

# Our external environment

## The water sector

Water and wastewater services are provided by a number of companies, serving more than 25 million households and commercial customers in England and Wales. There are currently 11 licensed water and wastewater companies, with some smaller licensed companies providing water-only services to customers.

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, 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 Bill, 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.

In 25 years from now, within Southern Water's region, we are anticipating losing a third of our water sources as a result of climate change. 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 15%. 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 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 including through nature-based solutions and natural capital approaches, such as wetlands creation, river restoration projects and tree planting, as part of our long-term planning. We are also part of a sector-wide commitment to deliver net zero water and waste services by 2030.

➔ Read about **how we engage with our regulators** on pages 43 to 44

## 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.org.uk](https://defra.org.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://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://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://dwi.gov.uk)



The Consumer Council for Water represents water and wastewater consumers. It also investigates consumer complaints that have not been satisfactorily resolved by water companies. [ccwater.org.uk](https://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. [gov.uk/government/organisations/natural-england](https://gov.uk/government/organisations/natural-england)

# We consider and **manage the impact** of our external environment

## Political environment

Decisions made by politicians have the potential to significantly impact the way we operate. We must ensure that we follow any directions set by government, and that we adapt quickly to policy developments. As a result, we work closely with regional and national policymakers to understand the development of any policies that will have an effect on our business, while ensuring they understand the economic, environmental and social value we deliver for our communities in the South East.

## Social environment

As a provider of essential services, we have a direct impact on our local communities. We also own, or help to manage, pieces of land found in areas of natural beauty or environmental significance that are valued and enjoyed by both residents and visitors to our region. As a result, we must consider what matters to all of these stakeholders as we deliver our services today and plan for the future. This means continuously building relationships and ensuring we consult with them in the development and execution of our plans.

## Regulatory environment

We must operate as a sustainable business. This means being responsive to regulatory changes, and working with our regulators to understand and prepare for future challenges while ensuring we fulfil our current regulatory requirements. Our relationships with our various regulators – economic, drinking water quality and environmental – are vital to ensure the resilience of our business and we work closely with them through consultations and regular meetings, to share our progress and our plans for the future, as well as influencing market reform where we see opportunities.

## Economic environment

Like any other business, we are impacted by changes in investor markets, interest rates, inflation and other market rate movements, and we must manage these to reduce risks to our financial stability 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. We know that there are a number of areas across the South East experiencing high levels of deprivation, particularly as a result of COVID-19 and recent increases in energy costs, so we make it a priority to offer support and advice to our customers who might find themselves in vulnerable circumstances.

## Innovation and technology

We are always improving our services, taking advantage of new technologies and innovative ideas. We know these could come from anywhere – from our customers, across different industries and different countries, as well as ideas from colleagues within our business. Innovation is very important to us, as one of our three core values is 'always improving', which is why we set up our own bluewave innovation hub, bringing design thinking to projects across the business. We also know that new technology brings with it a number of risks, and we are focused on continuously improving our cyber security to meet the needs of the business.

## Environmental factors

Our natural environment is under pressure from population growth and climate change. We must continue to adapt and prepare to manage their future impacts. This includes taking action to plan for and mitigate climate change by reducing our own emissions and 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 all stakeholders to reduce our collective impact on the water environment.

## Our external environment continued



Since 2017, our Chief Executive Ian McAulay has been leading the transformation of Southern Water focused on a thorough review of people, processes and systems.

➔ Read more on pages 245 and 249 of the financial statements

### Regulatory investigations

As has been reported previously, Southern Water was subject to a detailed investigation by the Environment Agency (EA) regarding permit breaches at some of our wastewater treatment works in two regions during the period 2010 to 2015. On 9 July 2021, the company was sentenced and fined £90 million plus £2.5 million of costs for these historic offences.

As has also been reported previously, we continue to assist the EA in its separate investigation into legacy issues relating to wastewater sampling compliance for the period 2013 to 2017. This is ongoing and we do not know when the investigation stage will be concluded, and we do not know if or when any charges against the company are likely, or how many charges may be brought. The EA has not stated what its intentions are so far as the next steps in the investigation are concerned, and as a consequence the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this investigation, but will keep the situation under review.

As has been reported in the media, in November 2021 the EA and Ofwat launched an investigation into flow compliance at sewage treatment works belonging to all water and wastewater companies in England and Wales. In March 2022, Ofwat opened enforcement cases into six water companies; Southern Water was not one of those companies. However, all water and wastewater companies in England and Wales remain subject to ongoing investigations as they continue to review the information they have gathered.

In May 2018 chlorate was detected at High Park reservoir. The Drinking Water Inspectorate (DWI) brought a prosecution for a breach of Regulation 31 Water Supply (Water Quality) Regulations 2016 in relation to the storage and use of Hypochlorite at the High Park booster station. The DWI did not pursue a case for unfit water. A guilty plea was entered on 24 May 2022 and the court issued a fine of £16,000.

## CASE STUDY

Enabling a supply of high-quality water for the future

# Working together to reduce our use of storm overflows

“We’re already seeing the effects of climate change and significant population growth adding more pressure to the sewer system and we know that these issues will likely only get worse. That’s why we’ve teamed up with local authorities and partners across our region to find new and innovative solutions to managing this issue – and created our Storm Overflow Task Force.

“We know that our customers and our regulators want us to reduce our use of storm overflows, which is why we’re already working to deliver this, with five groundbreaking projects being implemented across the region over the next two years. These projects will reduce the amount of surface water, from road and roof run-off, entering our sewer network during a storm, reducing the need to use overflows and also helping to reduce flooding.

## Stakeholders impacted



“There are three main types of interventions that these projects will be looking to use:

- **Source control** – removing and slowing the flow of rainwater through rainwater harvesting, permeable paving, green roofs, etc.
- **Optimisation** – making better use of our existing networks through better management of connections, our equipment on site (such as pumps) and smarter networks with increased monitoring and alarms in place.
- **Enhancements** – building better and bigger sewers, storm tanks and treatment works.

“In partnership, we’ll also promote simple actions that everyone can take to help, such as installing water butts to recycle rainwater or reducing the amount of paved gardens and driveways.

“A number of trial sewer lining projects have already started in North Hampshire, and we’ll be launching a series of interventions in Kent over the summer.”

### Dr Nick Mills

Head of the Storm Overflow Task Force

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Pathfinder projects will trial interventions across our region.



# Our external environment continued

We've identified the **main factors** that affect our business now and in the future

### Engaging customers

Through continuous engagement with our customers, we know that they have become more interested in their essential services and the importance of them to overall health and wellbeing, driven by the impacts of COVID-19 and recent increases in the cost of living. We also know that they have been using more water at home, and we have seen a greater desire for them to participate in the protection of future water resources through recent consultations, as well as our blockage prevention and water efficiency campaigns.

**What really matters to our stakeholders (material issues):**  
 Health, safety, security and wellbeing; Public health; Affordability and vulnerability; Trust, transparency and legitimacy; Water use

**Affected capitals:**  


**How we are responding:**

- We used a new framework to help us to see the impact of COVID-19 on our customers' water use. It showed that, compared to the average for the prior three-year period, 2020–21 had seen an overall 8% uplift in individual daily usage.
- Throughout 2021–22 our water efficiency campaigns focused on raising awareness about the benefits of water-saving behaviours on the environment, reinforcing the key message that saving water, saves you money and cuts carbon.

➔ Read more on pages 81 to 82

- Our Drought Plan consultation revealed that our stakeholders want more consistency between our Water Resources Management Plans and our Drought Plan; more information on the environmental impacts of drought permit and order options and more clarity around our dependency on these permit and order options in Hampshire.

➔ Read more: [southernwater.co.uk/our-story/water-resources-planning/droughtplan](https://southernwater.co.uk/our-story/water-resources-planning/droughtplan)

### Affordability and vulnerability

As a result of the impacts of COVID-19, the rising cost of living and hikes in energy prices, we know that many of our customers have been put under enormous financial pressure. We have made it a priority to offer support where we can, and we are reducing our bills over the next five years by 18%. Our focus over the past year has been to offer tailored support, working in partnership with other support organisations in our communities to reach more of our customers who find themselves in vulnerable circumstances. As a result, we continue to grow both our Priority Services Register and the number of customers on our support tariffs and schemes.

**What really matters to our stakeholders (material issues):**  
 Affordability and vulnerability; Diversity and Inclusion; Customer service; Energy and water use; Data protection

**Affected capital:**  


**How we are responding:**

- Our Vulnerability team went straight back out into our communities following the easing of lockdown restrictions, attending Food Banks and Job Centres in order to deliver support directly to those who needed it most.
- We continue to directly case manage our most vulnerable customers, ensuring those who are struggling financially have payment plans and discounts that work for their own individual circumstances.

➔ Read more on page 79

- We set up a Customer Hardship fund – providing debt write-offs, bill reductions or household goods for our customers who are struggling.

➔ Read more on page 17

## 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

### Increasing customer expectations

We know that we are in a privileged position as a monopoly provider of essential services to our customers. This position comes with a responsibility to make sure that we deliver the best possible service, while protecting the environment and keeping bills affordable. In order to do this, we need to always improve our internal capabilities, how we do things and the technology and systems that enable us to keep our customers' taps flowing and toilets flushing.

#### What really matters to our stakeholders (material issues):

Customer service; Affordability and vulnerability; Data protection; Energy and water use

#### Affected capitals:



#### How we are responding:

- Our average combined household bill for water and wastewater treatment services fell by £5 (1.3%) this year.
- ➔ Read more on page 34
- We have made significant changes to the Your Account portal based on direct customer feedback.
- We have launched a new FAQ service on our website, using AI technology, to help our customers find what they need, faster.
- ➔ Read more on page 78

### Securing long-term resilience

Our customers expect us to maintain a level of service and this means having plans in place to adapt to the challenges of population growth and climate change, as well as mitigate any potential risks, both internal and external. We do this by developing a rich understanding of the connection between our processes and the wider community around us by building partnerships across sectors, for example through regional water resources and drainage management planning.

#### What really matters to our stakeholders (material issues):

Climate change; Public Health; Biodiversity and 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 region's water resources, ensuring an affordable, resilient and sustainable water supply.
- ➔ Read more: [wrse.org.uk](http://wrse.org.uk)
- We are already making connections to neighbouring water company networks in water-stressed areas to increase supply during periods of high 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/water-for-life-hampshire](http://southernwater.co.uk/our-story/water-for-life-hampshire)
- We are consulting with stakeholders across our region on our Drainage and Wastewater Management Plans to ensure we reduce flooding and pollutions in the future.
- ➔ Read more: [southernwater.co.uk/dwmp](http://southernwater.co.uk/dwmp)

# Our external environment continued

## Transparency and accountability

We know that our past behaviours and legacy reporting failures mean that we need to rebuild relationships with our stakeholders based on trust. This means being open, honest and transparent, and this is something we take very seriously. We know we still have some way to go to address stakeholder concerns regarding our pollution performance and wastewater treatment compliance, in particular. We also know that questions have been raised about the ownership structure of the sector, and our regulator, Ofwat, has called for further transparency around board leadership and decision-making processes. We are committed to providing clarity on these issues and we continue to report openly, setting out our performance commitments and delivering year-on-year improvements.

### What really matters to our stakeholders (material issues):

Compliance; Health, safety, security and wellbeing; Public health; Trust, transparency and legitimacy; Company structure, ownership; Political and regulatory environment; Stakeholder engagement and networks; Human rights; Fair and equal pay

### Affected capitals:



### How we are responding:

- We have published our third Pollution Incident Reduction Plan detailing our investment and year-on-year improvements.
- ➔ Read more: [southernwater.co.uk/our-performance/reports/pollution-reduction-programme](https://southernwater.co.uk/our-performance/reports/pollution-reduction-programme)
- We have Event Duration Monitors (EDMs) on 87.8% of our storm overflows giving us visibility and, more importantly, the ability to report pollutions more accurately.
- We have made further improvements to our Beachbuoy release monitoring service.
- ➔ Read more on pages 84 and 86

## Delivering public value

We are fully supportive of Ofwat's efforts to explore how the water sector can deliver more public value. We are working with them to develop a clear understanding on expectations so that we can track our performance against measurable objectives and reflect these in our company targets, making them as simple for our customers and stakeholders to understand as possible. We are committed to developing consistent definitions, frameworks and reporting tools to clearly communicate our progress.

### What really matters to our stakeholders (material issues):

Health, safety, security and wellbeing; Public health; Biodiversity and natural capital; Affordability and vulnerability; Diversity and inclusion; Local economies; Community engagement; Skills and employment; Human rights; Fair and equal pay

### Affected capitals:



### How we are responding:

- We launched our new Community Grants and Customer Hardship Fund to support our communities.
- ➔ Read more on page 17
- After 18 months of virtual volunteering, in-person activities finally resumed in early October. Teams of volunteers went across our regions to support local communities with a wide range of activities.
- ➔ Read more on page 66
- Our customer engagement programme is continuous, and this year we have focused on being more inclusive, inviting future generations and informed customers to help us make important business decisions.
- ➔ Read more on page 46