Amounts due under finance leases are payable as follows:		
	1990	1989
	£m	£m
Within one year	6.3	8.6
Between one and two years	6.4	6.3
Between two and five years	22.9	21.3
After more than five years	9.7	17.9
	<u>45.3</u>	<u>54.1</u>
Less: finance charges allocated to future periods	(11.8)	(15.7)
	<u>33.5</u>	<u>38.4</u>

Notes to the Financial Statements

continued

18 Pensions

The Company operates two pension schemes both of which are of the defined benefit type. The assets of the scheme are held in separate trustee administered funds.

Prior to 1 October 1988 employees were members of the Water Authorities Superannuation Fund (WASF). The Severn Trent Water Pension Scheme (STWPS) was established and came into operation on 1 October 1988 and membership comprises transferees from WASF and new employees appointed since 1 October 1988 who elect to join. Employees who remained in WASF were transferred to the Severn Trent Mirror Image Scheme (STMIS) on vesting on 1 September 1989.

The actuarial valuation of WASF was due to be made as at 31 March 1989. To enable the apportionment of the fund to be agreed in advance of flotation the actuarial valuation was undertaken as at 31 March 1988.

Transfer payments will be calculated as the value of those accrued benefits as at 1 September 1989 on the basis of actuarial assumptions, including allowance for future salary increases and full indexed linked increases to pensions. R Watson and Sons as actuaries to STMIS and STWPS have confirmed that transfer payments calculated on this basis will be appropriate to meet the accrued liabilities assumed by each scheme (including allowance for future salary increases and increases to pensions).

An actuarial valuation of STWPS is being carried out as at 31 March 1989 and the results will be available during 1990. The first actuarial valuation of STMIS will take place as at 31 March 1991.

Pending receipt of the first actuarial valuation of STMIS and STWPS the Company is contributing to STMIS at the rates of 15.8% and 13.2% of pensionable pay for members paying contributions of 6% and 5% respectively and to STWPS at the rate of 15.8%, 13.2% and 7.9% of pensionable pay for members paying contributions of 6%, 5% and 3% respectively. For the period up to 31 August 1989 the contributions to WASF were at the rate of 8.3% and 6.9% of pensionable pay for members paying contributions of 6% and 5% respectively. R Watson and Sons as independent qualified actuaries have confirmed that employer contributions at these rates together with contributions payable by members, are currently appropriate to meet the benefits to be earned in the future.

Employers contributions to the fund during the year were £7.9 million (1989 £0.5 million) in respect of STWPS and £2.2 million in respect of STMIS. In addition during the period to 31 August 1989 payments of £1.4 million (1989 £5.9 million) were made to WASF. The increased employers contributions over the prior year arises from the requirement to fully fund the schemes.

In prior years Severn Trent Water Authority met the unfunded cost of statutory increases to pensions in payment, together with supplementary discretionary arrangements under which it made lump sum payments and/or augmented the payments to pensioners by the award of added years. The Authority was not allowed to pre-fund these liabilities through WASF and therefore met the cost of £6.4 million as they were paid to beneficiaries. The liability for these payments ceased on vesting, with the exception of pension increases for pre-1974 employees, payments in respect of which were made by the local authorities who are responsible for the basic pension. The recharge of these to the Company ceased on 31 March 1990. During the year payments totalled £3.8 million.

	1990	1989
	£m	£m
19 Source and application of funds		
Working capital movements (increase)/decrease		
Stores and work in progress	(1.9)	1.3
Debtors	(3.4)	17.1
Creditors: amounts falling due within one year	28.3	3.2
Creditors: amounts falling due after more than one year	(0.4)	—
	22.6	21.6
Decrease in working capital		

Profit and Loss Account

Year ended 31 March 1994

	1990	1989
	£m	£m
Operating profit on historical cost basis	164.0	178.4
Current cost operating adjustments:		
Depreciation	(43.0)	(38.4)
Disposal of fixed assets	(0.4)	(0.3)
Current cost operating profit before interest payable	<u>120.6</u>	<u>139.7</u>
Net interest	(37.8)	(80.9)
Current cost profit on ordinary activities before taxation	<u>82.8</u>	<u>58.8</u>
Taxation on profit on ordinary activities	—	—
Current cost profit on ordinary activities after taxation	<u>82.8</u>	<u>58.8</u>
Extraordinary item	(8.9)	(2.8)
Current cost profit for the financial year	<u>73.9</u>	<u>56.0</u>
Dividends	(90.6)	—
Transfer to reserves	<u>(16.7)</u>	<u>56.0</u>

Balance Sheet

as at 31 March 1990

	Notes	1990 £m	1989 £m
Fixed assets			
Tangible assets	3	6,035.9	5,509.5
Investments		0.6	—
		<u>6,036.5</u>	<u>5,509.5</u>
Net current assets/(liabilities)		242.0	(189.7)
Total assets less current liabilities		<u>6,278.5</u>	<u>5,319.8</u>
Creditors: amounts falling due after more than one year		(55.7)	(744.5)
Provisions for liabilities and charges		(45.3)	(7.9)
		<u>6,177.5</u>	<u>4,567.4</u>
Capital and reserves			
Called up share capital		400.0	—
Reserves	4	5,777.5	4,567.4
		<u>6,177.5</u>	<u>4,567.4</u>

Notes to the Current Cost Financial Statements

1 Principal current cost accounting policies and methods adopted

Current cost financial information

The main accounting policies used for the preparation of current cost financial information are those used in preparing the historical cost financial information, with the exceptions set out below.

a Accounting convention

The current cost financial information has been prepared on the current cost accounting convention having regard to the guidance contained in the publication entitled "Accounting for the effect of changing prices: a Handbook" issued by the Accounting Standards Committee, and guidelines issued by the Director General of Water Services. The current cost convention is not a system of accounting for general inflation, but allows for price changes specific to the water industry.

The methodology of preparing current cost accounts will be subject to further guidelines to be issued by the Director General of Water Services and the valuation of fixed assets will reflect further research and refinement for the 1990/91 accounts.

b Tangible fixed assets

Properties

Properties are stated at their value to the business, which is based on depreciated replacement cost. Replacement costs have been arrived at on the following basis:

(i) Specialised operational properties and structures

The gross replacement cost of properties as at 1 April 1982 was arrived at using published or locally derived construction formulae or estimated unit costs, analysed by material and size, indexed for the effects of changing price levels. Additions since that date are included at original cost indexed for the effect of changing price levels.

Specialised operational properties and structures principally comprise intake works, pumping stations, treatment works and boreholes.

(ii) Non-specialised operational properties

The net replacement cost of non-specialised operational properties is based on directors' estimates of open market value in existing use. Non-specialised operational properties comprise offices, depots, workshops, residential properties directly connected with water and sewerage services and land held for the purpose of protecting the wholesomeness of water supplies.

Infrastructure assets

Infrastructure assets are stated in the current cost balance sheet at their value to the business, based on their estimated replacement costs. Replacement costs are calculated using estimated unit costs for principal classes of assets, analysed by material and size, indexed for price level changes.

Infrastructure assets comprise mains and sewers, impounding and pumped raw water storage reservoirs, dams and sludge pipelines.

As in the historical costs accounts, expenditure on maintaining the operating capability of the network is charged as an operating cost. Accordingly, no depreciation is charged on infrastructure assets.

No value is attributed to certain sewers vested in Severn Trent Water Limited for no consideration under the terms of the Water Act 1989 and which Severn Trent Water Limited has a continuing obligation to maintain.

Other assets

Other assets are included at estimated replacement cost less accumulated depreciation.

c Stores

Stores are stated at their value to the business, based upon the estimated net current replacement cost, which is calculated by applying indices to reflect increases in purchase costs.

Notes to the Current Cost Financial Statements

continued

	Water supply £m	Sewerage services £m	Other £m	Total £m
2 Analysis of current cost profit by service				
Historical cost operating profit	50.9	112.3	0.8	164.0
Current cost adjustments	(12.8)	(30.5)	(0.1)	(43.4)
Current cost operating profit	<u>38.1</u>	<u>81.8</u>	<u>0.7</u>	<u>120.6</u>
	Water supply £m	Sewerage services £m	Other £m	Total £m
3 Tangible fixed assets				
a Analysis by service				
Gross replacement cost				
Balance 1 April 1989	2,281.7	4,470.2	243.0	6,994.9
Additions	64.2	112.0	25.6	201.8
Disposals	(1.7)	(17.2)	(18.3)	(37.2)
Revaluation adjustment	147.1	329.9	36.6	513.6
Balance 31 March 1990	<u>2,491.3</u>	<u>4,894.9</u>	<u>286.9</u>	<u>7,673.1</u>
Depreciation				
Balance 1 April 1989	535.0	841.1	109.3	1,485.4
Provision for the year	21.5	40.9	21.5	83.9
Disposals	(1.7)	(17.2)	(17.1)	(36.0)
Revaluation adjustment	36.8	60.0	7.1	103.9
Balance 31 March 1990	<u>591.6</u>	<u>924.8</u>	<u>120.8</u>	<u>1,637.2</u>
Net book value				
At 31 March 1990	1,899.7	3,970.1	166.1	6,035.9
At 31 March 1989	1,746.7	3,629.1	133.7	5,509.5

Notes to the Current Cost Financial Statements

continued

	Specialized operational properties and structures £m	Non- specialised operational properties £m	Infra- structure assets £m	Plant, machinery and vehicles £m	Other £m	Total £m
3 Tangible fixed assets (continued)						
b Analysis by asset type						
Gross replacement cost						
Balance 1 April 1989	2,198.7	159.2	3,861.6	697.5	77.9	6,994.9
Additions	39.2	6.5	92.9	49.8	13.4	201.8
Disposals	(12.6)	(1.1)	—	(10.6)	(12.9)	(37.2)
Revaluation and other adjustments	192.2	13.8	257.8	52.3	(2.5)	513.6
Balance 31 March 1990	2,417.5	178.4	4,212.3	789.0	75.9	7,673.1
Depreciation						
Balance 1 April 1989	916.9	57.4	—	475.1	36.0	1,485.4
Provision for the year	34.6	2.5	—	33.4	13.4	83.9
Disposals	(12.6)	(0.7)	—	(10.0)	(12.7)	(36.0)
Revaluation and other adjustments	82.0	4.9	—	23.2	(6.2)	103.9
Balance 31 March 1990	1,020.9	64.1	—	521.7	30.5	1,637.2
Net book value						
At 31 March 1990	1,396.6	114.3	4,212.3	267.3	45.4	6,035.9
At 31 March 1989	1,281.8	101.8	3,861.6	222.4	41.9	5,509.5

- (i) Tangible fixed assets as at 31 March 1990 include £169.0 million in respect of assets in the course of construction which are not depreciated until commissioning.
- (ii) Infrastructure assets at 1 April 1984 have been included in cost at their net book value at that date with subsequent additions at cost, indexed as appropriate.
- (iii) Investment expenditure amounting to approximately £33 million incurred during the year on infrastructure assets is not included within the additions for the year shown above, as the calculation of current cost values of such assets reflects this expenditure.

Notes to the Current Cost Financial Statements

continued

	Current Cost Reserve £m	Profit and Loss Account £m	Total £m
4 Reserves			
Balance at 1 April 1989 as stated in prospectus	4,564.4	3.0	4,567.4
National Rivers Authority and other vesting adjustments	(4.0)	—	(4.0)
	<u>4,560.4</u>	<u>3.0</u>	<u>4,563.4</u>
Write-off of relevant loans as a result of the restructuring of the Company	—	831.4	831.4
Revaluation surpluses reflecting price change	409.7	—	409.7
Other movements	(10.3)	—	(10.3)
Transfer from Profit and Loss Account	—	(16.7)	(16.7)
	<u>4,959.8</u>	<u>817.7</u>	<u>5,777.5</u>
Balance at 31 March 1990			
Realised	443.1		
Unrealised	4,516.7		
	<u>4,959.8</u>		

5 Gearing

- (i) The long term assets and working capital of the Company have been financed partly by borrowing. As the obligation to repay borrowing is fixed in monetary amount, the liability it represents decreases in real terms during a period of inflation compared with the related assets. The gearing adjustment would recognise this by abating the current cost depreciation adjustment by the average proportion of the Company's net operating assets which are financed by borrowing.
- (ii) No gearing adjustment has been included in the profit and loss account because of the special nature of this industry. Had a gearing adjustment been made in the supplementary current cost statements of the Company, it would have reduced the current cost loss for the year by \$4.9 million to \$11.8 million (in 1989 it would have increased the current cost profit by \$6.2 million to \$62.2 million).
- (iii) The net operating assets and the method by which they are financed are:

	1990 £m	1989 £m
Fixed assets	6,036.5	5,599.5
Working capital	242.0	(189.7)
	<u>6,278.5</u>	<u>5,319.8</u>
Net operating assets		
Share Capital	400.0	—
Reserves	5,777.5	4,567.4
Long term creditors	101.0	752.4
	<u>6,278.5</u>	<u>5,319.8</u>

Auditors' Report

Report of Auditors' to the Members of Severn Trent Water Limited.

We have audited the financial statements set out on pages 5 to 25 in accordance with Auditing Standards

In our opinion the accounts prepared under the historical cost convention, set out on pages 5 to 19 give a true and fair view of the state of the affairs of the Company as at 31 March 1990 and of the profit and source and application of funds of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

The supplementary current cost financial statements, set out on pages 20 to 25 have been properly prepared in accordance with the current cost principles, accounting policies and methods described on page 22.

Price Waterhouse
Price Waterhouse

Livery House
169 Edmund Street
Birmingham B3 2JB

Price Waterhouse
Chartered Accountants

16 July 1990



Auditors' Report

Report of Auditors' to the Director General of Water Services on the financial statements of Severn Trent Water Limited. We have audited, in accordance with Auditing Standards, the historical cost financial statements on pages 5 to 19 and the current cost financial statements on pages 20 to 25 prepared under Condition F of the Instrument of Appointment of the Water and Sewerage Undertakers ("the Instrument").

In our opinion;

- (i) proper accounting records have been kept by Severn Trent Water Limited ("the Appointee") during the period from the date of Appointment on 1 September 1989 to 31 March 1990, as required by paragraph 3 of Condition F of the Instrument;
- (ii) the historical cost financial statements for the year ended 31 March 1990 set out on pages 5 to 19 are in agreement with the Appointee's accounting records and comply with the relevant paragraphs of Condition F of the Instrument;
- (iii) the historical cost financial statements set out on pages 5 to 19 prepared under paragraph 4 of Condition F of the Instrument give a true and fair view of the state of affairs of the Appointee at 31 March 1990 and of its profit for the year then ended; and
- (iv) the current cost financial statements set out on pages 20 to 25 prepared under paragraph 8 of Condition F of the Instrument have been properly prepared in accordance with the current cost accounting policies and methods described on page 22.

Price Waterhouse

Price Waterhouse

Livery House
169 Edmund Street
Birmingham B3 2JB

Price Waterhouse
Chartered Accountants

16 July 1990

27



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Severn Trent Water



SEVERN TRENT WATER LIMITED
229 GVENTRY ROAD
BIRMINGHAM B26 3PT
TELEPHONE 021 722 4000

