

Water for Life – Executive Summary

**Our ambitious vision, defined by five, shared, long-term outcomes, is:
to create a resilient water future for customers in the South East.**

We achieve our ambitious vision in a simple way through a combination of becoming brilliant at the basics and delivering **5 transformational programmes**. Time is of the essence, so we have already started work on delivery through our Pathway to PR19 action plan.

Our business plan is the result of a structured and evidence-based process. We have taken into account the UK Government's 25-year plan to improve the environment and the National Infrastructure Commission's report on preparing for a drier future. Twenty-five years from now we will have lost a third of our water sources through climate change, seen 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 and demand deficit by 2030, equivalent to around 50% of our current supply.

To consider how to address these challenges we have consulted directly with over 42,000 customers, local and regional stakeholders and global experts. We have also gained insight from broader engagement with more than one million customers and have had a continuous dialogue with our Customer Challenge Group (CCG). The Board has provided guidance each step of the way. All of this has helped co-create an ambitious, deliverable and affordable plan.

Our PR19 plan proposes a significant increase in our investment from £3.2 billion in AMP6 to £4 billion in AMP7 whilst at the same time reducing bills by more than 3% in real terms for water and wastewater customers¹. It has 43 specific performance commitments (PCs) designed around customer priorities, many demanding innovative and collaborative action. It has 81% acceptability among customers whose active participation will be critical in helping achieve a resilient future.

Southern Water achieves sector-leading performance in some areas. For example, our ground-breaking metering programme has now reached 87% of customers, per capita consumption (PCC) has been sustainably reduced by 16% to 129l/person/day and our leakage performance is amongst the best in the sector. This plan builds on that success with transformational programmes that are supported and informed by our customers. **Target 100** is a great example, reducing average consumption to an industry-leading 100 litres per person per day by 2040. Our work with Water Resources South East (WRSE) is another, with the joint implementation of the Havant Thicket resilience scheme, accelerating the development of a much-needed water resources grid for the South East.

However, we also recognise historically poor performance and recent failings, which have fallen short of the expectations of our customers, regulators and other stakeholders. In early 2017, with the appointment of our new CEO and Chairman, we launched a complete restructure of our Executive Management, and subsequently, have substantially expanded our Board to ensure we have the capabilities to drive, at pace, the significant changes we need. Our Board commits to ensuring that our plan proactively builds on action already taken to address these issues as we strive to fundamentally change the way we work both as a company and with our regulators.

We have specifically collaborated with customers on the key issues of trust and transparency. So now we're implementing a transparent and fair framework, which matches rewards for executives and shareholder returns with outcomes for customers and stakeholders. Our Board is also formulating a revised dividend policy, which will incorporate a wide range of measures, including an innovative measure of our contribution to wider society.

This plan frames a journey to a better business. It has been rigorously challenged and assured internally and independently. It is endorsed by our Board, customers and more than 40 key stakeholders, who are already helping to deliver the ambitious vision of a resilient water future for customers in the South East.

Our strategy is simple, ambitious and deliverable

Our strategy on a page is shown here:



We have addressed the Ofwat themes in our plan

Resilience

We have put resilience at the heart of our strategy and vision. We have identified and understood the broad range of risks to resilience across Ofwat's three pillars of resilience in the round of **Operational**, **Corporate** and **Financial**. We are recognising this, and rising to the challenge, by adding two further pillars, **Environmental** and **System of Systems**, which are critical to the South East. We recognise water and wastewater services are fundamentally important to, for example, energy generation, food production, housing development, environmental protection, our tourism sector and other vital industries and services. In turn, these are, in many aspects, connected with each other creating, an as yet informal, regional system of systems.

In terms of water supply resilience, our customers are among the most water efficient in the UK and use around 16% less water than they did in 2010. The UK average consumption, according to Water UK, is 141 litres per person per day. In our region, the average is 129. We aim to help customers reduce water consumption to 120 litres a day by 2025, and to 100 litres per person, per day by 2040. In addition, 87% of households in the region now have a water meter and we aim to increase meter penetration to 92% in the most water-stressed areas. We also plan a further reduction in leakage of 15% from 105.4 MI/d (2019/20) to 89.6 MI/d by 2025.

We are planning to further improve water supply resilience by building new treatment works at Brighton and Thanet, replacing 30 service reservoirs with eight new ones and investing in an integrated and smarter water network. These plans include installing 2,500 smart water-quality sensors by 2030 and replacing 330 kilometres of water mains by 2025. Our leakage reduction and **Target 100** actions will result in demand reduction of 38 MI/d in AMP7.

On environmental resilience, all 83 bathing waters in our region met quality standards in 2017 and 53 achieved excellent status. Now we plan to roll out one of our largest-ever environmental programmes of more than £800 million to improve water quality in 537 km of river water and seven additional bathing waters across our region – moving five more bathing waters to good and two to excellent. We are aiming for a 40% reduction in pollution incidents from a 2016 baseline.

In addition, a key feature of our approach to resilience is a recognition that we have two responsibilities, both as a water utility and as a champion of the utility of water. In consultation with our customers, regulators and politicians they have made it clear that they expect us to anticipate threats to a resilient water future. We recognise that in addition to our water utility responsibilities, we have an additional responsibility to help create an economic, environmental and socially-resilient region. For example, our visitor economy provides a regional gross value add of £8 billion a year, much of which is down to the attraction of our coasts, beaches and other water features. For these reasons, in our view resilience is a shared responsibility and will require innovative and collaborative action and participation.

To deliver a resilient water future we also know we must have a resilient organisation, brought about by step changes in our culture, mindset, skillset, productivity, operational performance, ethical principles and practices, and employee engagement. Ongoing improvement programmes, introduced in the last 18 months to address this, include **Water First**, **Environment+**, our **Business Transformation Programme** and our **Pathway to PR19 Plan**. We are deepening our understanding of what matters most to customers, seeking best practice beyond our traditional sector boundaries and building a culture where innovation is valued.

Great customer service

In the current five-year period our customer satisfaction score has been one of the lowest in the water sector. However, we are improving. For example, in 2017/18 we cut written complaints by

21%, adding to the 47% reduction we achieved in 2016/17. We have substantially narrowed the gap between our performance and the water sector average. Our customer satisfaction score increased 6% in 2016/17 on the UK Customer Satisfaction Index, the largest increase in the sector. We have significantly increased customer participation and engagement over AMP6.

Our intention in the near term is to become **brilliant at the basics**. So we will accelerate improvement in those areas where we are not strong, and steadily enhance those where we are. Our actions are aligned to achieve our outcome of a refreshingly-easy customer experience. We are introducing a range of customer propositions, based on detailed customer insight, to significantly improve customer service. Our aim is to be upper quartile on the Developer Measure of Experience (D-MeX) and above average in the Customer Measure of Experience (C-MeX).

Across our wholesale water and wastewater businesses we have developed solutions which align to our customers' priorities and challenges emphasised by Ofwat. Major investments are targeted to drive improvements in customer service and experience where they value it most. In particular this relates to areas of water quality, flooding, leakage, pollution and interruptions to supply.

Affordability and vulnerability

Our average combined bill for water supply and sewerage services in 2017/18 was just £1.15 a day per household. Since 2015 more than 10% of our customers have received tailored advice about how to pay their bills and tackle debt. Now we plan to further improve affordability by reducing bills by over 3.0%, helping reduce daily consumption and improving support so that at least 90% of customers who receive assistance can pay their bills. For example, **Reach and Support** will further enhance support for customers that are, or at risk of, struggling to pay their bills, and those in other situations of vulnerability, to ensure we deliver an accessible and inclusive service. We actively support around 16,000 customers on our Priority Services Register. We plan to further improve support in this area so that 90% of those receiving this support say that it meets their individual needs and requirements.

Innovation

We define innovation as “the process of identifying and implementing something new, and/or something better, that delivers value to our customers, other stakeholders and our organisation.” We have already achieved some success. For example, working with Google, several universities, water companies and regulators, we have taken, in less than one year, open data sharing from concept to a working reality of the **DataWell** portal. Further collaborative innovation includes our Customer Inclusion Partnership Network, made up of organisations such as Mind, StepChange and AgeUK to challenge our approach for customers requiring support. **Resource Hubs** which open up wastewater treatment plants to wider community benefits, exemplify innovation in community engagement. Finally, central to our AMP7 strategy is **bluwave**, a new approach to transformational and disruptive innovation.

Customer and CCG acceptance and support

The CCG agree our customer engagement has been of high quality and that our business plan is built upon what customers want. In addition, 81% of customers found our proposals acceptable in informed customer research approved by the CCG and following the Consumer Council for Water's guidance on acceptability testing. To arrive at an informed acceptability, customers were taken on a journey to understand the challenges of the region, Southern Water's current performance, our strategy and targets, key elements of the plan and the impact on customer bills.

We are proposing the CAP goes beyond their current role and support us in improving customer engagement and participation to achieve our vision of a resilient water future for the South East.

“...SWS's engagement with its customers and stakeholders has been of a high quality and that the outcomes of this engagement have significantly influenced the contents of the Business Plan for 2020-25” A. Bradley, CCG Chair

Our bills are coming down and our finances are sustainable

We will deliver better value for money by improving service in the areas customers care about. Our business plan delivers an average reduction in bills of over 3% in real terms. We have taken customers' views into account by smoothing bills so they have a steady profile. We believe we will be able to maintain at least flat bills for customers in real terms in AMP8 as well.

We will deliver lower prices despite a significant increase in our investment. Our stretching targets and deliverables for our customers and stakeholders require circa £4 billion of Totex in our wholesale and retail businesses, up from circa £3.2 billion in AMP6. We have worked hard to keep our costs down and are making significant investments. For example we will invest more than £350 million in water supply resilience to meet the demands of growth and reducing supply. We will invest more than £800 million to meet the demands of WINEP, and we will invest more than £400 million in improving the resilience of our water and wastewater networks.

A part of our response to the challenges of delivering more for customers while managing reducing returns is to launch a fundamental restructuring of our finances. We have developed a financial plan that supports our business plan. It is focussed on our customers' priorities and is financeable and resilient on both a notional and an actual capital structure basis and meets our target credit rating metrics.

We are already underway with a restructuring that will result in a substantial increase in the equity of the company, and we are targeting a reduction in gearing to 70% or less. This is being achieved through our shareholders injecting around £700 million of additional equity in the company. This will underpin the financeability of our plan over AMP7 and enhance our flexibility to withstand shocks. It will also greatly simplify our financial structure. This restructuring will be complete before the beginning of AMP7.

The Board endorse this plan as high quality and deliverable

The Board of Southern Water has been fully involved throughout the process and has owned the development of the plan. They have listened to what our customers, regulators and other stakeholders expect, challenged the business to be realistic and ambitious in delivering our long-term goals, and implemented a comprehensive and demanding programme of technical and strategic assurance. The Board is satisfied that we have prepared a high-quality business plan that is ambitious in every respect – in particular, in terms of service delivery and customer performance, achievement of cost efficiencies and the apportionment of risks. The Board will have strong oversight on delivery of the plan and how risks are managed and mitigated.

The plan is built on a careful assessment of deliverables and costs in the round, and on an assessment of a wide range of risks, including cost-sharing rates and the potential financial payments and penalties pursuant to the Outcome Delivery Incentives (ODIs) proposed. The Board is satisfied that the plan is capable of being delivered on the basis of this assessment. The Board notes that if this risk profile were subject to material additional risks or obligations on Southern Water beyond those anticipated by the company, then this is likely to affect our ability to deliver on some or all of the proposals in our plan.

¹ The calculated bill reduction for a dual service customer is 3.2%. This is based on our forecast actual bill for 2019-2020 and Ofwat's bill analysis for AMP7. Ofwat's model reflects an allocation of retail revenues based on a 1.3 times multiplier for dual service customers. Our actual bills use a difference allocation method. This clarification applies to all references of bill reductions of c. 3% in the plan.