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**

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**

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. g**ov.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**

CCW represents water and wastewater consumers. It also investigates consumer complaints that have not been satisfactorily resolved by water companies. **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**

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.

Natural   People   Financial   Manufactured   Social and relationship   Intellectual
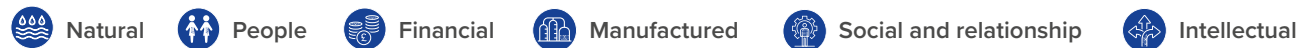
Evolving customer expectations

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.

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**.