

Strategic report



Chief executive's summary continued

My first year as CEO of Southern Water has been both **challenging and inspiring** in equal measure



Highlights

- Against the backdrop of increased public scrutiny, we are making solid progress and have completed 98% of the actions in the undertakings agreed with Ofwat in 2019.
- Our new two-year Turnaround Plan is focused on delivering performance improvements in water quality, environmental performance and customer satisfaction.
- These plans will also deliver a new Health and Safety Transformation Programme.
- A new fourth value, Working with Care, reinforces our cultural transformation.
- Our refreshed leadership team better reflects our turnaround agenda.
- We fully expect to receive a two-star rating for our Environmental Performance Assessment from the Environment Agency.

The water sector is changing, and public interest and scrutiny about the work we do and how it is financed increases on almost a daily basis. On top of that, we are dealing with the impacts of climate change and population growth on our sites and networks, which we recognise requires a reset of our working practices and our plans for our region's long-term future. Expectations about the way we treat water and return it to the environment safely have also rightly changed and we must listen and respond to them, recognising that we are at the beginning of a long journey to reduce our industry's reliance on storm overflows.

Even against this backdrop of increased scrutiny and public interest we have made significant progress over the past few years, the first phase of our transformation. Following the Ofwat investigation into sampling compliance which concluded in 2019, we agreed to a number of undertakings to change the way we work – our values, transparency, operational performance and governance. We have now completed 98% of what we agreed.

Over the past 12 months we entered the second phase of transformation, accelerating delivery of our business plan thanks to new investment from our shareholders. As a result we have improved our financial stability and our performance in some critical areas, namely flooding, vulnerability support for our customers and delivery of our environmental programme. We also introduced an innovative scheme for business consumers during the 2022 summer drought, incentivising them to save water and help us protect the environment.

We recognise that our performance in key areas – pollutions, water quality, leakage, customer service and supply interruptions – is not yet where it needs to be and that it will take time to improve. It is also clear that we cannot blame the weather for operational issues and water outages that we experienced this year. We know we need to

Chief executive's summary continued

continue to get better, proactively and reactively, and I am confident that thanks to the hard work of our teams this year, we know where we need to improve. We have started to put in place changes to processes, training and systems that are needed, and we are seeing real progress.

Where we have fallen short of the challenging performance targets set by our regulators, we have created a detailed Turnaround Plan taking us into the third phase of transformation.

This two-year acceleration of our business plan sets out our commitments to significantly improve our environmental performance and customer focus and includes a targeted set of actions to ensure we deliver our current commitments and set ourselves up for a fast start in 2025.

We are currently in discussions with the company's shareholders with respect to additional funding in the near term to support this plan; see page 205 for further information. I am committed to a fully transparent approach in our turnaround agenda and I have refreshed our executive team structure to better reflect it.

We are moving at pace, and alongside day-to-day business, our short and long-term plans are coming together strongly. Our water resource and drainage plans have now been submitted to our regulators after a series of consultations with our customers and regional stakeholders.

Using this valuable insight, we are now preparing our plans for the next investment period, 2025–30, which will take us into the final, fourth phase of our transformation. I am proud of these plans, created by our talented and committed teams, who are laser-focused on delivering resilient and efficient services now and in the future. Whether field or office-based, scientist or technician, engineer or financial analyst, the diversity of experience and knowledge in this company is what makes us who we are, and I have no doubt that these attributes will continue to enable improvements in our performance.

I am confident that reaching the goals set out in our plan, and demonstrating these tangible improvements to our customers and stakeholders will enable us to improve the balance of reporting about our company and build trust.

A fresh approach with new leadership

I became CEO in July of 2022 when Ian McAulay retired. At the same time, Bob Collington stepped into the role of Chief Operating Officer and our departing

A clear direction as we enter year four of this investment period

Our Turnaround Plan, which I have already referenced, includes clearly defined delivery timelines, and a set of commitments against four key themes:



Empowered and supported colleagues

Enabling our people to work in a safe, collaborative and inclusive workplace that offers rewarding careers at the heart of our communities.



A reliable supply of water for our customers

Safeguarding resources and making sure our customers have access to a supply of high-quality water now and into the future.



Healthy rivers and seas

Protecting and improving the environment, working transparently to enhance inland and coastal habitats.



Trusted and easy customer service

Supporting our customers with easy service and transparent communications that show we care for our communities.

Underpinning this will be a focus on our people, IT and digitalisation and financial resilience.



We will continue investing in our people through training at all levels, providing competitive career choices.



We will also continue to digitalise our network and our processes to support our operations, so we can act quicker and more effectively for our customers.



We will challenge our own decisions, operations and supply chain to drive value and spend every pound of our customers' money wisely.

→ Read more about our Turnaround Plan on pages 50, 56, 64 and 72.

Chief executive's summary continued

Getting the basics right, while facing challenges head on

Our Turnaround Plan will keep us focused on improving our performance over the next two years, working efficiently and with purpose so that we can start the next five-year investment cycle ready to deliver our ambitious business plan 2025–30. It will see us go beyond compliance by 2030, delivering the ambitious outcomes our stakeholders and customers are asking for. Over the past year, we have already started to get ourselves ready.



£15 million to install 23,000 sewer monitors – increasing resilience to blockages and reducing sewer flooding.



£5 million to deliver six regional Pathfinder projects (since 2021) – an industry leading, partnership approach to 'slow the flow' of rain and groundwater entering our sewers and reduce the use of storm overflows. Six projects in Kent, Sussex, Hampshire and the Isle of Wight, working with local councils, highways, schools and community organisations to install sustainable drainage solutions.



Around **£35 million** further investment will see us expand our Pathfinder approach, working with our regional partners to slow the flow of rainwater and groundwater entering the network, reducing the use of storm overflows.



Read more about this on pages 7, 64 and 68.



£444 million in 2022–23 – to improve our wastewater treatment sites and networks, improving flow compliance and treatment capacity. It also funded the installation of UV plant to reduce the build-up of harmful bacteria in the water we put back into the environment in areas such as Chichester, Langstone and Pagham harbours.



Two rising mains repaired in Hastings and Lancing – had caused repeat sewer flooding issues for our customers.



Annual Pollution Incident Reduction Plan – delivering upgrades to pumping stations, treatment works and improving resilience to power failures (southernwater.co.uk/our-story/our-plans/pollution-reduction-programme).

Chief Financial Officer, Sebastiaan Boelen was also succeeded by an Interim, Nadim Ahmad. During the year, I was also very pleased to welcome both Usha Baidya as Chief People Officer and Deborah Binks-Moore as Interim Director of Corporate Relations from May, further strengthening our leadership team. With support from the Chair and the Board, I embarked on a wholesale review of the business to identify our strengths and weaknesses, and areas where we could make rapid improvements.

Although we have not seen immediate results of this targeted work in all of our end-of-year results, I am confident that the changes we have put in place are improving our performance. The results of our annual Environment Agency Performance Assessment, for which we fully expect to see our rating improve from a one-star to two-star, show me that we are taking steps in the right direction. I expect to see that positive improvement trajectory continued as we implement our Turnaround Plan for the remaining two years of this five-year investment period.

You can read more about our operational performance on pages 42 to 95 and I will let our new Chief Financial Officer Stuart Ledger explain our financial performance in more detail on page 103.

A year of supply challenges

A dry winter and spring, followed by a hot summer in 2022, presented a challenge for water companies up and down the country as we faced our first nationwide drought for a decade. Nowhere more so than in our water-stressed South East, where we were forced to introduce a Temporary Use Ban in Hampshire. For me, although this was a difficult step to take, it is an example of us living our values and doing the right thing; the primary reason for putting in place these restrictions was to protect the environment, namely local chalk streams.

At the same time, we lost water supply to 24,000 of our customers on the Isle of Sheppey during one of the hottest weeks of the year in July due to two large trunk main bursts that needed complex repairs. Through the collective efforts of the team, and alongside what was a very challenging operational fix, we tankered water to critical services, including the hospital and prisons, and we provided 835,000 litres of bottled water, which included over 12,000 deliveries to support our priority services customers. I am proud of the fact that, in the face of a very challenging situation, we returned our customers to service quickly in a way that also kept everyone's safety – colleagues, customers and partners – front of mind.

Since then, we have taken action and completed £4.5 million of emergency work to tunnel two new water mains across the Swale to Sheppey. The project began in autumn 2022 and has overcome huge engineering challenges due to the complex geology under the seabed. Now the pipes have been pulled through, we have multiple options to get water to the island.

Two further significant operational failures at our Otterbourne Water Treatment Works left around 23,000 customers in Hampshire without access to water in the run up to the Christmas holidays and then again in February. While I am again

Chief executive's summary continued

proud of the efforts of our colleagues who worked day and night to get customers back in supply, manned bottled water stations and kept our customers updated, I am also deeply aware of how frustrating and distressing this situation was for everyone without access to water during this time. An investigation has now concluded into the cause of this incident, and we are working with our regulators to make sure the proper preventative process and procedure reviews are put in place.

We have since made amends with customers for each of these incidents, providing a blend of direct payments, shopping vouchers and community grants, depending on the area and what customers told us they needed most. We have also put in place a detailed four-site improvement strategy, focusing on upgrading our largest and most critical water supply sites, that has been agreed with our regulators and will be delivered at pace.

Listening to our stakeholders

My colleagues and I have spoken to stakeholders and community groups across our region over the course of this year, whether in Whitstable with local MPs and councillors, Hampshire with our Water Futures panel or Three Harbours Technical Work Group or at our customer drop-in events at Sandown on the Isle of Wight and Broadstairs in Kent. We now have an Independent Climate and Environment Group of stakeholders that meets regularly to help understand their views and hold us to account on our environmental aims. These are all important opportunities to listen to our customers, and stakeholder groups, and to demonstrate the actions that we are taking now to address their concerns.

The tone of some of these meetings is rightfully challenging, but more often they are constructive and positive about the information we share, and participants welcome the investment planned and direct action we are taking.

Caring for colleagues and our communities

We have about 2,600 colleagues and many more who work as part of our business, most of whom live and work in the communities we serve. We expect everyone to live our company values of succeeding together, doing the right thing, always improving and working with care – our new value, introduced this year.

The decision to add this new value reflects a renewed focus on how we care for each other, our customers, communities and the environment. Working with care is about ensuring the health, safety and wellbeing of everyone who works for us and with us. It includes our suppliers and contractors, and this culture of care extends outwards from the better relationships we foster internally, to the stronger partnerships we build across our region.

One of the ways that colleagues live our values is through the hours they donate to volunteer at various community projects across our region. From supporting food banks, to helping renovate a charity's premises, our colleagues have provided more support than ever before. Our community team are also increasing their school talks and have developed a network

of Community Ambassadors to engage young people and a refreshed education programme to encourage the next generation to learn about water.

I want everyone who works with us to feel that they can bring their authentic selves to work, and we aim to make sure that everyone is supported and cared for through our Equality, Diversity, and Inclusion (ED&I) policy, and the support groups we have in place. That is why I am pleased that we have improved our ranking in the Top 50 Inclusive Companies index for the third year in a row, moving from 46th to 44th place this year. Being a diverse and inclusive organisation enables us to connect our collective passion and capability across the business. Never has this been more important as we work together to deliver the step change that we need.

Changing behaviours to improve health and safety

We measure how engaged people feel about their work and we use our regular poll and pulse surveys to encourage teams to address any particular areas. I was pleased to learn that the strongest score from last year's survey was for managers caring about their team members' wellbeing.

The health, safety, security and wellbeing of our people is an overriding value. A core pillar of our strategy going forward will focus on how we make a behavioural shift to make sure we are always working with care. To do this it is important that everyone develops their understanding of the consequences if we get it wrong – for the individual, for their families and friends, and for colleagues and the community. It needs to become part of our DNA, an automatic behaviour that comes naturally.

To enable this, we are launching a company-wide training programme so that every colleague is given the same experience. We will also be launching a new set of safety campaigns and guidance materials for all colleagues.

The right people to deliver our plans

I know that we have a way to go to meet the expectations of our customers, stakeholders and regulators, but I am confident that we have laid further foundations this year, improving many of our key performance metrics. We are making progress and that is because of the hard work of every single one of my colleagues.

On behalf of the Executive team, I want to thank each of my colleagues for their unwavering commitment over the past year. Succeeding together has never been more important for our customers, communities and the environment.

Lawrence Gosden

Chief Executive Officer
7 July 2023

Our business at a glance continued

What we do

We work hard to **deliver on the priorities** of our stakeholders to benefit our local communities, customers and the environment

Engaging with our stakeholders

To create a resilient water future for our customers in the South East, we must understand the needs of the communities we serve and work with our stakeholders to find solutions to shared challenges.

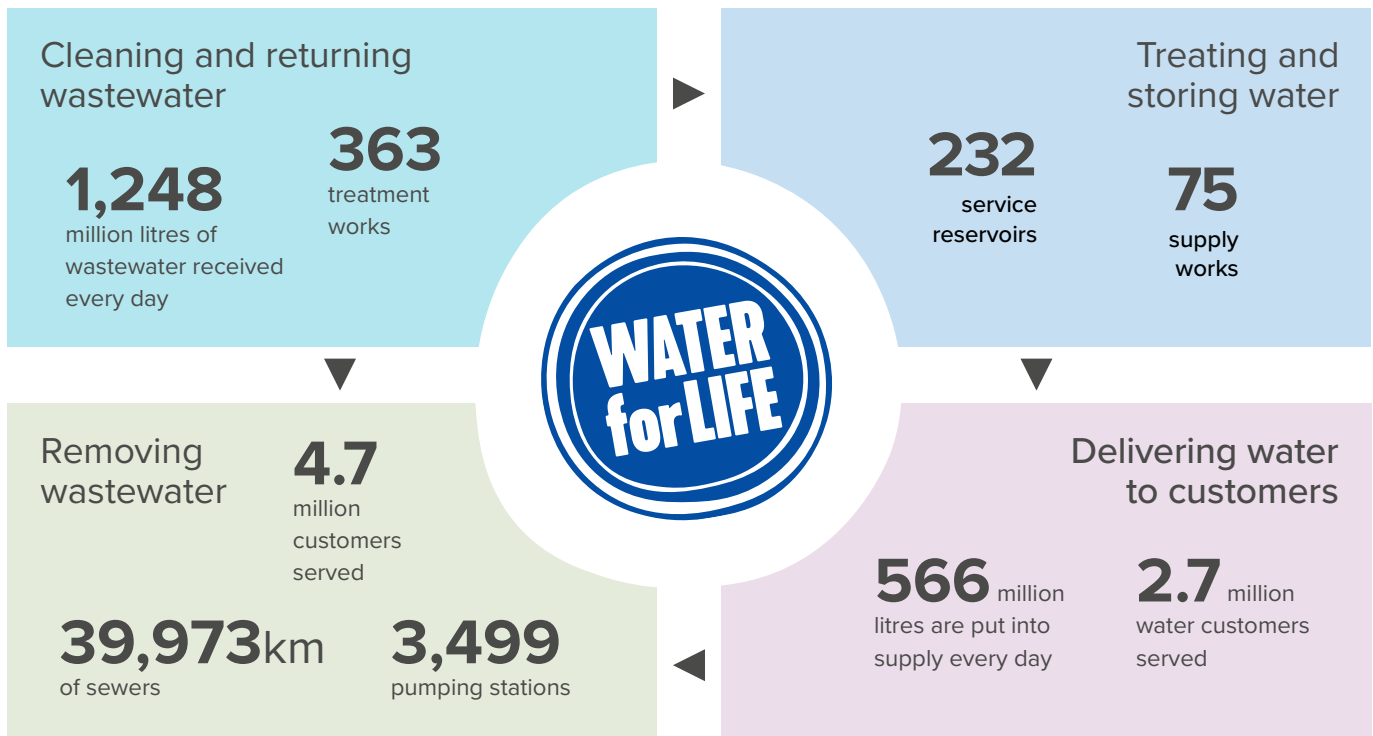
Read more about how we engage with stakeholders on pages 33 to 39.

Together we are always improving

We actively collaborate with local, regional and international partners to foster innovation – whether seeking feedback and guidance on our plans and the design of our infrastructure or exploring new technologies to solve operational challenges.

Read more about how we are using satellites to find leaks on our network on pages 58.

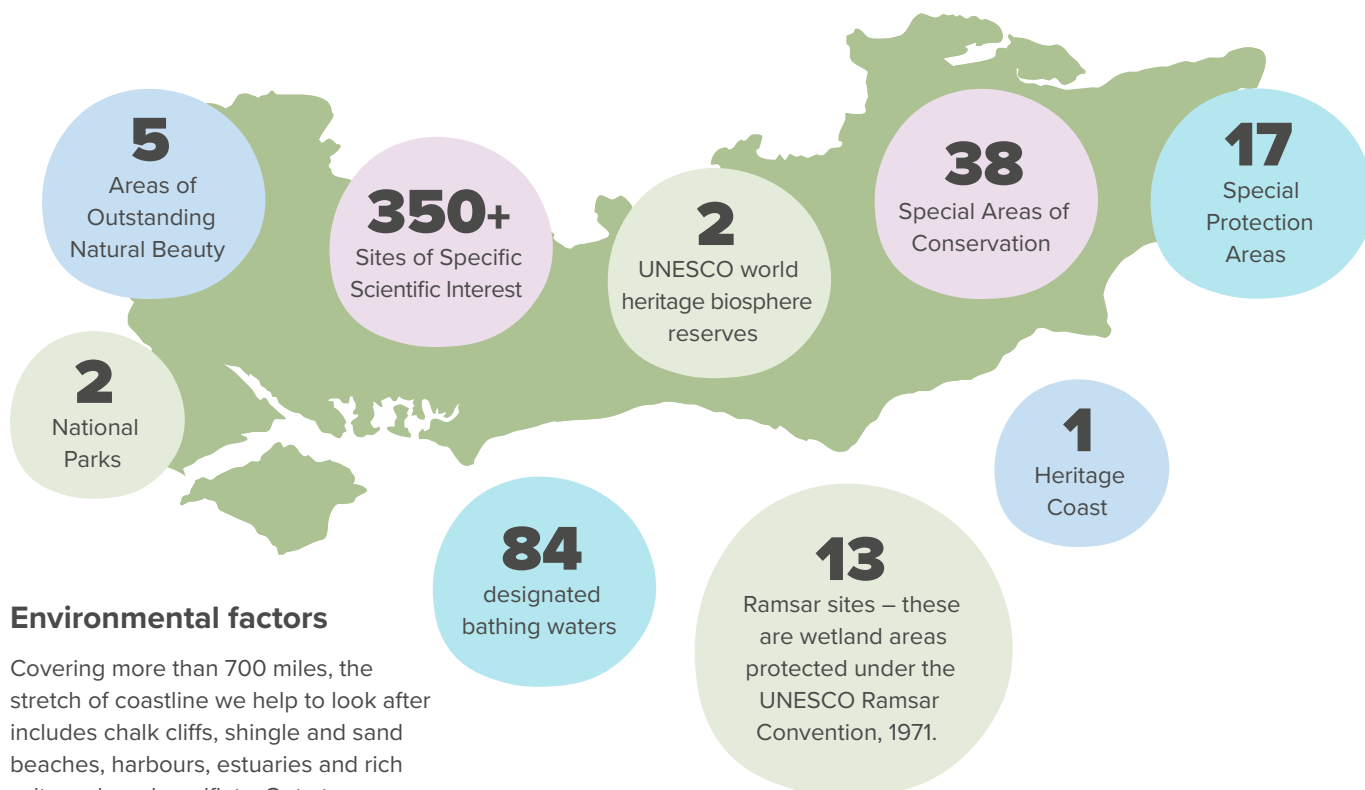
Key facts about our operations



Our business at a glance continued

Where we do it

Our region is as diverse as the **communities we serve**



Environmental factors

Covering more than 700 miles, the stretch of coastline we help to look after includes chalk cliffs, shingle and sand beaches, harbours, estuaries and rich saltmarsh and mudflats. Out at sea we have a diverse range of marine habitats supporting kelp, dolphins, seals, reefs, vast swathes of sediment habitats, fish and shellfish populations.

The geology that helps to define the South East includes chalk block aquifers, north and south. As well as creating dramatic scenery they hold huge quantities of water that we take to put into supply. There are also chalk streams – perhaps the most famous of these are the Test and Itchen. Together with their counterparts in eastern England and France, they are recognised as an internationally important habitat.

We also have clay rivers deep within the Weald, which support populations of sea trout as they flow through the Ashdown Forest and the High Weald Area of Outstanding Beauty (AONB) before meandering through downland valleys and into the sea.

Economic factors

We are constantly working to build resilience into our operations so we can serve our growing population and support jobs and the tourism industry.

c.2,600 colleagues work directly for Southern Water with many more employed via our supply chain.

19-25% population growth expected by 2050.

£12 billion per year* in tourism revenue relied on by coastal and inland communities across our region.

*Source: tourismseast.com.

Social factors

Our region is diverse, and our insight team works with our customers to identify their key priorities and concerns.

We offer a range of tariffs and services to customers who might find themselves in a vulnerable situation due to circumstances.

29% of our customers sometimes struggle to afford their outgoings*.

82% are concerned about the rising costs of household outgoings*.

41% are concerned with the cost of water bills in the future*.

*Source: Southern Water insight, March 2023.

Our business model continued

How we operate

Our vision is to create a resilient water future for our customers in the South East.

Water is collected

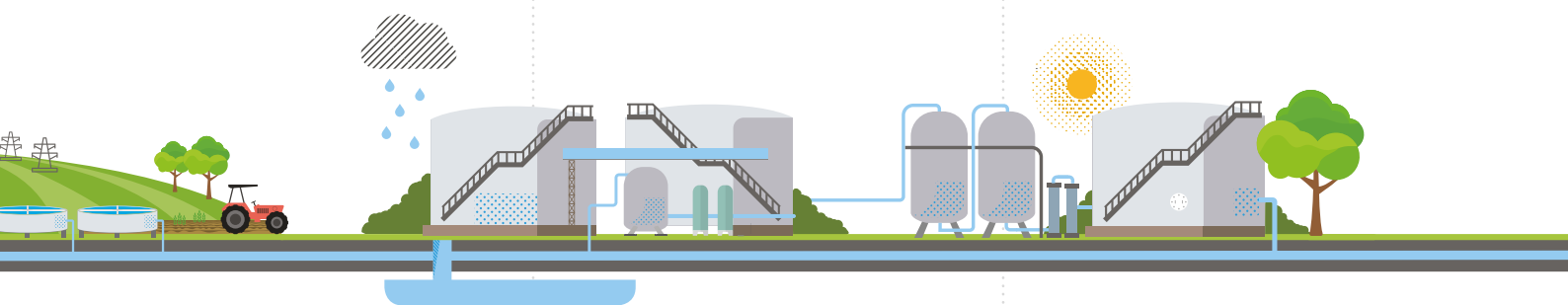
About 67.2% of the water we supply comes from groundwater (water stored underground in aquifers), 28.4% is taken from rivers and 4.4% comes from our reservoirs.

Water is cleaned

Our 75 water supply works treat raw water to the highest standards, making it safe to drink.

Clean water is put into supply

Our 13,919 kilometre network, 232 service reservoirs and 655 pumping stations deliver a continuous supply of clean water to our customers at a regulated pressure level.



Associated risk

In our densely populated and water-stressed region, we must balance the need to supply high-quality water to our customers with the need to preserve our natural resources, to help mitigate the risks posed by drought.

Associated risk

Failures at our treatment sites and across our network could result in a risk to public health due to reduced water quality and/or disruptions to supply. We use several chemicals in the treatment of water, which, if not handled correctly, could result in injuries to colleagues and/or customers. Area-specific risk assessments inform our monitoring programme, ensuring we are sampling for relevant substances to make sure we are treating water correctly.

Associated risk

We regularly test water that we pump into customers' homes and businesses to make sure it meets required standards. Our teams offer support on the installation of new pipework and notify customers when we find contaminants or lead pipes. We can experience increased leakage from our network and from customers' homes and businesses reducing available supplies.

Maintenance and development

We constantly monitor our sites and networks, carrying out maintenance and developing new assets and equipment to make sure they are meeting the standards set by our regulators. Failure to monitor, maintain and increase the capacity of our sites and networks could pose risks to public health, and result in disruptions to supply, injury to our employees or customers, and damage to property.

Our business model continued

Our use of water and its return to the environment is a continuous cycle. Managing our impact at every stage is critical to protecting future resources. Our environment is constantly changing, and it is essential that we continue to adapt and prepare for the challenges of population growth and climate change.

Customers enjoy our water

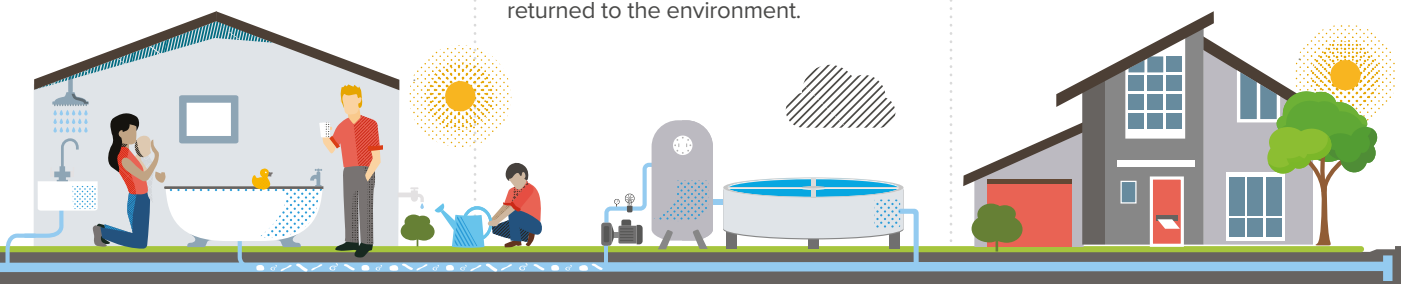
Customers across the South East go about their daily lives enabled by a supply of safe, clean drinking water and the removal of wastewater from their homes and businesses. In 2022–23, we put 566 million litres per day into supply.

Wastewater is collected and treated

Our 39,973 kilometres of sewers and 3,499 pumping stations collect wastewater from our customers’ homes and businesses, and from the drains outside. Each day, 1,248 million litres of wastewater is received and cleaned at our 363 treatment works, meeting strict environmental standards before being returned to the environment.

Customers are billed

Our customer teams calculate and distribute customers’ bills, handle payments and manage any related account queries.



Associated risk

If we do not constantly look to improve and maintain high levels of service and quality, we run the risk of not fulfilling our obligations to customers, to provide high-quality drinking water.

Associated risk

If we do not remove wastewater effectively and manage our network, we may cause sewer flooding, environmental pollution and unnecessary distress to our customers. Varying rainfall patterns, extreme weather events and rising sea levels all contribute to an increased risk of flooding if our infrastructure is overwhelmed. This could also lead to contamination of water supplies and infiltration/ inundation of our sewers and sites.

Associated risk

Errors in our billing calculations or customer information could lead to poor levels of customer satisfaction, and a rise in contact and complaints, which could damage the company’s reputation and increase operating costs. Failure to properly protect customer data could also lead to significant fines under Data Protection (GDPR) and Networks and Information Systems (NIS) directives.

Ensuring future supply

Climate change and population growth in the South East present very real challenges that initiatives like our Water for Life – Hampshire programme are looking to address through bulk water transfers with neighbouring water companies, water recycling projects and a host of other initiatives, all of which will be needed to secure reliable water supplies for the future. We are also working to reduce the amount of water lost through leaks on our network, and we are working with our customers to help them use less water.

Associated risks

If we fail to plan properly and take account of factors such as the impact of climate change, we risk not being able to maintain supplies to our customers, which in turn can lead to financial penalties and reputational damage.

Our business model continued

Living our purpose

Our purpose is why we exist. It drives our long and short-term decision making and is centred around the value we provide to our customers and stakeholders.

What we do and where

We provide essential water services to 2.7 million customers, and wastewater services to more than 4.7 million customers across Kent, Sussex, Hampshire and the Isle of Wight.

The external environment

The way we operate as a business is impacted by a number of external factors – social, political, environmental, economic, regulatory and technological – that we must consider and manage the impact of.

Environmental factors

Our natural environment is under pressure from population growth and climate change. We must continue to adapt and prepare to manage future impacts.

Economic environment

We are impacted by changes in financial markets, interest rates, inflation and other commodity prices, and we must manage these to reduce risk.

Regulatory environment

We must be responsive to regulatory requirements and prepare for future challenges.

Social environment

As a provider of essential services, we have a direct impact on our local communities. We must do all we can to support and understand our customers.

Innovation and technology

We are always improving our services, taking advantage of new technologies and innovations, wherever they come from.

Political environment

Decisions made by politicians and policymakers have the potential to impact our operations. We must follow any government directions, and adapt to policy developments.

Our key resources

For any business to be truly sustainable it needs to consider its impacts and dependencies, and this means going beyond tracking financial and operational measures to consider social and environmental resources and how they can affect our ability to create value over time.

Natural

Natural resources that we rely on, such as water.

People

Skills, capabilities and wellbeing of our employees and partners.

Financial

Financial health, including equity, debt and pensions.

Manufactured

Sites, equipment, networks and IT.

Social and relationship

Engagement, our reputation and the value we create for our communities.

Intellectual

Knowledge, systems, processes, procedures and the data we hold.

Underpinned by our risk and value process

Our risk and value (R&V) process improves our decision-making process, about how to invest, build and run our assets, and allows us to collaborate more effectively with our suppliers and partners. During the year, a number of environmental considerations were added to this process to make sure we are considering the natural capital (the wider value of services provided by nature) and carbon values in our decisions, so we can make them based on best value.

This approach triggers conversations and thinking about alternative sustainable solutions and drives innovation and partnership working. It is already showing us its value in supporting nature-based wetland solutions for wastewater treatment.

Our business model continued

How we do it

Our Water for Life Business Plan 2020–25 takes us one step closer to achieving our vision of a resilient water future for customers in the South East.

Developed following extensive consultation with our customers and stakeholders, over the five-year period it will deliver significant performance improvements, including a 15% reduction in leakage, improvements to 182.3 kilometres of rivers and a further 155,000 customers supported through financial assistance schemes, with bills reducing by 18% in real terms.



Who we deliver value for

The water cycle touches and enables every part of life, so our stakeholder base is diverse.



Customers and communities



Regulators



The environment



Investors

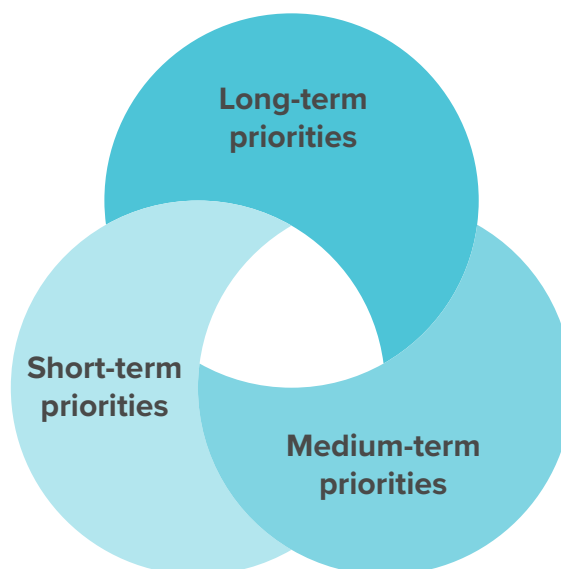


Our people and partners



Our planning horizons and strategy

Our rigorous approach to planning across multiple horizons informs our strategy:



➔ Read more about our planning horizons on page 32.



Our approach to sustainability

We operate in an environmentally and socially conscious manner and uphold the highest standards of corporate governance. Behaving in a responsible manner, 'Doing the Right Thing' and 'Working with Care' are core values that inform our decision making at every level of the organisation.

➔ Read more about our corporate governance on pages 137 to 183.

Our business model continued

Our external environment

We consider and manage the impact of a number of external drivers.

Environmental factors

We must plan for, and mitigate, the impacts of climate change by reducing our own emissions and minimising the environmental impact of our operations. The water cycle is continuous so we must ensure that we are removing water from, and returning it to, the environment safely and responsibly. We must also make sure that we are engaging with stakeholders and future customers to reduce our collective impact on the water environment.

Economic environment

We are impacted by changes in financial markets, interest rates, general inflation and other commodity prices, and we must manage these to reduce risks to our financial resilience and protect our investors' interests. We must also pay attention to the economic climate as it will have a direct impact on our customers and their ability to pay their bills.

Regulatory environment

We must operate as a sustainable business. This means being responsive to regulatory requirements and engaging constructively with market reforms as well as understanding and preparing for future challenges.

Our relationships with our regulators – economic, drinking water quality and environmental – are vital to ensure the resilience of our business and we work closely with them to share our progress and our plans, as well as influencing market reform.

Over the next 25 years, our regulators expect us to deliver important improvements in outcomes, significantly increasing drought resilience, reducing abstraction of water, reducing leakage, reducing per capita consumption, improving environmental water quality, and meeting net zero emissions.

Social environment

As a provider of essential services, we have a direct impact on our local communities. We must be mindful of this and do all we can to support and understand our customers. We know that there are areas across the South East experiencing high levels of deprivation, particularly because of rising inflation and recent increases in energy costs. We make it a priority to offer support and advice to our customers who might find themselves in a vulnerable situation due to circumstances.

Innovation and technology

We are always improving our services, taking advantage of new technologies and innovative ideas, wherever they may come from. 'Always Improving' is one of our core values and our bluewave innovation hub supports teams across the business, bringing design thinking to a range of projects. New technology, of course, can bring with it a number of risks, and so we constantly monitor our cyber security to meet the needs of the business.

Political environment

Decisions made by politicians have the potential to significantly impact the way we operate. As a result, we work closely with regional and national organisations to understand the development of any policies that will influence our business, while ensuring they understand the economic, environmental and social value we deliver for our communities in the South East. Future customers want many of the environmental targets achieved earlier and expect more radical systemic change by both the government and organisations to address the climate crisis.

Our business model continued

The water sector

Water and wastewater services are provided by 11 licensed companies, and there are a number of smaller water-only companies, all serving more than 25 million households and commercial customers in England and Wales.

Since the industry was privatised in 1989, a regulatory framework has been in place to ensure that customers receive a good standard of service at a fair price, managed by the industry economic regulator Ofwat. This framework has seen these water and wastewater companies invest billions of pounds maintaining and improving sites, technology and services, and, in turn, improving drinking water quality and enhancing the environment.

The challenges of population growth and climate change mean that the water industry must significantly change the way it operates over the coming years. As a result, the policy landscape is continually evolving. The 25-Year Environment Plan, Environment Act, review of the Water Industry National Environment Programme and preparation for the next business plan period 2025–30, are just some of the key drivers for change in the water sector and beyond.

By 2050, within Southern Water's region, we are anticipating losing a third of our water sources as a result of climate change. To protect our sensitive environment, we will also see a reduction in the amount of water we are allowed to take from rivers and underground sources, and our population will have grown by 19-25%. Without action, we predict a supply deficit by 2030, equivalent to around 50% of our current supply.

We are working proactively with the rest of the sector, regulators, stakeholders and others on workable solutions to these challenges, which we simply cannot solve alone. Concerns around storm overflows and chalk streams are examples where a multi-sector approach is essential, and we fully support the government's efforts to facilitate a collective response. We are actively exploring new ways of working using natural capital approaches to deliver more nature-based solutions, such as constructed wetlands creation, sustainable urban drainage and river restoration projects.

We also support the government commitment to deliver net zero carbon water and waste services, and we are aiming to bring our services in line with these targets by 2050.

Working with our regulators

We are subject to regulation of our price and performance by economic, quality and environmental regulators, as outlined below.



The Department for Environment, Food and Rural Affairs (Defra) determines the overall water and sewerage policy framework in England, setting standards, drafting legislation and creating special permits, such as drought orders. [defra.gov.uk](https://www.defra.gov.uk)



Ofwat is the economic regulator of the water and sewerage sectors. It protects the interests of consumers by promoting appropriate competition, making sure water companies properly carry out their functions and ensuring they have the adequate finance in place. [ofwat.gov.uk](https://www.ofwat.gov.uk)



The Environment Agency is the environmental regulator of the water and wastewater sector in England. It is the principal adviser to the government on the environment, and the leading public body improving and protecting the environment of England. It works with a range of organisations to reduce flood risk, promote sustainable development, and secure environmental and social benefits. [gov.uk/government/organisations/environment-agency](https://www.gov.uk/government/organisations/environment-agency)



The Drinking Water Inspectorate is the drinking water quality regulator and enforces the Water Quality Regulations set by the government. To do this, it checks the tests carried out on drinking water by water companies, along with carrying out company inspections. [dwi.gov.uk](https://www.dwi.gov.uk)



CCW represents water and wastewater consumers. It also investigates consumer complaints that have not been satisfactorily resolved by water companies. [ccwater.org.uk](https://www.ccwater.org.uk)



Natural England advises the government by providing practical guidance, grounded in science, on how to best safeguard England's natural wealth. Its purpose is to protect and improve England's natural environment and encourage people to enjoy and get involved with their surroundings. [naturalengland.gov.uk](https://www.naturalengland.gov.uk)

➔ Read more about how we engage with our regulators on pages 33 and 35.

Our business model continued

Our external environment continued

We have identified the main factors that affect our business.

A growing population

Population growth will place more pressure on limited resources.

- The UK’s population has grown by 8.7 million people in 20 years.
- By 2050, the population in the South East is predicted to grow by another 19-25%.
- Increased housing development and reduced open spaces will require new water solutions.
- Greater demand for agricultural production.

Material issues: Climate change; public health; natural capital; responsible supply chain; water use; political and regulatory environment; local economies; energy use; stakeholder engagement; and networks.

Affected capitals:



How we are responding:

Through Water Resources South East, we are collaborating with our neighbouring water companies to manage the development of the region’s water resources, ensuring an affordable, resilient and sustainable water supply to meet growing demand. Read more: wrse.org.uk.

We are already making connections to neighbouring water company networks in water-stressed areas to enable the sharing of water to increase supply and meet demand. Our Water for Life Hampshire programme is developing a new network of water mains across the region. Read more: southernwater.co.uk/our-story/our-plans/water-for-life-hampshire.

We have developed our water and wastewater plans to meet future demand. Read more: southernwater.co.uk/dwmp and southernwater.co.uk/our-story/water-resources-management-plan.

Changing communities

Communities are adapting due to demographics and societal changes.

- People are increasingly focused on health and wellbeing.
- More people are living alone.
- The average age of the population is predicted to be over 65 by 2050.
- Increasing mobility means that nearly three million households move each year.
- Hybrid working increases demand for local services.

Material issues: Health, safety, security and wellbeing; public health; affordability and vulnerability; trust, transparency and legitimacy; and water use.

Affected capitals:



How we are responding:

Every community is unique. During our ongoing engagement with customers and stakeholders, we make sure we recruit a representative range of customers from across our region – including demographics such as income, household size, customer segment and location.

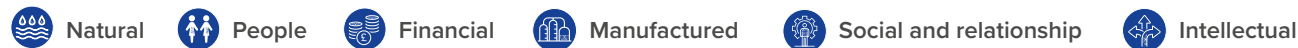
This year, we have run research programmes across our main population areas such as Southampton, Isle of Wight, Brighton, Hastings, Chatham, Thanet and so on. This insight allows us to adapt to the changing shape of our communities, understanding their priorities and how best to engage with them.

From this work we create summaries, infographics, posters and a booklet for teams across the business so the insight we have gathered can be applied to projects and delivery plans.

Our business model continued

Key to our capitals

In order to create an integrated view of the value we create, we are starting to use the following stocks of value or ‘capitals’ that can be affected or transformed by our activities and outputs.



Evolving customer expectations

Customer expectations are evolving with technology and greater access to information.

- Increasing expectations on speed of service from other sectors.
- Increasing demand for real-time data that improves their lifestyle and finances.
- An expectation of 100% availability from their utility providers with lower tolerance of failure.
- A desire for personalised services tailored to customers’ needs.

Material issues: Customer service; affordability and vulnerability; data protection; energy; and water use.

Affected capitals:



How we are responding:

During the year we have increased the number of customer newsletters circulated so we are keeping local communities updated about key construction schemes and upgrades to our services.

We have increased the quantity of information available via our signage for capital works. We recognise that this is particularly important in areas where we have ongoing or repeat issues, for example in Lancing, West Sussex.

We have updated our systems to allow us to send out more text message updates during an incident. Most of our customers told us this was how they wanted to hear from us.

We have continued to focus on improving our customers’ ability to self-serve, as many of them have told us that they do not want to have to call or email us. This includes updates to our web chat service and increasing the number of people responding to queries on social media.

We are also starting to explore a video triage service for operational customer call outs across our water and wastewater teams. Allowing us to direct our resources to those that need them most.

Read more about our operational performance on pages 42 to 95.

Increasing use of technology

Big data, artificial intelligence (AI) and machine learning are all becoming increasingly common.

- Growing ability to unlock valuable insights from data.
- Data becoming increasingly open to all – customers, stakeholders and government.
- Increasing automation to simplify and speed up processes.
- Using AI to learn and adapt to changing environments.

Material issues: Water use; compliance; customer service; community engagement; trust; transparency; and legitimacy.

Affected capitals:



How we are responding:

Unlocking insights from data We have been building digital analytics to more accurately track website journeys, contact forms and call centre contact so we can identify improvements and customers in need of help.

Open data This year we participated in a range of open data initiatives, both independently and across the industry as part of the Ofwat Innovation Fund’s Stream programme. We also delivered a series of open data projects independently including regional investment maps, and the Beachbuoy application, leading the industry in transparent publishing of spills data.

Process automation We have automated several processes to support our customers during water supply incidents. For example, we are now able to quickly compile lists of affected customers on our Priority Services Register, enabling us to offer support more quickly. We have also automated processes for customer contact, Guaranteed Standards of Service and compensation payments making claims quicker and easier.

Platforms We are in the process of implementing new data and analytics platforms to further enable machine learning and AI on a large scale. We have existing applications of advanced analytics in use at the moment. For example, we use machine learning to identify the most appropriate pathway for customers in our debt collection process enabling a more personalised approach and support.

Our business model continued

Our external environment continued

Rising concerns about the environment

Demand to protect the environment is driving change in government priorities.

- Social media rapidly exposing environmental harm.
- Any pollutions seen as unacceptable.
- Rare and fragile chalk streams under threat.
- Storm overflows not seen as acceptable.
- Open-water swimming increasing in popularity.

Material issues: Compliance; health, safety, security and wellbeing; public health; trust, transparency and legitimacy; political and regulatory environment; stakeholder engagement; and networks.

Affected capitals:



How we are responding:

Responding to this demand and future proofing our systems could require significant investment, however this needs to be balanced with the ability to provide our services to customers at a fair and affordable price.

People expect to be able to access clean beaches and healthy rivers throughout the year and are increasingly intolerant of organisations they perceive as preventing this. We have Event Duration Monitors (EDMs) on 98.6% of our storm overflows giving us visibility and, more importantly, the ability to report pollutions accurately. Further improvements have also been made to our Beachbuoy release monitoring service, which uses data from EDMs.

Our Clean Rivers and Seas Task Force has launched six projects across our region from Kent to the Isle of Wight, aimed at reducing excess water entering our sewers, limiting the use of storm overflows. Read more on pages 64 and 68.

Our latest Pollution Incident Reduction Plan details our investment and year-on-year improvements. Read more: southernwater.co.uk/our-story/our-plans/pollution-reduction-programme.

We are investing to develop new water sources and transfers in the Hampshire region to reduce pressure on the chalk streams of the Rivers Test and Itchen. Read more: southernwater.co.uk/our-story/our-plans/water-for-life-hampshire.

We have set up our Independent Climate and Environment Group that is scrutinising and informing our plans to 2050. Read more on page 38.

Climate change

Climate change is impacting our environment and the way we operate our water and wastewater services.

- Need to reduce carbon emissions.
- Forecasts of more extreme weather, warmer land, air and sea, polar ice melting, changes in ocean currents.
- Seasonal storms increasing in intensity and hyper-locality.
- Biodiversity reducing.

Material issues: Compliance; climate change; public health; energy use; natural capital; responsible supply chain; water use; materials; and solid waste.

Affected capitals:



How we are responding:

Our third Climate Change Adaptation Report (2021) highlighted the impacts that we would need to adapt to and mitigate for across our region. Read more about our approach to climate change on pages 75 to 95.

We have created a set of natural capital accounts that we are now using to assess the value of natural assets across our region and inform our decision making. Read our natural capital case study on page 31.

Our Water Resources Management Plan and Drainage and Wastewater Management Plan have been created in consultation with regional stakeholders and neighbouring water companies to address the impacts of climate change on our infrastructure. Read more: southernwater.co.uk/dwmp or southernwater.co.uk/our-story/water-resources-management-plan.

Our business model continued

Key resources

In order to create an integrated view of the value we create, we are starting to use the following capitals that can be affected or transformed by our activities and outputs.

CASE STUDY

Natural capital

“To deliver reliable, high-quality water and wastewater services to our customers now and in the future, we must protect and improve the natural environment, which underpins these services. We call these natural assets our natural capital and are considering them alongside our built asset base.

“Natural capital refers to the elements of nature (rivers, lakes, woodlands, wetlands) that deliver benefits to people by providing ecosystem services, such as providing fresh water, reducing flooding and providing health and wellbeing benefits. In the South East, this includes our rivers – such as the unique chalk streams of the Rivers Test and Itchen – and the coast.






“To help us understand the extent and condition of our natural capital and the ecosystem services supplied we have developed baseline natural capital accounts for three river catchments – the Arun and Western Streams, the Medway and the Test and Itchen. This information will be used to inform our planning and investment decisions, strengthening our resilience, reducing costs and building trust with our stakeholders. Read the full report: southernwater.co.uk/water-for-life/protecting-the-environment/measuring-our-natural-capital.

“The accounts will help us track changes in natural capital value over time, as we work in partnership with stakeholders to build, restore or improve the natural environment.

“Our next step is to extend the baseline accounts to all of our 11 river catchments. This will provide a full picture of natural capital across our operating area.”

Sean Ashworth, Environment Strategy Manager

Stakeholders impacted:

-  Customers and communities
-  The environment
-  Our people and partners
-  Regulators
-  Investors

CASE STUDY

Social and relationship capital

“To make sure that the environment, customers and our communities are at the heart of our decision making, we have been working more closely with our delivery partners to explore projects with social value reporting benchmarks as part of our reporting.

“The £28 million upgrade of our Horsham Wastewater Treatment Works started during 2022, and was identified as a project where we could work with our delivery partners CMDP-JV to explore the impact on the local community.

“An assessment of the key criteria to be measured has been carried out, such as localised procurement and employment, apprenticeships, volunteer hours and carbon reduction.

“The project has also launched a schools programme, in primary schools and after-school groups.






“It also co-funded a community centre energy grant to award 20 community centres with £1,000. The money was used to support their utility bills over the winter months to make sure they could stay open.

“The teams at Horsham have also been taking part in local volunteering projects. Providing 1,000 hours of their time and loaning of specialist equipment and skills to help local homeless charity Turning Tides to renovate a new building. The space has been turned into accommodation for 50 homeless people.

“The pilot aims to capture quarterly measurements using the national TOMS methodology and framework. We’ll then use the findings to inform similar projects in our next investment period from 2025–30.”

Alex Willumsen, Community Partnerships and Programme Manager

Stakeholders impacted:

-  Customers and communities
-  The environment
-  Our people and partners
-  Regulators
-  Investors

Our business model continued

Our **planning horizons** and **strategy**

Vision

To create a resilient water future for our customers in the South East.

Long 25 years+

The nature of our business means we must think in long-term planning and investment cycles to make sure we can deliver on our ambitious vision:

Long-term priorities

- Understanding and supporting our customers
- Protecting and improving the environment
- Enabling and empowering our people
- Ensuring a supply of high quality water for the future

Medium five years+

Our medium-term planning reflects our five-year cycle of asset management planning (AMP) periods and supports our long-term priorities:

Current delivery strategy 2020–25

- Deliver great service
- Use water wisely
- Protect and improve the environment
- Fit for the future

Read more about our current performance on pages 42 to 95.

Short one to two years

We have created four workstreams as part of our Turnaround Plan to make sure we are in the best possible position to deliver our ambitious plans for 2025–30.

Turnaround Plan

- **Empowered and supported colleagues** – Enabling our people to work in a safe, collaborative and inclusive workplace that offers rewarding careers at the heart of our communities.
- **A reliable supply of water for our customers** – Safeguarding resources and making sure our customers have access to a supply of high-quality water now and into the future.
- **Healthy seas and rivers** – Protecting and improving the environment, working transparently to enhance inland and coastal habitats.
- **Trusted and easy customer service** – Supporting our customers with easy service and transparent communications that show we care for our communities.

These are underpinned by a focus on our people, IT and digitalisation and finance and efficiency.

Engagement with stakeholders

Delivering value to our stakeholders

Water enables everything we do so we have a responsibility to meet the needs of a range of stakeholders.

Customers and communities

Our customers expect us to deliver wholesome water and effectively remove wastewater. They want us to deliver services sustainably, at affordable prices, while supporting customers who might become vulnerable due to circumstances.

Water for life is a shared responsibility, which means we must build partnerships in our communities with interest groups and local charities as well as future customers. Our employee volunteering programme helps us to connect with our communities.

How we measure value:

Customer experience (C-MeX).

Other metrics include value for money, community engagement, developer experience (D-MeX), complaints, vulnerability support and financial assistance.

The environment

Our natural environment, including reservoirs, river catchments and bathing waters provide spaces for wildlife, recreation, and create value in terms of tourism. We work hard to protect and improve them, while delivering our essential services.

How we measure value:

Environmental Performance Assessment (EPA), conducted by the Environment Agency.

Other metrics include leakage, greenhouse gas emissions and natural capital value added. Read more about our natural capital accounts on page 31.

Our people and partners

We want to attract, develop and nurture an inclusive and diverse workforce, making sure we look after the health, safety and wellbeing of every colleague and partner. We invest in the region's infrastructure, generating jobs, improving skills and helping to sustain the local economy through our capital construction programme. We work in partnership with our suppliers; ensuring transparency and fair treatment.

How we measure value:

Colleague engagement (Gallup); and Voice of the Supply Chain (survey).

Other metrics include diversity and inclusion, learning and development, injuries and near misses.

Regulators

We have a number of regulators, and their priorities help define our business plans so we must constantly look to engage and influence them, where we can. Read more about our regulators on page 27.

How we measure value:

Ofwat Water Company Performance Assessment; and EPA.

Regulatory price controls help to align shareholder value with customer and environmental priorities.

Investors

To add value for our investors, we manage risk and provide an appropriate return, when we can. We invest their money to provide for growth and resilience.

How we measure value:

Return on regulated equity; outcome delivery incentives; and GRESB.

CASE STUDY

Understanding and supporting our customers and communities



Improving **our service** through a constant conversation with our customers

“Our region is diverse and the insight I lead on needs to reflect our communities.

“We developed a series of panels so we can work more closely with different audiences and better understand their perspectives. This has included a panel of households, businesses, future customers, those who are vulnerable due to circumstances and leaders who can represent communities from more diverse cultures.

“Through traditional research it’s always been a challenge to engage when English isn’t a customer’s first language. Often these groups aren’t reachable through our existing communication channels. We spoke with some of these customers, and they told us that community leaders were the best way to understand their needs. We then recruited representatives of the Chinese community, asylum seekers, Asian, Pakistani customers, and other cultures from across the South East.

“Following the research, we present the conclusions and results to these Diverse Culture community leaders every quarter. Through depth interviews we then spend time exploring where

there are similarities and differences to the communities they represent. From this we are then able to better understand their needs and tailor future services to meet these needs.

“A key issue identified is around the low awareness of our Priority Services Register and our Essentials Tariff. Partly because of lower engagement with these groups and partly because of language and literacy barriers. During the drought in 2022, we also saw lower awareness and understanding of the Temporary Usage Bans.

“Following this, we worked with them to help share drought messaging in Hampshire and the Isle of Wight to their respective communities. We have also used this network to share information on our Priority Services Register and financial support in different languages, and we continue to work with leaders to help address these challenges.

“Our Diverse Cultures Panel is helping in improving these everyday challenges and is informing our plans for the future (such as our 2025–30 business plan).”

Nick Eves, Head of Insight

Engagement with stakeholders continued

What matters to **our stakeholders**

Customers and communities

We constantly seek feedback on what our customers think about our services – both domestic and wholesale – so we can be sure that we are addressing the issues that matter to them. Our aim is to provide a seamless service that they value. We want to work with our customers and communities so we can meet their short and long-term expectations and collaborate on solutions that benefit them.

Three material issues:

- Public health and compliance (environmental stewardship)
- Customer service and support
- Local economic impact

Regulators

Through engagement with our economic, quality and environmental regulators, we agree commitments over specified time periods alongside requirements they have of us in terms of our plans and performance. In some cases, there are financial rewards and penalties attached to these commitments. We seek to influence policy and regulatory frameworks when we can to make sure they support us delivering the best outcomes for our customers and the environment.

Three material issues:

- Business performance
- Financial resilience and risk management
- Political and public opinion

The environment

Central to our purpose is the need to protect and improve our natural environment. We depend on it and so it is vital that we work collaboratively with our environmental regulators, non-governmental organisations, campaigners and local communities to find quick solutions to environmental issues, such as climate change, pollution and land management.

Three material issues:

- Water resources and leakage
- Sewer flooding and storm overflows
- Climate change

Investors

It is important that our investors have confidence in the company and how it is managed, so we provide regular updates on our performance and progress. This also includes environmental, social and governance (ESG) updates alongside financial and performance data.

Three material issues:


- Business performance
- Financial resilience and risk management
- Corporate governance and ESG-related matters


Our people and partners

Our people are Southern Water, whether colleagues or partners, and we simply could not deliver our services without them. Most of them live in the South East and are also our customers, so we celebrate their diverse range of views and experience and use it to inform our decision making.

Three material issues:

- Health, safety, security and wellbeing
- Trust, transparency and legitimacy
- Local economy

 Read our materiality assessment on pages 40 to 41.

 Read our s172 Statement on page 96 to 99.

Engagement with stakeholders continued

How we have engaged throughout the year

Independent Customer Group (ICG)

Our challenge community – to help drive customer first improvements includes:

Our **Customer and Communities Challenge Group**. There to provide expertise and challenge on our proposed business plans, the group is made up of customer leaders, such as those that help vulnerable audiences, businesses and lower income households.

Customers from our panels. These customers become informed through continuous engagement and scrutiny of our plans. We then run engagement sessions that include these informed customers and our executive and leadership teams. This then provides open challenge directly to decision makers and helps put the customer at the centre of what we do.

The **Independent Climate and Environment Group**. There to provide specialist and technical challenge and advice on our environmental performance and strategy (see ICEG commentary below).

This is underpinned by our **external quality and assurance programme**, which provides insight to colleagues from across the business so they can focus on improving our delivery and performance.

Stakeholders involved: Customer leaders, informed customers, Southern Water leaders and colleagues, and see ICEG below.

Link to risk: Water; wastewater; customer; climate change; and people.

Independent Climate and Environment Group (ICEG)

Outcome of engagement To help build greater confidence in our commitment to the environment, we created the ICEG, with an independent Chair. The group has provided independent advice and challenge on our Drainage and Wastewater Management Plans, our Water Resource Management Plans and our Clean Rivers and Seas Task Force Pathfinder projects this year. They are also helping to shape our long-term environmental ambition and what we need to deliver as part of our business plan for 2025–30 to reach our goals.

Stakeholders involved Martin Hurst (Chair) is also Chair of the Southern Regional Flood and Coastal Committee and is a former environment advisor in Number 10 and water director in Defra. Members include Rivers Trusts, Wildlife Trusts, RSPB, Environment Agency, Natural England, NFE, Consumer Council for Water, Waterwise, Local Flood Authorities and Universities.

Link to risk: Water; wastewater; and climate change.

Engagement with stakeholders

The Living Coast (UNESCO Biosphere Reserve, Brighton and Lewes Downs)

Outcome of engagement: A designated urban biosphere reserve, The Living Coast stretches between Newhaven and Shoreham-by-Sea in Sussex. From the South Downs, through city streets and out to sea, it embraces everyone and everything that lives within this area and makes life here possible. UNESCO biospheres are areas with significant natural value, created to help us learn how to balance what people and nature need to flourish. Our interest focuses on the water aspects of the biosphere, including water efficiency and water quality and we collaborate to create opportunities for customer behaviour change and environmental enhancements.

Stakeholders involved: Brighton and Hove City Council, Lewes District Council, Adur and Worthing Councils. Local Health Trusts, Brighton and Hove Bus Company, University of Brighton, University of Sussex, and South Downs National Park.

Link to risk: Water; wastewater; and climate change.

Blean Primary School, Canterbury, Kent

Outcome of engagement In February 2023, we received letters from Blean Primary School's year five Eco Club members. They wanted to challenge us on 'a most serious matter concerning the actions you have committed towards the oceans surrounding Kent'. We approached the Eco Club leader and asked if we could visit the school to explain how combined sewers work and why storm overflows exist. We also wanted to tell them what we were doing to reduce the number of storm overflow releases. Our Education Officer, Joanne Wood and Nicole McNab, from our Clean Rivers and Seas Task Force, were invited to speak to the school and staff, and explain the impact of heavy rain on the sewer network, and how the task force is working on nature-based solutions to 'slow the flow' of water into the sewers. After the talk, the Eco Club leader fed back that it was 'very useful to hear the reasons behind the overflows'.

Stakeholders involved: 260+ school children and 20 staff from Blean Primary School, Canterbury, Kent.

Link to risk: Wastewater.

Engagement with stakeholders continued

How we have engaged throughout the year continued

Citizen Science in Sandown

Outcome of engagement: To conduct independent water quality testing with the aim of providing real-time data that will help people to make an informed decision about swimming in the sea. This data will either be published on our own website or shared with the organisations taking part in the trial.

The samples are taken by volunteers from Swim the Wight and the Wildheart Animal Sanctuary who wade out daily to a pre-determined point in Sandown Bay and return with a sample ready to calibrate in a water quality monitoring device (which is used by the Environment Agency). The 'Fluidion' device was pioneered in Paris to test the water quality of the River Seine prior to the Olympics in 2024.

Stakeholders involved: Swim the Wight (a Sandown-based social enterprise who aim to improve lives with 'vitamin sea') and the Wildheart Animal Sanctuary (who are based on the seafront).

Link to risk: Wastewater; and climate change.

Three Harbours Technical Working Group

Outcome of engagement: To bring together partners around Chichester, Langstone and Pagham Harbours to collaborate and co-deliver solutions to improve water quality and restore nature at scale. We have worked with them to develop our environmental programme for our Water Industry National Environment Programme (WINEP) submission and our business plan for 2025–30 and are developing detailed plans to drive collected action. Read our harbours case study on page 67.

Stakeholders involved: The Environment Agency, Natural England, Chichester Harbour Conservancy, Langstone Harbour Board, local Wildlife Trusts, the RSPB, Portsmouth Water, Hampshire County Council, West Sussex County Council, Chichester District Council, Solent Forum, Coastal Partners, the Sussex Inshore Fisheries and Conservation Authority, and the Royal Yachting Association.

Link to risk: Wastewater; water; and climate change.

Engagement with stakeholders continued

Local Nature Partnerships – regionwide

Outcome of engagement: To build relationships, share best practice and drive forward nature’s recovery across the South East we have set up a series of local partnerships. Our business is reliant on a healthy and functioning natural environment and this means we need to be ready to react to emerging environmental regulations. Examples of projects under way include exploring nature-based solutions to reduce carbon and Sussex woodland opportunity mapping, both of which are informing our strategies and delivery plans.

Stakeholders involved: Local Authorities, environmental NGOs (including Wildlife Trusts, Rivers Trusts, Woodland Trust, RSPB and more), businesses (including other water companies), protected landscapes (national parks and Areas of Outstanding Natural Beauty), the Environment Agency, Natural England, the Forestry Commission, Inshore Fisheries and Conservation Authorities, the National Farmers Union, the Country Land and Business Association, and local landowners.

Link to risk: Wastewater; water; and climate change.

Water industry insight group

Outcome of engagement: To drive a much better understanding of what matters to our customers we have been sharing insight with our neighbouring water companies in the South East. This gives us a better understanding of the needs of our customers, and where there are differences and the drivers of them. It also means we have access to a greater breadth of insight so we can build from that existing knowledge base and that this insight is triangulated against other data sources. This means our understanding of customer needs is more robust and we can have greater confidence in any recommendations we make.

In October 2022 we spent the entire day in a session dedicated to sharing best practice and customer insight. The Consumer Council for Water and Ofwat also attended the session – bringing feedback they had collected from their research.

Stakeholders involved: South East Water, Thames Water, SES Water, Affinity Water, and Portsmouth Water.

Link to risk: Customer

Our focus areas

Our stakeholders' material issues inform our **business priorities**

Our approach to materiality

Having a thorough understanding of what matters most to our stakeholders is vital and we consider these material issues alongside our own priorities and their ability to create value. The materiality matrix on page 41 represents the output of that assessment. Having clear visibility of these issues is critical as it helps inform our business strategy and our ability to create long-term value.

Determining and prioritising material issues

To assess the strategic relevance of each material issue, we considered its effect on our ability to create value, internally (for the company, our investors and employees) or externally (for customers, communities, our suppliers and the environment). This value could be financial or non-financial.

The level of interest to stakeholders is based on views gathered through direct engagement throughout the year. This includes the insight gathered as part of the consultation process for the business plan period 2025–30.

Material issues matrix

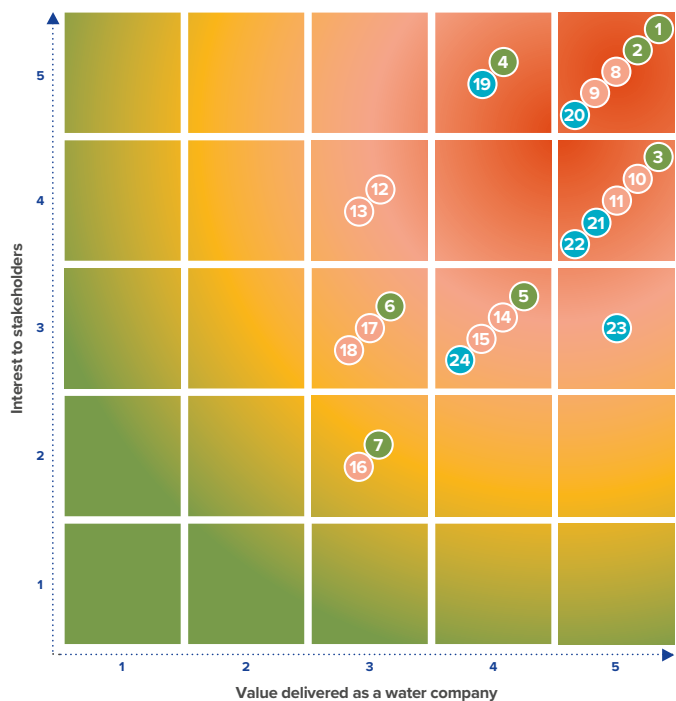
To compile our materiality assessment for 2022–23, we consolidated feedback from our various stakeholder groups, as detailed on page 33, which resulted in 26 key issues impacted by internal or external factors or sometimes both. These issues have been plotted on the next page, from low to high in terms of level of interest to stakeholders and how much each issue affects our ability to create value.

Our assessment process

Step one	▶ Step two	▶ Step three
<p>Defining our issues</p> <p>The results of our stakeholder engagement activities, see pages 33 to 39, informed the selection of issues. We also considered our corporate strategy, vision and values. Further, we identified potentially material issues by monitoring external trends including the UN Sustainable Development Goals, assessing risks, and reviewing best practice including ESG frameworks such as the Global Real Estate Sustainability Benchmark (GRESB).</p>	<p>Prioritising</p> <p>The significance of the issues was assessed to prioritise them. We scored them on two scales: the importance of the issue to stakeholders, and the significance for us to create value. Each received a score from one to five, reflecting our existing Enterprise Risk Management process. One indicating no impact/negligible ability to influence and very infrequent stakeholder interest. Five indicating critical impact for all functions/high levels of control, and significant interest of many stakeholders.</p>	<p>Test and review</p> <p>We tested the prioritisation scores with internal groups to validate the process and ranking. Executive Team members were included in this process, as well as senior managers and subject matter experts across our business.</p>



Focusing on what matters to **our stakeholders**



Our material issues

Environmental

- 1 Compliance
- 2 Climate change
- 3 Water use
- 4 Biodiversity and natural capital
- 5 Materials and solid waste
- 6 Energy use
- 7 Land management and access

Link to principal risks

- Compliance – see page 129
- Climate change – see page 129
- Water – see page 127; Delivery – see page 130
- Compliance and Climate change – see page 129
- Climate change – see page 129; Wastewater – see page 127; Resources – see page 131
- Climate change – see page 129
- Compliance and Climate change – see page 129

Social

- 8 Health, safety, security, and wellbeing
- 9 Public health
- 10 Customer service
- 11 Affordability and vulnerability
- 12 Local economies
- 13 Fair and equal pay
- 14 Diversity and inclusion
- 15 Community engagement
- 16 Social mobility
- 17 Skills and employment
- 18 Human rights

Link to principal risks

- Health and safety – see page 131
- Water – see page 127
- Customer – see page 128
- Customer – see page 128
- Customer – see page 128; Wastewater – see page 127
- Community engagement – see page 132
- People – see page 132
- Customer – see page 132
- People – see page 132
- People – see page 132
- Resources – see page 131

Governance

- 20 Trust, transparency, and legitimacy
- 19 Company structure, ownership
- 21 Data protection
- 22 Political and regulatory environments
- 23 Stakeholder engagement and networks
- 24 Responsible supply chain

Link to principal risks

- Compliance – see page 129
- Compliance – see page 129
- Compliance – see page 129; IT – see page 130
- Financial – see page 128; Corporate affairs – see page 132
- Customer – see page 128; Corporate affairs – see page 132; Delivery – see page 130
- Resources – see page 131

Our operational performance

How we measure our progress

Our Water for Life Business Plan 2020–25 is broad and ambitious and includes 47 clear customer commitments. We recognise that performance needs to be improved for our customers and the environment, therefore, we have detailed plans to turnaround performance. They explicitly target improvements across four areas: understanding and supporting our customers and communities; ensuring a supply of high-quality water for the future; protecting and improving the environment; and enabling and empowering our people. Read more about our performance measures in our Annual Performance Report.

Understanding and supporting our customers and communities

Outcome	Why it is important	Associated operational delivery incentive (ODI)	Performance			End of AMP target	End of AMP Status	Link to executive remuneration
			2022–23	Trend	2021–22			
Deliver great service								
Customer experience	Customers want to see us improve our customer service performance. They want us to minimise the impact of issues and disruptions to their daily life. When shown comparative information, they expect us to do better.	C-MeX				Median		
		Void properties				2.56		Direct
		Gap sites				65		
Sewer flooding prevention	It is essential that our network stops homes being flooded with waste from sewers. There is strong support to ensure we continue to improve sewer flooding prevention.	Internal sewer flooding				274		Indirect
Supporting the vulnerable	Customers find the concept of the social tariff acceptable. They want us to protect the most vulnerable in society, and find it acceptable to pay a little extra on their bill to help those in genuine need. They want us to partner and provide support by understanding and acting on customers' individual circumstances.	Customer satisfaction with vulnerability support				90		Indirect
		Effectiveness of financial assistance				90		
		Priority services for customers in vulnerable circumstances				7.0		
		Value for money				80		

Link to executive remuneration: Direct – there is a specific performance measure included within the bonus scheme that is linked to the performance commitment. Indirect – there is a link to the performance measures in the bonus scheme but that it is a component of one of the metrics used for assessing performance rather than a specific/individual metric.

Key:

- Ofwat target met or exceeded
- Ofwat target missed but performance improved in relation to prior year outcome
- Ofwat target missed and performance was worse than prior year outcome
- Improving
- Static
- Deteriorating

Our operational performance continued

Outcome	Why it is important	Associated operational delivery incentive (ODI)	Performance			End of AMP target	End of AMP status	Link to executive remuneration
			2022–23	Trend	2021–22			
Use water wisely								
Water consumption	Customers are interested in understanding more about their water usage. They see saving water as a partnership issue and are looking for us to help them save more.	Per capita consumption				118.8		Indirect
		Target 100				55.00		
		Water saved from water efficiency visits				2,500		
		Access to daily water consumption data				3,529		
Fit for the future								
Growth	Businesses think it is important to work with councils and developers on infrastructure. Customers recognise the challenge of new homes drawing on our network and expect us to ensure it is fit for the future.	D-MeX				Median		Direct
Community engagement	Keen for us to focus on our role in the community, our customers want us to collaborate with local groups on important issues, support community outreach programmes and educate the next generation in schools.	Community engagement				75		No link
		% of schools giving good or excellent feedback from visits				90		

Our operational performance continued

Understanding and supporting our customers and communities continued

Improving customer experience

We are working hard to improve customer satisfaction by making the experience of dealing with us easier and more efficient for our customers. We are also focused on better engagement with our communities, while demonstrating environmental leadership. It is, therefore, disappointing that we have not improved our customer satisfaction (C-MeX) score from last year, remaining in 16th place in the rankings out of 17 water companies, incurring an ODI penalty of approximately £4.8 million.

While we are disappointed with the lack of immediate improvement in our score, we are confident that the plans we have in place will produce results in both our customer and wholesale team measures in the long term. It is worth noting here that C-MeX is also strongly influenced by historic as well as current political, media and public attention around national issues, such as drought and storm overflows.

We continue to make improvements across our customer experience by increasing our self-serve options and enhancing the quality of our customer data. This, in turn, has allowed us to send our customers more personalised communications, at the right time.

We have also spent considerable time getting out into our communities to find out what customers really want from us. This has resulted in some significant improvements to our operational signage and has led to us hosting more face-to-face drop ins to provide information about the work we are carrying out locally.

Following water incidents over the past year, particularly the July 2022 incident in Sheppey, we increased our use of text messaging and changed the way we manage our bottled water stations, to improve access for customers. Insight surveys we have carried out since have told us that these measures were positively received by customers.

We have also made improvements to the way we work with customers who have been impacted by internal and external sewer flooding. This includes a new information leaflet given to customers at the time of a sewer flood, as well as 1:1 case management for

the worst affected customers. We have also updated our website with better information and advice.

In addition, we have made improvements to our 'report a leak' service online, with a simplified reporting form and confirmation email. We are now designing a new 'report a problem' map, which will enable customers to self-report leaks and be provided with text updates on when they will be fixed.

We held various well attended stakeholder meetings, with local MPs as well as council members. Following water outages in Broadstairs, Ramsgate, Manston and Margate, we held a public drop-in session in March. We talked to around 40 customers about the cause of the supply disruption, what we were doing to improve resilience in the network – including tackling storm overflows and other discharges – and how to receive assistance in making compensation claims.

We also held two similar sessions for our customers on the Isle of Wight, at venues in Ryde and Newport. More than 250 people heard about our storm overflow reduction plans, saw how they could use water in the home more efficiently, and learnt about how our social tariffs can help customers to pay their water bills. We also had subject matter experts on hand to discuss the water recycling element of our Sandown Pathfinder project, explaining how we are working to find new sources of water.

Work to improve our processes has resulted in us removing 4,400 void properties from our records this year. This has reduced the percentage of void properties to 2.82% (2020–21: 3.12%). Unfortunately, despite this improvement, we did not meet our Ofwat target of 2.68% and we have incurred a regulatory penalty of £0.6 million. We are confident that we can remove 7,000 void property addresses over the next year.

Through our joint billing contract with South East Water, 37 gap sites (2020–21: 33) were identified against our overall target of 65. An address matching exercise completed by year-end will support processes to identify gap sites in our supply region during 2023–24.

Our operational performance continued

Understanding and supporting our customers and communities continued

Protecting our customers' homes from flooding

We want to avoid the distress and inconvenience that internal and external sewer flooding can cause to our customers' homes and businesses as well as the environment. Blockages remain the predominant cause, with heavy rainfall causing additional capacity issues. The digitalisation of our wastewater network will be key to monitoring and avoiding incidents going forwards.

In 2022–23, the number of internal sewer flooding incidents was 496 (2021–22: 614). This reduced from the previous year, however, we did not meet our Ofwat target of 321 and incurred a penalty of £3.7 million. For external sewer flooding though, we have outperformed our target for the third year in a row, achieving a total of 3,748 incidents (2021–22: 3,944), earning us a reward of £0.67 million.

Our Fat, Oil and Grease (FOG) and Unflushables team has been out meeting customers in our communities to explain the importance of keeping FOG out of

drains and not flushing any items that may cause blockages, such as wet wipes. We have also carried out sewer network cleaning and other blockage reduction activities.

In 2022, we began the roll-out of over 23,000 sewer level monitors as part of a programme to digitalise our wastewater network. The monitors are installed in manholes across high-risk areas of our region, and they can connect digitally with our Control Centre to proactively detect potential blockages. This smart technology enables a quick clean-up of the wastewater pipes to take place before the blockage causes pollution. The software used is a machine learning tool that constantly improves its data monitoring.

In 2023 our flooding reduction plan aims to focus strongly on root cause analysis to drive a first-time fix approach to make sure that our customers do not suffer a repeat incident. This includes empowering our teams to deliver solutions and using insight to target our proactive interventions in a very precise way.



Our operational performance continued

Understanding and supporting our customers and communities continued

Supporting those customers who might be vulnerable due to circumstances

Customers that need greater support are a key focus for us in terms of engagement. Each year we survey a cross-section of our Priority Service Register (PSR) customers to understand their satisfaction level with the service and support we provide, and where this can be improved.

As part of our research panels, we have a bespoke group of vulnerable customers, recruited from across our region. We carry out in-depth interviews with them, which allows us to understand their unique circumstances. Additionally, we speak with a representative sample following major loss of supply incidents – to specifically understand how we can continue to improve.

We maintained the level of satisfaction with vulnerability support at 73% (2021–22: 73%). We also increased the number of customers on our Priority Services Register (PSR) to 166,384, representing 8.3% of our households, which is already above the target of 7% by March 2025 set by Ofwat.

During the year, our bills went up in line with inflation, increasing the average annual dual bill from £401 to £439. At the same time, recognising the challenge of the rising costs for households, we announced a £98 million support package and increased the minimum discount on bills from 20% to 45% for 104,000 vulnerable households, which is an average annual saving of almost £200 on a dual service bill. The effectiveness of this type of support has improved, with a score of 71% (2022: 67%), although this was below our target of 80%.

We provide a number of financial assistance packages to help customers, including Watersure, Water Direct, NewStart and Essentials. These offer customers access to payment holidays, debt write-offs and bill reductions.

We also continued to offer support to customers via our Hardship Fund during 2022–23, providing a total of £20,000 a month. This funds three main types of assistance: debt relief, bill reductions and support to purchase household items where

needed. Each of these is aimed at helping different segments of our customers.

The percentage of customers surveyed by the Consumer Council for Water (CCW) that are satisfied with the value for money of water and sewerage services in their area is 71% (2021: 67%), falling short of our target of 77%.



Supporting our customers and communities to save water

We want to create a future where our customers and colleagues act as stewards of our water environment.

We continue to work with our customers year-round to help them save water. Our three-year rolling average for per capita consumption is 133.7 litres per person, per day (2021–22: 133.6 litres per person, per day) against our target of 119.5 litres per person, per day. Although water use is now decreasing, the three-year rolling average fully reflects increases that we saw during the pandemic. Since a peak in consumption of 139 litres per person, per day in 2021, the in-year average has now reduced to 128.4 litres per person, per day.

Our plans to reduce demand have evolved. We want to manage and reduce the amount of water our customers are using – household, businesses and developers – using behavioural science principles to create sustained change.



Helping our customers save water is the focus of our ongoing Target 100 campaign, aiming to reduce daily average daily water usage to 100 litres per person, per day. Over the past year, it has focused on water scarcity, to help build awareness that demand will soon outstrip supply, and that unless we all work together, we will face a supply deficit. This included the promotion of easy tips and advice on ways people can save water around the home.

The customer campaign included direct customer emails, social media posts and ads, press articles and radio and DAX (Digital Ad Exchange) advertising, as well as ads on buses. We also used social media influencers for the first time to also push water-saving products such as tap aerators and water-efficient shower heads. We reached over 298,000 people, delivering 352,000 impressions and received 25,000 engagements with customers.

We took a slightly different approach with the high consumption areas of Hampshire and Isle

of Wight, with more targeted messaging about protecting the local environment, chiefly local rivers and chalk streams. This laid the foundations for when we went into drought in these areas in July and had to implement a Temporary Use Ban from August to November.

We had regular communications with customers, stakeholders, businesses and employees, keeping them up to date on restrictions, the work we were doing to mitigate drought, and ways they could save water. We also launched an industry leading 'You Save, We Pay' initiative with our business consumers, offering them incentives for saving water. Read our drought case study on page 57.

In May we launched a 12-month awareness campaign called 'Save a little water, make a lot of difference'. It represents the start of the journey we want to take customers on, right up to 2040, and uses seven triggers to accelerate behaviour change. These include things like water-saving

Our operational performance continued

Understanding and supporting our customers and communities continued

home visits, smart meter technology and new tariffs, as well as communications and marketing. We have also refreshed our education materials and will be pushing for changes in the way we all think about water in public policy.

We carried out 8,130 water-saving home visits during the year, delivering a cumulative saving in cubic metres per day (m³/d) of 534 m³/d against a target of 1,500 m³/d. These visits targeted households using large amounts of water.

We also targeted those living in our Sussex North region where we are working with Local Planning Authorities to maintain water neutrality. This means making sure that any new homes built do not use more water, putting more pressure on the local environment. To support developers with their questions on water neutrality, we now offer them a dedicated point of contact and access to a monthly newsletter. We are also planning annual events and regular webinars.

A total of 10% of home visits had a check with any defects reported to our Leakage team. We fitted 279 waterbutts and over 500 leaky loos were fixed via home visit referrals, with over 3,000 save-a-flush bags sent to customers for use in their toilet cisterns. We also completed flow restrictor trials at 500 social housing properties in Hampshire, achieving a saving per household of 64 litres per year.

Following the visits, over 1,000 customers have been referred to our Affordability team from home visit engineers, to potentially move customers to a tariff that works better for them.

We are also collaborating on a five-year campaign with Hampshire and the Isle of Wight Wildlife Trust's Watercress and Winterbourne's 'Save Every Drop' campaign to promote water-saving visits and the link between waterways and the water we use every day.

One way to help customers understand their water use and to be able to save water, is through giving them access to daily water consumption data. We have, therefore, accelerated our plan to roll out smart metering to customers and 1,500 customers are now part of a pilot, which aligns with the trial of a smart clip-on device for an existing water meter.

Working with our communities to manage growth

We maintained our ranking of 15th out of 17 water companies for our Developer Services satisfaction score (D-MeX). We constantly monitor our service levels and over the year we have made regular updates to our website, launched a new easy-to-use budget estimate calculator and increased our direct technical support.

We have also improved the process for people to apply for new water connections, giving them the option to submit photos for virtual site inspections and allowing them to share their screen with our agents so we can better guide them through the process. There is also a checkpoint for wastewater applications, speeding up the process significantly.

Engaging with our communities and working with local charities

During 2022–23 we launched a new community engagement strategy, focused around four key pillars: building skills by sharing our expertise and supporting young people; making our communities stronger by making sure they feel valued and heard by us; caring for the environment together; and demonstrating our positive impact and responsibility. Built on customer insight, this strategy seeks to address some of the regional challenges faced by our customers and our business.

To deliver this new strategy we have expanded our community team, creating a new role for a dedicated Education Officer. Read all about our new education programme on page 49. We are also excited to have seen a huge increase in colleague volunteering hours this year – see page 72.

Building skills for our community

Over the year a particular area of focus for us was increasing our work in the community with young people. Ten colleagues started mentoring groups from the Bohunt School and St Andrews High School in Worthing, through Dare to Dream, a programme initiated by the Love Local Jobs Foundation. Aiming to provide local young people with experiences and tools to help them fulfil their potential, it works in partnership with local

Our operational performance continued

Understanding and supporting our customers and communities continued

employers and local radio celebrity Jack the Lad, using themes of self-awareness, mindset, gratitude, resilience, teamwork and employability to drive and motivate the students. Our mentors have been carefully matched to provide one-to-one support, helping to grow pupils' confidence and enable them to achieve their potential.

We continued our relationship with local charity Spear Brighton, which supports unemployed 16 to 24-year-olds to find sustainable employment. The charity was awarded a Community Grant in 2021–22 and as part of the agreement we also offered workplace visits at our Falmer offices.

Over the summer we provided free fire warden and health and safety training at two heritage sites – Twyford in Hampshire and Brede in East Sussex. We also supported the installation of a new defibrillator, in partnership with Twyford Parish Council and Hampshire County Council.

Making our communities stronger

We have been working with our supply chain partners to pilot a scheme to measure the 'social value' of the community outreach work we do. The scheme is running alongside the upgrade of our Horsham Wastewater Treatment Works and, so far, has seen us working with the local branch of homelessness charity Turning Tides as well as local schools and Scout groups. Read more on page 31.

We ran a targeted campaign in Horsham towards the end of 2022, with a monthly outreach event held in the centre of town. In October we also awarded Horsham Matters a £1,000 Energy Grant to help with the charity's energy costs.

In December we hosted several Christmas parties to celebrate community centres that had received our Community Energy Grants. It gave us the opportunity to meet customers and signpost our Priority Services Register and support schemes.

Caring for the environment

Building stronger links with our communities is vital, and in Seaford we have been working with the 'Friends of Seaford' on a project to redesign a green space next to our wastewater pumping station. We created information boards and offered

our colleague volunteer support to plant trees and help develop the space.

Our work with the 'Pollinator Pioneers', who received a community grant this year, has seen us help to install beehives next to our wastewater treatment site in East Worthing. The group works with young people to educate them about the importance of pollinators.

Demonstrating our positive impact

We launched a new Community Energy Grant, delivered in partnership with CMDP (a joint venture between Costain and MWH Treatment), to offer independently run community centres, foodbanks, support groups and children's programmes £1,000 per county – awarding £20,000 in total.

We also supported the local Tonnes of Tins campaign in Sussex, collecting 4.8 tonnes of food from colleagues and local residents to support foodbanks before the school holidays started in June 2022. Our Board matched the amount raised by the campaign, and a further £12,000 was donated to local foodbanks.

Last year we invited registered charities to apply for a partnership grant, lasting 18 months, with a focus on improving outcomes for young people. We received 47 applications, and we awarded five Charity Partners in each of our regions.

Educating our communities

We were excited to launch our New Wave education programme this year. Created in partnership with curriculum experts at the National Schools Partnership, it provides opportunities for young people to learn about the water cycle and caring for our natural water sources at every stage of their time at school, providing a range of free online resources for teachers and trainers.

These resources challenge pupils to solve local water problems and make pledges, taking the lead from school materials teaching science, technology, engineering and mathematics (STEM) as well as geography and PSHE (personal, social, health and economic education). In the future, we also plan to offer workplace experiences including wastewater treatment works tours. The tours are already taking place for adults and are being adapted for children.

Our operational performance continued

Understanding and supporting our customers and communities continued

These tours will help to build on our current programme of school talks and workshops. We delivered a total of 120 talks this year reaching more than 30,000 young people and adults, covering a range of topics including the water cycle, water saving, the three 3Ps (pee, poo and paper), how wastewater is cleaned, protecting our rivers, how to prevent blockages by disposing of unflushable items correctly and climate change. We ask schools and community groups for feedback on these sessions and overall participants were 98% satisfied with the talks they received.

Alongside these regular school visits, we also continued our partnership with the South East Rivers Trust and Wessex Rivers Trust to spread our water-saving message, which helps to protect our environment and local rivers. The South East Rivers Trust and Wessex Rivers Trust

are running 'Our River, Our Water' educational sessions on our behalf to support the curriculum. These sessions give primary school aged children the chance to study science on the riverbank and learn about the vital habitats that live, grow and thrive there.

Over the year we also completed some practical, problem-solving sessions with Girl Guide and Scout groups across Hampshire and Sussex, with groups taking part on water filtration and water supply challenges. We plan to combine these with the Our River, Our Water sessions over the coming months to reach more groups across our region.

A look ahead – our Turnaround Plan

We are committed to improving customer experience and our reputation. By 2025 we aim to have delivered an improved customer experience, increasing our C-MeX score. We will do this by:



- Making things easier for our customers by creating a new website, improving our data quality and complaints process. We will also introduce a video assistant for customers.
- Creating a customer culture. Making sure that every colleague understands our customers and their unique needs. This includes the introduction of customer promises and customer service training for all colleagues and partners.
- Better engagement with our communities through improved multi-channel and direct communications, education programmes and regular stakeholder forums.
- Supporting customers in vulnerable situations by improving our priority services during incidents and our social tariff offering.

CASE STUDY

Understanding and supporting our customers and communities



Helping **future generations** understand the importance of saving water now

“Teaching young people about water saving early in their school life, is the one of the best ways to make sure our water resources are protected long into the future. We’ve expanded our education programme over the past year to reach over 30,000 children, telling them how to save water and about where it comes from.

“When I arrive at a primary school, I know it’s important to really engage the children to get their interest. I give talks on our key messages and enjoy hosting our water supply challenge game, where upper KS2 children can take part by building a network of pipes.

“We’re working hard to introduce a more systematic approach to learning. By offering a variety of activities – curriculum-linked lessons, classroom

talks, outdoor activities, specialist speakers and workplace visits to treatment works. We will have five to six opportunities to engage with young people throughout their time in school.

“Whether we’re talking about how to save water at home or what it takes to clean up their wastewater, we want these young people to take our messages on board and use them as part of their everyday life.

“Through education, behaviour change will happen, and our water sources and the environment will be protected for future generations to enjoy.”

Joanne Wood, Education Officer

Our operational performance continued

Ensuring a supply of high-quality water for the future

Outcome	Why it is important	Associated operational delivery incentive (ODI)	Performance			End of AMP target	End of AMP status	Link to executive remuneration
			2022–23	Trend	2021–22			
Deliver great service								
Water quality	It is essential to always provide clean, safe drinking water. This is seen as a basic service from a water company and the most important of the services we provide. Our customers' preference is for water to be as natural as possible.	DWI compliance risk index (CRI)				0.00		Indirect
		Drinking water appearance				0.46		
		Drinking water taste and odour				0.21		
		Replace lead pipes				43		
Water supply interruption	Customers want us to be able to deal with problems, such as interruptions, quickly and efficiently. Any interruptions require clear communication, as they can cause inconvenience and distress to customers.	Water supply interruption				0:05:00		Indirect
Water pressure	Customers expect a standard of water pressure to be part of the basic service we provide.	Properties at risk of receiving low pressure				182		Indirect
Use water wisely								
Leakage	Customers say it is essential to reduce the amount of water lost through leaks from our network. They believe water is a precious, natural resource and expect us to look after and use it wisely.	Leakage				84.9		Indirect

Link to executive remuneration: Direct – there is a specific performance measure included within the bonus scheme that is linked to the performance commitment. Indirect – there is a link to the performance measures in the bonus scheme but that it is a component of one of the metrics used for assessing performance rather than a specific/individual metric.

- Key:**
- Ofwat target met or exceeded
 - Ofwat target missed but performance improved in relation to prior year outcome
 - Ofwat target missed and performance was worse than prior year outcome
 - Improving
 - Static
 - Deteriorating

Our operational performance continued

Outcome	Why it is important	Associated operational delivery incentive (ODI)	Performance			End of AMP target	End of AMP status	Link to executive remuneration
			2022–23	Trend	2021–22			
Fit for the future								
Asset health	It is essential to be investing in our sewer networks, pipes and drains. Our customers want us to upgrade where we can and use innovative and sustainable solutions.	Unplanned outage				3.25		Indirect
Water resilience	Customers want to ensure supply for future generations. They are willing to invest now to ensure that there is no deterioration of services in the future.	Water supply resilience				77,622		No link
		Long-term supply and demand schemes				0		
		Risk of severe restrictions in drought				0.00		
		Impounding reservoirs				100		

Our operational performance continued

Ensuring a supply of high-quality water for the future continued

Improving water quality

Any risk to water quality is measured by the Compliance Risk Index (CRI), with any failures being assessed by the Drinking Water Inspectorate (DWI). Our CRI score for 2022 was marginally better than the previous year, at 6.38 (2021: 6.69). The scores from treatment works and supply points remained fairly static, whereas service reservoirs dropped and breaches at customer taps rose.

The main causes of CRI at our works (70%) were damp and unused sections of pipe, which are being addressed through improved regular maintenance of water tanks. A further quarter was due to issues at our sampling facilities, which are regularly inspected. The increase in CRI at customer taps was due to sediment build up in the mains, which will be addressed by our wider replacement programme in the next seven years. Taste and odour of customers' water was also an issue in some areas of Hampshire, which will be improved by the planned installation of carbon treatment at Otterbourne Water Supply Works by 2031.

We achieved a score of 0.24 (2021–22: 0.23) for taste and odour – measured in contacts per 1,000 population, missing our target of no more than 0.23 contacts. For drinking water appearance, our score was 0.93 contacts per 1,000 population, against a target of 0.65 contacts. This meant we incurred a combined ODI penalty of £1.34 million.

In July, we started work in Deal, Kent to replace old water mains containing lead. The pilot project will take about 24 months and will see us replace pipes to the boundary of customers' properties, as well as offering sampling in their homes and advice and support if they want to get a plumber to replace internal lead pipes. As some customers might have been worried about the discovery of lead pipes in their homes, we also offered drop-in sessions so they could meet our team and ask any questions they might have. We also sent letters and leaflets out to those affected and created a central hub of information on our website: southernwater.co.uk/deallead.

This is a trial scheme, which will help shape the strategy for other lead replacement schemes across our region.

Working to limit the time our customers are without water

Our aim is to provide our customers with a reliable supply of high-quality water, so we were disappointed that several significant incidents during 2022–23 left our customers without supply for a longer than average time. This has taken the average number of minutes that our customers were without water shown in hours, minutes and seconds as 01:28:10 (2022: 00:09:22), exceeding our target of 00:05:45 by a significant margin.

In June 2022, we saw a decrease in water supply interruptions compared to June 2021 and a reduction in mains bursts in the same period. Since June, we had a number of atypical bursts which affected large numbers of customers. In July, a single event on the Isle of Sheppey contributed 34 minutes to the overall year total. In December and January, two events at Hampshire Yew Hill WSR and Broadstairs in Kent added a total of nearly 45 minutes to water supply interruption.

Since these incidents, we have improved our response by focusing on better communication with customers, such as using text messages to keep customers updated during an incident. We now provide more frequent updates on social media and the website, including our incident map. By increasing resources, we have been able to respond more quickly to customers' messages and posts. We have also made sure that bottled water availability and deliveries have been improved, so we can open bottled water stations more quickly when required, as well as providing more effective delivery to our vulnerable customers.

Managing water pressure and reducing leakage

We outperformed our Ofwat target of 212 properties at risk of low pressure with 207 properties (2021–22: 210). Targeted cleaning and flushing of pipes helped keep the number of properties affected to this level.

For leakage, we recorded 108.5 MI/d (2021–22: 94.9 MI/d) against a three-year rolling average target of 90.9 MI/d, resulting in a regulatory penalty of

Our operational performance continued

Ensuring a supply of high-quality water for the future continued

£2.332 million. Unprecedented weather conditions over the drought in the summer and rapid changes in temperatures during the winter resulted in high leakage levels. We want to keep water in the network by working hard to reduce leakage.

We increased our find-and-fix teams by 20% and we are exploring new technology to locate leaks, including the use of satellite mapping. A programme of advanced pressure management schemes has been delivered, with further improvements planned over the next two years. You can read our case study on this new approach on page 58. Our approach has led to us repairing up to 500 leaks a week in 2023.

Improving the health of our assets

The percentage of production capacity lost due to unplanned maintenance work is measured in our performance commitment of unplanned outage. We outperformed our target of 7.33% for unplanned outage with 6.44% of production capacity lost due to unplanned maintenance work (2021–22: 7.19%).

Improving water supply resilience

We want to make sure that our water supply system is resilient for the future and this means limiting the number of properties at risk of long-term loss of water supply (>48 hours). We are pleased to report a reduction in the number of properties at risk at 129,111 (2021–22: 131,201). This means we outperformed on our target of 142,987 in the areas of Thanet, Brighton and the Isle of Wight. Further improvements will be driven through risk reduction schemes, with anticipated delivery in 2024–25.

The long-term supply and demand schemes address supply capacity, for delivery by 31 March 2027. We are on track to deliver schemes for the Southampton and Andover link mains, as well as Sandown water recycling scheme, East Woodhay and the other smaller transfers. We are forecasting delays on two water recycling schemes at Ford and Aylesford, and two schemes will no longer be going ahead at Shoreham and Knapps Mill. An alternative for the Shoreham

scheme is being progressed through our Water Resource Management Plan 2024, and the Knapp Mill scheme is covered by the Hampshire Water Transfer & Water Recycling project.

No customers were at risk of severe restrictions from a 1-in-200-year drought, in line with our target. This risk is measured as an average, over 25 years.

For schemes under the programme of work enhancing the safety of four reservoirs (Bewl, Darwell, Powdermill and Weir Wood), enhancements at Bewl reservoir are on track, and Powdermill does not require enhancements (as per the 2019 inspection). The Section 10 independent inspections for Darwell and Weir Wood will not be taking place until the end of this programming period, so any upgrades to these reservoirs will only take place in the next programming period 2025–30.

Our operational performance continued

Ensuring a supply of high-quality water for the future continued

Progress on our Water for Life – Hampshire programme

Work on our Water for Life – Hampshire programme has continued apace this year as we develop our plans to protect the Test and Itchen rivers by developing new sources of water.

A number of projects are included under the programme's banner, due to the amount of water needed to make up the supply shortfall we expect to experience in the area. We will need to develop a range of measures to resolve it. We are working hard to reduce leakage and improve water efficiency, but we also need to find new sources of water to use for supply.

As part of our plans, we are funding the new Havant Thicket Reservoir, which Portsmouth Water is building as part of an innovative cross-company collaboration.

Last summer we held a public consultation on our plans to supplement the spring water in the reservoir with recycled water – to make sure there is more available during a drought. A further public consultation will be held next year.

Called the Hampshire Water Transfer and Water Recycling Project, it is the largest component part of the Water for Life – Hampshire programme.

While water recycling is well-established technology, it is relatively new to the UK, so we set up a water recycling pilot plant in Havant to better understand the treatment processes involved. Thousands of water quality tests are being taken and shared with our regulators. We will publish the results of these on our website in the coming months.

We also welcomed more than 100 representatives from local councils, environmental groups and our regulators to visit the pilot plant and find out more about how water recycling speeds up the natural water cycle to provide a safe, sustainable source of drinking water.

We have plans for four water recycling plants in our region. The three other potential sites for water recycling plants are Sandown on the Isle of Wight, Ford in Sussex and Aylesford in Kent.

A look ahead – our Turnaround Plan

We are committed to improving the reliability of our sites and networks. By 2025 we aim to have improved water quality, achieving 3rd quartile performance against our peers. We will do this by:

- Putting in place new assets and improving maintenance at our water supply works. This includes the complete overhaul of our four main sites, impacting 62% of our customers.
- Using digital technology to build smart networks with new loggers, sensors and smart meters to reduce leakage and enable our teams to respond more quickly.
- Upgrading our logistics capability so we can move people and materials around faster, 24/7. This includes a new tanker fleet, storage of critical spares and an overhaul of our work management processes.
- Improving our management and control of our sites and networks through a constant review of our core systems and processes.



CASE STUDY

Ensuring a supply of high-quality water for the future

Summer 2022 and our first drought for a decade



What happened and why did we need to introduce a Temporary Use Ban in Hampshire?

“Our water resources are under pressure in the South East due to changing weather patterns and a rapidly increasing population. The entire region is classed as an ‘area of serious water stress’ by the government.

“In Hampshire and on the Isle of Wight, the situation is even more critical as we rely on the protected chalk streams of the River Test and River Itchen for much of the supply. A few years ago, we agreed with the Environment Agency to lower our abstraction permits on these rivers, which means we can take less to put into supply than ever before.

“To make sure we are prepared, we regularly update, consult on and submit a Drought Plan to our regulators, which includes a wide range of plans, interventions and temporary restrictions that we can put in place when these water sources come under pressure. In severe droughts, we can also apply for Drought Permits and Orders which allow us to take more water from underground sources and rivers and, in extreme situations, introduce restrictions on businesses and homeowners.

“In July 2022, after one of the driest years on record and months of no rain, we applied to the Environment Agency for a drought permit to continue taking water from the River Test. For the first time since 2012, we had to impose temporary use restrictions on our customers. This was to protect the environments we take water from and make sure enough water was available to keep customers’ taps running.

“We were also the first UK water company to introduce an incentive scheme for business consumers, to encourage and support them to save water – our You Save, We Pay initiative. In total, this programme helped businesses in Hampshire save eight million litres of water.

So how do we make sure that this doesn’t keep happening?

“We have a Water Resources Management Plan in place to reduce our reliance on restrictions, and we’re aiming to stop using them by 2040 at the latest. To do this, we need to find 120 million litres of extra water per day.

“There’s no silver bullet, and in order to ‘find’ this extra water, we need to work with neighbouring water companies, our customers, partners in the community and our regulators to: reduce leakage by at least 50% by 2050, using new technology and replacing old water mains; continue to help customers to reduce their use to 100 litres per person, per day; and invest in two new reservoirs, including one at Havant Thicket in Hampshire. In total, we are spending £100 million on network and supply resilience improvements to 2025.

“We’re also exploring new transfers with neighbouring water companies and how we can potentially use new technology like water recycling and desalination at sites across our region.”

Paul Riordan – Drought Manager

CASE STUDY

Ensuring a supply of high-quality water for the future



We work **24 hours a day**, seven days a week to find and **fix leaks** on our network

“Our leakage teams work 24 hours a day, seven days a week to find and fix leaks on our 13,919 kilometre water network, and it’s a huge challenge. We currently have around 185 leakage technicians fixing close to 500 leaks per week, that’s 25,500 leaks a year. We’ve also trained 21 new technicians since April 2022.

“For years we have been using acoustic loggers (used to listen for leaks), which work well on metallic pipes. These listen for leaks at night while everyone is sleeping, and help our teams identify points of interest to investigate. We also use Hy-Q sensors on non-metallic pipes, which listen to the flow of water. Some of these loggers are fixed in certain areas, and others get moved around as the team cover the network.

“We’re always looking into new technology, and we’ve started to trial using satellites to spot leaks. It’s early days as the technology is very new, but

we’re working with two companies, called Suez and Asterra to convert satellite radar signals to detect leaks – even up to three metres below the surface of the ground. The other great thing is that these satellites can scan up to 350,000 km² in one pass.

“It’s advanced technology that uses a series of filters and algorithms to interpret the data to show only ‘drinking water mixed with soil’. It then overlays it onto our network maps showing us ‘points of interest’. These satellite leak detection maps can then be displayed in an easy-to-use app, accessed on a smartphone by our teams out in the field. Our teams then carry out surveys across these highlighted areas.

“The technology was originally designed to find water on Mars so it’s exciting to see how it will help us find more leaks, faster.”

Matt Foley – Operations Manager

Our operational performance continued

Protecting and improving the environment

Outcome	Why it is important	Associated operational delivery incentive (ODI)	Performance			End of AMP target	End of AMP Status	Link to executive remuneration
			2022–23	Trend	2021–22			
Deliver great service								
Sewer flooding prevention	It is essential that our network stops homes being flooded with waste from sewers. There is strong support to ensure we continue to improve sewer flooding prevention.	External sewer flooding	✓	↗	✓	3,525	✓	Indirect
Protect and improve the environment								
Pollution	Customers want us to treat and dispose of wastewater in a way that does not harm the environment. They rightly believe we have a duty to protect and improve the environment in which we operate, and ensuring we do no harm through pollution incidents is the minimum they expect.	Pollution incidents	—	↗	—	77	✓	Indirect
		Thanet sewers	✓	—	✓	0	✓	
High-quality bathing and river waters	Our customers want to see us do more to deliver excellent bathing and river water quality. They want us to recognise the importance of this to tourism.	Delivery of Water Industry National Environment Programme (WINEP) requirements	—	—	—	Met	✓	Direct and indirect
		River water quality	✓	↗	✓	182.30	✓	
		Maintaining bathing waters at 'excellent'	✓	↘	✓	57	✓	
		Improve the number of bathing waters at 'good'	✓	—	✓	5	—	
		Improve the number of bathing waters to 'excellent'	✓	—	✓	2	—	
		Treatment works compliance	—	↗	—	100.00	—	
Combined sewer overflow monitoring	—	↗	—	100	—			

Our operational performance continued

Outcome	Why it is important	Associated operational delivery incentive (ODI)	Performance			End of AMP target	End of AMP Status	Link to executive remuneration
			2022–23	Trend	2021–22			
Protect and improve the environment <small>continued</small>								
Water resource abstraction	Customers want us to use a range of sources to provide reliable services in the future and expect removal of water from the environment to be done in a sustainable way.	Distribution input				506		
		Abstraction incentive mechanism				-15		Indirect
		Effluent re-use				0		
Renewables	We should be increasing the amount of renewable energy we use in our operations. There is a growing expectation that we should be using our own wastewater services to generate more energy as well.	Renewable generation				24.00		Indirect
		Natural capital				3		
		Satisfactory bioresources recycling				100		
Fit for the future								
Asset health	It is essential to be investing in our sewer networks, pipes and drains. Our customers want us to upgrade where we can and use innovative and sustainable solutions.	Mains repairs				87.3		Indirect
		Risk of sewer flooding				12.42		
		Sewer collapses				222		
Growth	Businesses think it is important to work with councils and developers on infrastructure. Customers recognise the challenge of new homes drawing on our network and expect us to ensure it is fit for the future.	Surface water management				39,730		Direct

Link to executive remuneration: Direct – there is a specific performance measure included within the bonus scheme that is linked to the performance commitment. Indirect – there is a link to the performance measures in the bonus scheme but that it is a component of one of the metrics used for assessing performance rather than a specific/individual metric.

Key:

- Ofwat target met or exceeded
- Ofwat target missed but performance improved in relation to prior year outcome
- Ofwat target missed and performance was worse than prior year outcome
- Improving
- Static
- Deteriorating

Our operational performance continued

Protecting and improving the environment continued

Preventing sewer flooding

We want to protect the environment from any harm caused by sewer flooding. In 2022–23, the number of external sewer flooding incidents fell to 3,748 incidents (2021–22: 3,944), exceeding our Ofwat target of 3,887 and earning us a reward of £0.7 million. The number of internal sewer flooding incidents also fell to 456 (2020–21: 614), although we did not meet our Ofwat target of 321 and incurred a penalty of £3.7 million.

Working hard to reduce pollution

We are reporting a provisional figure of 358 pollution incidents in categories 1-3 (this figure is under review by the Environment Agency). This represents a slight improvement on our performance (2021–22: 372), but still falling outside our Ofwat target of no more than 91 incidents. Following guidance provided by the EA on 21 February 2023, we also tracked five pollutions associated with spills on a dry day in 2022, reported as a shadow metric to test the use of this type of spill reporting.

As part of our pollution reduction programme, we invested in proactive maintenance of our sewerage network and have undertaken extensive research into the root causes of pollutions.

Our root cause analysis of pollutions in 2022 identified that issues with pumping station vulnerabilities and higher than expected levels of seasonal rainfall were the main cause of pollution incidents. This analysis was carried out to inform the next stage of our Pollution Incident Reduction Plan (PIRP) to prioritise and target our activities until 2025.

The PIRP strategy has laid the foundations for a continued improvement in our performance, informing future plans by showing trends from all sources, including electrical and mechanical (MEICA), blockages and bursts, as well as pollutions from sewer blockages. Our 2023 Improvement Plans are focused into three main categories containing 18 separate initiatives delivering a benefit reduction of between 126–212 pollutions.

Digitalising our wastewater network will make a significant difference to our ability to detect and even predict blockages in pipes. We have installed

23,000 sewer level monitors to send water level data back to a powerful machine-learning tool, focusing on areas where blockages happen most frequently. By analysing the data, we can mobilise sewer crews, making it easier to plan ahead and get rid of blockages before they cause pollution incidents.

We are also using technology to make sure customers can access the latest information about bathing waters, in a clear and transparent way. The Beachbuoy online spill notification service provides information about water quality events in our coastal waters and has had a number of upgrades within the year to make the information it displays easier to understand.

Keeping our sewers in good repair will help protect the environment around them. The Thanet sewer enhancement scheme – a £34.5 million rehabilitation project of century-old Thanet sewers to protect customers' home and the environment from flooding and groundwater sources from pollution – is progressing and is on track to be completed by 2025.

Maintaining and enhancing bathing and river waters across the South East

The Water Industry Environment Programme (WINEP) enhances rivers, streams, coastal waters and groundwater sources, through a variety of schemes. We met our commitments for WINEP delivery this year. In total we delivered 348 individual schemes and investigations, including:

- Seven schemes improving water quality in 20.2 kilometres of rivers in our area. This is in addition to the 82.5 kilometres of river water quality improvements we delivered in 2021–22, making a total of 102.7 kilometres and meeting our commitment.
- New event and duration monitors (EDM) were installed on 31 storm overflows this year. This means that we now report on spills made from 98.6% of our combined sewer overflows (CSOs). By the end of December 2023, we will have completed our programme to install EDM monitors on 100% of our CSOs. This is

Our operational performance continued

Protecting and improving the environment continued

in line with government requirements. Our spill reporting data is available online for our customers to access on our website.

- Delivering 81 detailed site-specific investigations about river water quality, bathing water quality, shellfish water quality and water quality in designated areas such as Marine Conservation Zones (MCZs) and Sites of Special Scientific Interest (SSSIs). We carried out these investigations working closely with the Environment Agency and Natural England. These investigations were carried out to make sure that any future capital investment on our assets is targeted to reduce environmental impact.
- Capital schemes in Southampton (at Ensign Park CSO and Millbrook wastewater treatment works) to reduce the frequency and volume of storm water discharges made to Southampton Water. These two schemes were delivered as part of a larger programme of work to improve the quality of Southampton Water. By the end of 2024, we will also be adding new storm water storage at our treatment works at Slowhill Copse, Woolston and Ashlett Creek. New ultraviolet (UV) disinfection will be carried out of the continuous treated effluent flows we release from our Slowhill Copse and Millbrook treatment works. This UV disinfection is being installed here for the first time and will be operational by the end of 2023.

Part of our WINEP delivery is the improvement programme for the water quality in 537 kilometres of rivers in our region by 2030. We met our 2022–23 target for this programme for river water quality by improving 102.7 kilometres of rivers.

As well as river water quality, we monitor bathing water quality. We have over 700 miles of coastline with a total of 84 bathing waters. We met our target for bathing water standards with 57 out of the 84 bathing waters being classified as 'Excellent', compared to 60 last year. There is no obvious reason for this decline from Excellent to Good, except possible increased beach use in this country, during the very hot summer and when the pandemic made foreign travel difficult.

Our monitoring of bathing water samples has allowed us to understand if any high concentration samples

are related to releases from assets, rainfall or particular tidal conditions. By monitoring in this way, we can identify any problems with our assets. We aim to improve the number of bathing waters classified as 'Excellent' and the number classified as 'Good'.

Under our bathing water enhancement programme, we continue to gather data at nine bathing waters to understand any sources of contamination. Part of this work includes finding misconnections, which are properties that are not connected to the main sewerage system. We then work with the Environment Agency and local Environmental Health Officers to fix them.

Our FOG (fat, oil and grease) team, and the Network Protection team, also work together to reduce releases to the environment from sewer blockages, as well as checking for any potentially defective sewers close to bathing water sites. We continue to work with a variety of local stakeholders too, liaising with local councils to get specific local knowledge on how to tackle litter, seabirds and controls on dogs. We also engage with farmers on how to reduce pollution from grazing livestock and liaise with holiday park owners to understand the integrity of their private sewerage, assets, treatment methods and disposal.

We achieved 98.22% (2021–22: 97.94%) in terms of our treatment works compliance, with a total of six failed works, one less than last year. The six failures were due to process failures recorded at these works. This performance equated to an 'amber' classification for the Environment Agency's annual Environmental Performance Assessment (EPA) as our target for treatment works compliance with discharge permits is 100%.

As a result of this and other improvements in the measures submitted for this assessment, we fully expect to receive a two-star EPA rating this year.

We currently have effective monitoring at 88% of our Combined Sewer Overflows (CSOs). The coverage for CSO monitoring is at 98.6%, however, a number of our monitors have not been transmitting correctly. In some instances it is possible to use non EDM telemetry signals to provide us with an alternative method to spot and react to operational alerts. While our target for effective CSO monitoring is

Our operational performance continued

Protecting and improving the environment continued

99%, we are on track to install them on 100% of our CSOs by the end of 2023.

The less water we take from our rivers and reservoirs, the better it is for the wildlife and the biodiversity there. The amount of clean water added to our water distribution network was 566 MI/d (2021–22: 561.33 MI/d), falling outside our target of 516 MI/d. This represents an increase of 1.89% on last year. The freeze-thaw experienced in December has impacted this measure, with increased leakage requiring more water to be put into supply. Changes in customer water use brought on by the pandemic have also continued to have an impact.

In the summer of 2022, river levels were low due to a lack of rainfall and increased water use during the hot weather. We put in place a Temporary Use Ban (TUB) in Hampshire and the Isle of Wight, to reduce customers' water use. The TUB reduced demand in these areas by 5% per day. The effects of the drought lasted beyond the summer, and we requested permission to draw more water from the Rivers Test and Itchen. We aim to take 15 MI/d less water than allowed by our abstraction licence from these rivers in September – when this performance commitment is measured due to the depth of the river being at its lowest. As a result of the drought, we did not achieve this, with abstraction at -14 MI/d (2021–22: -16 MI/d), 11.1 MI/d below the permitted maximum. This meant we incurred a regulatory penalty of £0.634 million.

We can reduce the overall demand for fresh water by making more effluent available to local authorities, businesses and farmers for re-use. The amount of effluent we have made available for direct re-use has decreased due to a significant reduction in requests for tankered final effluent. We made 82 m³ available (2021–22: 127 m³).

Increasing our use of renewables

We are committed to using renewable sources of energy where we can. We generated 13.03% (2021–22: 15.85%) of the energy we use from renewable sources this year, falling below our target of 24%. The percentage of energy produced is affected by the amount of Combined Heat and Power (CHP) generation as well as the amount of overall electricity we use, which varies according to different weather

conditions. Our CHP generation reduced due to a number of CHP failures, making the equipment unavailable, and we had to import more electricity than normal due to an increased use of pumps during the wet weather between November and January.

We have undertaken a number of energy efficiency measures, such as sub-metering our bioresources and an additional number of large assets. This enables us to evaluate asset health and look for efficiencies. We have also done some feasibility studies on green hydrogen production, proving that it was not currently commercially viable, and we are looking at a study on heat from boreholes at one of our offices.

We continue to design and develop solar sites, as well as recommissioning existing solar panels. The latest site to use solar power is Peel Common, where we have installed a 0.3MW array on the roof to generate enough electricity to power 5% of the site's needs. We have an additional 11 solar sites being designed and in development for 2023–25.

We met our target of establishing and publishing baseline natural capital accounts for three river catchments. The aim is to better understand the current condition of the environment that we own, or can influence, and the impact of our construction schemes and interventions. Read our natural capital accounts case study on page 31.

We met our target of 100% compliant sludge disposal, maintaining our Biosolids Assurance Scheme certification for a further 12-month period in July 2022. We made good progress on the construction of our first Advanced Anaerobic digestion plant, which will begin to output enhanced quality Biosolid products for the use of farmers in Sussex in 2023. We have also engaged in several constructive mutual sludge capacity trading arrangements with our neighbouring water companies, as part of the Bioresources Market established by Ofwat at PR19.

Our operational performance continued

Protecting and improving the environment continued

Going forward we:

- continue to work with the Environment Agency and colleagues across the industry on changing standards for biosolids recycling under proposed regulatory regime changes (Industrial Emissions Directive, Environmental Permitting Regulations, Appropriate Measures for the Biological Treatment of Wastes) and have increased the size of our Biosolids Compliance team to meet the anticipated challenges of this approach;
- take part in national discussions on the use of Biosolids products and support an approach that maximises net environmental gain; and
- have sought the opinions of farmers in our region about how we can improve the quality and versatility of our products and services.

Improving the health of our assets

We must keep our assets in good working order. During August and September we experienced a number of bursts, recording the highest total of monthly bursts since 2014–15. We recorded 152.8 repairs per 1,000 kilometres of our network (2022: 101.5), falling outside our target of 107.7, incurring a regulatory penalty of £3.8 million. The trend towards an increase in mains repairs was due to increased find and fix leakage activity and the persistent dry weather.

Increasing our activity by detecting leaks proactively means that more leaks, such as mains bursts, can be found, however, this increases the number of leaks overall. An increase in mains

bursts was also seen during the extended periods of dry weather, when ground movement affected assets at a time when demand for water was also likely to be higher.

We outperformed the target for the percentage of the region's population at risk from flooding following a one-in-50-year storm, with a level of 11.55% (2022: 11.50%) compared to our target of no more than 12.42%. The percentage is based on modelled predictions for internal hydraulic flooding.

The number of sewer collapses, including mains bursts, was 247 collapses (2021–22: 314). This was an improvement on the previous year, however this was not enough of an improvement to meet our target of no more than 224 collapses.

Managing the amount of surface water entering our sewers

While our performance metric for surface water drainage remains at zero, our Clean Rivers and Seas Task Force is leading a programme to find sustainable solutions to the large amounts of surface water that run off our roads into drains. Work is already underway on six projects using innovative approaches to slow the flow, particularly after heavy rainfall, with the aim of reducing the use of storm overflows when the wastewater system gets overwhelmed. The projects use a variety of sustainable drainage solutions – or SuDS – including the use of water butts, planters (household and non-household), resolving misconceptions and roadside schemes. Read more on page 68.

A look ahead – our Turnaround Plan

We are committed to improving our waste and environmental performance. By 2025 we aim to have been awarded a three-star performance rating from the Environment Agency. We will achieve this by:

- Building capacity and resilience at our wastewater treatment works to reach 99%+ compliance with treatment and permit standards. This means making sure our pumping stations and networks continue to operate effectively as our climate changes.
- Making sure our assets work to capacity. Updating our maintenance standards and proactive control to stop assets failing, and an improved emergency response.
- Digitalising our sewer network to reduce pollutions and flooding, using industry-leading monitors, artificial intelligence for prediction and maintenance.
- Improving training, development and productivity by upskilling our front-line colleagues. Making sure they are multi-skilled and externally accredited to deliver the service our customers expect.



Our operational performance continued

Our environmental disclosures

A joint project is helping schools to slow the flow of surface water. The project is funded by Southern Water and the Department for Education and aims to stop localised flooding after heavy rainfall. Nearly 50 schools are taking part across Hampshire, the Isle of Wight, Sussex and Kent. By installing water slowing technology for classroom roofs and playgrounds, excess rainwater run-off from hard surfaces can be kept from filling the sewage system too quickly. Rain gardens and rain planters will also be installed.

Increasing our focus on compliance

Our Environmental Management System is our most effective tool for managing environmental risk and is monitored throughout the year to flag compliance and performance risks. The system continues to be certified to the ISO 14001 standard and remains a successful mitigation for compliance risks in relation to waste management and control, pollution prevention, water quality, water resources, consumables (energy and chemicals), customer nuisance concerns, amenity, and global biodiversity.

Our environment policy reflects our environmental ambitions. As we rebuild trust and can evidence that compliance is just part of the way we work, we can focus more attention on our environmental performance improvement programmes.

Working to improve water quality by taking a Catchment First approach

The water reaching customers' taps continues to meet the Drinking Water Inspectorate's (DWI) stringent water quality tests, with 99.97% (2022: 99.97%) of samples meeting all the necessary standards. Our target was to achieve 100% compliance.

One of our key tasks is understanding our catchments and knowing what is happening near our drinking water abstraction points. This information helps us understand our catchments and who we need to work with to manage current and future risks to protect our drinking water quality.

To do this we carry out extensive monitoring of the environment and our water supplies. We monitor water quality at treatment works, treated water

storage facilities and customers' taps, as well as in the water environment. Using this information, we create action plans to target problems that we identify. We work closely with the Environment Agency and the Drinking Water Inspectorate to make sure customers and the environment are protected.

Our Catchment First programme puts land management at the heart of our decision-making and takes a collaborative approach to delivering long-term resilience. By looking at problems with a wider catchment-area focus we are developing truly sustainable solutions with local landowners, farmers and Wildlife Trusts, Rivers Trusts and Catchment Partnerships.

The programme includes a range of actions we committed to take as part of the Water Industry National Environment Programme (WINEP) alongside further voluntary actions following environmental best practice. We can only influence land uses and activities in our drinking water catchments by working in partnership with those who manage the land, such as farmers, industry and domestic households.

In our investigations we look for activities that could affect nearby water sources – for example, pesticides used on certain crops, livestock grazing, muck spreading and manure heaps, golf courses, industrial sites, old and active landfills, car washes, allotments – anything that has the potential to pose a risk.

To reduce the risk of nitrates and pesticides reaching our drinking water abstractions, we are working in partnership with farmers and land managers and engaging with several farmer clusters across our supply area. We are also working with Local Authorities and Highways Agency to understand road run off and using Sustainable Drainage Solutions.

Boosting biodiversity across our region

One of the key outcomes of our Environment Strategy is to improve biodiversity. In partnership with regional Wildlife Trusts, this year we completed a desktop review of our own sites.

Our operational performance continued

Our environmental disclosures continued

It looked at their current biodiversity value and helped us identify opportunities to deliver biodiversity and increase the capture of carbon dioxide. We will do this by restoring and creating habitats and connecting our sites with areas of importance for wildlife.

As part of this review, we launched our Biodiversity toolkit for our operational teams to encourage them to make small, practical changes on our sites to benefit the ecosystems around us. This toolkit, which includes advice on everything from dealing with invasive non-native species to installing bird boxes and feeders, was developed by our team of Environmental Champions.

With a wide breadth of knowledge of the water industry, our champions are now responsible for helping to:

- raise awareness and understanding of our environmental obligations and the regulations that dictate them
- assist in supporting and continuously improving our ISO 14001 Certified Environmental Management System
- support our commitment to the Environment Agency under the Water Industry National Environment Plan (WINEP) in areas such as invasive non-native species management, biosecurity and protected species awareness;
- deliver, track and monitor biodiversity enhancements across our operational area;
- help ensure our contractors are environmentally focused and working in line with our environmental expectations; and
- create a workplace that is beneficial for our mental health and wellbeing.

To increase biodiversity, we are developing a biodiversity net gain strategy, which will help us to understand and plan how we can deliver at least 10% biodiversity net gain on all new developments (Environment Act 2021). We have used our Water for Life – Hampshire programme to understand how we can meet our needs and also work with farmers and environmental NGOs on third-party land.

Our capital delivery programme must include mitigation and compensation for any unavoidable impacts on the environment, including local wildlife and habitats. In December, with our partners CMDP, we received a Gold Level award for Environmental Best Practice in the Utilities: Habitat category at the 2022 Green Apple Awards. It focused on work done to upgrade Hailsham South Wastewater Treatment Works where we improved the wildlife value of three lagoons that were due to be decommissioned.

We met our target of establishing and publishing baseline natural capital accounts for three river catchments. The aim is to better understand the current condition of the environment that we own, or can influence, and the impact of its interventions. Read our natural capital accounts case study on page 31.

We are moving towards using more nature-based solutions as part of our treatment and pollution reduction programmes. A new integrated wetland is being designed for Staplefield wastewater treatment works to help reduce nutrients (phosphate) entering the river there – this solution will deliver benefits for nature and has a lower carbon cost than traditional treatment solutions.

At Lukely Brook on the Isle of Wight we have restored the river, which had previously been moved and straightened to make space for agriculture – the work followed an initial investigation which showed our groundwater abstractions in the area were potentially impacting on the river.

This restoration returns the river to a more naturally functioning system, more resilient to low flows and drought. A number of our treatment works have old reedbed systems that we are restoring and bringing back into use as part of our wastewater treatment process to reduce nutrients and to help manage storm overflows, for example at our Lavant treatment works.

CASE STUDY

Protecting and improving our environment

Together we can improve our harbours



“Forming part of our wider environmental programme (WINEP), we’re investing £72 million to 2025 to upgrade the seven largest wastewater treatment works that release into Chichester, Langstone and Pagham harbours and nearby rivers that flow into them.

“Feeding into the wider Solent, these harbours have a high environmental importance, containing a diverse range of habitats, designated shellfish waters, SSSIs, SACs, SPAs, Ramsar sites and an Area of Outstanding Natural Beauty, among others. The area also contains groundwater sources used by Portsmouth Water to supply drinking water.

“Right now, Natural England has assessed the nature in some areas to be in an unfavourable or declining position, and we want to help to reverse this working with key partners in the area whose activities also have an impact on water quality. To do this we’ve supported the creation of a Three Harbours Project Development Manager, who reports into a collaborative Technical Working Group. This group is developing an integrated long-term plan to improve water quality, enhance natural capital, increase biodiversity and restore and connect these important habitats.

“Alongside more traditional solutions, we’re working on a series of catchment and nature-based projects. Over the past year we’ve worked with 12 farms in the Chichester Harbour area, planting 800 hectares of overwinter cover crops and completing soil surveys in over 25 fields. This has achieved an estimated reduction in nitrogen losses to the harbour of approximately 20,000kg this year.

“Alongside this we’ve supported conservation planning advice on three farms and awarded farm

capital grants on four farms supporting the costs of new equipment to improve the efficient use of fertiliser in areas that may impact on the harbour.

“We have also launched our new Community Conservation Grant for the harbours and in our first year we’ve made awards to Stansted Park Estate to plant a large area of woodland, the Manhood Wildlife and Heritage Group to plant hedgerows supporting habitat connectivity; and we’ve also contributed to the cost of a public access improvement project proposed by the RSPB.

“To better understand water quality issues and where they come from, we’re funding a three-year PhD with the University of Brighton looking at the sources of nutrients and faecal coliforms within the harbours. By sampling our assets and the harbours and rivers draining into them, we hope to better understand where pollutants are coming from – e.g. from Southern Water or private discharges, from recreational activities, from farm animals or from wildlife. The PhD started in 2022 and will complete in 2025, but we’ll use interim results to inform our work.

“Looking forwards we are taking a more holistic approach to our wastewater planning and have worked with partners to develop our plans for investment for 2025–30. Our Clean Rivers and Seas Task Force is looking to create integrated constructed wetlands at several sites to improve the quality of the water that is released and manage flows into the harbour where groundwater infiltration into our sewers is causing frequent spills. We are also planning to continue our work with farmers to deliver water quality and biodiversity benefits.”

Kate Rice – Natural Capital Strategy Manager

CASE STUDY

Protecting and improving our environment



Taking a local approach to reducing storm overflows

“Finding sustainable drainage solutions (SuDS) that will work in the local community is a team effort. We want to explore innovative, nature-based and engineered solutions to slow the flow of surface water, and SuDS can be a great solution.

“Our Clean Rivers and Seas Task Force is working with partners and stakeholders from a range of sectors to trial six ‘Pathfinder’ projects across Kent, Hampshire, the Isle of Wight and Sussex. One of the six projects is in Cornwallis Circle in Canterbury, Kent.

“At the moment, this is an area where 74 hectares of the surface is non-permeable, which means rainwater can’t soak into the ground, and it just runs off into the drains. During a typical 10mm storm, for every one hectare of non-permeable area, we’ll see around 100,000 litres of run off. That’s a lot of water!

“Working with Canterbury City Council and Kent County Council, we have been able to start developing a scheme to manage the area and install SuDS. The scheme aims to adapt the area into parkland supporting the wellbeing of the local community and wildlife, with easy accessibility and beautiful plants for everyone to enjoy.

“Designs are being prepared for public consultation before the scheme is implemented. This will be one scheme of many across the town.

“It’s a good example of how the partnerships we have been putting in place can have a positive impact on the whole community.”

Nicole McNab – Strategic Communications and Partnership Delivery Lead

Our operational performance continued

Enabling and empowering our people

The health, safety, security and wellbeing of our colleagues is a necessity

We want to make sure everyone puts health, safety, security and wellbeing at the forefront of everything we do. This will require a cultural shift in how we behave across the business and is a key outcome for the Health and Safety Transformation Programme. Our new company value – Working with Care – supports this cultural shift and goes hand in hand with the programme to make sure safety is, and remains, a core focus for us all. To embed this new value, we created an engaging internal communications campaign, which was rolled out from April 2023.

Over the past year, our strategic Health and Safety Transformation Programme has been gathering pace, with some elements already being delivered by our operational teams. The programme covers six broad areas:

- An updated Health and Safety Management System – All the guidance and documentation to keep our teams healthy and safe while at work. From procedures and processes built with our own subject matter experts to golden rules and life-saving habits for all our colleagues and supply chain partners.
- A new Health and Safety data system – Making reporting of accidents, near misses and observations easier than ever. Harnessing the power of this live data enables us to share best practice, monitor and mitigate risk and learn together.
- An enhanced Health, Safety, Security and Wellbeing team – Growing the team to ensure we have the right people in the right place to make these changes last and to support our new approach.
- Improved Health and Safety training – From an immersive state of the art behavioural training experience for all our colleagues including our supply chain to refresh our safety culture, to professional and recognised qualifications in workplace safety for our leaders – we are investing in our people at every level and across the business.

- Latest equipment and digital tools – We are investing in tools that make the steps to good safety simple, quick and accessible. We have a suite of tools and resources to support every colleague from the frontline to our offices. These include artificial intelligence learning support with risk assessments and work activities, to gas detector and lone working equipment with added security features. All colleagues will have easy access to a wealth of health and safety information on our new Health and Safety Hub.
- Internal and external communication – Safety is our priority and we want to talk about it. From the lessons learned to proactive support, learning and sharing of best practice, knowing what good looks like and starting every meeting with a safety moment. Good communication is key to embedding this culture change.

The transformation programme is already beginning to deliver and some of the early work on putting safety first and training our staff is beginning to yield positive results.

A key measure of our progress has been a reduction across the business of over 20% in our Lost Time Injury Accident Frequency Rate. This is a comparison of the number of accidents, which result in staff being off work with the number of hours worked. In the past 12 months we have seen this drop from 0.39 to 0.30, exceeding our initial target. Some of the projects or initiatives that have contributed to this change include our Point of Work Risk Assessment, our Site Standards scheme and the new Safety Reporting system.

Security and wellbeing are also very important to the business. We have already conducted a strategic review of wellbeing and are in the process of building both the Wellbeing and Security teams. A security review will be conducted early in this financial year, following the full review of our security infrastructure conducted in March 2023. The team have already begun to develop security golden rules and best practice guides.

We recognise the importance of the wellbeing of each and every one of our team members. It is why we have resources like our Employee Assistance Programme, Unmind, the Bupa Health Cash Plan

Our operational performance continued

Enabling and empowering our people continued

and guidance we share throughout the year to get those important conversations started.

Focusing on diversity and inclusion

We want to provide an inclusive workplace for everyone to bring their best and authentic selves to work every day. For the third year in a row, we have been ranked in the Top 50 Inclusive Companies, progressing to 44th place this year. This improvement in our ranking shows our continued commitment to Equality, Diversity and Inclusion (ED&I).

With our drive to welcome diversity and encourage inclusion we have also launched mandatory inclusion training for all colleagues, helping them to understand how to create a culture of inclusion in the workplace.

Making sure we have an inclusive culture includes our recruitment processes. We want to make sure that our approach to diversity and inclusion is visible from the moment that people consider our company as a possible employer, and once an offer to join us is accepted, new joiners are sent an induction pack that contains information about our values, our approach to ED&I and references to our key policies.

With the aim of being free from bias, we introduced a 'Licence to Hire' for all hiring managers so that we are embracing a diverse workforce that is reflective of the communities that we serve. We are also working to make diverse interview panels a business-as-usual approach.

To support to colleagues, we now have five employee resource groups and are planning more. The new Menopause group joins our four existing support groups: LGBTQ+, Neurodiversity, Women's Network and Working Parents. The groups hold activities, not just for the rising number of colleagues joining them, but for the whole company to take part in, with motivational speakers and partnerships.

Our LGBTQ+ group welcomed comedian Zoe Lyons and hosted a drag queen fundraiser with Ophelia Payne for Mindout. We were pleased to welcome a guest speaker during Pride month talking about their experience of becoming transgender and we celebrated National Inclusion week with a range of guest speakers. The Menopause group organised

a company-wide webinar, partnering with Talking Menopause and our Neurodiversity group hosted a motivational speaker sharing her experience as a neurodiverse wheelchair user.

In line with our pledge, signed to support colleagues experiencing the menopause, a support group has been set up to provide a resource for colleagues and managers. We will also be rolling out our allyship and banter awareness training to our management community.

Our Gender Pay Gap Report (southernwater.co.uk/our-performance/reports/gender-pay-gap-reports) shows that the median pay gap remains in favour of female employees at -3.32%, and the bonus gap has seen a reduction from 16.1% to 14.95% in favour of male employees.

Our ambition is to make sure that by 2030, 35% of our workforce are women, 35% of our managers are women and 11% of our workforce are from a minority ethnic background. This year we welcomed seven graduates onto our Management Graduate programme, with a gender ratio of 37% women. As part of our celebrations for International Women's Day and continuing to build our Gender Action Plan, we launched a partnership with Women on Boards, which aims to help shape the future Board members' careers.

We are developing talent

We are committed to empowering our colleagues with Learning and Development opportunities that help people improve their skills and gain new knowledge and insights. Over the past year, we spent £1.5 million on structured training and development offerings for our colleagues. Our colleagues also have access to mentors, on the job training and opportunities to work on different projects or tasks that will help them to expand their skills.

The percentage of our employees currently being supported to take advantage of both formal and informal learning has increased by 3% to 21%. We also offer people access to 50 different apprenticeship standards, that cover both entry level and upskilling qualifications. Last year, we saw 166 of our people studying an apprenticeship standard. We

Our operational performance continued

Enabling and empowering our people continued

had 285 colleagues undertaking informal training and 111 colleagues taking formal training.

We introduced our new Inspire Leadership Programme for frontline, middle and senior managers this year and welcomed seven graduates onto our Management Graduate programme.

A great place to work

We want all our colleagues to be able to bring their best selves to work, so equality, diversity and inclusion (ED&I) are key. Creating and maintaining this positive culture and mindset means making sure colleagues see our company as a great place to work where they feel they belong and are able to be their authentic selves at work.

We measure engagement among our colleagues using regular engagement polls and pulse surveys. We had a 79% response rate for the latest annual engagement survey with 62% of colleagues rating their satisfaction at four or five, out of five. Our strongest result was 'My manager cares about my wellbeing' which was at 4.31 out of five, showing that our colleagues feel cared for. We share the results with our colleagues and use the scores to encourage teams to address any particular issues.

As for the day-to-day engagement, flexible working practices have now been embedded in the company, helping with work-life balance. Our Stars recognition scheme continues to acknowledge and reward colleagues for their hard work, culminating in an Annual Star Awards event, with prizes given in a variety of areas including Helping the Community and Succeeding Together.

Meeting the needs of our supply chain partners

We recognise the importance and reliance we have on our supply chain in terms of innovation, water security, managing risks, corporate and social responsibility, and operational efficiency. Our partners act as the face of our business for many customers and communities. It is vital that we foster, cultivate and nurture the relationships we have with them, so they remain connected to, and understand, our business priorities and culture.

As part of our strategy to enable this, we have developed a Supplier Relationship Management (SRM) Framework, the goal of which is to foster an environment in which we work in collaboration, build trust, encouraging open and honest communication. We want to be seen as a client of choice through our practices and behaviours, consistently positioning ourselves to receive preferential access to resources, ideas and the latest innovations.

The framework is organised around a set of design principles, informed by British Water Survey results. It includes a more detailed management diagnostic, an internal review of our supplier enablement capability and an independent assessment through a 'Voice of the Supply Chain' exercise. Principles include:

- Creating a system of governance to make sure there is regular engagement between all stakeholders.
- Providing an environment where constructive 360-degree feedback is gathered and shared.
- Promoting excellence by highlighting new areas of value and introduction of new initiatives.
- Recognising contributions and celebrating success.

Elements of the framework exist, having been rolled out as part of our current procurement programme. New framework elements will be rolled out during the remainder of this five-year investment period to allow content to mature and develop ahead of the next (2025–30). These "new" elements include:

- Performance benchmarks using a consistent set of metrics.
- Joint business plans to underpin engagement.
- Supplier Awards Programme to recognise success.
- Creation of open collaboration forums to better direct and harness our partners' creative efforts.

Our operational performance continued

Enabling and empowering our people continued

Volunteering

All our employees have the opportunity to use two of their working days per year to volunteer in the local community. A total of 2,534 hours of employee volunteering took place within the year (2022: 1,438) and this included our teams' manning roadshows and working with charity partners across our region.

Our team of Community Ambassadors aim to support communities proactively and be visible and available to answer any questions they might have about our sites and networks, sustainable water use, leakage or problems with their bills or making payments. They also promote our priority services to those who might need to join our register. Over the past year, our ambassadors have engaged with almost 8,000 customers at 28 locations across the South East.

As part of our volunteering programmes this year teams have supported:

- Tree planting at Brooklands park and lake in Lancing and Cliff Gardens Seaford community partnership in Seaford.
- Wetlands restoration in partnership with Kent Wildlife Trust and South East Rivers.
- Removing invasive species habitat maintenance at Pagham harbour with RSPB.
- Helping with building renovation for Turning Tides who help fight homelessness.
- An army of volunteers were out collecting litter from five beaches on the Isle of Sheppey by supporting the Sheerness town team.

A look ahead – our Turnaround Plan

We are committed to creating a safe working environment with empowered and supported colleagues. By 2025 we aim to have achieved a 0.2 lost-time injury rate. We will have achieved this by:

- Improving the safety of our colleagues with the introduction of a new mobile risk safety app.
- Working with care to embed health and safety as a key way of working with upskilling, training and onboarding programmes.
- Managing our compliance through new systems, inspections and assurance.
- Supporting our colleagues to achieve our commitments through our Inspire Academy, internships and a graduate programme to make sure we upskill and develop each individual.



CASE STUDY

Enabling and empowering our people



Using immersive experiences to provide **groundbreaking** health and safety training

“We’re working on a new way to offer health and safety training, through an immersive experience that means you can observe and practice challenging safety behaviours in a realistic environment.

“My work in the Health and Safety Transformation Programme team has given me the chance to experience it first-hand. It allows you to be part of realistic environments and characters, and group workshops where safety-related behaviour is discussed and applied.

“It’s really something different. When you take part, you get a greater understanding of how external factors can affect how switched on someone is for work on any particular day. Also how team members with a singular rather than holistic view can multiply the pressures to deliver at any cost. It’s so realistic as you get the chance to interact with the characters advising them on the right course of action to take.

“In the workshops you can explore how everybody’s behaviours and actions affect the outcomes of

events and you are given a selection of tools to instil good safety culture and behaviour in yourself and others, making everyone a safety leader

“Finally, you get to apply these methods, seemingly in the real-world. The realism of the experience and the opportunity to make a tangible difference to a series of events was very powerful.

“We’re all stakeholders in safety, so this training will be delivered to all of our colleagues and our supply chain partners.

“The ultimate goal of our Health, Safety, Security and Wellbeing team is to help make sure we all get home safe and well at the end of the day. And this training is about giving our colleagues a first-hand experience of how everybody’s actions can affect safety at work and home, as well as helping to give them the tools to contribute to continuously developing a safety culture in all corners of the business.”

James Hills – Health, Safety, Security and Wellbeing Assurance Adviser

CASE STUDY

Enabling and empowering our people



A Women’s Network for everyone

“Our Women’s Network is a place where colleagues can talk openly, build relationships, and are listened to. All gender identities are welcome to join, and we want to reach as many colleagues as possible through our regular meetings and online Teams channel.

“One of the main aims of our network is to help members develop their skills. Whether they’re building confidence, gaining more presence in meetings or doing self-defence, it’s important for our colleagues to have a space where they feel comfortable to develop themselves and talk to other like-minded individuals.

“When I became Chair of the Women’s network in 2022, I was keen that members could take part to develop relationships, boost their confidence and

develop their skills. We put together a programme of activities including guest speakers, and we decided to hold our first Women’s Network conference in April 2023.

“At the conference, over 100 of our members joined us to network at the market stalls, where themes such as women’s health and nutrition were discussed. There were also inspirational speakers and a panel discussion on ‘how to attract women to a male dominated industry’.

“With over two hundred members and growing, it’s great to see this network thriving and supporting colleagues from across the business.”

Cath Jeffery – Head of HR

Our operational performance continued



Our approach to **climate change**

As we have already highlighted in this report, climate change impacts, amplified by population growth present huge challenges, particularly in the South East. This is why they are both listed as principal risks to our ability to operate. Mitigating their impacts will make sure that we are able to maintain high-quality, resilient services for our customers in the future.

An increase in the frequency of drought is one negative impact of climate change we are already experiencing. The beginning of 2022 was one of the driest years on record (for the past 131 years), and river flows were approximately 25% lower than they should have been. As a result, in Summer 2022 we introduced drought restrictions across part of our region, in Hampshire and on the Isle of Wight. A Temporary Use Ban was in place from 5 August 2022 to 4 November 2022. Our Drought Plan sets out how we would deal with a drought in our region and is regularly updated to make sure that we can maintain supplies of drinking water to our customers

while minimising the impact on our rivers and the environment during drought events.

In 2023 we are voluntarily adopting the Task Force for Climate-related Financial Disclosures (TCFD) reporting recommendations and Guidance for All Sectors for UK large private companies and have enhanced our disclosure on the risks that climate change poses to our business.

The following sections address how we incorporate climate change into our governance processes, the potential impact on our business model, strategy and financial planning, the risk management processes, and the climate-related metrics and targets we use. The sections and subsection headings correspond to the four thematic areas and 11 recommendations of the TCFD framework. Given its complexity, and to aid readers of the accounts, at the end of each section we provide links to further disclosures that can be found separately on our website.

Our operational performance continued

TCFD index table:

Recommendation	Recommended disclosures	Disclosure level	Reference (Annual Report)	Reference (other reports)
1. Governance Disclose the organisation's governance around climate-related risks and opportunities.	a) Describe the board's oversight of climate-related risks and opportunities.	Full	Strategic Report <ul style="list-style-type: none"> Our approach to climate change: Governance, pages 77 to 79. Engagement with stakeholders, pages 33 to 39. Financial performance <ul style="list-style-type: none"> Risk oversight and governance, pages 122 to 123. 	
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	Full	Governance <ul style="list-style-type: none"> Remuneration policy, applicable in year (unaudited), pages 189 to 201. 	
2. Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Partial		Net Zero Plan Climate Change Adaptation Report, 2021 Long-Term Priorities
	b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning.	Partial	Strategic Report <ul style="list-style-type: none"> Our approach to climate change: Strategy, pages 79 to 84. 	Draft Water Resources Management Plan Drainage and Wastewater Management Plan
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a two degree or lower scenario.	Partial		
3. Risk management Disclose how the company identifies, assesses, and manages climate-related risks.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	Full		Draft Water Resources Management Plan Drainage and Wastewater Management Plan
	b) Describe the organisation's processes for managing climate-related risks.	Full	Strategic Report <ul style="list-style-type: none"> Our approach to climate change: Risk management, pages 85 to 86. Financial performance <ul style="list-style-type: none"> Risk management approach, pages 120 to 121. 	Drought Plan Climate Change Adaptation Report, 2021
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Full		
4. Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Partial		Annual Performance Report, 2023
	b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Full	Strategic Report Our approach to climate change: Metrics and targets, pages 87 to 92. Streamlined Energy and Carbon Report (SECR), pages 93 to 95.	Net Zero Plan Sustainable Bond Impact Report 2022
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Full	Our operational performance, pages 42 to 95.	

Our operational performance continued

Our approach to climate change continued

Governance

TCFD recommendations: disclose the organisation's governance around climate-related risks and opportunities:

- A. Describe the Board's oversight of climate-related risks and opportunities.
- B. Describe management's role in assessing and managing climate-related risks and opportunities.

Board oversight

Our Board has ultimate oversight of our consideration of climate-related risks and opportunities and scrutiny of management's identification, assessment and management of these risks and opportunities. Our principal risks statement includes climate change, and the Board reviews this annually. It considers climate-related issues when reviewing our plans, risk profile and principal risks and performance. This year the Board was updated on climate-related issues at least twice during the year, regarding our Water Resource Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP), and climate-related Outcome Delivery Incentives (ODIs) and performance commitments.

The Board approves governance arrangements for climate-related issues, including delegating to committees specifically discussing them. This includes the Audit Committee and the ESG Committee. The Audit Committee meets quarterly to maintain oversight of our reporting, internal controls and management system, and compliance. It discussed climate change-related issues concerning our regulators views on, and assurance of our WRMP and DWMP during the year.

The ESG Committee meets quarterly to support delivery of our ambitions, performance and plans related to material ESG matters. Climate change has been one of four focus areas during the past year, and the committee has discussed climate change matters, including our net zero carbon progress, climate adaptation activities, and natural capital on four occasions.

Executive management

Executive management, and its Executive Committee have day-to-day accountability for climate-related issues. The executive is supported by an Environment Steering Group. This was established during 2022 and is sponsored by executive members. Its purpose is to facilitate an effective response and deliver solutions to environmental matters across the business. Members include cross-function representatives from across the business, including executive management, asset strategy, and catchment management. This Steering Group is supported by an Environmental Working Group.

We engage with customers and stakeholders to understand their expectations on climate-related issues. This includes discussing our plans with members of our Independent Climate and Environment Group (ICEG) established in 2022, and our Customer and Communities Challenge Group (CCCG). These Groups also provide feedback to the executive and to the Board's ESG Committee.

Our operational performance continued

Climate-related governance framework:

Board of Directors			
Board delegates certain responsibilities to its committees.			
Audit Committee	Nomination Committee	Remuneration Committee	ESG Committee
Executive Committee (ExCo)			
Day-to-day running of our company by our executives, including matters related to ESG. The executive delegates oversight of certain climate-related matters to its committees.			
Risk Committee	Performance Committee	Investment Committee	Environment Steering Group
Independent stakeholder groups			
Independent Climate and Environment Group		Customer and Communities Challenge Group	

The Investment Committee, chaired by our Chief Finance Officer, considers climate-related matters as part of its decision making. During the year carbon risks, opportunities and values were embedded into our Risk and Value business planning process.

The Risk and Value (R&V) process is designed with the intention of delivering the best value for money for Totex (total expenditure) and whole-life cost (WLC). The R&V process is six stages; checkpoints that act as technical milestones to support investment decision points within our Asset Lifecycle Process (ALP). The ALP is the sequence of stages that our assets go through during their lifetime. The forecast operational and embedded carbon emissions of a potential investment project have been embedded in the R&V project scorecard and are used to inform investment decision-making. For more see our business model, page 22.

Climate-related risks are also considered by the Executive Risk Committee, which consists of our executive and cross-function senior management representation and is chaired by our General Counsel. Each directorate maintains a risk profile, which is reviewed quarterly by the Executive Risk Committee. The committee reviews climate change risks as part of its quarterly review as part of our ERM radar.

Identified climate-related risks are incorporated in our enterprise risk profile and managed by appropriate business areas. Progress against our net zero target is reported to the Environment Steering Group and Executive Committee. Climate-related disclosures in our annual report are reviewed by the ESG Committee and require approval of the Audit Committee.

Climate-related issues are documented in several of our regulatory plans including our DWMP, WRMP and operational resilience plans. These plans are considered by the PR24 Committee, which consists of our executive and cross-function senior managers and is chaired by our Chief Financial Officer.

Senior management and employees are incentivised to deliver on our ambitions in relation to climate-related issues. Objectives are applicable to all employees including executive management and are based on a range of stretch targets, with performance-related remuneration measures focused on climate-related matters including leakage, flooding and pollution incidents. Progress against these measures is monitored by the Performance Committee.

Our operational performance continued

➔ For more information:

On how we engage with stakeholders, pages 33 to 39.

On the governance of enterprise risks, pages 120 to 132.

On the sustainability and climate-related discussions held at Board and its committees, pages 157 to 159 and 179 to 180.

On our performance targets for this year and how they relate to directors' remuneration, pages 184 to 201.

Next steps

We will review governance of climate-related matters across the business, including expanding our risk and value process to consider carbon across all the gateways of our investment decision-making process.

Strategy

TCFD Recommendations: Disclose the actual and potential impacts of climate-related risks and opportunities in the organisation's business, strategy, and financial planning, where such information is material.

A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Overview of our approach

Our climate-related strategy has two approaches: mitigation aims to reduce the causes of climate change, while adaptation involves adjusting our decisions and activities to the changing climate.

Mitigating the causes of climate change: We have responded to the climate emergency by committing to reach the industry target of net zero carbon for the emissions associated with operating our services by 2030. We see this as an interim target on the path to achieving net zero emissions by 2050, aligned with the government's target. See page 89 for more on our net zero roadmap.

Adapting to a changing climate: Mitigation alone will not ensure resilience to the physical changes that will occur from the predicted future of warmer, wetter winters and hotter, drier summers. Even if the Paris Commitment goals of limiting global temperature increase to 1.5 degrees centigrade is met, we will face further changes to our climate to 2050 and beyond. We have continued to assess the resilience of our services to our changing climate, following publication in 2021 of our third risk assessment report to the Department for Environment, Food and Rural Affairs (Defra).

Read our Climate Adaptation Report at: southernwater.co.uk/our-performance/reports/climate-adaptation-consultation.

Our existing plans looking at the long-term impacts of climate change include our Resilience Action Plan, WRMP, Drought Plan, and DWMP. These plans consider a range of short and long-term time horizons. These reports are available on our website. As part of our business planning for 2025–30 we are reviewing these plans, and the underlying assessments and assumptions made.

We are working to understand how we, as a landowner, can maximise opportunities to mitigate climate change and encourage stakeholders to do likewise. Our strategic land management plan is seeking to consider the multiple potential benefits from how we use the relatively limited land we own, such as carbon sequestration, biodiversity and natural capital and ensuring the future operational resilience of services to our customers. We have also considered how our sites connect with other sites and habitats within the landscape, to enable habitats and species to better adapt to climate change.

Our operational performance continued

Our climate-related risks and opportunities

We have identified climate change as one of our principal risks and apply an ongoing, iterative process to assess and manage the range of risks and opportunities. These are typically considered as part of a broader range of factors, to understand how they interconnect and impact our business.

We consider a variety of time horizons as part of our climate-related risk assessment processes, and these broadly align with our planning horizons. See the table below, and read more on page 32.

In addition to climate change itself being identified as one of our principal risks, it also has the potential to impact several of our other key risks. Most notably these are: our ability to provide customers with access to a supply of high-quality

drinking water, now and in the future, and ensuring the capacity and resilience of our wastewater assets to effectively remove and treat wastewater.

The following tables summarise our climate-related key risks and opportunities and refers to published documents that contain more detail on our climate change processes and management plans, including risk assessments. There has been no material impact identified on the financial reporting judgments and estimates. It is expected that any impact identified through our business planning processes would materialise over a longer period of time, rather than a single year, no impact from this was identified in the current year. See page 228 in the Financial Statements for more on climate change financial considerations. For more on our approach to identify and manage risks, see pages 120 to 132.

Broad planning horizons			Time horizons of our specific plans
Short term	One to two years	Imminent risks requiring a tactical response.	Operational resilience plans: 70 years Water Resource Management Plan: 50 years
Medium term	Five years+	The five-year business planning cycle set by our regulator, Ofwat.	Drainage and Wastewater Management Plan: 25+ years Drought Plan: Five years
Long term	25 years+	Risks related to our longer-term priorities and strategy.	Pollution Incident Reduction Plan: One year

Our operational performance continued

Our approach to climate change continued

Acute and chronic physical risks and opportunities	Drivers of risks and opportunities	Potential impacts on our business	How we are managing and mitigating the risks
<p>Ability to provide customers with access to a supply of high-quality drinking water now and in the future</p>	<p>Short to medium term: Reduced water availability and higher demand due to chronic higher temperatures, with drier and hotter summers, and an increased frequency of drought.</p> <p>Medium to long term: Impacts on infrastructure and increased risks of contamination due to increase in number and severity of storms and floods.</p>	<p>Accelerated asset deterioration.</p> <p>Supply of water fails to meet demand.</p> <p>Financial penalty and reward position.</p> <p>Further investment in infrastructure and incident management.</p>	<ul style="list-style-type: none"> Comprehensive modelling and short- and long-term plans feed into our five-year asset management plans and capital investment programme: Water Resources Management Plan (WRMP) forecasts how much water we will need in the future and proposes options to make sure we have enough. Operational resilience framework and action planning to improve asset, system and service resilience and organisational capability monitoring. Drought Plan outlines the steps we would take to make sure we can maintain supplies of drinking water to customers during drought events. Water for Life Hampshire Phase 2 plan – a Strategic Resource Option (SRO) in our Western Area. Incident preparedness and management planning to provide a continuous service to customers. Target 100 water-saving customer engagement programme to encourage reductions in demand. Increasing catchment resilience by working with farmers to protect and enhance natural capital and deliver a range of ecosystem services, including improved water quality.
<p>Ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater.</p>	<p>Short to medium term: Increase in volumes of water entering the system due to increased intensity and frequency of storms.</p> <p>Drought/reduction in rainfall and temperature increase the risk of blockages and internal and external flooding.</p> <p>Long term: Increase in sea level and risk of river flooding of assets.</p>	<p>Accelerated asset deterioration.</p> <p>Financial penalty and reward position.</p> <p>Further investment in infrastructure and incident management.</p> <p>Pollution event fines or other penalties.</p>	<ul style="list-style-type: none"> Comprehensive business plans, including DWMP and operational resilience planning that feed into our business plans and capital investment programme. Drainage and Wastewater Management Plan (DWMP) assesses and plans for future investment needs across our region, 11 river basin catchments, and 61 of the highest risk of our 381 wastewater systems. Pollution Incident Reduction Plan details programme of activities to reduce pollution incidents to zero by 2040, including adapting to changing weather patterns. Incident preparedness and management planning to provide a continuous service to customers and protect the environment. Clean Rivers and Seas Task Force driving Pathfinder projects to manage surface water flooding and reduce storm overflow releases, including sustainable drainage systems SuDS and wetlands.
<p>Ability to protect and enhance natural capital across our region.</p>	<p>Medium to long term: Increased run-off and higher volumes of water, leading to pollution of rivers and seas.</p> <p>Drought/reductions in water leading to impacts on habitats and species.</p>	<p>Financial penalty and reward position.</p> <p>Pollution event fines or other penalties.</p> <p>Stakeholder expectations not met.</p> <p>Less resilient assets.</p>	<ul style="list-style-type: none"> Programme engaging with farmers and other stakeholders to improve the water sources we rely on. Ecologists within business focused on opportunities to enhance biodiversity and comply with Biodiversity Net Gain. Measuring and evaluating our natural assets by catchment to understand the state of our land and water sites and help prioritise improvements. First three baseline accounts published, Draft WRMP adaptive planning approach represented a range of future scenarios. Environmental assessment included biodiversity net gain and natural capital. Options included nature-based solutions. Our plans under the Water Industry National Environment Programme (WINEP) for water and wastewater, including increasing focus on catchment and nature-based solutions.

Our operational performance continued

Transition risks (by TCFD risk type)	Risk description	Potential impacts on business	How we are managing and mitigating the risks
Policy and Legal	Medium to long term: Changing public sentiment driving changes in regulatory targets, permits, licenses, and enforcements, leading to increased non-compliance.	Financial penalty and reward position. Increased risk of fines from non-compliance. Increased cost of carbon emissions, such as a carbon tax.	<ul style="list-style-type: none"> Strong engagement programme with regulators, MPs, and other stakeholders. Engagement with our partners and supply chain to support delivery of our ambitions. Governance framework including policies and risk management, that document accountabilities, processes and policies to aid decision making during business planning and delivery.
Technology	Medium to long term: Emerging technologies, creating operational risks including changes to skills required and operational ways of working.	Investment in new technologies, skills enhancement and new ways of working.	<ul style="list-style-type: none"> Bluewave. Our research, innovation and development lab. Engagement with our partners and supply chain to support delivery of our ambitions. Work includes pilots for the monitoring and extraction of process carbon emissions.
Market	Medium to long term: Changes in energy market and management, including cost increases, additional taxation, decarbonisation of fuel sources.	Increased costs. Increased focus on self-generation. Investment in new infrastructure.	<ul style="list-style-type: none"> Energy and fleet strategy and market, monitoring part of net zero roadmap. Engagement with our partners and supply chain to support delivery of our ambitions.
Reputation	Medium term: Changing customer sentiment on the pace and scale of ambition and solutions.	Further investment required. Investment funding challenged.	<ul style="list-style-type: none"> Strong customer insights, engagement and consultation programmes. Publishing our long-term plans including decarbonisation and adaptation, such as our WRMP.

Opportunities (by TCFD risk type)	Opportunity description	Potential impacts on business	How we are realising the opportunities
Resource efficiency	Short to medium term: Technology innovations and changes in customer sentiment supporting improvements such as water demand reductions. Leakage reduction, and circular economy e.g. water recycling.	Effect financial penalty/incentive position.	<ul style="list-style-type: none"> Target 100 commitment and programme to support customers to reduce personal daily water use to an average of 100 litres each per day by 2040. Leakage reduction programme. Identifying alternative water sources, such as water recycling projects.
Energy source	Medium to long term: A shift to low emission energy sources; technological, planning, infrastructure and policy changes.	Effect financial penalty/incentive position.	<ul style="list-style-type: none"> New framework with suppliers supporting a solar panel installation programme across some of our sites. Business planning for fleet transition to electric and other low-carbon fuels.
Products and services	Short term: Support for customers to reduce their water use. Medium to long term: Supply chain carbon reductions. Water recycling.	Effect financial penalty/incentive position.	<ul style="list-style-type: none"> Target 100 commitment and programme. Customer meter installation programme.
Markets	Medium term: Escalation in sustainable bonds and other financial instruments.	Effect financial penalty/incentive position.	<ul style="list-style-type: none"> Sustainable Finance Framework.
Resilience	Medium to long term: Ensure ongoing security of water supply. Enhancing asset resilience.	Effect financial penalty/incentive position.	<ul style="list-style-type: none"> Operational Resilience assessments and planning. Adaptive pathways for business planning.

Our operational performance continued

Our approach to climate change continued

How climate risks inform our business planning

Being resilient to the changing climate is critical for us to deliver services to customers. So, it is vital we understand the risks, so we can plan and adapt to the future. Responding to climate-related issues is embedded in our vision, policies, and long-term business plans. We are also working to better embed these issues in our investment decision-making processes.

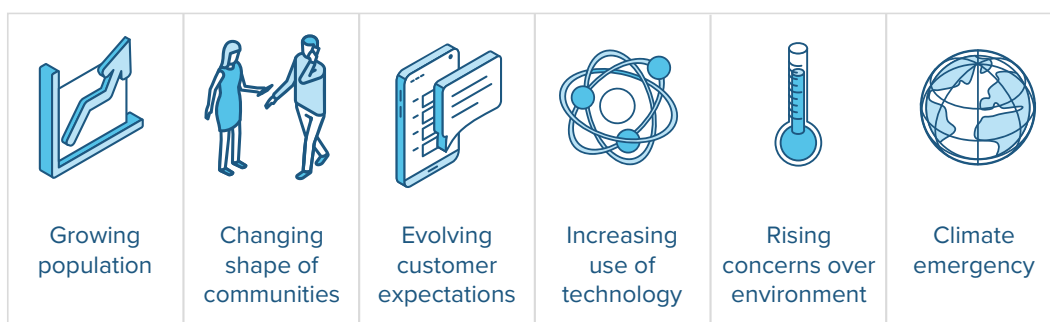
Earlier in 2022 we published our Long-Term Priorities, consulting on our plans for providing water and wastewater services, and what our priorities should be in the medium term. The document presented our views on key trends and resulting challenges, as well as opportunities that will influence the future and our priorities in response, which will guide our future business planning and strategy. We are developing our priorities and plans, learning from the consultation feedback and the results of our adaptive planning and scenario assessments. This will inform our business plan for the period 2025–30.

Our Long-Term Priorities (published June 2022)

Our long-term strategy and business planning is informed by regular studies which consider longer-term horizons and external trends and challenges. Our Water Resource Management Plan (WRMP) has now been refined and submitted for further consultation. Our updated WRMP will be published later in 2023, and we will outline any key changes to our plans in our Annual Report for 2023–24.

We have assessed a range of climate scenarios to look at the impacts on water supply, specifically examining rainfall and evapotranspiration, and incorporated this into our planning. Our assessment approach aligns with that followed by all Water Resources South East companies and modelling includes use of UK Climate Projections 2018 (UKCP18) climate scenarios that are based on the on the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) climate scenarios, specifically RCP8.5 (the highest baseline emissions scenario) and RCP2.6 (the lowest baseline emissions scenario).

Trends



Challenges



Our operational performance continued

We also published our Drainage and Wastewater Management Plan (DWMP) in May 2023, and will report further on how this plan is progressing in our annual report for 2023–24.

Our approach to assessing the impacts is set out by Water UK guidance, which includes IPPC RCP climate scenario RCP8.5 and RCP2.6. Modelling focused on the impacts related to flooding, storm overflows and on wastewater assets such as risk of sewer collapse or rising main bursts.

Our plans to ensure operational resilience also consider climate change impact scenarios. These plans build on the qualitative adaptation risk assessment undertaken in 2021 and have assessed

the susceptibility of around 18,000 of our operational assets to the potential impacts of climate change.

The review considered the latest UK Climate Predictions, in UKCP18, to assess vulnerability to six shocks and stresses: flooding risk, coastal erosion, heat, subsidence, saline intrusion and risks to natural capital. We are now finalising our mitigation plans for a refined list of sites that will be included in our business plan for 2025–30.

Note 2 of the Notes to Financial Statements includes critical accounting judgments related to climate change in the context of the assessments described here. See page 228.

➔ For more information:

On our decarbonisation transition plan, visit:
southernwater.co.uk/our-story/our-plans/net-zero-plan.

On our third-round climate adaptation report, published in 2021, visit:
southernwater.co.uk/media/8259/5670_climatechangeadaptation_2021_v13.pdf.

On our longer-term trends, challenges and priorities, visit:
southernwater.co.uk/media/7224/5951_long-term_strategic_plan_v12.pdf.

On our plans to secure water out to 2075, visit:
southernwater.co.uk/our-story/water-resources-management-plan.

On our plans to secure a resilient drainage and wastewater system, visit:
southernwater.co.uk/dwmp.

Next steps

We will share further details on our climate-related scenario assessments through the publication of our business plans in October 2023. We will continue to evolve our understanding and reporting of how specific climate-related issues potentially arise over specific time horizons, and how we determine which risks and opportunities could have material financial impact.

We will further develop our long-term decarbonisation plan, including gaining a better understanding of our Scope 3 emissions and embodied carbon, to enable us to produce a more accurate and complete picture of our entire footprint. This insight will help us engage with our supply chain to identify opportunities to reduce emissions. Finally, we will work to expand embedment of carbon impact considerations across all investment decision making.

Our operational performance continued

Our approach to **climate change** continued

Risk management

TCFD Recommendations: Disclose how the organisation identifies, assesses, and manages climate-related risks.

- A. Describe the organisation's processes for identifying and assessing climate-related risks.
- B. Describe the organisation's processes for managing climate-related risks.
- C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

We operate an Enterprise Risk Management (ERM) process that is a core component of our governance and internal control framework. It supports us to make better decisions through an improved understanding of risk across the business. Our risk management framework is the totality of systems, structures, policies, processes and people that identify, measure, monitor, report and control or mitigate internal and external sources of risk, for all risks including climate-related risks.

Climate change is identified as one of our 12 principal risks. These are treated with equal weighting. Our risk appetite defines the risks and opportunities we are willing to accept for identified categories. Seven risk components are identified for the principal risk of climate change, with the risk appetite set at 'moderate' for all. Principal risks are monitored by the Executive Risk Committee, reporting to the Audit Committee and ultimately the Board.

We identify, assess, and agree control options for climate-related risks across the business. The ERM process requires identification of the significant risks to the business, and classification of them using a scale of low to major impact. The criteria defined in our risk profile are:

- Business disruption/customer experience
- Brand and reputation/legal and regulatory
- People/health, safety, environmental and security
- Financial – within year and lifetime.

We disclose climate-related risks and management arrangements in our five-year business plan and produce business-specific risks assessments and management plans that are often regulatory

documents. These include our Water Resources WRMP, DWMP, Drought Plan, Climate Adaptation Report and operational resilience plans.

Our draft WRMP 2024 sets out how we plan to maintain a high-quality and reliable supply of water for customers and improve the water environment.

Long-term planning requires making decisions for an uncertain future. To manage uncertainty, we have used an adaptive planning approach. We have looked at multiple supply-demand balance scenarios in view of the uncertainties associated with growth forecasts, the level of reductions required in the water we take from the environment and climate change impacts.

We are also working on our first DWMP that sets out how we will make sure our drainage and wastewater systems resilient over the next 25 years. One of the key challenges the plan addresses is climate change.

We conducted a review of the operational resilience of our sites, including an assessment of the impact of climate-related risks, as part of our business planning for 2025–30. Six shocks and stresses were considered: flooding; asset heat stress; subsidence; coastal erosion; water source salination; and resource availability (natural capital). The assessed scenario conditions included a representative concentration pathway 'RCP8.5' as an 'adverse' scenario for subsidence, saline intrusion, and heat stress and 'RCP2.6' as a 'benign' scenario for coastal flooding.

The work categorised sites into either: further work required to enhance resilience; sites where further investigations were required; or sites for which no further enhancement was required. Work continues to create a list of priorities for 2025–30.

Our operational performance continued

➔ For more information:

On our ERM approach, see Risks – pages 120 to 132.

On our plans to secure water out to 2075, visit:
southernwater.co.uk/our-story/water-resources-management-plan.

On our plans to secure a resilient drainage and wastewater system, visit:
southernwater.co.uk/dwmp.

On our plans to maintain a secure water supply and protect the environment during dry weather and drought, visit:
southernwater.co.uk/our-story/water-resources-management-plan/our-drought-plan.

On our third-round climate adaptation report, published in 2021, visit:
southernwater.co.uk/media/8259/5670_climatechangeadaptation_2021_v13.pdf.

Next steps

We continually assess how climate-related risks impact our enterprise risk profile, as we build on our understanding, including those under different scenarios. We are embedding climate change, specifically mitigation, into our assessment of suppliers for our business plan period 2025–30.

Our operational performance continued

Our approach to climate change continued

Metrics and targets

TCFD Recommendations: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

B. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

We measure our climate-related performance using a range of metrics and targets, and report on these in our Annual Report and Annual Performance Report. These metrics focus on our key risks related to water supply, wastewater removal, and natural capital. We also report on our carbon emissions, in alignment with regulatory requirements, and to report progress on our decarbonisation target.

The following tables summarise the key metrics we use. This includes reporting on our alignment with the suggested metrics in the TCFD cross-industry guidance. Further information on our performance can be found on pages 42 to 95 and in our Annual Performance Report.

TCFD's cross-industry metric categories

Metric category (defined in TCFD guidance)	Metrics		Notes
GHG emissions Absolute Scope 1, Scope 2, and Scope 3; emissions intensity	MT of CO ₂ e	See data tables in the Streamlined Energy and Carbon Reporting section, pages 93 to 95.	We disclose Scope 1 and 2 emissions, a proportion of our Scope 3 emissions, and emissions intensity figures.
Transition risks Amount and extent of assets or business activities vulnerable to transition risks	N/A	Not available	We do not consider a quantitative metric. We will consider the suitability of such and report on our conclusions in 2024.
Physical risks Amount and extent of assets or business activities vulnerable to physical risks	N/A	Not available	We are finalising our latest modelling and assessments for operational resilience, WRMP and DWMP. We will report findings next year.
Climate-related opportunities Proportion of revenue, assets, or other business activities aligned with climate-related opportunities	N/A	Not available	We do not consider a quantitative metric. We will consider the suitability of such and report on our conclusions in 2024.
Capital deployment Amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities	N/A	Not available	We do not calculate this metric currently. We will consider the suitability and a methodology for such and report on our conclusions in 2024.
Internal carbon prices Price on each tonne of GHG emissions used internally by an organisation	N/A	Not available	We do not apply an internal carbon price (notional or actual) currently. We are monitoring use of such and consider its suitability.
Remuneration Proportion of executive management remuneration linked to climate considerations	The following 2022–23 metrics are examples of those key to our climate change resilience and are measures included in our Annual Bonus Plan (for our executive and all employees): Internal sewer flooding incidents and Leakage.		For more detail see Directors' Remuneration Report, pages 184 to 201.

Our operational performance continued

Other climate-related risk metrics and targets

Metric category	Metrics and performance	
Targets set by our regulator Ofwat (as performance commitments for 2020–25)		
Leakage	Leakage – MI/d	See pages 42 to 95. For further details on our regulated metrics and targets see our Annual Performance Report.
Water consumption	Per capita consumption – l/p/d	
Internal sewer flooding	Number of incidents per 10,000 sewer connections	
Pollution	Number of incidents per 10,000km of sewer	
Water resource abstraction	Distribution input – MI/d	
	Abstraction incentive mechanism – MI/d	
	Effluent re-use – m ³	
Renewable generation	% energy generated from renewable source	
Asset health	Unplanned water outage – %	
	Risk of sewer flooding in a storm – %	
	Number of sewer collapses per 1,000 kilometres of all sewers	
Natural capital	Number of river catchments with natural capital accounts	
Net zero transition plan target and pledges		
Operational net zero carbon by 2030	tCO ₂ e	See Our Net Zero Transition Plan below
Energy used in the reporting period	MWh	We report absolute energy use, energy by source and intensity. See the data tables in the Streamlined Energy and Carbon Reporting (SECR) section, pages 93 to 95.
100% renewable-backed power from April 2021	% electricity from fully accredited renewable source	100% since April 2021.
Generate 24% of own renewable energy by 2025	% energy generated by on-site renewables	13.30%
Fleet electrified or low carbon fuels by 2030	% of fleet	0%. A study has started with UK Power Networks to develop our fleet electrification roadmap.
Aim for nature-based solutions and work in partnership	Not applicable	We have embedded nature in our risk and value investment process and are working in partnership to deliver solutions.

Our operational performance continued

Our approach to **climate change** continued

For each of our regulated metrics described above a target is set for the business plan period (2020–25). Information on these targets and our performance is described in the pages referenced in the metrics tables above, and in more detail in our Annual Performance Report.

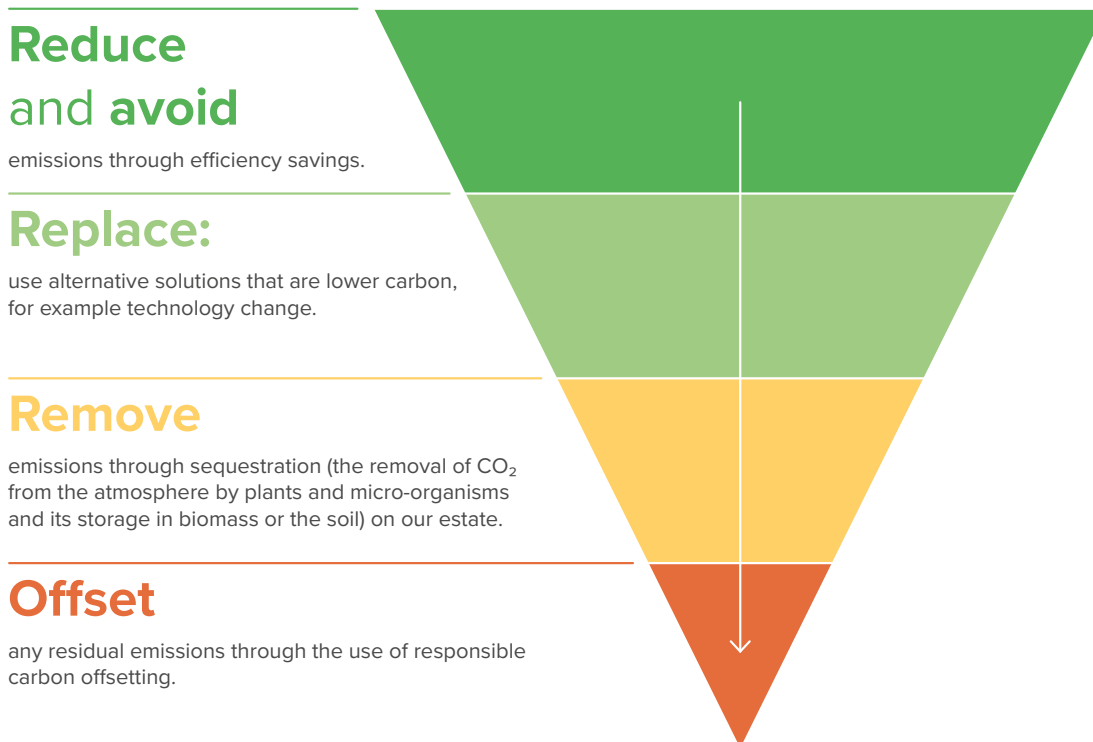
Our greenhouse gas emissions and associated energy use data is available in the Streamlined Energy and Carbon Reporting (SECR) on pages 93 to 95.

This year we implemented a process to expand the scope of our measured Scope 3 emissions to include our construction and refurbishment projects. We also completed a project to review the wider Scope 3 emissions from our value chain and investigated how our plans and targets align

to a 1.5 degrees centigrade pathway. We are planning how these findings are integrated in our longer-term decarbonisation roadmap, and ongoing carbon emission disclosures.

Our Net Zero Transition Plan

We published a Net Zero Plan in 2021, confirming our commitment to the Water UK Public Interest Commitment to net zero operational emissions by 2030. We see this as an interim target in our long-term strategy to reach net zero by 2050. We recognise the important role we, and the water sector must play in reducing emissions while balancing this with the need to provide our services at an affordable price to our customers. Our decarbonisation approach remains to follow the carbon hierarchy:



Our operational performance continued

Forecasts against our 2030 commitment indicate that our plans to 2030 will mean we cannot achieve net zero without the use of offsets for residual emissions.

We face significant challenges to deliver our net zero 2030 commitment; these challenges are both in terms of feasibility and deployment. We believe best value to our customers will not be served by purchasing external offsets and our strategy is not to purchase these on the external market. As an alternative we are continuing to explore how we could support over the medium- to long-term carbon sequestration through our strategic land management plan and work to employ nature-based solutions. We are working with the wider water sector to understand the range and scale of carbon offsetting opportunities.

Our Executive team remains committed to decarbonisation over the long term and has tasked our teams to extend the horizon of our net zero planning from 2030 to 2050. We will better align our net zero transition planning with our long-term delivery strategy and look beyond solely operational emissions. This means we will align our plans with the government's 2050 net zero target and regulator Ofwat's direction to focus on location-based Scopes 1, 2 and 3 emissions.

Our operational performance continued

Our approach to climate change continued

Our operational carbon emissions

In 2023 we expanded the scope of operational emissions we are able to report; the sources of operational emissions are listed below. In 2023 our reported net market-based operational emissions were 109.5 kilotonnes of CO₂e (2023 like-for-like emissions with 2022: 72.9 kilotonnes CO₂e) (2022: 81.6 kilotonnes CO₂e). Our net location-based emissions for 2023 were 215.2 kilotonnes of CO₂e (2023 like-for-like emissions with 2022: 157.7 kilotonnes CO₂e) (2022: 161.2 kilotonnes CO₂e).

Scope 1 emissions:

- Direct emissions from burning of fossil fuels (including CHP generated onsite)
- Process and fugitive emissions
- Transport: Company owned or leased vehicles

Scope 2 emissions:

- Electricity use: For the location-based approach this is the average grid emission factor for power from the electricity grid.
- Electricity use: For the market-based approach this uses the carbon intensity of the energy we procure from the electricity grid.

Scope 3 emissions:

- Transmission and distribution losses from the supply of total grid electricity we use
- Business travel on public transport and private vehicles used for company business
- Outsourced activities (not included in Scope 1 or 2)
- Purchased electricity; extraction, production, transmission and distribution (so-called “well to tank” emissions) (for the location based approach only) (*first reported in 2023).
- Purchased fuels; extraction, production, transmission and distribution so-called “fuels well to tank” emissions) (*first reported in 2023).
- Chemicals purchased (*first reported in 2023).
- Waste disposal (*first reported in 2023).

➔ For details on our emissions footprint see pages 94 to 95.

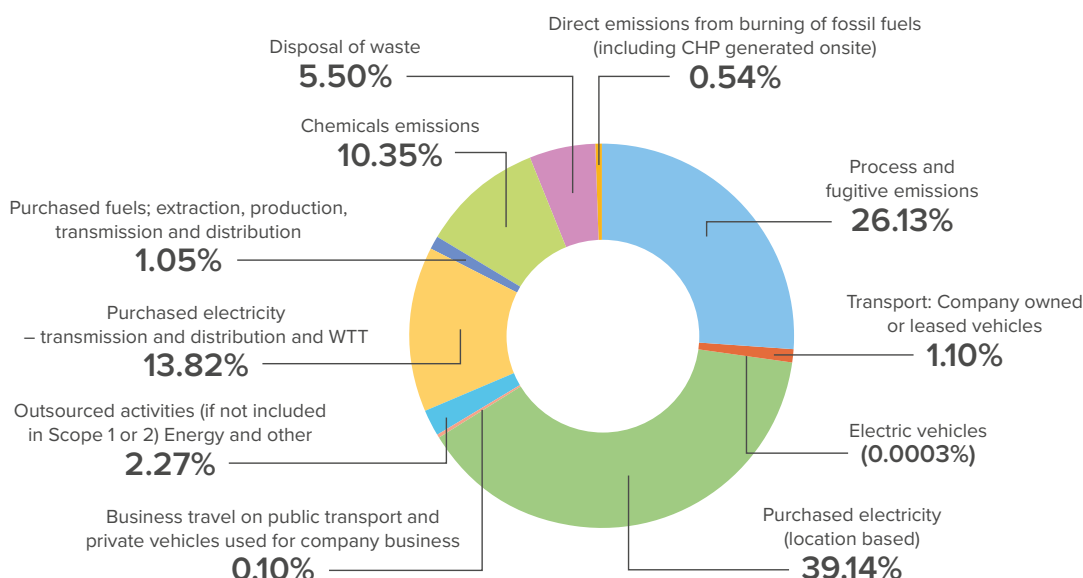
Energy use is the largest source of our reported emissions at 56.8% (location-based approach).

In 2023 Southern Water used 574,493 MWh of energy for water and wastewater operations, an increase on 2022. Wastewater is the largest user of energy, accounting for 67% of consumption. Most of this energy is used to power our pumps and blowers.

We also generated 51,095 MWh of energy in wastewater via our CHP engines, which offsets 16% of our wastewater consumption and prevents the need for this energy to be imported. Water supply accounts for the remainder of the energy needed to power our operations, with solar generation totalling 2,943 MWh, helping to ease the need for imported energy at our supply works. We currently generate 11% of our electricity from renewable sources. For details on our energy use see page 93.

Our operational performance continued

Sources of our operational carbon emissions



Process emissions:

Emissions from water and wastewater treatment formed 26.1% of our 2022–23 operational emissions. Process emissions occur primarily from our sewage and sludge treatment processes producing methane and nitrous dioxide emissions. These emissions have a significantly higher Global Warming Potential than carbon dioxide emissions.

These emissions are the biggest challenge for us and the water sector. We are working in partnership to fully understand the scale of the problem, and identify and test measurement, mitigation, and abatement solutions. Our bioresource management plans are focused on efficiencies and opportunities

to upgrade our infrastructure, based on impact, cost, policy constraints and the availability of deployable solutions.

Energy emissions:

Emissions from our use of energy formed 56.8% of our 2022–23 operational emissions. Most of our energy used is electricity, but we also use gas for heating, diesel for generators and gas oil in our anaerobic digestors. While the electricity grid is decarbonising, we continue to review options to change the source of our energy; we have sourced 100% of electricity from a renewable-backed source and invested in renewable on-site electricity by installing solar panels. We continue to explore other low-carbon sources of energy,

either on site or in partnership such as via a Power Purchase Agreement. We are also focused on energy efficiency.

Transport emissions:

Emissions from the use of fuel to power vehicles used for business activities formed 1.2% of our 2022–23 operational emissions. We are working to transform our LGV fleet to electric over the medium term and exploring how we convert our HGV fleet to no or low forms of carbon, such as hydrogen and biogas, in the medium to long term.

We have also launched an employee car benefit scheme for electric and plug-in hybrid cars.

➔ For more information:

On our regulatory Streamlined Energy and Carbon Report, pages 93 to 95.

On our climate-related regulatory targets, visit: southernwater.co.uk/our-performance/reports/annual-reporting.

On our original 2030 net zero plan visit: southernwater.co.uk/our-story/our-plans/net-zero-plan.

On our sustainable bonds performance: southernwater.co.uk/our-story/our-plans/investors.

Next steps

We will develop our transition planning, including the reset of our decarbonisation roadmap out to 2050, and the conclusion of adaptive pathways work as part of our business planning for 2025–30. Our decarbonisation roadmap will be underpinned by four principles: further embedding a culture for decarbonisation; industry collaboration; innovation and research and development; and an adaptive approach. We will work on supporting strategies for energy and non-regulated funding.

Streamlined Energy and Carbon Report (SECR)

This section fulfils the requirements of the Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2019.

Further information about our climate change activities can be found on pages 75 to 92 of this Annual Report.

Targets

To mitigate the company's climate impact, it is committed to delivering net zero by 2050, and is reviewing its interim target for net zero operational greenhouse gas (GHG) emissions, including engagement with the sector on its 2030 public interest commitment.

Energy efficiency action

Energy use is a significant source of GHG emissions, and we have continued to invest heavily in energy efficiency throughout 2022–23, in multiple areas, covering multiple technologies.

- Over £1 million investment in aeration systems to improve the efficiency of treated water process.
- Invested in real-time control, which allows us to trend our water treatment, resulting in reduced energy demands at several water treatment sites.
- Replaced pumping systems at multiple sites with new efficient pump sets.

- We have also invested in real-time control, which allows us to trend our water treatment, resulting in reduced energy demands at water treatment sites.

Quantification and reporting methodology

The methodology used to calculate operational greenhouse gas emissions for the provision of water and wastewater services follows the GHG Protocol – Corporate Reporting Standard.

The water sector employs a bespoke carbon accounting workbook, which reflects best practice and is updated every year to use the latest emission factors, derived from the UK's GHG Conversion Factors. Version 17_V4.02 of the Carbon Accounting Workbook (May 2023) has been used to prepare the GHG estimations.

Operational boundary

The reporting boundary covers all the company's operational services and aligns with our financial reporting boundary.

Assurance statement

This quantification of greenhouse gas emissions and energy usage is checked internally through a governance framework and audited by independent consultants in accordance with AA1000 v3 as part of the company's annual regulatory reporting.

Energy use

Area	2022–23 kWh	2021–22 kWh
Electricity	486,491,717	458,402,906
Imported	432,453,458	396,418,121
Self-generated	54,038,259	61,984,786
Gas	2,364,641	2,871,346
Business transport	15,303,066	13,447,058
Total incl. self-generation	504,159,424	474,721,310
Total excl. self-generation	450,121,165	412,736,525

The company's self-generated supply comes from combined heat and power (CHP), solar PV and diesel generation. In addition, the company exported excess electricity to the grid, predominantly renewable energy from the company's 16 CHP installations.

Streamlined Energy and Carbon Report (SECR)

continued

Greenhouse gas emissions

Scope	Description	Included in Scope	2022–23 (ktCO ₂ e)	2021–22 (ktCO ₂ e)
1	Direct emissions from activities that the company own or control including combustion of fuel	Gas oil use, process emissions, company transport	60.1	63.5
2	Indirect emissions from purchase of electricity (location-based)	Grid electricity	84.7	84.5
	Indirect emissions from purchase of electricity (market-based)	Grid electricity	0.0	0.0
3	Other indirect emissions*	Business travel on public transport/private vehicles, outsourced activities, grid electricity transmission and distribution, purchased chemicals, waste disposal, purchased fuels: extraction, production, transmission and distribution, embedded emissions, and purchased goods and services.	300.5	18.0
Total gross emissions (Scopes 1 & 2)	Location-based approach**		144.8	148.1
	Market-based approach***		60.1	63.5

* In 2023 we expanded reporting of Scope 3 emissions to include the following activities: purchase of chemicals, waste disposal, purchased fuels: extraction, production, transmission and distribution, embedded emissions, and purchased goods and services. This accounts for the reported increase in Scope 3 emissions (on a like for like basis, compared to 2022, our emissions were 12.8ktCO₂e).

** Location-based approach uses the average grid emission factor for power from the electricity grid.

*** Market-based approach uses the carbon intensity of the energy we procure from the electricity grid.

Streamlined Energy and Carbon Report (SECR)

continued

Global greenhouse gas emissions and energy intensity metrics

Area	Unit of measurement	2022–23	2021–22
All company (location-based approach)	Tonnes of CO ₂ e from Scope 1 and 2 gross emissions per £100,000 turnover	18.28	18.0
All company (market-based approach)	Tonnes of CO ₂ e from Scope 1 and 2 gross emissions per £100,000 turnover	7.59	7.7
All company energy (incl. self-generation)	kWh/ £100,000 of turnover	63,616	57,647
All company energy (excl. self-generation)	kWh/ £100,000 of turnover	56,798	50,120
Water services	kgCO ₂ e per megalitre (MI) of water treated (location-based approach)	158	130
Water services	kgCO ₂ e per megalitre (MI) of water treated (market-based approach)	14	18
Water services (electricity incl. self-generation)	kWh/MI	769	537
Water services (electricity excl. self-generation)	kWh/MI	755	529
Water services (total energy incl. self-generation)	kWh/MI	798	558
Water services (total energy excl. self-generation)	kWh/MI	784	549
Wastewater services	kgCO ₂ e per megalitre (MI) of wastewater treated (location-based approach)	253	245
Wastewater services	kgCO ₂ e per megalitre (MI) of wastewater treated (market-based approach)	139	137
Wastewater services (electricity including self-generation)	kWh/MI	715	662
Wastewater services (electricity excluding self-generation)	kWh/MI	603	534
Wastewater services (total energy including self-generation)	kWh/MI	741	685
Wastewater services (total energy excluding self-generation)	kWh/MI	629	557

Note: Turnover 2022–23 reported as £792.5 million for use in intensity metrics. This reflects a reduction of £23.2 million due to an Ofwat regulatory settlement.

s172 Statement

In order to make **effective decisions**, the Board needs to take into account the interests of our stakeholders.

How the Board is kept informed of stakeholders' interests



Customers

- Reports from Customer Challenge Groups
- Regular reporting on customer performance metrics and performance
- Customer insight from customer panels



The Environment

- Reports from management covering: ICEG, environmental stakeholders.



Communities

- Reports of participation in local community groups
- Consultation feedback
- Meetings between our Executive and community groups
- Insights from CCG and ICEG
- Reports from ICEG.



Employees

- 'Workforce engagement' director
- Employee voice
- Speak Up (independent whistleblowing service)
- Regular reports on employee health and safety and wellbeing
- Employee engagement results
- Culture update.



Regulators

- Regular meetings between Chairman and CEO and the senior leadership of our regulators
- Reports from management
- Regulator annual reports and key correspondence
- Regulator research
- Attendance by regulators to Board meetings.



Suppliers

- Regular reports on supplier performance and matters, including health and safety performance.

s172 Statement continued

Ensuring effective stakeholder engagement

Under section 172 of the Companies Act 2006, directors need to consider the interests of the company's key stakeholders as well as the need to take into account the impact on the environment and the outcomes over the long term. The company and its Board engage with a variety of stakeholders through various mechanisms, including membership of stakeholder panels, regular meetings with stakeholders, public meetings as well as simply speaking to people and visiting operational sites.

Listening to our customers and delivering for them is one of our key priorities. In addition to regular reports from management regarding customer service performance, the Board has received updates on customer feedback and customer perceptions on the company's performance. The Board considers the impact of the company's operations on customers and receives regular updates from management, providing challenge and feedback, in the event that a significant operational event has occurred that impacts service to customers. This is in addition to an awareness of wider customer views through the C-MeX measure.

Understanding the needs of our most vulnerable customers is a focus for the Board, and management has continued to provide updates on the assistance the company provides whether through the social tariff or capping of water bills, payment breaks or the hardship fund, especially during the cost of living crisis.

Dame Gillian Guy, the former Chief Executive of Citizens Advice, who serves as an independent non-executive director, continues to provide further awareness of the needs and concerns of customers.

Our Board receive regular updates on environmental matters, including legislative changes, key areas of concern such as climate change, biodiversity and water resources.

The CEO has also appeared in front of the UK Parliament's Environmental Audit Committee and gave evidence in support of the committee's investigation into water quality in rivers. Our Board also engages with our regulators to hear their views on the company's performance and plans.

A representative from our Customer Challenge Group and the Chair of our Independent Climate and Environment group attended the ESG Committee and provided insight and views of customers and stakeholders.

Mark Mathieson, a non-executive director, has the remit of engaging with the company's workforce and ensuring that their views are communicated to the Board. As reported previously, the CEO and leadership team hold regular Company Conversations with the company's workforce which address a variety of topics, including Southern Water's performance. They are also an opportunity for colleagues to express their views and ask questions. Management seeks the views of employees when developing plans, such as the introduction of the company's fourth value Working with Care and the Health and Safety Transformation Programme. These 'in-person' forms of engagement are supported by regular Gallup all-employee surveys.

Regular meetings between senior representatives of our key regulators – Ofwat, the Environment Agency and the Drinking Water Inspectorate – and our senior executives and Chairman take place, in order to discuss our performance and compliance with our statutory obligations as well as to communicate our plans for the future of Southern Water.


Since the major investment by funds managed by Macquarie Asset Management in the group, the shareholder-nominated directors ensure that the views of the company's major shareholder are communicated to the Board. In addition, the Board and executive has engaged extensively with Macquarie Asset Management, including through various 'deep-dives' into aspects of the company and in terms of developing its strategy.


s172 Statement continued


Overview


Section 172(1) of the Companies Act 2006 sets out several factors which the Southern Water Board takes into account in its activities and decisions.


Section 172 considerations key:


 Likely consequences of decisions in the long term


 The interests of the company's workforce

 The need to foster relationships with suppliers, customers and others

 Impact of operations on the community and environment

 Maintaining high standards of business conduct

 The need to act fairly between members of the company

 For more information on how we take into account the interests of our employees, please refer to pages 69 to 74.

Pollutions performance

Link to Section 172 considerations



Long-term impact

Investing for the long term, with focus on the impacts of climate change.

Community and the environment

Ensuring that the company's impact on the environment is minimised to enable enjoyment of water resources and natural environment to continue into the future.

Maintaining high standards of business conduct

Minimising the number of pollution incidents, or mitigating their impact where they do occur, and acting as a good 'corporate citizen'.

Outcomes and actions:

As part of our pollution reduction programme, we invested in proactive maintenance of our sewerage network, alongside root cause analysis of pollutions.

Clean Rivers and Seas Task Force continues to upgrade our infrastructure and develop sustainable drainage solutions to cut storm overflows and actively engages with stakeholders, the UK Government and regulators on this matter.

Additional investment in our wastewater networks to improve resilience.

Link to risks:

Water; Wastewater; Compliance; Customer; Climate Change; Health and Safety; Financial; Corporate Affairs; People.

Link to strategy:

Deliver great service, protect and improve the environment and fit for the future.

 [Read more on page 61.](#)

s172 Statement continued

Investing for the future

Link to Section 172 considerations



Long-term impact

Invest for the long term to ensure continued supply of essential services.

Ensure that the company remains financially and operationally resilient.

Community and the environment

The need to address climate change and population growth in the South East.

Customers and suppliers

The need to ensure that our teams and contractors continue to deliver essential services for our customers.

Shareholders

Engaging with our shareholders and obtaining their support for our investment plans.

Outcomes and actions:

During 2022–23 we made a capital investment of £213.5 million in water and £444 million in wastewater on base maintenance and enhancement of our sites and networks.

We developed a new planning process to better understand and manage the company's water quality risk and support long-term resilience at four of its critical water sites.

Work continues to progress on consultations and submissions for our Water for Life – Hampshire programme to improve water supply resilience.

We launched a full-scale review of our Health and Safety culture, embedding a fourth value – Working with Care. We began the implementation our Health and Safety Transformation Programme enabling our people to work in a safe, collaborative and inclusive workplace.

Link to risks:

People; Customer; Compliance; Water; Wastewater; Financial; Resources; Climate Change; Corporate Affairs.

Link to strategy:

Deliver great service; use water wisely; protect and improve the environment; fit for the future

 Read more on pages 42 to 95.

Protecting the environment

Link to Section 172 considerations



Long-term impact

Invest in environmental improvements to create a resilient water future for our customers in the South East.

Take steps to mitigate and adapt to climate change.

Community and the environment

The need to maintain and improve water quality in rivers and beaches so that they can continue to be enjoyed.

Outcomes and actions:

Increasing the size of our leakage team and employing new tools and techniques to find and fix leaks as part of our commitment to halve leakage by 2050.

Development of our environmental programme – part of WINEP – to deliver a step change in our environmental performance to 2030 and beyond.

Consultation and submission of our Drainage and Wastewater Management Plan, which aims to improve the resilience and sustainability of our wastewater systems and water environment.


Clean Rivers and Seas Task Force continues to upgrade our infrastructure and develop sustainable drainage solutions to cut storm overflows and actively engages with stakeholders, the UK Government and regulators on this matter.

Link to risks:

Delivery; Resources; Corporate Affairs; Customer; Water; Wastewater; Health and Safety and Climate Change.

Link to strategy:

Use water wisely; protect and improve the environment; fit for the future

 Read more on pages 59 to 68.

Non-financial information statement

To comply with the non-financial reporting requirements (NFR), contained in sections 414CA and 414CB of the Companies Act 2006, we are providing the details below to help stakeholders understand our position on key non-financial matters.

We have used cross referencing, as appropriate, to deliver clear, concise and transparent reporting.

Non-financial information	Page no.
Business model	22 to 32
Principal risks	127 to 132
Turnaround Plan	17, 50, 56, 64 and 72

Performance against our strategic non-financial measures is one indicator of the effectiveness and outcomes of our policies and guidance.

Across Southern Water, policies and statements of intent are in place to ensure consistent governance on a range of issues. For the purposes of the NFR requirements, these include, but are not limited to:

Our people

Our people are our business. Every day they are helping us to succeed, driving the right outcomes for our customers, business and environment. We value and seek to harness the unique skills, experiences and backgrounds of every colleague. We are committed to maintaining a safe, inclusive and great place to work, and we strive to attract and retain diverse talent, so we remain representative of our communities. Our policies support our people and are available on our company intranet – The Hub – with key policies also available on our website.

Non-financial information: External environment, pages 26 to 30; enabling and empowering our people, pages 69 to 74; gender pay, page 70; diversity of the board, pages 169 to 170; ratio of pay, page 70; operational performance, pages 42 to 95.

Policies: Code of Conduct; Health and Safety; Code of Ethics; Equality, Diversity and Inclusion; Domestic Violence and Abuse; Employee Volunteering; Grievance; Harassment; Organisational Change; Probity; Talent and Development; Supplier Code of Conduct.

The environment

We can only provide high-quality water and efficient wastewater services to our customers in the South East if we protect and improve our natural environment. As such we are committed to improving our environmental performance and, at a minimum, complying with environmental and regulatory standards. What we do, and how we do it, can have a positive and lasting impact on the environment. By going above and beyond compliance, we can create value. We are working with our customers, stakeholders, delivery partners, suppliers and regulators to do this. We have a number of policies in place to help us address our impact on the environment: southernwater.co.uk/our-performance/key-policies. Further information can be found in the following sections of this report:

Non-financial information: External environment, pages 26 to 30; stakeholder engagement, pages 33 to 39; operational performance, pages 42 to 74.

Policies: Environment; Biodiversity; Plastics; Carbon; Sustainable and Ethical Trading; Code of Ethics; Supplier Code of Conduct; Responsible Business.

Human rights

We operate in accordance with the United Nation's guiding principles on business and human rights. We promote human rights through our employment policies and practices and through our supply chain. We have policies and processes in place which ensure we are compliant with these requirements, and they are enforced throughout our business. Further information can be found in the following sections of this report:

Non-financial information: Enabling and empowering our people, pages 69 to 74.

Policies: Modern Slavery Statement; Privacy Notice; Information Governance; Speak Up; Sustainable and Ethical Trading; Supplier Code of Conduct; Responsible Business.

Non-financial information statement continued

Social impact

We support people, our business partners and the communities we operate in. As well as the specific policies mentioned below, we have guidance and initiatives in place to support the following:

- Age UK, Citizens Advice Bureau and debt advice bodies.
- An employee volunteering programme and community grants scheme supporting local charities and groups.
- Promotion of skills development through apprenticeships and graduate schemes as well as partnerships with universities and colleges.
- Relationships with environmental groups such as the local Wildlife and Rivers Trusts.

Further information can be found in the following sections of this report:

Non-financial information: Enabling and empowering our people; understanding and supporting our customers and communities.

Policies: Tax; Equality, Diversity and Inclusion; Responsible Business; Code of Ethics; Employee Volunteering; Sustainable and Ethical Trading; Guaranteed Standards of Service; Code of Practice; Donations and Sponsorship; Health and Safety; Environment; Social Media; Supplier Code of Conduct.

Anti-corruption and anti-bribery

We promote a culture of honesty and integrity in all our dealings, and we will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data from the business. In addition to our Code of Ethics we have additional policies in place to guide our people. These are available on our company intranet. Furthermore, we have a confidential 24-hour anonymous Speak Up hotline. This is an independent whistleblowing service available for all colleagues to raise concerns.

Further information can be found in the following sections of this report:

Non-financial information: Read more about our values on pages 11, 19 and 69.

Policies: Code of Ethics; Bribery; Supplier Code of Conduct; Sustainable and Ethical Trading.

