

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

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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.

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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

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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