

# Chief Executive's summary



We continue to focus on delivering high-quality services for our customers and ensuring the safety and wellbeing of our employees, while protecting our precious natural resources.

“Our business is about creating a resilient water future for people, and protecting and enhancing the environment.”

**Ian McAulay**

Chief Executive Officer during the reporting period.

## Highlights

- Being part of the water industry's £7.1 billion investment, with our share of that being £2.2 billion invested across the region driving innovation and partnerships between 2020–25.
- Improving wastewater services with £1.5 billion of investment (as part of the above £2.2 billion) to upgrade our ability to process greater volumes of sewage and the capacity to store more storm water.
- Investing a further £700 million in continuing to deliver reliable supplies of clean drinking water, through routine maintenance and improvement work as well as fixing leaks.
- Bringing in significant investment of £1 billion into the Greensands group, including £530 million into the company, from a fund managed by Macquarie Asset Management, widening and deepening our investment plans. This includes an additional £230 million of investment, over and above the allowance set by the industry regulator Ofwat.
- Maintaining supplies and services for our customers in another year made difficult by COVID-19.
- Adapting our frontline operations and developing more flexible working styles for employees.
- Setting up our Storm Overflow Task Force to drive rapid reductions in flooding and the use of storm overflows.

The past year has seen us providing water and wastewater services – life's essentials – while we have been coming out of the COVID-19 pandemic. This has been a difficult time for our customers and our frontline employees have been working in challenging conditions.

We have set ourselves ambitious targets across several areas of our operations, with a particular focus on pollutions, leakage and reducing storm overflows. Our regulators, communities and the government have quite rightly been asking how our industry can improve performance to enhance protection of the environment while providing high-quality services to customers. The plans we will put in place and the initiatives contained within them, will require an appropriate funding structure to be agreed with Ofwat, our shareholders and our Board.

The prosecution of our company by the Environment Agency (EA) and subsequent fine in July 2021 for historic breaches during 2010 to 2015 has inevitably led to a need for us to rebuild the trust and confidence people have in us to act responsibly and transparently. We know that we need to focus on reducing pollutions, managing our assets and performance improvements, while protecting and enhancing the environment around us.

We have worked hard to transform our company culture to put in place processes that support several areas including self-reporting, and I am pleased to say that our high level of self-reporting is now recognised and scores above average for our sector. The regular updates from our culture dashboard act as a barometer of

our company culture, helping us to keep track of our development and showing how we live our company values – succeeding together, doing the right thing and always improving. We continue to provide information via our website to inform customers and our stakeholders about our performance, and our online Beachbuoy service provides near real-time data to the public about bathing water quality.

### Ensuring environmental resilience

Our commitment to protecting the environment is at the centre of our purpose and all the work we deliver. We have started to implement a natural capital approach throughout our business, creating our first Natural and Social Capital Framework and completing our first natural capital baseline assessment. This way of thinking will help shape our plans at a time when the climate and biodiversity around us are in urgent need of our protection, and we have increasing challenges due to a growing population in our water-stressed region.

Our Net Zero Plan, published in July last year, showed how we plan to reach net zero carbon emissions by 2030. Tackling carbon emissions is key to reducing the harmful greenhouse gases which cause climate change. That is why we have been involved in developing the sector's routemap to commit to zero operational emissions by 2030.

We have also made a commitment to zero pollution by 2040. Meeting this target will not be easy. Pollution reduction is an area where we have already made improvements and we published the third update to our Pollution Incident Reduction Plan (PIRP). The plan sets out how we will invest £145 million to 2025 in a series of projects to reduce pollution incidents. Last year we recorded 372 pollution incidents, and while this is a 7.5% reduction on the previous year, it is unacceptable and far from where we want, and need, to be.

Reducing spills from storm overflows is a key area of focus, where our dedicated Storm Overflow Task Force will develop groundbreaking projects in five catchments over the next two years, using natural solutions such as water gardens and swales to cut or slow the flow of water into our systems. This will support our industry's efforts to protect the health of our rivers and seas from pollution. We would also urge moves by Ofwat and the EA to ensure that there is a level playing field for reporting of pollution incidents and storm overflow releases.

Our Catchment Risk Management team is looking at a variety of projects to use nature-based solutions to challenges across different areas in our region, in both river water catchments and areas where we rely on underground (groundwater) sources, such as aquifers. To address the urgent threat to the natural capital of the harbours, we are working with local and national organisations in Pagham, Chichester and Langstone Harbours to develop a coordinated programme of action with the Save our Harbours summits.

### Keeping our customers front of mind

We want to give a high level of customer service and maintain affordability in these challenging economic times. We are disappointed not to have improved our position in the Ofwat Customer Measure of Experience (C-MeX) table for the year finishing 16th out of 17 companies. We continue to invest in digital services as an enabler, and we are constantly improving self-serve options for customers to contact us.

The COVID-19 pandemic has had an impact on the wellbeing and mental health of people, and now inflationary pressures and world events will have a further impact on our customers' financial situation. In February we announced a fall in the average combined household bill for water and wastewater treatment services of £5 a month (1.3%), however we know that affordability is still an issue for many customers, particularly at a time when energy bills are increasing. We have reached out to those in need to include them on our Priority Services Register, increasing the number of customers on the register by 56%, and providing tailored financial support through our Hardship Fund and other schemes to 140,445 customers.

We make sure that we protect our water supply network for the benefit of our customers. Any attempts to compromise our network are taken seriously and we are prepared to bring prosecutions. Over the past year we have successfully prosecuted a company and an individual who unlawfully accessed our network.

➔ Read more on **Save our Harbours** on page 31

➔ Read more about our **customer performance** on pages 76 to 80

# Chief Executive's summary continued

➔ Read about our **ownership** on pages 104 to 107

➔ Read more on **financial performance** pages 92 to 101

## Our financial performance

As mentioned by our Chair, a fund managed by Macquarie Asset Management acquired a majority stake in our parent company during the year, investing over £500 million into Southern Water which will be used to enable us to increase our capital investment programme and accelerate our plans to make the necessary improvements to our operational performance, pay the Court fine and reduce gearing.

During 2021-22, we made a capital investment totalling a record £617 million, excluding capitalised interest, to upgrade our water and wastewater network. This aims to provide a better and cleaner service for our customers and local communities. The investment programme includes projects to reduce the levels of phosphorus discharged from our wastewater treatment works, upgrade treatment works to meet the needs of an increasing population and provide greater resilience during extreme weather events. It also aims to improve our resilience to water shortages, particularly in Hampshire, to reduce water we take from local waterways and increase expenditure to refurbish water and wastewater assets.

Our operating profits fell significantly to £16.0 million from £138.8 million in the prior year, largely because of the £90.0 million fine imposed following the Environment Agency's prosecution I have already mentioned.

Excluding the fine, operating costs increased by £19.8 million, principally from proactive maintenance activities to improve our wastewater compliance and pollution performance to reduce the risk of future equipment failures and pollutions from sewer blockages, as well as activities to support the catchment management, natural capital and Target 100 programmes.

No dividends were declared for the year, following the commitment by our Board that the company will not make dividend payments until it is clear that to do so will not undermine the company's financial resilience and our transformation programmes to improve both operational and financial performance.

## Being brilliant at the basics – and more

Ensuring that we have resilient water sources long into the future is fundamental to what we do. The new reservoir planned at Havant Thicket as part of our Water for Life Hampshire programme is a good example of this. Working in partnership with Portsmouth Water, the new reservoir will enable us to maintain supplies to customers while protecting precious chalk streams.

While we are working to ensure our delivery of essential services to customers into the future, we know that our performance needs to get better. We have made improvements in our delivery, but in some key areas these improvements are still not reaching the targets set for us by our regulators.

We aim to reduce pollution incidents and minimise leakage. In both these areas, we improved our performance last year compared to the previous year, however we are still not meeting our targets.

Our wastewater treatment works compliance has improved from 10 failed works in 2020 to seven in 2021, however this remains above our target of zero.

In wastewater, we performed better than our regulator's target for the number of external sewer flooding incidents, due to continued efforts to improve resilience. However, internal flooding incidents increased in 2021, following several severe weather events over the summer period.

We must lower our Compliance Risk Index (CRI) score. This is only possible by reviewing the whole process from catchment level to customer taps. The importance of water in public health means we must continue to improve our disappointing CRI score. A key part of this is the upgrading of several of our sites. We are investing in major upgrades at both our Testwood and Otterbourne water supply works to be delivered by 2030.

Customers want and deserve a good, clean reliable supply of water, and it was positive that as well as seeing no more than 300 customers out of supply during Storm Eunice, we also met our unplanned water outage target. Our regulators have confirmed that our incident response during Storm Eunice was exceptional. In preparation for this storm, we made sure that our response was effective by being predictive, prescriptive and preventative.

We published our sustainable development policy in April 2022, explaining how property developers can work with us to promote water efficiency and neutrality for new homes. Our score for serving our developer customers (D-MeX) last year

improved by 1.37, however our position remained static on 15th place in the overall ranking. We continue to implement our Developer Services improvement programme.

Protecting the environment is at the centre of our work, and we received the maximum reward for performing better than our target for water abstraction at the River Itchen, helping preserve our precious and unique chalk streams there.

We received a one-star (poor) performance rating in 2021 from the EA. This has gone down from the company's two-star (requires improvement) performance rating in 2020. Our one-star EPA rating is due to four red metrics; pollution, serious pollutions, supply demand balance index (SDBI) and treatment compliance. As a company committed to protecting the environment and serving our customers, we were disappointed by the assessment, but are striving hard to continue to drive improvements and this is reflected in good signs of performance in 2022.

I am confident that our new ESG Committee will provide valuable oversight of the development and delivery of our sustainability ambitions.

### Challenges we face as a business

Climate change and population growth are a dual threat meaning that the future holds many challenges. We have been working with local stakeholders to look at how we can take steps towards water neutrality. This means reducing the amount of water we use, and making water saving and recycling part of our daily lives.

To help sustain clean water, reduce floods, capture carbon and provide wildlife habitats, we have created a £5 million Environment Improvement Fund that is delivering projects to protect the natural environment in Kent, West Sussex and Hampshire over the next three years.

Our programme to support and incentivise customers to reduce their personal average daily water use to 100 litres by 2040 aims to reduce water consumption by 7% by 2025 and upgrade all our meters to smart meters. At the same time, we have been working hard to reduce leakage, fixing a record 12,000 pipes.

Reducing blockages is the focus of an ambitious scheme to identify emerging risks, by rolling out up to 22,000 sewer level sensors in Kent, Hampshire, the Isle of Wight and Sussex.

### Reflections on the year and our future priorities

We have entered year three of this current business plan period, and we need to make sure that we deliver fully on our commitments. Building the strategy towards the next business plan period will require extensive planning to meet the environmental challenges we are facing, including climate change, water neutrality and net zero. Our refreshed environment strategy will help guide us along an adaptive planning pathway.

Working together as a team, it is our people that make the business work, and I am exceptionally proud that we are again rated among the Inclusive Top 50 UK Employers. We continue to provide learning and development for all our employees. Over 8% of our people have started or completed an apprenticeship in the last 12 months and a new management academy is being put in place.

It has been a privilege to have spent 37 years in the water and environment sector, and to have been able to lead Southern Water since 2017. I would like to thank both the Board and my colleagues for the support they have shown to me in that time. The time is now right to hand over the reins and I wish Lawrence success in his new role as CEO and have every confidence that he will drive ever increasing levels of performance going forwards.

I am confident that we have a strong foundation for high-quality performance to take us towards the resilient water future that we need to have in the South East. I would like to thank our employees and suppliers for their hard work and commitment. I know we can move forwards to give our customers and our communities the service and public value they deserve, delivering better and faster into the future.



**Ian McAulay**

Chief Executive Officer  
30 June 2022

Note: Ian McAulay retired as Chief Executive Officer on 30 June 2022. Lawrence Gosden was appointed as Chief Executive Officer on 1 July 2022.

➔ Read more about our people on pages 62 to 65