

# Chairman's statement



**Keith Lough**  
Chairman

→ Read more on the impact of COVID-19 on page 15

## A warm welcome to our Annual Report and Financial Statements for 2020–21.

At the close of a year that has presented Southern Water, and the communities we serve, with unprecedented challenges, I would first like to thank each of our colleagues, and our many suppliers, for their dedication and commitment to ensuring the continuity of essential services for our customers and their care of one another.

The impact of COVID-19, alongside the weather extremes we have experienced this year, have tested our teams, but despite these challenges our core values – succeeding together, doing the right thing and always improving – and our purpose, to provide water for life, have continued to inform and drive the transformation and cultural shift needed to extend and embed the improvements across our business. Supported by strong leadership and clear planning, these improvements have helped us continue to forge stronger relationships with our regulators and to build confidence and credibility among our stakeholders, making amends for past behaviours and poor performance record, and demonstrating the tangible changes we are making as a business every day.

“ We have maintained the financial stability of the company, ensuring at the same time that we have the appropriate financing in place to deliver on our Business Plan 2020–25 ”

## Maintaining essential services

In spite of the challenging conditions created by the COVID-19 pandemic, we have maintained services to our customers, and we have done this throughout a period of sustained increase in demand over the summer and beyond, as more of our customers were forced to work from home.

We have also started to deliver improved performance in incident response, particularly during water supply interruption events. This has been driven by a number of changes to people, processes and systems within our Incident Management team, including better forecasting, new supplier agreements and a more collaborative approach with local resilience forums.

Like businesses up and down the country, we have had to adapt to new ways of working in the wake of the COVID-19 pandemic. Early on, we adapted our Business Continuity Plan, which continues to deliver against four simple priorities:

- Maintaining provision of essential services at all times.
- Protecting the health, safety and wellbeing of our employees, including our supply chain, and our customers.
- Providing the maximum practicable level of assistance to our vulnerable customers.
- Protecting the financial stability of our business.

**We have maintained services throughout a period of sustained increase in demand.**

As a result of this planning and a continuous review of these priorities, we have maintained the financial stability of the company, ensuring at the same time that we have the appropriate financing in place to deliver on our business plan 2020–25. The plan set out a number of challenging targets requiring a significant level of investment, and we have continued to refine and implement our execution plans over the year, as we have dealt with the current situation.

In May 2020 we successfully secured £825 million in sustainable bonds in one of the biggest public market financing issues for the water sector in recent years. This established an environmental, social and governance (ESG) sustainable

financing framework to support our plan, which aligns our long-term strategy with our social and environmental commitments. In March 2021 we issued a further £300 million bond under the same sustainable financing framework.

We know that we still have a lot to do to improve our performance in areas such as customer experience, pollutions, water quality and wastewater compliance and leakage, but I am confident that the plans we have in place, and the continued transformation of the business, which our Chief Executive Ian McAulay will discuss in more detail in his statement, are delivering tangible improvements as we move into the second year of this five-year investment period.

## Our environmental ambitions

Our vision is clear; we want to create a resilient water future for our customers in the South East. The challenges which face us in delivering it are to transform our operational performance while in parallel demonstrating to our customers, regulators and other stakeholders that they can have confidence in our ability to deliver.

The environment, and our role in protecting and enhancing it, are at the core of these challenges and we must go further to realise our ambitions. The underpinning context is the very challenging Final Determination made by our regulator Ofwat, the realities of climate change and the expectations of our customers, regulators, and partners.

Our executive and the Board have discussed how we focus on critical environmental issues so that we maximise the opportunities, learn efficiently from the experience of others, and identify where we are already in a position to lead the agenda. The steps we have agreed to take to realise our ambition focus around three core themes:

**Simplicity** – implementing practical plans and measurable activity to improve pollutions performance and compliance, focusing on the development of a natural capital approach to planning, developing our plans to achieve net zero by 2030, putting our catchments first, shifting our focus from traditional engineering solutions to working collaboratively with partners to create long-term sustainable improvements and a focus on building our flagship Target 100 water efficiency programme.

**Transformation** – delivering a small and carefully chosen number of bold, ambitious programmes which differentiate Southern Water as an environmental custodian, such as our Water for Life Hampshire plans to tackle a significant potential water supply shortage and our Catchment First programmes; and

**Capability** – building, from Board level down, a cadre of skilled and committed leaders and expert practitioners.

This framework will take Southern Water a step further towards achieving its vision of a resilient water future. In fact, we are investing nearly £1 billion to deliver environmental benefits to 2025, which will not only improve compliance and the capacity and efficiency of our networks across the region, but also deliver nature-based solutions and environmental net gain.

This work will be led by Southern Water's new Director of Environment and Corporate Affairs, Dr Toby Willison, who joined us following a significant tenure at the Environment Agency. We are very excited to add his considerable knowledge and skills to our Executive Leadership Team, and he has the Board's full support to drive this strategy forward.

➔ Read more about our environmental disclosures on pages 70 to 73

# Chairman's statement continued

➔ Read more on the Ofwat and EA investigations on pages 30 to 31

## Making amends for past failings

We continue to be the subject of intense regulatory scrutiny, and this was reflected in Ofwat's 2019 report of its investigations into our historic reporting and operation of our wastewater treatment works, and the associated Section 19 undertakings and customer rebates that we have committed to carry out over five years starting in 2020–21. These undertakings encompass a wide range of other activity, including technical reviews of our wastewater treatment works, compliance process improvements, improvements to our culture, new work to provide more transparency on our environmental performance and improvements to our board governance processes.

Our Audit Committee is responsible for monitoring and reviewing the controls and assurance put in place by management in respect of these undertakings and receives regular reports about the progress against the agreed action plans from both internal teams and external assurers working with our Risk and Compliance directorate.

We have also been working to strengthen our approach to risk management. This has been led by the Board and its Risk Committee. The Board is deeply committed to its role of embedding risk management at every level of the organisation and, as part of our transformation, it has recognised the need to improve our approach to risk and resilience management. Work in this area has helped to support risk-based insight to inform strategic prioritisation and decision-making across the company.

To embed risk management successfully across Southern Water, the process is supported by a governance structure that defines roles and responsibilities at each level of the company, with the Board having overall responsibility.

This year we also established a Culture Change Group of employees, which meets monthly to provide programme oversight and to share ideas and best practice on positively influencing culture change. This includes reviewing outputs from our annual employee engagement survey to inform future delivery of culture change initiatives. The survey results from 2021 indicate a meaningful and wholly heart-warming improvement in employee engagement, key values and ethics measures, which evidences the positive progress made on culture change in the year. To inform this group, we have developed and rolled out a new culture dashboard to allow our Board to measure and track progress. The development of metrics to provide indicative measures of the

company's culture have been cited by Ofwat in its Board governance review as an example of good practice.

In 2017, we had four outstanding Final Enforcement Orders from the Drinking Water Inspectorate (DWI): three were associated with new asset improvement schemes, and one with improvements in water quality sampling and information management. Four years on, we have successfully closed all of these orders, with the most recent being revoked earlier this year. However, the DWI has recently confirmed its plans to prosecute for an event in May 2018 at High Park reservoir. The DWI closed its investigation into a further operational event from 2014–15 and issued Southern Water with a formal warning.

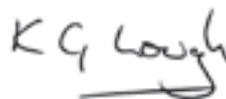
We are being prosecuted by the Environment Agency (EA) for wastewater permit breaches in the period 2010 to 2015, and we pleaded guilty to charges in court. In addition, we continue to assist the EA with its investigations into legacy issues relating to wastewater sampling compliance. The Board, supported by legal advice, has concluded that it is not yet possible to make a reliable estimate of the financial obligation that will arise from these investigations but will keep the situation under review. Further detail can be found on pages 30 to 31 and in our Annual Performance Report.

## Monitoring the market

The Competition and Markets Authority (CMA) concluded its review of the Final Determination for the four water companies that appealed. As a result of that appeal, Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water will all benefit from an increased rate of return, some increases in allowed costs and a more symmetrical cost sharing rate.

## In conclusion

Finally, I would like to say thank you again to our colleagues and partners for their hard work and dedication throughout this extraordinary year. I am grateful to each and every one of them for their contribution, which has made such a positive difference to the communities we serve, and for their collective commitment to our values.



**Keith Lough**  
Chairman  
30 June 2021