

Sustainability

We are committed to providing water for life to make a positive impact for the good of our customers and communities

Overview

Our purpose is to provide water for life and this is a responsibility we take very seriously. We know that the resilience of our business is directly linked to the economy of our region, the communities we serve and our environment. Together, we are facing real challenges with regards to the impacts of climate change and population growth so to ensure that we can create a resilient water future for our customers in the South East, we must go beyond regulatory compliance and manage our business in a sustainable way.

What we've done

In order to operate more sustainably, we need our business to run efficiently. Our transformation programme, which began in 2017 has focused on improving people, processes and systems, in support of our Water for Life Business Plan 2020–25 stakeholder priorities. Since 2017 we have:

- Continued to help customers to reduce their water consumption, with individual daily use getting as low as 126.5 litres by March 2020.
- Invested £437 million in our sewer network since 2015 to maintain and enhance ageing infrastructure.
- Increased the number of bathing waters at excellent status to 62 as part of our regional Bathing Water Enhancement Programme.
- Continued to embed our values, Code of Ethics and Ethical Decision-Making Framework. This and modern compliance frameworks, alongside our vision and purpose, help our leadership team, employees and partners make better decisions every day.
- Made significant investments to improve our wastewater treatment and water quality compliance.
- Published our Pollution Incident Reduction Plan (PIRP), which set an ambitious target to reduce pollution incidents to zero by 2040 and includes £8.2m investment to 2025. It has already delivered a reduction of around 400 category 1-3 incidents in 2020.
- Signed up and put detailed plans in place to deliver against a number of water industry Public Interest Commitments, based on stakeholder feedback, to: keep bills affordable; achieve 100% commitment to the Social Mobility Pledge; triple the rate of leakage reduction; achieve net zero by 2030; and reduce the amount of plastic bottle ending up as waste by 2030.

What we're doing

We have now entered the final phase of our transformation programme, which will see the strategic projects put in place drive £150 million of efficiency improvements to 2025. We have already:

- Launched £1.1 billion in sustainable bonds to support the financing of investments and activities that deliver sustainable outcomes. This is the largest-ever sustainable deal for a UK utility company.
- Defined our plans to achieve our carbon reduction ambitions (net zero by 2030) following a company-wide analysis of options and costs.
- Expanded our Catchment First programme, investigating potential pollutants and sustainable abstraction methods that could compromise our drinking water supplies and the environment, working in partnership with farmers and landowners.
- Reinvigorated Target 100 water efficiency programme, which aims to support and incentivise customers to reduce their personal use to 100 litres a day by 2040. Levers include: behaviour change campaigns; home visits to install water efficient products; engagement with developers to improve the water efficiency of new homes; and smart metering.
- Launched our first Water for Life Hampshire consultation on our plans to explore new sustainable treatment techniques and create a new network of water mains across the region. The programme will be delivered through a combination of infrastructure investment, nature-based solutions, land management and customer behaviour.

£150m
efficiencies
delivered
by strategic
projects to 2025

→ Read more about our Pollution Incident Reduction Plan on page 23

Sustainability continued

➔ Read more about our **Learning Network** on pages 56 to 59

- Signed an 80-year bulk supply agreement with Portsmouth Water, under which it will supply us with 21 million litres of water a day. Together, we are developing Havant Thicket Reservoir in Portsmouth Water's supply area.
- Recycled 100% of the bio-solid waste from our wastewater treatment works during the year, with none of it going to landfill. We continue to explore new ways to extract value from these resources.
- Launched our Learning Network, offering training, coaching and mentoring support to our colleagues and communities.
- Joined the Inclusive Companies list of Top 50 UK Employers.

Where we want to go

Our transformation programme has provided us with an efficient baseline to start allowing for outperformance in the next five-year period to 2030. By 2030 we are aiming to have:

- Achieved significant reductions in our carbon emissions, in line with our peers, reaching our net zero targets.
- Simplified our business strategy, with a focus on annual planning reviews, continuous improvement and our long-term vision.
- Developed our existing stakeholder engagement approach, focusing on regional and local partnerships.
- Connected our customers to the value of water through expansion of our smart metering programme and a focus on behaviour change communications, moving closer to achieving Target 100 – with customers using 100 litres of water per person per day by 2040.
- Driven down the number of pollutions caused by our operations, moving closer to our target of zero pollutions by 2040.
- Taken action to address the most harmful of our sewer overflows, building on our monitoring programme, and our Beachbuoy service; working with our regional partners to maintain more excellent bathing waters in the South East.
- Embedded six capitals thinking into our decision making processes to ensure we are adding value to our many and varied stakeholders.

Focusing on what matters to our stakeholders

Our approach

Understanding what matters most to our stakeholders is vital and we consider their priorities alongside our own assessment of what has impact on the company and its ability to create value. The output of this assessment can be seen in our current materiality assessment opposite.

Having visibility of these issues helps us understand key stakeholders' priorities so we can consider their interests in strategic decision-making, in turn helping us create long-term value.

Determining and prioritising key issues

To define the overall strategic relevance of each issue to Southern Water, we considered its effect on our ability to create value, internally (for the company, our investors and employees) or externally (for customers, communities, our suppliers and the environment). This value could be financial or non-financial.

Stakeholder engagement

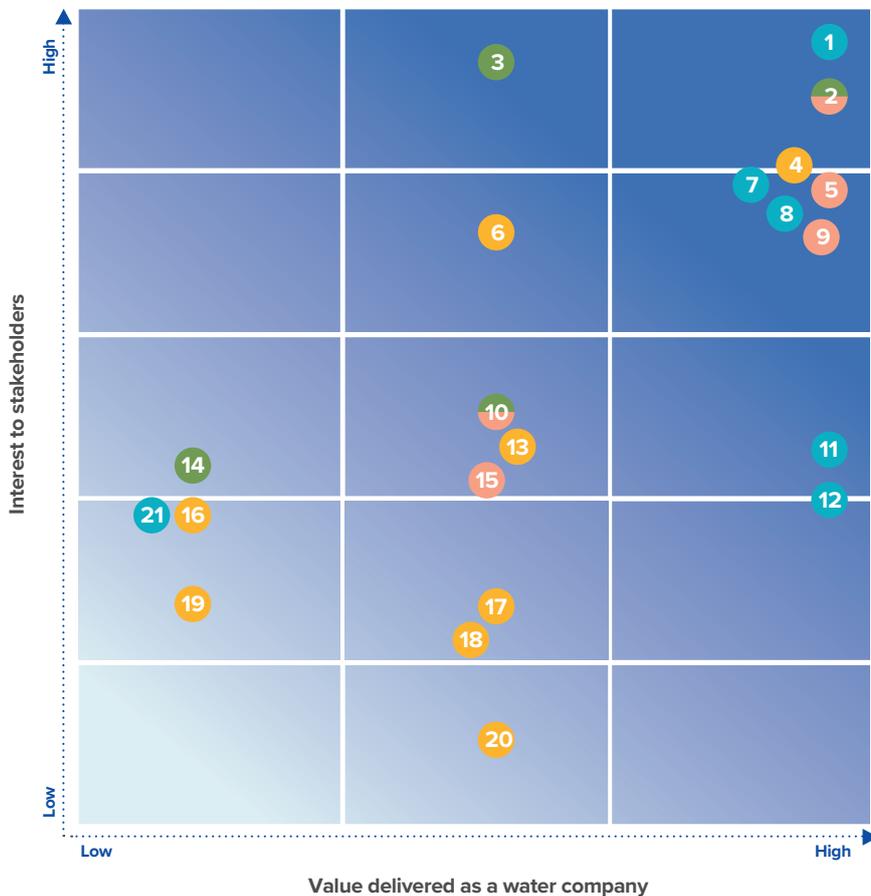
Our assessment of the level of interest to stakeholders is based on views obtained from our stakeholders through continuous engagement. This includes the insight gathered as part of the consultation process for the regulatory price review in 2019.

Key issues and their importance

To compile our first materiality assessment, we consolidated feedback from our various stakeholder groups, as detailed on pages 46 to 50, which resulted in 21 key issues impacted by internal or external factors or sometimes both.

These issues have been plotted on the next page, from low to high in terms of level of interest to stakeholders and how much each issue affects our ability to create value.

Southern Water's materiality assessment



Key issues

Economic dimension

- 2 Resilience
- 3 South East economy
- 10 Responsible supply chain
- 14 Land management and access

Environmental dimension

- 2 Resilience
- 5 Leakage and water efficiency
- 9 Environmental impacts
- 10 Responsible supply chain
- 15 Climate Change

Social dimension

- 4 Customer service and operational performance
- 6 Affordability and vulnerability
- 13 Health, safety, security and wellbeing
- 16 Community investment
- 17 Diversity and inclusion
- 18 Social mobility
- 19 Fair and equal pay
- 20 Improved meter, property and customer data

Governance dimension

- 1 Trust, transparency and legitimacy
- 7 Political and regulatory environment
- 8 Environmental, Social and Governance (ESG) credentials
- 11 Stability and predictability
- 12 Data protection
- 21 Human Rights



Sustainability continued

s172(1) Statement

In order to make effective decisions, the Board needs to take into account the interests of our stakeholders, our impact on the environment and on the communities we serve

Our approach

When making key decisions and considering key areas, the Board takes into account not only the factors listed in section 172(1) of the Companies Act 2006, but also the company’s strategy, purpose, values and risk. Our five-year business plan 2020–25 was built on the basis of extensive customer and stakeholder engagement ensuring our Board is focused on what matters most to them.



Ensuring effective stakeholder engagement

At the core of the directors' duty under section 172 is the need to take into account the interests of the company's key stakeholders as well as the need to take into account the impact on the environment and the outcomes over the long term. The company and its Board engage with a variety of stakeholders through a number of mechanisms, including membership of stakeholder panels, regular meetings with stakeholders, 'town hall'-style events (albeit held remotely in view of COVID-19) as well as simply speaking to people.

Delivery for our customers is one of our key priorities. The Board receives regular reports from management regarding customer performance and attitudes. The introduction of performance metrics that take into account the wider customer experience has also led to increased need for awareness of customer views.

Throughout the COVID-19 pandemic, the Board has paid particular attention to the needs of our customers, who may face significant challenges as a result of the change in circumstances, whether these be financial or physical or mental health-related, and has been supported in this through regular updates from our Affordability and Vulnerability team which has been working directly with third-party support organisations in the community. The presence of Dame Gillian Guy on the Board, the former Chief Executive of Citizens Advice, has further improved awareness of the needs and concerns of customers.

Our Board receive regular updates on environmental matters, including legislative changes, key areas of concern such as climate change, biodiversity and water resources.

The company appointed a Director of Environment and Corporate Affairs during the year to ensure that increasing focus is given to this important area and its challenges.

In 2020, one of the independent non-executive directors, Kevin McCullough, was given the remit of engaging with the company's workforce and ensuring that their views are communicated to the Board. In addition, the CEO has held fortnightly 'Company Conversations' with the company's workforce to explain what is happening at Southern Water and to answer questions on a variety of topics.

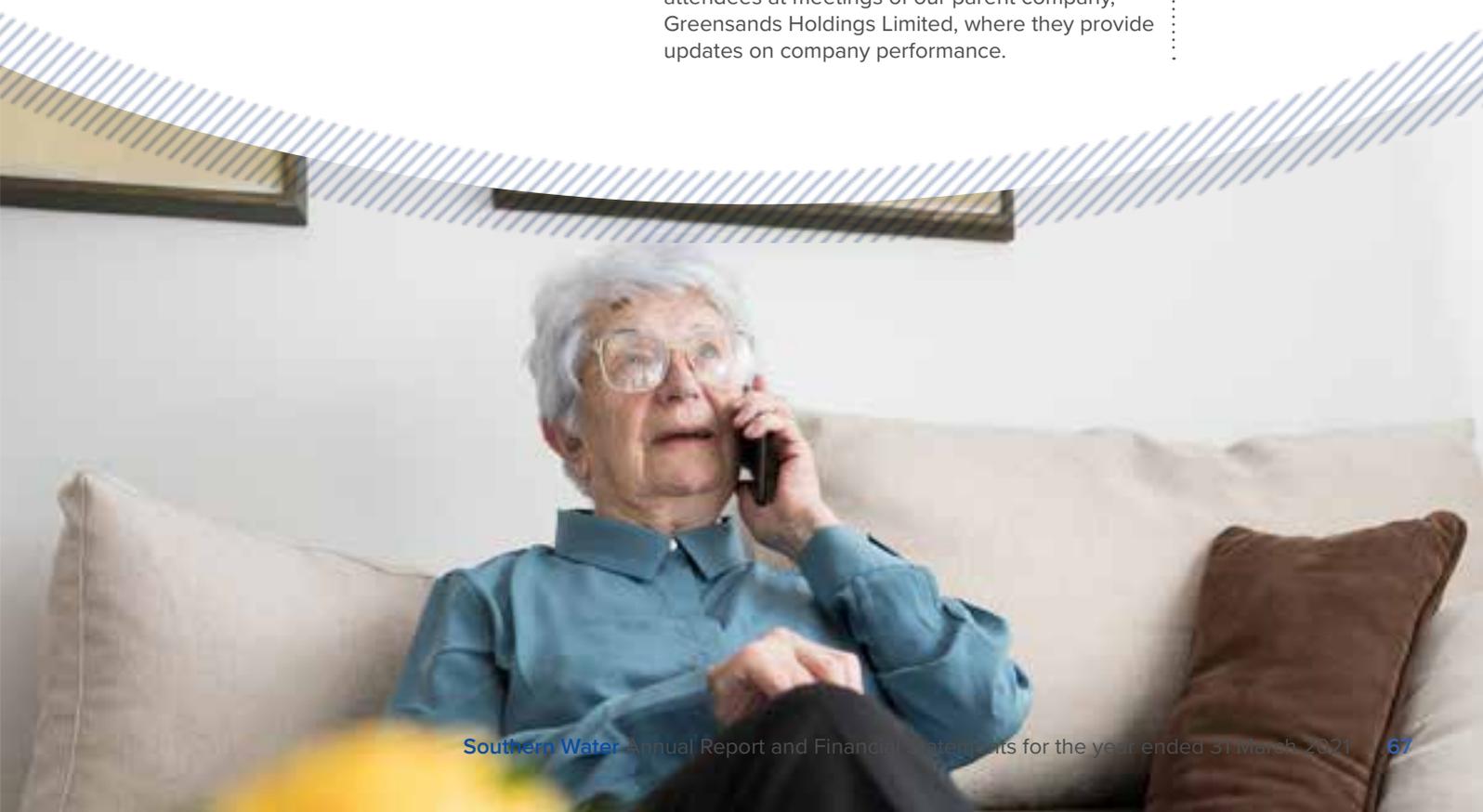
These 'in-person' forms of engagement are supported by regular Gallup all-employee surveys. A key focus for the Board this year has been on employee wellbeing owing to the significantly changed working conditions due to COVID-19.

The CEO, Ian McAulay, is a member of the Greater Brighton Infrastructure Panel, which focuses on the capital infrastructure in the sub-region.

Our senior executives and Chairman hold regular meetings with senior representatives of our key regulators – Ofwat, the EA and the DWI – in order to discuss our performance and compliance with our statutory obligations as well as to communicate our vision for the future of Southern Water.

The Chairman, CEO and CFO are regular attendees at meetings of our parent company, Greensands Holdings Limited, where they provide updates on company performance.

- Read more about our **COVID-19 response** on page 15
- Read more about our **environmental disclosures** on pages 70 to 71
- Read more about **employee engagement** on pages 56 to 59



Sustainability continued

s172(1) Statement continued

Overview

Section 172(1) of the Companies Act 2006 sets out several factors which the Board is expected to take into account in its activities and decisions.

Section 172 considerations key:

Likely consequences of decisions in the long term

 Read more about our long-term ambitions on pages 54 to 55

The interests of the company's workforce

 Read more about our employees on pages 56 to 59

The need to foster relationships with suppliers, customers and others

 Read more about suppliers on page 62

Impact of operations on the community and environment

 Read more about operational performance on pages 74 to 99

Maintaining high standards of business conduct

 Read more about how we measure our culture on pages 168 to 175

The need to act fairly between members of the company

 Read more about capital structure on pages 112 to 117

COVID-19

Link to Section 172 considerations



Customers

Ensure that all of our customers, and in particular those in vulnerable circumstances, have access to our services even under challenging conditions.

Workforce

Ensure that our employees have a safe work environment and the impact of the substantially-altered working and home environment of our workforce on employees' wellbeing is monitored.

Outcomes and actions:

Implementation and continued monitoring of the company's Business Continuity Plan.

Simplification of our processes for customers who need help with their bills. Offering additional payment breaks and delaying debt recovery where appropriate.

Taking proactive steps to ensure that sufficient tankering capacity was available for the summer to ensure a continued supply of water throughout a period of sustained increase in demand.

Monitoring of our culture change and culture dashboard.

Launch of a new employee recognition scheme – Southern Water STARS.

Monitoring of employee physical and mental health through employee surveys.

Regular engagement with employees by a designated non-executive director.

Weekly 'Company Conversations' with CEO.

Link to risks: Customers; Health, Safety, Security and Wellbeing; Finance; COVID-19

Link to strategy: Deliver great service and Use water wisely

 Read more about our COVID-19 response on page 15

Delivering our business plan

Link to Section 172 considerations



Long-term impact

Invest for the long-term to ensure continued supply of essential services.

Ensure that the company remains financially and operationally resilient.

Community and the environment

The need to address climate change and population growth in the South East.

Customers and suppliers

The need to ensure that our teams and contractors continue to deliver essential services for our customers.

Outcomes and actions:

Throughout the year, the company has sought to refine and improve plans to ensure that it can deliver its obligations under the Final Determination from Ofwat, while remaining financially resilient.

In March 2021, the company updated its Execution Plan to deliver its obligations over the 2020–25 period. This includes significant investment in proactive maintenance as well as transformational programmes to improve efficiency.

In May 2020, the company raised £825m via a 'green' bond to support its investment in the environment.

In February 2021, we signed a bulk supply agreement with Portsmouth Water and joint development of the Havant Thicket Reservoir to improve the resilience of supply and reduce reliance on abstraction from rivers.

Link to risks: Water; Wastewater; Finance; Resources; Climate Change; Delivery of Capital Investment

Link to strategy: Deliver great service; Use water wisely; Protect and improve the environment; Fit for the future

➔ Read more about our operational performance on pages 74 to 99

Our environmental ambitions

Link to Section 172 considerations



Long-term impact

Invest in environmental improvements to create a resilient water future for our customers in the South East.

Take steps to mitigate and adapt climate change.

Community and the environment

The need to maintain and improve water quality in rivers and beaches so that they can continue to be enjoyed.

Outcomes and actions:

Publication of the company's Pollution Incident Reduction Plan in September 2020 with a focus on proactive investment in capital maintenance, digitisation and improvements in incident response to deliver zero pollution incidents by 2040.

Commitment to net zero by 2030, including plans to increase the proportion of renewable energy we use to 24% by 2025.

Investment in targeted projects to deliver additional benefits such as increased carbon storage, improved water quality, reduced flood risk and increased health and wellbeing in partnership with bodies such as the Wildlife Trusts and the Rivers Trusts.

Working collaboratively across sectors to address concerns around storm overflows and chalk streams.

Link to risks: Delivery of Capital investment; Resources; Regulatory and Corporate Affairs; Transformation

Link to strategy: Use water wisely; Protect and improve the environment; Fit for the future

➔ Read more about our environmental ambitions on page 17

Sustainability continued

72%

of the energy we consume is in our wastewater treatment processes

Environmental disclosures

Overview

Energy: In 2020–21 Southern Water consumed 548,583 MWh of energy for Water and Wastewater operational purposes. Wastewater is the largest consumer of energy, accounting for 72% of consumption. Most of this energy will be used to power our pumps and blowers.

We also generated 73,656 MWh of energy in Wastewater via our CHP engines, which offsets 24% of our wastewater consumption and prevents the need for this energy to be imported. Water supply accounts for the remainder of the energy needed to power our operations, with solar generation totalling 2,916 MWh, helping to ease the need for imported energy at our supply works. We aim to generate 24% of our electricity from renewable sources by 2025.

Carbon emissions: Our 2020–21 emissions were significantly lower than 2019–20. In 2020–21 we can report that our emissions are 91 kilotonnes of CO₂e, compared with 144 kilotonnes CO₂e in 2019–20. This reduction is due to the renewable backed power that we purchased from our suppliers. Going forward we have contracted our suppliers to provide 100% renewable backed power, and our market based emissions will reduce further in 2022–23. This is part of our broad strategy to reach net zero operational emissions by 2030.

Compliance: We are investing £234 million in transformation programmes and investment at specific sites that will secure improved wastewater compliance – we have called it our ‘Go to Green’ process. This will help us in our efforts to achieve 100% compliance for all our wastewater sites and prevent further deterioration in our performance baseline. The Go to Green process was mobilised in September 2020 to improve our ways of working, focusing more on pollutions and treatment compliance, in turn, improving our environmental and Operational Delivery Incentive (ODI) performance. As part of this initiative, we have:

- Embedded weekly meetings, with a focus on fast mitigation on our risk sites
- Drawn up tactical improvement plans for region-wide improvements, particularly where there are multiple parties involved
- Created stronger links into our normal risk and planning process.

As we rebuild trust and can evidence that compliance is just part of the way we work, we can focus more attention on our environmental performance improvement programmes.

Water quality: The water reaching customers’ taps continues to meet the Drinking Water Inspectorate’s (DWI) stringent water quality tests, with 99.97% of samples meeting all the necessary standards. Our target was to achieve 100% compliance.

We monitor water quality at treatment works, treated water storage facilities and customers’ taps. The Compliance Risk Index (CRI) was introduced by the DWI to apply from 2020 onwards. Both the CRI and the ERI (Event Risk Index) are weighted by population to better highlight risks to customers from treated water that fails to comply with the required standards. Our expected year-end CRI score of 4.53 is better than in 2019, but we know we still have work to do to improve our performance in this area. 78% of the 2020 CRI score was due to failures at works (eight coliforms and one turbidity). Improvements to our water supply works are being carried out as part of the HazRev programme. Two coliform failures at Otterbourne works accounted for 50% of the CRI score. Improvements to the disinfection at Otterbourne are currently being carried out including a new contact tank and the addition of a UV disinfection step.

Pollution: In September 2020 we published our Pollution Incident Reduction Plan (PIRP), which includes a detailed programme of activities to deliver a step-change in how we work, prioritise and remedy issues on our sites. The PIRP forms part of a wider initiative called Environment+, which is focused on harnessing our people, processes and systems to deliver a resilient water future for Southern Water’s customers, by protecting our natural environment as well as our customers’ properties.

Our total number of pollution incidents for the year reached 400 incidents, which is unacceptable. Our target is 24.51 incidents per 1,000 km of sewer which translates into 98 actual incidents. We received the maximum penalty of £7.7 million.

Our aim is to reduce pollution incidents to less than 80 by 2025, aiming for zero pollution by 2040. Read more at southernwater.co.uk/our-performance/reports/pollution-reduction-programme.

Reducing our use of plastics: Reducing single-use plastics is a priority, which is why we were one of the first water companies in the UK to publish a formal policy on managing plastic waste. We are working with colleagues, our supply chain and our peers to reduce our reliance on plastic in our offices and our operations. We have carried out an audit of our use of plastics and are working with our supply chain to encourage them to reduce plastic waste too.

We are also still supporting the national Refill water bottle filling campaign started by City to Sea and we are sponsoring their plastic-free Rethink Periods programme, which aims to reach 500 schools across our region over the next two years.

Although we are not the source of plastics in the marine environment, we recognise that water companies are a link in the chain and have an opportunity to intervene. We are proud to be playing an active role in better understanding the challenge posed by plastics and to be helping our customers and communities protect the environment.

Conservation and biodiversity: It is important to us to enhance the health and wellbeing of our environment, protecting and improving it where we can. During 2020–21 our Environmental Compliance team has introduced a number of new conservation and biodiversity initiatives, which include working with our new facilities service provider to implement ‘no mow zones’ on our sites, allowing wildflowers to grow and encourage biodiversity. The team has also created before-and-after surveys so we can better monitor the types of habitat we are providing and see how they have improved. This work has uncovered a number of activities on our sites across Kent, Sussex, Hampshire and the Isle of Wight, where our operational teams have built bug hotels, kestrel and owl nesting boxes and bee boxes on sites. While those more green-fingered teams have created space for species of protected orchids and installed planters full of pollinating plants. We continued to encourage our teams to explore these opportunities to enhance the biodiversity on our sites.

Natural capital: We have included commitments to adopt a natural capital approach in our Water for Life Business Plan 2020–25. We have a commitment to establish natural capital accounts alongside our traditional financial accounts in 2022–23, to enable us to measure and monitor a wider breadth of ‘value added’ as a result of investment and activity.

Our plans include:

- building capacity and expertise
- applying approaches to strategic programmes such as WRMP, DWMP and Water for Life Hampshire
- embedding in business process, including our Risk and Value processes
- planning for the next five-year regulatory period
- understanding the value and potential of our own estate.

The Sussex Kelp Forest is an example of a project we are already involved with. This innovative approach will restore marine and coastal natural capital assets. The project is looking to stop damaging fishing practices to enable a historic area of kelp to regenerate off the Sussex coast and to create a financial model for attracting investment in natural capital. A partnership is forming and we want to be facilitators and enablers to explore its value in terms of natural water quality improvements and a significant ‘blue’ carbon offsetting opportunity.



Picture courtesy of Dan Smale,
Sussex Wildlife Trust

→ Read more about **our other five capitals** on pages 44 to 45

Sustainability continued

100%
green energy
purchased from
the national grid

Our net zero plan and climate adaptation

In 2019 the UK water industry joined forces to commit to reaching net zero carbon by 2030 for emissions arising from its operations, joining the United Nation's Race to Zero. This target brings the industry in line with the terms of the Paris Agreement, and comprises emissions associated with heat and power, transport and the treatment of water, wastewater and sludge.

We have developed our own plan to reach net zero by 2030 and beyond, which will be published this month (July 2021). In the short term, we will continue to drive energy efficiency and focus on water demand management while we install more renewable power sources. We have also purchased 100% 'green' power from the national grid, and very soon we will begin the update of our fleet, introducing electric vehicles as the technology in this area develops.

At the same time, we will support the sector's efforts to better measure and manage the emissions arising from the treatment of wastewater and sludge. Termed process emissions, these comprise methane and nitrous oxide, which are 25 and 200 times more potent than carbon dioxide, respectively. At the moment these gases are difficult to abate so more work is needed here to find sustainable management solutions.

Longer term we will develop plans to optimise the power of human waste by enhancing our technology to generate green gas (biogas) from wastewater to replace fossil fuels. We will also work with our stakeholders to develop local nature-based solutions to absorb carbon where we are able to.

Climate adaptation

Due to a rise in global temperatures, we have forecast warmer wetter winters and hotter drier summers in the South East. This, of course, has major implications for us in terms of the provision of public water supplies to a growing population and the likelihood of increased flooding of our sites and networks from rising sea levels and intense rainfall.

The impact of climate change is considered in all our long-term infrastructure plans. For example, our Water Resources Management Plan models the impact of a rise in global temperatures, while our Drainage and Wastewater Management Plans assess climate impact.

This year we are preparing an updated risk assessment for Defra to demonstrate our approach to climate adaptation. This plan will take the latest climate forecasts from the Met Office and update our assessment of short, medium and long-term risk for a two degree and four degree rise in global temperatures. We will invite comments from our stakeholders prior to final publication later this year.

Our sustainable bonds

Overview

In May 2020 Southern Water secured £825 million in sustainable bonds to support the financing of investments and activities that deliver sustainable outcomes. This is the largest ever sustainable deal for a UK utility company. A further £300 million bond was secured in March 2021 under the same sustainable financing framework.

Our sustainable framework was put in place in January 2020 in order to attract a wider investor base and socially conscious investors. The framework allows us to issue Green Bonds or Social Bonds or both, which are collectively known as sustainable bonds. A sustainable bond is broader than a Green Bond adding in Social categories such as access to affordable basic infrastructure and essential services (water and wastewater) and also includes areas such as support for our vulnerable customers and social tariffs.

Why have we put this framework in place?

We wanted to demonstrate to investors our environmental, social and governance (ESG) agenda by attaching it to our debt financing. This in turn supports our wider ESG framework that is continually being developed to demonstrate a holistic approach to our strategy alongside the requirements of the regulatory regime.

The general direction of travel in the water industry suggests that this type of sustainable finance in the form of bonds and other sustainability linked products will become the norm in the future.

It is certainly our intention to progress further down this path where market conditions allow, and our framework will naturally evolve as our ESG strategy does.

As part of our reporting requirements under the framework, and in order to demonstrate to investors the impact that our investments have made, we will be issuing our inaugural allocation and impact report later in the year.

Key facts:

- £350 million of the £825 million May 2020 bonds was used for the refinancing of 15 projects within the 2015–20 asset management period (AMP).

- The remaining £475 million of the May 2020 bonds, and all £350 million of the March 2021 bonds, will be used to support the funding of projects within the current five-year AMP period to 2025.
- All bonds are allocated to capital projects.
- All projects meet the strict eligibility criteria under the ICMA Green and Social Bond Principles.
- Our Sustainable Framework and the underlying eligible projects have been assessed by a third party, namely assurance experts DNV GL.
- The bonds give a return to investors of 2.375 and 3.000% for the May 2020 bonds (£375 million and £450 million respectively), and 1.625% for the March 2021 bonds.
- All the sustainable bonds are public issuances and have tenures ranging between six years to 17 years.

➔ Read more about our long-term ambitions on pages 54 to 55

