

CEO's introduction

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Everyone has worked incredibly hard throughout the organisation and, through our collective efforts, we are becoming more of a team across the company. For that, I would like to say a big thank you to everyone, and also for the support I've received in moving into this role.”



We still have a lot to do on our journey to 2025

but we have really moved forward and I think we can achieve an excellent performance next year and through the AMP by focusing on our key eight performance indicators.

Journey to 2025

In November 2021, I set out the plan to the end of this regulatory period, which is called Journey to 2025. This has been communicated across the business and underpins how we are moving forward.

Journey to 2025 has four forward themes that set the high-level outcomes we are aiming to achieve over the next three years.



Overview

We have made good progress this year. Our performance has improved across all of our key areas of performance. We have redefined who we are, launching a new look for the company, we have put in place a new leadership team, and are establishing the culture of the organisation. We have advanced our planning for our water resources management plan, our PR24 plan and our longer-term strategy. We have also put in place all of our financing for this regulatory period and in doing so launched a green financing framework and a green bond. I believe we are really moving forward as a business, but also know that we have much more to do over the next couple of years. Coming into the role of CEO in September, I set out our plan to the end of this regulatory period, AMP7, which is called Journey to 2025. This sets our priorities of delivering performance in this regulatory period, developing a robust and credible PR24 plan for the next regulatory period and beyond and framing the future to enable the company to continue to deliver for its customers.

Here I will cover how we are dealing with macro and sector issues before taking a closer look at our performance and how we are progressing our key strategic targets or outcomes.

The external environment

External factors affect all businesses and their customers, and there have been a number of these worth noting this year. The treatment of water, and distributing it to everyone's houses, makes energy one of our biggest costs, and energy prices have risen sharply, particularly in the second half of the year. In addition, with inflationary pressures, chemical prices have gone up 35%. Our hedging strategy for energy has protected us to some extent and will do so for the year ahead. Nevertheless, higher prices than we planned for have been a challenge from a cost perspective.

Of course, Covid has also had an impact. Many customers would normally leave our region to go to work or on holiday, but instead they have been at home. Therefore we have seen much higher water usage over the last two years than in previous years,

1

Delivering the best outcome for the current year and setting ourselves up for success.

- a. Focus on the top 8 PCs,
- b. Tactical changes and
- c. In year plans

2

Achieving our AMP7 plans and ambitions.

- a. Focus on the top 8 PCs,
- b. Culture programme, and
- c. Delivery plans for the AMP including totex.

3

Plan for AMP8 that is robust, credible and stretching with confidence in deliverability.

- a. PR24 programme,
- b. Water Resources Management Plan, and
- c. Strategic Direction Statement.

4

Enabling us to step into AMP8, transition seamlessly and be ready for our future.

- a. Key enabling projects

CEO's introduction continued



although we've kept everyone in supply. I am also concerned about the impact that Covid, as well as inflation and the cost of living crisis, might have on people's financial situation. For our employees, we have run some financial workshops to help, and provided a 4.6% increase in pay this year.

For customers, we've been very proactive in providing more support. We have a social tariff and debt trust funds, and are identifying and reaching customers who qualify, and we have also established various payment plans. We have used data and insight to proactively reach out to customers to offer support. That has helped us to reach a position where we are supporting over 96,000 households, while at the same time, actually improving our collections process and our bad debt performance.

We proactively contact customers we feel to be vulnerable through our Priority Services Register – not just from an economic point of view, but also those who have a critical need for water supply, perhaps a medical need, or people who are unable to get to where we may be supplying water in an

Interruptions to supply score one of the best performances in industry

3:43
minutes seconds

emergency situation. We are pleased to report we now have over 92,000 customers on our Priority Services Register who receive extra support during emergencies.

Partnerships are key for us to drive our message and engage with customers – especially those hard to reach.

We have partnered with debt charities and other organisations such as National Debtline, Citizens Advice, Money Advice Service, Surviving Economic Abuse, StepChange and Turn2Us.

Data sharing is also integral in helping us reach customers who may benefit from our support and we already have arrangements in place with UKPN (UK Power Networks) and SSEN (Scottish and Southern Electricity Networks).

In setting our tariffs for 2022/23 we accelerated a rebate of £3m to bring forward this benefit to customers.

Issues specific to the water sector

The water industry has been in the media spotlight a lot this year due to combined sewer overflows, which are instigated by storms. As a water-only company, the storm overflow issue doesn't affect us directly. But nevertheless, it has brought to the forefront the whole conversation about water, its connection with the environment and with rivers. There are sewer overflows that go into some of the chalk streams in our area, but the biggest issue for those streams is that they have very limited flow in the first place. This is partly due to the

abstraction to supply customers with water, and we need to look at how we can reduce this over time. So it does lead to the need to have those wider conversations, as a nation, about how we value water and use it sensibly, and address the challenges of water scarcity.

One thing we are doing, and for the first time, is to have an integrated long-term water plan for the south, as part of Water Resources SE. Here, the water companies work together to address the need for water in the face of climate change, population growth and impacts on the environment. These plans will then feed into our own water-resources plans and then into our next price review.

Progress towards achieving our strategic outcomes

Our strategy is geared to a number of key outcomes and metrics – and while we have 28 performance commitments that are all important, I have been focusing on our top eight, which we believe are the main concerns for our customers. Consequently, they are also the ones that have the largest penalties or rewards attached to them. I believe if we get these right, everything else will follow, and I'd like to touch on four key customer outcomes first:

Supplying high-quality water you can trust

People turn on their tap with an expectation that the water coming out will be of the highest quality, so I'm proud to be part of an industry that produces some of the best-quality water in the world. On the metric set for this, we are excelling with a performance that is upper quartile in the industry. This follows a real focus in this area this year.

Making sure you have enough water, while leaving more in the environment

We are in a water-stressed region, and we have to strive for this balance. We haven't achieved our per capita consumption nor leakage targets, but in both we have made a massive step forward and I will expand upon these below. For both, I believe we will achieve our targets for the AMP period, which I know is a bold ambition, particularly for PCC. Leakage I expect

us to be on track with our target in the coming year. We have invested more in this area, utilising technology to find leaks and reduced the time it takes to fix leaks. To meet our PCC target for the AMP means that we will need to aim to fully offset the impact of customers changing the way they live, staying at home during Covid and using more water, post Covid. We believe that we can meet this challenge through our leading approach to PCC.

Providing a great service that you value

We have three regulatory service measures. C-MeX is our customer service metric. Here we have a lot more to do and it is an area we are focusing on. We have closed the gap, but are still ranked towards the bottom of the water companies. Our work to redefine who we are and engaging with our customers will help, because understanding who we are makes up part of the score. But we have a number of plans involving our people, systems and processes that I expect to help us improve on the service side next year. D-MeX measures how we look after our developer services, or new or additional connections, and in comparison to our peers we are now at strong mid-table performance, which is a great improvement. The last is R-MeX, the measure for retailers who bill business customers for the water they provide, supplied by us as the wholesalers. This year we have been ranked first again, and increased the gap to second place, so we've continued to improve in this area, delivering a great service to the retailers. In addition to these we also use the UK Customer Service Institute survey. We believe that this is a great measure of service as customers are rating the service against other service providers that they use. Under this survey we have increased by 5.6 points and ranked 9th in the industry, an improvement on last year.

Minimising disruption to you and your community

This is principally about interruptions to supply. The main measure, which everyone has, is the average minutes of interruptions over three hours across our customer base. So in effect, if we haven't solved the problem within three hours, the clock starts ticking. This year our time is three minutes, 43 seconds. Our regulatory target was six minutes,

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8 seconds and just to put it in context, two years ago we were at 16 minutes. Dividing up all those minutes across our whole customer base, to improve by one minute is a big achievement. So I'm really proud of what the teams have achieved in this area; it's a brilliant performance. We want as few issues as possible for customers, but this is all about how we react to an issue when it happens, or detect it before it even becomes an issue. With the monitoring we have on the network, and using machine learning in our control centre, we quite often know there's an issue before our customers do. So we can mobilise accordingly, whether it's repairing the problem or keeping customers in supply while we do.

Other performance highlights

Reducing Leakage

While we haven't made this year's target, we are at the lowest level of leakage we've ever achieved,

which is a massive step forward. We invested more than we had planned in improving our technology making use of satellite technology and developing artificial intelligence. This enables us to piece together all the monitoring across the network and understand where the leaks are. Most leaks are in the ground, rather than the classic burst pouring out across a street, so to repair a leak, we need to identify the right place to dig. Our new technology helps us do that, and it's created a real turnaround in performance.

Per capita consumption (PCC)

Again, we didn't achieve our target, but we have seen a reduction of 13.6 litres per person per day in the year. We are confident that over 21 million litres of water has been saved through demand side improvements alone and we expect this performance to be industry leading in terms of absolute reduction volume.

One challenge has been the increased home usage from Covid lockdowns,



CEO's introduction continued



as I mentioned, but we are nearly back to pre-pandemic levels. We've managed this through campaign-led approaches such as our award winning Save Our Streams campaign that over 191,000 customers signed up to in 2021/22, water-efficiency home checks, virtual home checks, and engaging with our particularly high users.

Rebranding

To help our customers reduce the amount of water they are using, we need to increase awareness of who we are, what we do and why this is important. In addition, we are now measured not only on the service we provide, but also on people's perception of us. So our brand, or who we are, is really important, and this year we have undertaken a major rebranding exercise. Our brand positioning statement, our look, and a feeling of togetherness and consistent messaging will help customers understand the impact we have on their lives, and also how we can help them. It provides an identity for our people as well, which is really important as they are key to delivering great service every day. We've done our first TV campaign in the new branding. It's about leakage, and it's really important because we're asking customers to play their part. So, truly, our brand is connected to our performance.

Progress through AMP7

We have completed two years, and we're going into the third. This is hugely important because, if we're achieving in our core business, we have the legitimacy to take the things we're doing, and want to do, into our next price-control submission and into our longer-term strategic direction statements.

So with the areas of performance above, although we've made great progress, we need to get them to a point where they are achieving their targets, and that's very much the focus. After a tough price review, we were behind where we needed to be when we came into this regulatory period, and I now feel we've turned a corner and are moving in the right direction.

ESG initiatives during the year

From an ESG perspective, there are a number of initiatives I should highlight. As we don't have an integrated energy source from the by-products of waste, we are later than other water companies in addressing the energy-generation issue. But this year, we switched on our first solar plants and will be adding more shortly. We have agreed to invest in a further 28 sites which, once installed, will be providing 10% of our energy through solar before the end of AMP7. We will

also have our first electric vehicles next year, and have made great progress with our river restoration work, completing over eight projects in the first two years, making a real difference to our local environment.

On social matters, we've brought forward a customer rebate so it can go into customers' bills this year, rather than waiting for a regulatory process that would put it into next year. And internally, we launched our One Network, very much focused on diversity, equality and inclusion. We have a number of groups that focus on different aspects of diversity, each sponsored by an Executive member.

Our focus for the future

One of the big issues is future water scarcity – the need for new water resources but, in the shorter term, managing the water we have, including reducing abstraction from the more delicate areas of water supply. Currently we are working on our water resources management plan and setting out what this looks like for the next 50 to 60 years. And from that we work forward to our next five-year plan. But we're at a really crucial point where we have to take action now, just like we do on carbon. What we decide now is about ensuring people have sustainable water for the next one hundred years.

One of the things we have to consider is the risk of severe droughts from climate change. While we can plan for how we take water from different sources, or join up water supplies, in the immediate term, the two tools we have in our arsenal are reducing the amount of water we take, and getting people to use less. This means working harder on our PCC, as well as investing in new technology to be able to better serve our customers, and then increasing capital investment. For example, we are opening a plant at Sundon that allows us to reduce the water we abstract from the chalk aquifers in the north of our region.

We are also well underway with preparing our PR24 submission, with a team pulling the plan together, and I think it's more integrated across the company than previous plans. The Board has been engaging heavily on this, and I feel we are on track to presenting a strong and thorough plan for PR24.

Our people

The last two years have been challenging. If they weren't challenging enough given the hill we had to climb to achieve the outcomes we agreed, we also had a pandemic to contend with. Everyone has worked incredibly hard throughout the organisation, and through our efforts we are becoming more of a team across the company, rather than different departments. For that I would like to say a big thank you to everyone, and also for the support I've received in moving into this role.

Health, safety and wellbeing

The health, safety and wellbeing of our people and customers is a top priority for us. In December and January, we engaged an external safety specialist to review our safety and in particular our safety culture. This has highlighted areas where we can improve with the development of an action plan, which includes activities focused on building on our leadership, behaviours and wellbeing.

We are continuing with this work, and as part of this I am making changes in the leadership of this area and the structure of the team. Some of these resources will be embedded within our operational teams, to support and coach them, and to ensure we are doing the right things every time.

We want all employees to feel valued, supported and respected at work. To help us achieve this, in 2021 we launched the Women's Network, the Men's Network and the ONE Network (for Black, Asian and minority ethnic employees).

All networks are open to colleagues who identify with a particular network, as well as colleagues who want to help the group achieve its goals.

Every network is sponsored by an Executive Management Team member. This year, we'll be launching two more networks: Pride and Neurodiversity.

Outlook

I look forward as a series of horizons, being the year ahead of us, then the remainder of the current AMP, followed by the next AMP of 2025-2030, and then the longer term. And of course as we reach these, they become milestones or checkpoints that tell us where we are and how we have done. At this stage, the first of those is the most important. We still have a lot to do on our Journey to 2025, but we have really moved forward and I think we can achieve an excellent performance next year and through the AMP by focusing on our key eight performance indicators. But it's also the year when we set out our water resources plan and our PR24 plan, so it is a key year for us. So success in my third horizon is based on a robust and credible PR24 plan that makes compelling arguments for what we aim to achieve, which of course sets us up for the longer-term future. The logic of that approach is to try to provide some clarity for each of those horizons, but it all starts with next year's performance. The key to success in delivering our plans is prioritisation, our people and team work. To support this we are delivering a cultural change programme and investing in our people who ultimately will set us up for success for our Journey to 2025 and beyond.

Stuart Ledger
Interim CEO

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