



# Reconnecting with our communities to build a better future



Annual Report and Financial Statements  
For the year ended 31 March 2024



# Welcome to our Annual Report and Financial Statements 2023–24

We are committed to making sure our customers have access to high-quality, affordable and efficient water and wastewater services, while we protect and enhance our communities and the environment.

We provide essential water services to 2.7 million customers and wastewater services to more than 4.7 million customers across Kent, Sussex, Hampshire and the Isle of Wight.



## Regional context

1

### Improving our sites and networks

An additional £1.6 billion equity into the Southern Water group has enabled us to streamline processes, expand teams and increase the quantity and quality of water supplies. At the same time, we have upgraded our wastewater pumping stations and continued our sewer cleaning programme, preventing flooding and pollution. Our improved alarm monitoring and new [Operational Control Centre](#) is proactively managing repairs before they become an issue for customers.

➔ Read more on pages 46 to 57.

2

### Protecting water sources and improving water quality

To protect our water sources, we are making long-term investments to reduce abstraction and improve the health of the chalk streams of the Rivers Test and Itchen. We are also working with environmental charities and regional partners on large floodplain and river restoration and wet woodland projects, pond creation, hedgerow planting and education projects to protect and enhance these precious habitats.

➔ Read more about this and our other schemes to improve water quality on pages 52 to 61.

3

### Reducing storm overflow releases

Our Clean Rivers and Seas Task Force is delivering sustainable drainage projects across the South East to slow the flow of surface water entering sewers and reduce the use of storm overflows. Working with local councils, landowners, communities, customers and the National Highways, these projects will deliver green spaces, reduce flooding and improve water quality.

➔ Read more about the work already done and our Clean Rivers and Seas Plan 2025–35 on pages 57 and 61.

#### Registered Office

Southern Water Services  
Southern House, Yeoman Road  
Worthing, West Sussex BN13 3NX  
Registered no: 02366670

#### Keep in touch with us

Visit our corporate website: [southernwater.co.uk](https://southernwater.co.uk)



@SouthernWater



southernwatermedia



Southern Water

## Financial highlights

### Revenue<sup>1</sup> (£m)

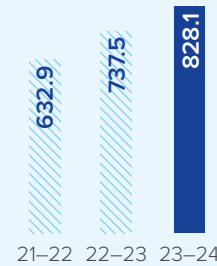
(before amortisation of regulatory settlement provision)



### Profit/(loss) before interest and tax<sup>1</sup> (£m)



### Capital investment (£m)

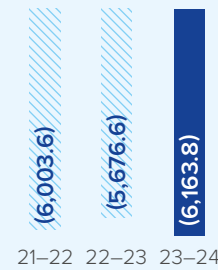


### Non-current assets (£m)

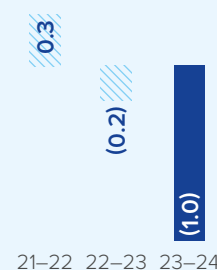
(excluding debt)



### Net debt (£m)



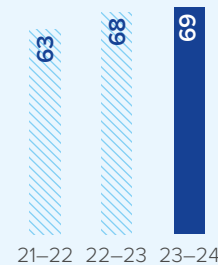
### Return on capital employed (ROCE)<sup>2</sup> (%)



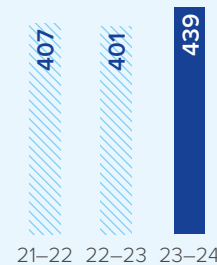
### Regulatory Capital Value (RCV)<sup>3</sup> (£m)



### Net debt/RCV<sup>4</sup> (%)



### Average water and wastewater customer bill (£m)



<sup>1</sup> Following its investigation into our wastewater treatment works compliance reporting, Ofwat imposed a penalty under Section 22A of the Water Industry Act. We provided in full for this proposed regulatory settlement in the financial statements for 2018–19, reducing profit in that year. We are now making rebates to customers, through revenue, over the period from 2020–25 and these are offset in the income statement by the amortisation of the provision made in 2018–19. See note 5 to the financial statements.

<sup>2</sup> ROCE is presented as the ratio of loss before interest and tax (£72.3 million) to non-current assets excluding debt (£7,678.2 million) less current liabilities excluding borrowings and lease liabilities (£581.0 million) from the Statement of Financial Position.

<sup>3</sup> Regulatory Capital Value (RCV) is a measure of the value of our regulatory capital asset base, as published by Ofwat.

<sup>4</sup> The net debt to RCV ratio is calculated as the ratio of net debt (short and long-term senior borrowings, less cash and short-term deposits) to the RCV (all values taken from our Regulatory Accounts/note 32 to the financial statements).

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## Benchmarking our performance

We supply information to independent ratings and indices on a range of Environmental, Social and Governance (ESG) matters.

We performed well in the 2023 Global Real Estate Sustainability Benchmark (GRESB), which assesses the ESG performance of infrastructure assets. We were awarded a Green Star rating achieving the highest possible five stars, and a score of 97 out of a possible 100 (2022: Green Star, five stars).

We also improved our position in the 2023–24 Inclusive Top 50 UK Employers, moving to 29th from 44th in the previous year and from 49th in 2020.



# Our business at a glance

Our purpose is to provide water for life to...

1

protect and improve the environment

2

enhance health and wellbeing

3

sustain the economy

Our long-term priorities are linked to ESG

## Environment

Protecting and improving the environment



Renewable power generation

## Social

Understanding and supporting our customers and communities



Ensuring a supply of high-quality water for the future



## Governance

Enabling and empowering our people



These are underpinned by our supportive culture and values

Our commitment to our customers and the environment informs our decision making.

### Our values



Succeeding together



Doing the right thing



Always improving






Working with care

➔ Read more on pages 62 to 67.

## We are focused on the things that really matter to our stakeholders...

We know that our stakeholders want more than reliable water and wastewater services. We must work with our partners to find solutions to shared challenges and make sure that our environment, and the water sources we rely on, are protected and improved for future generations. As a large regional employer, we must look after our people and be aware of the impact our operations have on local communities.

<p>Trends</p>	<p><b>Advanced technology and changing customer expectations</b></p> <p>With advances in technology and greater access to information, big data, artificial intelligence (AI) and machine learning, services are improving for customers.</p>	<p><b>Climate change and rising environmental concern</b></p> <p>Climate change is impacting our environment and the way we operate. Environmental concerns are driving rapid changes in government priorities.</p>	<p><b>Growing population and changing communities</b></p> <p>Population growth will place more pressure on limited water resources. Communities are adapting due to demographic and societal changes.</p>
<p>Challenges and how we are responding</p>	<p><b>Meeting customer expectations</b></p> <p>New video triage service; redesigned website; faster resolution of queries; improved incident response and increased focus on Priority Services.</p> <p><b>Reputation</b></p> <p>Regular customer newsletters – targeted by region; regional Your Water Matters customer drop-in sessions; increased stakeholder engagement and proactive approach to local news updates.</p>	<p><b>Increased flooding</b></p> <p>Relining and relocation of sewers; slow-the-flow sustainable drainage solutions; larger infrastructure (storm tanks and networks) and river-basin catchment planning to reduce flooding.</p> <p><b>Decarbonisation</b></p> <p>Carbon sequestration through natural engineering solutions. Alignment with the government's 2050 net zero target and Ofwat's focus on location-based Scope 1, 2 and 3 emissions.</p>	<p><b>Water scarcity</b></p> <p>Better management of leakage; water-saving campaigns and tools; development of new water sources; reduced abstraction; water transfers and regional planning initiatives and transfers.</p> <p><b>Affordability</b></p> <p>A minimum of 45% reduction in bill payments for those struggling to afford them; increased access to our customer Hardship Fund and community grants.</p>
			

→ Read more on pages 34 to 67.

# Our business at a glance continued

## We measure our success in terms of the value we create for our stakeholders

Our teams work within our communities to improve services for the benefit of customers and the environment. Follow the signposting below to see them in action

### Case study

## Listening to our customers and taking action (Your Water Matters)

Your Water Matters is a series of events, held across our four counties, that enables us to share more information with customers about what we are doing to fix issues in their communities. More than 650 people attended our Hastings event.

**Katy Taylor,**  
Chief Customer Officer

**650**  
attended the  
Hastings event

### Stakeholders impacted



Read more on page 42.

### Case study

## Our Clean Rivers and Seas Plan in action

We wanted to provide our customers and stakeholders with an easy way to find out what we are doing in their area to reduce the use of storm overflows. We created a map, showing what the proposed plans are. We are investing £1.5 billion between 2025–35.

**Nicole McNab**  
Clean Rivers and Seas Task Force

**£1.5bn**  
invested in our Clean  
Rivers and Seas Plan

### Stakeholders impacted



Read more on page 61.

### Case study

## Improving the reliability of water supplies

Delivering a reliable supply of water for our customers is a top priority and one way we are achieving this is through our programme of reservoir and tank inspection and cleaning. Around 59% of our 355 storage reservoirs have now been inspected since 2020.

**Joanne Harris,**  
Head of Water Performance

**59%**  
of storage reservoirs  
inspected

### Stakeholders impacted



Read more on page 31.

### Case study

## Improving our environment by enhancing water quality

We carry out investigations with Natural England and the Environment Agency to understand the potential impacts our water abstractions may be having. Where identified, we are restoring river and wetland habitats. In some areas around 85% of our water supplies come from groundwater.

**Chris Woolhouse,**  
Catchment Hydrogeology Strategy Manager

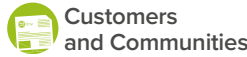
**85%**  
of water from groundwater  
(in some areas).

### Stakeholders impacted



Read more on page 60.

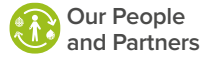
## Key



Customers and Communities



The Environment



Our People and Partners



Investors



Regulators

## Case study

## A new recycling project to solve water scarcity in the South East

One of the most amazing things about this project is the scale of what we are trying to achieve. It will require a huge team and the project will span a 10-year period, as well as needing significant financial investment. We are currently in the pre-planning phase.

10

year project  
in Hampshire

## Stakeholders impacted



Read more on page 49.

**Rob Lawless,**

Programme Lead for Water for Life – Hampshire

## Case study

## Going 'Beyond the Drain' on our inclusive wastewater tour

Our new 'Beyond the Drain' tour is an inclusive educational experience that takes account of special educational needs. It gives students from key stages 2 and 3, as well as their teachers, a great insight into what happens to our wastewater and how it is treated.

2 &amp; 3

key stages

## Stakeholders impacted



Read more on page 43.

**Kim Twine and Daniel Rodrigues,**

Education Officer and Community Engagement Officer

## Case study

## Empowering our colleagues to challenge unsafe behaviours

We want to make sure that everyone who works for Southern Water goes home safe at the end of every day. 'Stop, Think, Safe' is our new immersive safety training event. More than 460 attended in the first four months.

460+

colleagues attended  
in four months

## Stakeholders impacted



Read more on page 66.

**Sally Ford,**

Director Health, Safety, Security and Wellbeing

## Case study

## National Inclusion Week – a new approach

This year for the first time, we invited other water companies in the UK to share their expertise in different areas during National Inclusion Week. We put together a one-day event, attracting over 400 participants.

400

participants

## Stakeholders impacted



Read more on page 67.

**Naomi Turner,**

Inclusion Partner

Read more about how our long-term priorities inform our current delivery strategy on pages 34 to 67.

# Chair's statement



Keith Lough,  
Non-Executive  
Chair

“

In our 2025 to 2030 Business Plan, we are seeking innovative ways of working with local authorities, in particular, to deliver solutions that will benefit the environment at lower cost to our customers.”

**£3bn**

capital investment  
during 2020–25



Read about how we are  
delivering on our plans on  
pages 34 to 67.

## Welcome to our Annual Report and Financial Statements for 2023–24

As you will see from the Q&A with our CEO Lawrence on pages 13 to 18, more than a year on from the publication of its Turnaround Plan, Southern Water is starting to see an improvement in performance. With more than 2,600 colleagues, and many more supply chain partners, working to a clear set of customer priorities, the Executive has focused teams across the business on building more resilience into operations, reducing total pollutions, improving water quality and our wastewater treatment works' compliance record.

There are some key areas where our 2020–25 targets remain challenging but the Turnaround Plan – supported with further significant additional funding from our largest shareholder, Macquarie, bringing our total capital investment to over £3 billion for this asset management period – is delivering a step change to prepare our business to deliver our ambitious plans for the next investment period to 2030 and beyond.

### Planning for the future

The final year of this investment cycle will be critical in delivering further operating efficiencies that will support major new commitments under our 2025–30 business plan. We have already begun an unprecedented investment in vital new water sources for the South East, that will relieve pressure on our rivers, and in new ways of managing surface water flows to improve the quality of wastewater we return to the environment. Our 2025–30 plan, submitted in

October, is double the investment we made in 2020–25, at around £8 billion. The scale of our plan is unique due to the investment needed in the South of England for new water sources, at the same time as a significant investment in our wastewater environmental plan and improving our surface water management. It is the largest investment we have ever made over a five-year period, creating around 5,000 jobs across the region, and representing expenditure of about £3,500 per household. More importantly, it also represents the highest commitment of all the companies to deliver innovative natural



solutions, wherever possible, working with regional partners, large and small.

Our communities are facing real challenges, including balancing cost of living changes, with their clear wish to see generational improvements in wastewater management and in sustainable supplies of fresh water. We are mindful, as we plan this step change in levels of investment in our infrastructure, that we must work within the means of what customers are willing to pay. And we must work with our regulators to determine how quickly required investment programmes are delivered.

We have invested time with our customers in developing our plans and believe we have struck the right balance between the rate of investment, necessary increases in customer bills and the support mechanisms for those least able to afford any changes to charges. As a Board, we remain committed to finding ways to ensure that the required pace of investment in the environment does not unduly favour 'grey' solutions over 'green' or inhibit learning and innovation. We must also ensure that the rate of investment in new water supplies and in wastewater management reflects what is manageable for our customers.

## Supporting our communities

The way we capture, treat and supply water to our customers is a matter for us all. We have seen over the past year instances of surface water and groundwater flooding becoming all too common. We shall work collectively with local authorities and National Highways, as we have done this year, to manage our resources better as they come under pressure from rapid urbanisation and population growth across the South East. In our 2025–30 business plan, we are seeking innovative ways of working with local authorities, in particular, to deliver solutions that will benefit the environment at lower cost to our customers.

Our Clean Rivers and Seas Plan, published in November 2023, includes planned investment of nearly £1.5 billion between 2025–35. The plan demonstrates our continued commitment to working with our community partners to develop natural sustainable drainage solutions, while improving our own infrastructure to reduce repeat flooding and the use of storm overflows across our region. These solutions are already proving their worth, as our Pathfinder projects continue to deliver real reductions in releases along the region's coastline.

# £8bn

business plan  
2025–30

# 5,000

jobs created across  
the South East

## Chair's statement

### continued



Read more about our performance, from our CEO, on pages 13 to 19.

We continue to take a holistic approach to managing water quality in our river basin catchments. We are working within local partnerships to manage nutrient levels and soil health with farmers, and river health and more sustainable abstraction methods with Natural England and the Environment Agency and other interested parties.

While we invest more than ever to reduce leakage from our network and improve the resilience, capacity and quality of our water treatment processes, we have ramped up our efforts to work with both customers and large regional businesses this year to reduce their water usage, offering funding for saving initiatives and audits of premises.

We will maintain this focus on conserving the water we have, while we work with neighbouring water companies to develop new sources and invest in a regional network that will both meet the needs of our growing communities and prepare us to mitigate the impacts of climate change. With this in mind, we have continued to invest in exciting new water source projects such as water recycling and new pipelines in Hampshire. Portsmouth Water and Southern Water have now broken ground on a new reservoir in Havant Thicket, which will improve the resilience of our supplies in the area and enable us to draw less water from the chalk streams and aquifers.

#### The price control process

The water sector has three regulators covering economic, environmental and water quality objectives that need to balance appropriate licensing, guidance and scrutiny with the creation of a platform that supports water and wastewater imperatives for customers and the environment now and for future generations. This is not an easy task, made more complex by the unprecedented increases in investment and delivery obligations being contemplated now and into the future. The search for balance needs openness on all sides and a framework that allows customer money and investor money to mutually support the increased risks that come with delivering large, innovative investment programmes. The changes being called for are significant and obligate us to find ways of enabling all stakeholders to achieve success under the current price control process.

#### Looking after our people and customers

A particular focus for the Board over the past year has been on improving access to health, safety, security and wellbeing support for our colleagues at Southern Water. We need to make sure every one, who is helping us serve customers better, feels safe and supported as they go about their work.

Protecting the personal information of our people and customers is also a priority, and the Board's focus on cyber security has only intensified following the attack on our systems during 2023–24. We were prepared for such an attack, and had expert internal and external support to manage our response. I would like to thank all those involved and our customers for their patience as we dealt with this. We have increased our security measures, and the support on offer to those customers and colleagues affected, and we remain vigilant and committed to preventing future attacks. You will find more detail on page 18.

While Southern Water has faced significant challenges over the course of this year, the commitment of our teams to keeping services running for our customers has never wavered. My fellow Board members and I see this every day as we interact with the teams delivering our Turnaround Plan and those working on our long-term strategy.

**Keith Lough**  
Chair



# Our strategic roadmap

We have established strategic priorities across short, medium, and long-term timeframes to address both our performance turnaround and long-term ambitions in line with our five-year planning cycle. The nature of our business means we must think in long-term planning and investment cycles to make sure we can deliver on our ambitious vision.

## Our long-term Priorities



Understanding and supporting our customers and communities



Ensuring a supply of high-quality water for the future

2020

2025

2023

2025

### Medium-term business plan 2020–25 (AMP7)

#### Overview

Our medium-term planning reflects our five-year cycle of asset management planning (AMP) periods and supports our long-term priorities.

#### Customer priorities:



Deliver great service



Use water wisely



Protect and improve the environment



Fit for the future

→ See pages 34 to 67 for more information.

### Short-term turnaround 2023–25

#### Overview

We have created four workstreams as part of our service commitment in our [Turnaround Plan](#) to make sure we are in the best possible position to deliver our ambitious plans for 2025–30.

- **Empowered and supported colleagues** – Enabling our people to work in a safe, collaborative and inclusive workplace that offers rewarding careers at the heart of our communities.
- **A reliable supply of water for our customers** – Safeguarding resources and making sure our customers have access to a supply of high-quality water now and into the future.
- **Healthy seas and rivers** – Protecting and improving the environment, working transparently to enhance inland and coastal habitats.
- **Trusted and easy customer service** – Supporting our customers with easy service and transparent communications that show we care for our communities.

These are underpinned by a focus on our people, IT and digitalisation, and finance and efficiency.

→ See pages 36, 46, 52 and 62 for more information.

## How we track progress in this report

We will continue to discuss our strategy in terms of our long-term priorities; however, within our operational performance section (see pages 34 to 67) we will be providing updates on both our Turnaround Plan priorities and our business plan 2020–25 performance commitments. This allows us to demonstrate progress over the short, medium and long term.



Protecting and improving the environment



Enabling and empowering our people



Renewable power generator

2030

2035

2040

AMP9

AMP10

### Medium-term business plan 2025–30 (AMP8)

#### Overview

Our Business Plan 2025–30 is our largest yet at nearly £8 billion and marks the final stage in our transformation.

More than 25,000 customers spent over 8,000 hours telling us what they think to help us develop it.

It focuses on what they have told us is most important to them: A reliable supply of water; healthy rivers and seas; and trusted and easy customer service.

#### Key investment plans:

**£3.41 billion in our wholesale water services to:**

- Reduce leakage by 13% and reduce average water use to 121 litres per person per day.
- Provide 189 million litres per day of new sources and capacity and a further 82 million litres per day by 2035.
- Increase the resilience of our four largest water supply sites serving 62% of our customers.
- Install over one million smart meters, improving customer awareness of water use and the accuracy of our billing.

**£4.1 billion in our wastewater services to:**

- Reduce our use of storm overflows by a further 12% across 179 priority sites.
- Reduce overall pollution incidents by more than 50% and eliminate serious pollution incidents.
- Accommodate over 86,000 new homes by building a new treatment works at Whitfield near Dover.
- Improve water quality in over 1,000km of rivers.
- Two new advanced bioresources treatment centres, increasing power generation.

**£364 million in our retail services to:**

- Introduce a new customer relationship management and billing system that will allow our customers to take control of their water use.
- Redesign our customer services processes with automated updates via text and email.
- Enhance our community engagement programmes.
- Trial new tariffs to encourage water saving, while expanding our social tariffs and Priority Services offering.

### Long-term priorities

Understanding and supporting our customers and communities; ensuring a supply of high-quality water for the future; protecting and improving the environment; enabling and empowering our people; and renewable power generator.

→ You can read more about our [long-term delivery strategy](#) on our website.

Our PR24 plan was submitted in October 2023. A Draft Determination is expected from Ofwat in July 2024 followed by a Final Determination in December 2024.

# Strategic Report

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## Our year in review

### Q&A with Lawrence Gosden, CEO

Our performance has significantly improved in critical areas like total pollutions, water quality and compliance, see page 19 for an overview. While we will still have challenges in meeting some of the stretching targets set for this investment period, every Southern Water colleague and our partners – engineers, scientists, operators, analysts and office-based teams alike – is committed to continuing to build on this improvement.

We are transparent about our performance. I want to start by highlighting that we are reporting another year of financial loss as a business due to the investments we have made to improve services for customers and the environment, and no dividends have been paid to our shareholders. At the same time, our shareholders have injected a total of around £1.6 billion into the Southern Water group to support our turnaround, helping us to manage above inflation costs, and invest more to improve our performance.

## £1.6bn

equity invested by  
our shareholders  
during 2020–25

“

We have come a long way since I announced the launch of our Turnaround Plan last June.”



## Our year in review continued

### Q&A with Lawrence Gosden, CEO



You can see how we're performing against our performance commitments on page 19.

#### Q What has the Turnaround Plan achieved so far?

A We are making good progress and I wanted to highlight some significant improvements in performance on things that matter most to our customers. Our water quality compliance risk has significantly improved through the hard work of our teams, moving us from bottom of the industry to one of its best performers. While this is a volatile measure and a single failed works can mean the difference between a high or low score, the number of failed risk assessments has reduced by half. As a result, the safe control of our assets has improved, with clearer processes and reporting procedures now in place. At the same time, our reservoir cleaning and maintenance programme has reached 72% of our 355 storage reservoirs, helping to increase water quality compliance at our reservoirs to 99.9%.

We have installed our new geographic information system (GIS) and asset register, which have improved our leakage and network team's ability to both find and fix more complex issues

on our network, helping to pinpoint the locations and assets that need repair. We expect to make a big shift in leakage performance over the coming year.

On the wastewater side, our category 1-3 pollutions performance has continued to improve with a 35% reduction in overall pollutions. This is a result of systematic root cause analysis of every single serious event and greater visibility of data on our network from our sewer level monitors, allowing us to coordinate proactive repair and maintenance from our Control Centre. We know we still have more to do in terms of reducing our serious pollutions, as our performance has deteriorated. This is an area of focus as we move into the final year of this delivery period.

In terms of customer service, we have reduced complaints by 59% by fixing the processes that are not working for our customers. We are still lagging in terms of our customer satisfaction score, which is impacted by broader reputational perceptions of Southern Water. However, we are confident that our new website, which went live in April 2024, will improve access to information for our customers. Using business and data-driven insights to create a range of new features, it is now fully accessible and has an enhanced mobile interface and self-service pages.

“

The plan we have created for the next investment period is our largest yet, at around £8 billion.”



We have also increased reliability, improving back-end systems, providing clear, consistent calls to action and enhanced search engine optimisation, and improving the visibility and reach of our content for customers.

Our health and safety performance has improved as a result of a focused transformation plan: we saw another year-on-year reduction in lost time injuries achieving 0.18, placing us ahead of our target of 0.20 by 2025.

We have launched a new operational job management system, allowing our operational teams to manage customer issues and appointments more quickly, keeping customers informed at every stage of the process.

Internally, we have made some big changes in the health, safety, security and wellbeing space. We have introduced a new 'Stop, Think, Safe' behavioural safety training programme that everyone in the business is invited to attend, which highlights the near misses we all walk past every day, and empowers colleagues to challenge and reduce risk before an incident happens. Alongside this, we are working to improve training for colleague safety both in the field and our call centres where, regrettably, instances of abuse from the public can occur.

In addition, we have issued empowerment cards for all colleagues and partners and given our operational teams access to a new risk reporting tool. These new measures alongside improvements to our site security within the year have delivered a real step change in how we look at our risk profile in the business.

Our new company-wide engagement platform was launched, with more than 86% of colleagues taking part in the first survey. I am pleased to say that every team in the business now has detailed action plans to deliver as a result, including my Executive team.

## Q Will you really be ready to deliver a business plan twice the size of your current one?

A I know that there will be some doubts about our capability to scale up our operations, but we will be ready. We are not starting from scratch; we are building on the improvements and investments made over the past 10 years and we stand ready with all our partners and stakeholders to maintain the positive momentum from our Turnaround Plan.

We involved our supply chain partners, customers and stakeholders in conversations about our business plan 2025–30, and they were clear in their support of its scale and ambition. Maintaining service is a priority, and will be in the future, but there has also been a shift in expectations and standards when it comes to protecting the environment. The impacts of climate change and growing populations in the South East add to this pressure and mean that we need to reset and fundamentally change the way we capture, treat and recycle water; and we need to do it now.

Although many of the issues we are tackling are long term, such as reducing our use of storm overflows and reliance on grey solutions and carbon intensive infrastructure to deliver essential water services, we have already started to pilot new, more environmentally sustainable solutions. This new plan takes that further, making major improvements in key areas of water resilience and wastewater recycling to enhance our environment and protect it from harm.



You can read more about our short and long-term strategy on pages 10 and 11.

## Our year in review continued

### Q&A with Lawrence Gosden, CEO



Read more about our [Water for Life – Hampshire](#) project on page 49.

**Q Are the bill increases you are proposing necessary, and how are you planning to support those customers who cannot afford to pay more?**

**A** Subject to regulatory approval on the final scope of our new business plan, our bills will need to increase by between 50% to 75% by 2030. This enables us to keep pace with the rising cost of materials and energy, but also fund the scale of ambitious investment needed to ensure a resilient water future for our customers. This means developing new water sources to mitigate the impacts of climate change and population growth, while also modernising our wastewater treatment infrastructure, removing more nutrients from the water we recycle to the environment and reducing the use of storm overflows.

Our shareholders have absorbed these costs in the current investment period to 2025. We are in constant discussions with our regulator about how this would be implemented. It decides the appropriate level of charges for our customers.

To support our customers, we are currently offering a minimum of a 45% reduction in payments for those on our financial assistance schemes and we are looking to double the number of people receiving them during the next investment period. We will also be increasing our Hardship Fund and access to Priority Services.

Since 2020, our customers' bills have reduced by around 8% every year because of the performance penalties and rebates we have been required to pay by our regulators.

Our proposed business plan considers how the challenges of climate change, population growth and increased expectations will impact our services out to 2050. We have considered what

we need to build, and when, so we can phase increases in bills so future customers are not paying for all the adaptations that need to be made to our infrastructure to protect services for our customers.

**Q Why are we paying so much more for infrastructure improvements?**

**A** We have closed out some of our big construction schemes over the past year, delivering real improvements for customers and the environment.

Recognising that our region boasts some of the finest chalk streams in Europe, one area where we are making progress is Hampshire. We are developing a host of new water sources to reduce the amount of water we currently take from the chalk streams of the Rivers Test and Itchen, investing nearly £1 billion since 2020.

We have also created new wetlands in the area to help limit groundwater flooding and storm overflow releases into local harbours. On this and other matters of river health and water quality, we have been engaging and listening carefully to a wide range of stakeholders and interested parties.

A portion of the investment in Hampshire has financed a project alongside Portsmouth Water which has now broken ground on the first reservoir in the South East in 50 years, while our Water for Life – Hampshire programme has completed surveys and consultations on new water transfer pipelines and recycling plants.

In terms of our wastewater infrastructure, we have improved treatment capacity and compliance at our sites, visibility and reliability of our sewer network, while our Clean Rivers and Seas Task Force continues to seal sewer pipes, redirect illegal connections, improve storage capacity at our sites and install sustainable drainage solutions to reduce our use of storm overflows across the South East. Our Clean Rivers and Seas

Plan goes further still, explaining how we will invest £1.5 billion to 2035 to continue this vital work to improve the health of our rivers and seas.

**Q** **How do you feel entering the last year of this investment period?**

**A** I am pleased to say, we have seen genuine improvement over the past 12 months. This is despite another year of extreme weather events, causing significant flooding across our network.

We have a much better view of how we are performing, thanks to the digitalisation of our network: we are now able to take a data and insight-led approach to operational activities, taking action before our customers or the environment are impacted.

Our turnaround focus also means we are more closely tracking actions and measures included in our service commitment plan. We know we still have more to do. We are now in the final year of delivery of this five-year investment period and we are focused on achieving stretching targets.

It is our people who are putting in the hard work and delivering this step change, and I thank every single one of them for their efforts and deep, personal commitment.

The following pages will provide you with a detailed explanation of our strategy and performance, and the specific actions we have taken, and continue to take, to improve so that we are ready to deliver our business plan for 2025–30.

**8%**

reduction on customer bills from 2020–25

**£1bn**

invested in Hampshire since 2020 to improve access to new water sources

“

It is our people who are putting in the hard work and delivering this step change, and I thank every single one of them for their efforts.”



## Our year in review continued



Read about how we are using data to improve our services on page 27.

### We have improved our cyber security following the recent criminal attack on our systems

On Monday 12 February 2024 we announced that data from a limited part of our server estate had been stolen and was at risk following an illegal intrusion into our IT systems. This followed our announcement on 23 January 2024 that we were investigating suspicious activity.

We are very sorry that this happened.

We have engaged leading independent cybersecurity experts to monitor the “dark web”. They continue to report to us that, since we were named on the cyber criminals’ site on 22 January 2024, they have found no new evidence of the data potentially involved in this cyber incident being published online. They will continue to carry out their checks for as long as is necessary.

We take data protection and information security very seriously and, in accordance with our regulatory obligations, we are contacting anyone whose personal data may be at risk.

Throughout this process we have been working with government, our regulators and the National Cyber Security Centre. We have also notified the police and the Information Commissioner’s Office.

Since the incident, our IT security teams have worked with independent incident response experts, using enhanced monitoring and protection tools to check actively for any suspicious activity on our IT estate. Southern Water’s operations and services to customers have not been impacted.

# Our performance – a quick overview

Our Turnaround Plan is accelerating performance improvements where they're needed most. The plan runs from 2023–25 and we have made sure that all our 2,600+ employees understand their role in delivering the plan, and are 100% focused on achieving our goals. Our Board reviews progress against these each month.

## A reliable supply of water for our customers:

Safeguarding resources and making sure our customers have access to a supply of high-quality water now and into the future.

## Trusted and easy customer service:

Supporting our customers with easy service and transparent communications that show we care for our communities.

Our  
priority  
areas

## Healthy rivers and seas:

Protecting and improving the environment, working transparently to enhance inland and coastal habitats.

## Empowered and supported colleagues:

Enabling our people to work in a safe, collaborative and inclusive workplace that offers rewarding careers at the heart of our communities.

Outcome delivery incentive (ODI)	Performance					Performance trend	More info
	2020–21	2021–22	2022–23	2023–24	2023–24		
Customer experience	—	—	—	—	➤	See pg. 34	
Developer experience	—	—	—	—	➤	See pg. 35	
Water quality	—	✗	—	—	⬆	See pg. 44	
Leakage (in year)	—	—	✗	—	⬆	See pg. 45	
Water usage	✗	✗	✗	—	⬆	See pg. 35	
Internal flooding	—	✗	—	✗	⬇	See pg. 34	
External flooding	✓	✓	✓	✓	⬆	See pg. 50	
Supply interruptions	✗	—	✗	—	⬆	See pg. 44	
Pollution incidents	—	—	—	—	⬆	See pg. 50	
Unplanned outage	✓	✓	✓	✓	⬆	See pg. 45	
Treatment works compliance	✗	—	—	—	⬆	See pg. 51	
Mains repairs	✗	—	✗	—	⬆	See pg. 51	
Sewer collapses	✗	—	—	—	⬆	See pg. 51	

### Key

✓	Final Determination target met or exceeded	—	Final Determination target missed but performance improved in relation to prior year outcome	✗	Final Determination target missed and performance worse than prior year outcome
⬆	Performance improving	➤	Performance static	⬇	Performance deteriorating

# Our business model

## Building a better future by delivering value for our stakeholders and the environment

### Our inputs

#### The external environment

The way we operate as a business is impacted by external factors – social, political, environmental, economic, regulatory and technological – that we must consider and manage the impact of:



#### Environmental factors

Covering more than 700 miles of coastline, marine habitats, chalk block aquifers, rare chalk streams and clay rivers, the region that we operate within is diverse and precious. We help to protect five Areas of Outstanding Natural Beauty, 84 designated bathing waters, 17 Special Protection Areas, two UNESCO World Heritage biosphere reserves, 350+ Sites of Specific Scientific Interest, two national parks and 13 Ramsar sites – these are wetland areas protected under the UNESCO Ramsar Convention, 1971.



#### Economic environment

We are impacted by changes in the financial markets, interest rates, inflation and other commodity prices, and we must manage these to reduce risk.



#### Regulatory environment

We must meet changing requirements and work with our regulators to prepare for future challenges.



#### Social environment

The essential services we provide have a direct impact on our local communities. We must do all we can to support and understand our customers.



#### Innovation and technology

We are always improving our services, using new technology and solutions, wherever they come from.



#### Political environment

Decisions made by politicians and policymakers have the potential to impact our operations. We must follow any government directions and adapt to policy developments.

#### Our key resources

For any business to be truly sustainable it needs to consider its impacts and dependencies, and this means going beyond tracking financial and operational measures to consider social and environmental resources and how they can affect our ability to create value over time.



#### Nature

Natural resources that we rely on, such as aquifers and rivers.



#### Our people

The skills, capabilities and wellbeing of our colleagues and partners.



#### Financial health

Including equity and debt.



#### Infrastructure

Our sites, equipment, networks and IT systems.



#### Social

Engagement with our stakeholders to improve our reputation and the value we create for our communities.



#### Knowledge

The information, systems, processes, procedures and data we hold and share.



Read more on page 24.



### Enable us to deliver on our strategic priorities



Read more on pages 10 and 11.



### And address our priority material issues

Having a thorough understanding of what matters most to our stakeholders is vital and we consider these material issues alongside our own priorities and their ability to create value.



Read more on pages 32 and 33.

### To create lasting value for our stakeholders

#### Customers and communities

We want to work with our customers and communities so we can meet their short and long-term expectations and collaborate on solutions that benefit them.

#### Our environment

We work collaboratively with our regulators, non-governmental organisations, campaigners and local communities to find solutions to protect and improve the environment on which we rely.

#### Our people and partners

We celebrate a diverse range of views and experience and use it to inform our decision making.

#### Investors

We provide regular updates on our performance and progress. This also includes environmental, social and governance (ESG) updates alongside financial and performance data.



Read more on page 30.

#### Regulators

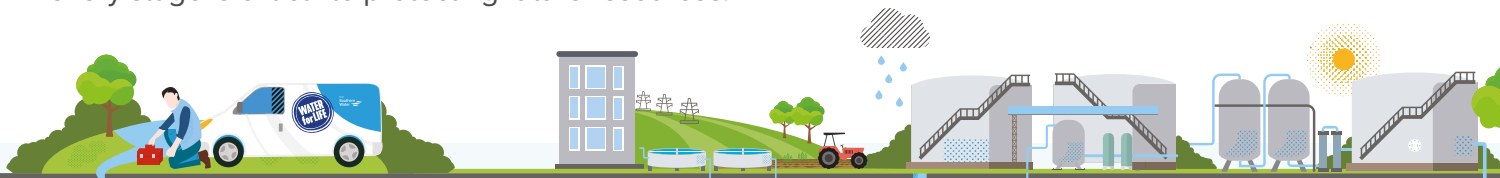
We work within policy and regulatory frameworks, calling for reform where we see a need, so we can make sure we are delivering the best outcomes for our customers and the environment.

# Our business model continued

## How we operate

Our vision is to create a resilient water future for our customers in the South East

Our use of water and its return to the environment is a continuous cycle. Managing our impact at every stage is critical to protecting future resources.



### Water is collected

About 68.2% of the water we supply comes from groundwater (water stored underground in aquifers), 27.4% is taken from rivers and 4.4% comes from our reservoirs.



### Water is cleaned

Our 70 water supply works treat raw water to the highest standards, making it safe to drink.



### Clean water is put into supply

Our 13,973-kilometre network, 224 service reservoirs and 635 pumping stations deliver a continuous supply of clean water to our customers at a regulated pressure level.



#### Relevant material issues

- E** – Compliance; climate change; water use; land management and access
- S** – Public health; local economies
- G** – Trust, transparency.

#### Associated risk

In our densely populated and water-stressed region, we must balance the need to supply high-quality water to our customers with the need to preserve our natural resources.

#### Principal risks

- Water
- Compliance
- Climate change
- Corporate affairs.

#### Relevant material issues

- E** – Compliance; climate change; water use; materials and solid waste; energy use
- S** – Public health; health, safety, security and wellbeing
- G** – Trust, transparency; political and regulatory environments; responsible supply chain.

#### Associated risk

Failures at our treatment sites and across our network could result in a risk to public health due to reduced water quality and/or disruptions to supply. We use chemicals in the treatment of water which, if not handled correctly, could result in injury. Area-specific risk assessments inform our monitoring programme, ensuring we are sampling for relevant substances.

#### Principal risks

- Water
- Compliance
- Resources
- Health and safety
- Corporate affairs
- Climate change.

#### Relevant material issues

- E** – Compliance; climate change; water use
- S** – Public health; health, safety, security and wellbeing
- G** – Trust, transparency; political and regulatory environments; responsible supply chain.

#### Associated risk

We regularly test water that we pumped into customers' homes and businesses to make sure it meets required standards to protect public health. Our teams offer support and advice on the installation of new pipework and notify customers when we find any trace of contaminants or lead pipes. We may also experience increased leakage from our network from customers' homes and businesses.

#### Principal risks

- Water
- Customer
- Compliance
- Health and safety
- Corporate affairs
- Climate change.

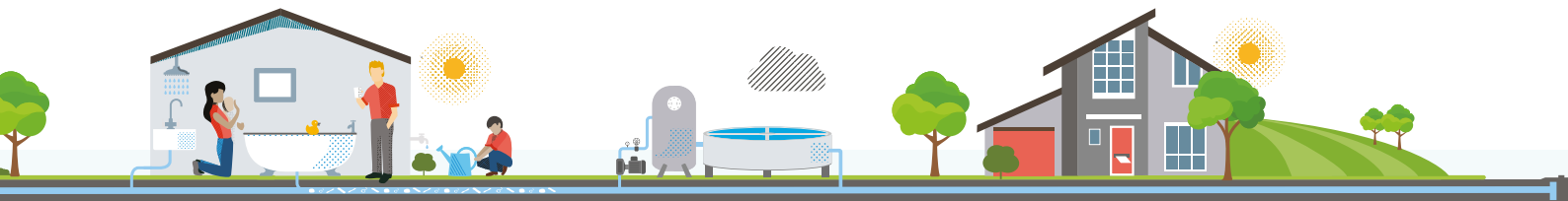


## Maintenance and development

We constantly monitor our sites and networks, conducting maintenance and developing new assets and equipment to make sure they are meeting the standards set by our regulators. Failure to monitor, maintain and increase the capacity of our sites and networks could pose risks to public health, and result in disruptions to supply, injury to our employees or customers, and damage to property.

ESG Key: **E** – Environment **S** – Social **G** – Governance





### Customers enjoy our water

Customers across the South East go about their daily lives enabled by a supply of safe, clean drinking water from their homes and businesses. In 2023–24, we put 570 million litres per day into supply.

#### Relevant material issues

- E** – Water use; energy use; compliance
- S** – Public health: health, safety, security and wellbeing; customer service; local economies
- G** – Trust, transparency.

#### Associated risk

If we do not constantly look to improve and maintain high levels of service and quality, we run the risk of not fulfilling our obligations to customers, to provide high-quality drinking water and protect rivers and bathing waters.

#### Principal risks

- Water
- Customer
- Compliance
- Health and safety
- Corporate affairs.



### Wastewater is collected and treated

Our 40,058 kilometres of sewers and 3,519 pumping stations collect wastewater from our customers' homes and businesses, and from the drains outside. Each day, 1,522 million litres of wastewater is received at our 363 treatment works, meeting strict environmental standards before being returned to the environment.

#### Relevant material issues

- E** – Energy use; compliance; materials and solid waste; climate change; land management and access
- S** – Public health: health, safety, security and wellbeing; customer service; local economies
- G** – Trust, transparency; political and regulatory environments; responsible supply chain.

#### Associated risk

If we do not manage our wastewater assets, we may cause sewer flooding, environmental pollution and unnecessary distress to our customers. Potentially hazardous substances and processes are used that could cause injury. Varying rainfall, extreme weather and rising sea levels all contribute to an increased risk of flooding. This could also lead to contamination of water supplies and infiltration/inundation of our sewers and sites.

#### Principal risks

- Wastewater
- Customer
- Compliance
- Climate change
- Resources
- Health and safety
- Corporate affairs.



### Customers are billed

Our customer teams calculate and distribute customers' bills, handle payments and manage any related account queries.

#### Relevant material issues

- E** – Water use; energy use; compliance
- S** – Customer service; local economies; affordability and vulnerability
- G** – Trust, transparency; data protection; political and regulatory environments.

#### Associated risk

Errors in our billing calculations or customer information could lead to poor levels of customer satisfaction, and a rise in contact and complaints, which could damage the company's reputation and increase our operating costs. Failure to properly protect customer data could also lead to significant fines under Data Protection (GDPR) and Networks and Information Systems (NIS) directives.

#### Principal risks

- Customer
- Finance
- Compliance
- Digital
- Corporate affairs.



### Ensuring future supply

Climate change and population growth in the South East present very real challenges that initiatives like our Water for Life – Hampshire programme are looking to address through bulk water transfers with neighbouring water companies, water recycling projects and a host of other initiatives, all of which will be needed to secure reliable water supplies for the future. We are also working to reduce the amount of water lost through leaks on our network, and we are working with our customers to help them use less water

### Associated risk

At each stage of the cycle there are several opportunities and risks, including penalties and rewards applied by Ofwat where we fail to meet or exceed performance targets. We always seek to maximise opportunities, while also identifying, managing and mitigating any risks.

## Our business model continued

### Our external drivers

The way we operate as a business is impacted by external factors outside of our control that we must consider and manage the impact of.

#### Environmental factors

Our natural environment is under pressure from population growth and climate change. We need to continue to adapt and prepare to manage current and future impacts.

We must plan to reduce any environmental deterioration from our operations. The water cycle is continuous, so we need to make sure that we are removing water from and returning it to the environment safely and responsibly. We need to find shared solutions to these challenges to reduce our collective impact on the water environment.

#### Social environment

As a provider of essential services, we have a direct impact on our local communities. We are mindful of this and do all we can to support and understand our customers.

We know that there are areas across the South East experiencing high levels of deprivation as a result of the impacts of the cost-of-living crisis. We make it a priority to offer support and advice to our customers who might find themselves in vulnerable circumstances.

#### Economic environment

We are impacted by changes in investor markets, interest rates, inflation and other market rate movements, and we manage these to reduce risks to our financial stability and protect our investors' interests. We also pay attention to the economic climate as it will have a direct impact on our customers and their ability to pay their bills.

#### Innovation and technology

We are always improving our services, taking advantage of new technologies and innovative ideas, wherever they may come from. New technology can bring with it a number of risks, so we constantly monitor our cyber security to meet the needs of the business.

#### Regulatory environment

We must prepare for future challenges and be responsive to regulatory requirements and market reform.

Our relationships with our regulators – economic, drinking water quality and environmental – are vital to ensure the resilience of our business. We work closely with them through consultations and regular meetings to share our progress and our plans, as well as influencing market reform where we see opportunities.

#### Political environment

Decisions made by politicians have the potential to significantly impact the way we operate. We make sure that we follow any directions set by government, and that we adapt quickly to policy developments.

We work closely with regional and national organisations to understand the development of any policies that will influence our business, while ensuring they understand the operational challenges and opportunities, we encounter in delivering essential services for our communities in the South East.

### Regulatory environment The water sector

Eleven licensed companies provide both water and wastewater services, serving more than 25 million household and commercial customers in England and Wales, while an additional five smaller licensed companies provide water-only services to customers.

Since the industry was privatised in 1989, a regulatory framework has been in place to make sure that customers receive consistent standards of service at an affordable price, managed by the industry economic regulator Ofwat. This framework has seen these water and wastewater companies invest billions of pounds maintaining and improving sites, technology, and services, and, in turn, enhancing the environment.

The challenges of population growth and climate change mean that the water industry must significantly change the way it operates over the coming years. There are many drivers for change. These include the 25-year Environment Plan, the Environment Act, the review of the Water Industry National Environment Programme, the Storm Overflows Discharge Reduction Plan, and our own regulatory planning submissions for 2025–30 and beyond. All of which have been created to meet rising concerns about the water industry's impact on the environment and expectations of customers and stakeholders.

By 2050, within Southern Water's region, we are preparing for the possibility that we could lose a third of our water sources due to climate change. We will also see a reduction in the amount of water we are allowed to take from rivers and underground sources, and our population will have grown by 25%.

We are working proactively with the rest of the sector, regulators, and others on workable solutions to these challenges, which we simply cannot solve alone. Concerns around storm overflows and chalk streams are examples where a multi-sector approach is essential, and we fully support the government's efforts to facilitate a collective response.

We are actively exploring new ways of working, including through nature-based solutions and natural capital approaches, such as wetlands creation, river restoration projects and tree planting, as part of our long-term planning. We also support a sector-wide commitment to deliver net zero water and waste services, aiming to bring our services in line with these targets by 2050.

# 25%

population  
growth by 2050

# 11

licensed water  
and wastewater  
companies in the UK

## Working with our regulators

We are subject to regulation of our price and performance by economic, quality and environmental regulators, as outlined below.



The Department for Environment, Food and Rural Affairs (Defra) determines the overall water and sewerage policy framework in England, setting standards, drafting legislation and creating special permits, such as drought orders. [gov.uk/government/organisations/department-for-environment-food-rural-affairs](https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs)



The Drinking Water Inspectorate is the drinking water quality regulator and enforces the Water Quality Regulations set by the government. To do this, it checks the tests carried out on drinking water by water companies, along with carrying out company inspections. [dwi.gov.uk](https://www.dwi.gov.uk)



Ofwat is the economic regulator of the water and sewerage sectors. It protects the interests of consumers by promoting appropriate competition, making sure water companies properly carry out their functions and ensuring they have the adequate finance in place. [ofwat.gov.uk/](https://www.ofwat.gov.uk/)



The Consumer Council for Water represents water and wastewater consumers. It also investigates consumer complaints that have not been satisfactorily resolved by water companies. [ccwater.org.uk](https://www.ccwater.org.uk)



The Environment Agency is the environmental regulator of the water and wastewater sector in England. It is the principal adviser to the government on the environment, and the leading public body improving and protecting the environment of England. It works with a range of organisations to reduce flood risk, promote sustainable development, and secure environmental and social benefits. [gov.uk/government/organisations/environment-agency](https://www.gov.uk/government/organisations/environment-agency)



Natural England advises the government by providing practical guidance, grounded in science, on how to best safeguard England's natural wealth. Its purpose is to protect and improve England's natural environment and encourage people to enjoy and get involved with their surroundings. [gov.uk/government/organisations/natural-england](https://www.gov.uk/government/organisations/natural-england)

## Our business model

### continued

## Trends and challenges

We've identified the main factors that affect our business now and will continue to do so in the future.

### A growing population

Population growth will place more pressure on limited resources.

- The UK's population has grown by 8.7 million people in 20 years.
- By 2050, the population in the South East is predicted to grow by another 25%.
- More than 800,000 new homes and reduced open spaces will require new water solutions.
- By 2050 we estimate that demand for water may have grown by 70 million litres a day from today's 440 million litres per day.

### Material issues

Climate change; public health; biodiversity and natural capital; responsible supply chain; water use; political and regulatory environment; local economies; energy use; and stakeholder engagement and networks.

### How we are responding

- Through Water Resources South East, we are collaborating with our neighbouring water companies and making connections to their networks in water-stressed areas to increase supply and meet demand. Read more: [wrse.org.uk](http://wrse.org.uk)
- Our Water for Life – Hampshire programme is developing a new network of water mains, water recycling facilities and transfers across the region. Read more: [southernwater.co.uk/our-story/water-for-life-hampshire](http://southernwater.co.uk/our-story/water-for-life-hampshire)
- We have developed our water and wastewater plans to meet future demand. Read more: [southernwater.co.uk/dwmp](http://southernwater.co.uk/dwmp) or [southernwater.co.uk/our-story/water-resources-management-plan](http://southernwater.co.uk/our-story/water-resources-management-plan).

→ See page 49 for more information.

### Changing communities

Communities are adapting due to demographics and societal changes.

- People are increasingly focused on health and wellbeing and enjoying their local environment.
- The average age of the population is predicted to be over 65 by 2050.
- Increasing mobility means that nearly three million households move each year.
- Hybrid working increases demand for local services.

### Material issues

Health, safety, security and wellbeing; public health; affordability and vulnerability; trust, transparency and legitimacy; and water use.

### How we are responding

- Over the past two years we have increased the quality and frequency of our regular customer engagement. For example, more than 25,000 customers spent over 8,000 hours telling us what they thought of our new business plan 2025–30. This included dozens of different audiences and segments of our society.
- Our regular panels made up of current and future customers, businesses and vulnerable communities also help to inform our day-to-day operations and plans and investments for the future.
- Our Customer and Communities Challenge Group, made up of customer stakeholder experts representing different audiences from across our region, also played a key role in the testing of our plans. We will continue to be challenged by it as we move into delivery of the 2025–30 plan.

→ See pages 40-41 for more information.

## Evolving customer expectations

Customer expectations are evolving with technology and greater access to information.

- Increasing expectations on speed of service, as experienced in other sectors.
- Increasing demand for real-time data that improves lifestyle and finances.
- An expectation of 100% availability from their utility providers with lower tolerance of failure.
- A desire for personalised services tailored to customers' needs.

### Material issues

Customer service; affordability and vulnerability; data protection; and energy and water use.

### How we are responding

- During the year, we created four specific customer newsletters for each area of our region, sharing focused local news about improvements in the community and providing updates on works in the area.
- We set up a series of face-to-face customer drop-ins, called Your Water Matters, that will visit key locations across Kent, Sussex, Hampshire and Isle of Wight. This means customers will have direct access to the teams and information about projects we are delivering in their area.
- We have streamlined our operational response teams and partnered with local authorities to make sure that when we cannot supply customers with water, more of those with an urgent need for bottled water deliveries are prioritised.
- We have launched a new website, using business and data-driven insights to improve accessibility, our customers ability to self-serve and the visibility and reach of our content for customers.

→ [Read more about our customer service performance and plans on pages 34 to 43.](#)

## Increasing use of technology

Big data, artificial intelligence (AI) and machine learning are all becoming increasingly common.

- Growing ability to unlock valuable insights from data.
- Data becoming increasingly open to all – customers, stakeholders and government.
- Increasing automation to simplify and speed up processes.
- Using AI to learn and adapt to changing environments.

### Material issues

Water use; compliance; customer service; community engagement; and trust transparency and legitimacy.

### How we are responding

- We have launched a new customer contact management system which will improve our access to customer data, accuracy of location information using What3Words, and allow us to manage the customer journey from contact through to resolution in one place. It also allows us to send text and email updates to customers, keeping them informed of progress every step of the way.
- We are using machine learning applications to help identify where leaks are most likely to occur, meaning we can detect larger leaks more quickly, reducing the amount of water lost to leaks and reducing disruption for our customers.
- Data and analytics feeding into our Control Centre is helping us spot pollution risk at our pumping stations and improve wastewater treatment compliance.
- We are working in partnership with Severn Trent to understand how AI can make more efficient and effective decisions to automatically reconfigure our network in storm conditions, to reduce hydraulic overload leading to spills and pollutions.
- We are involved in the industry-wide Stream open data initiative, funded by Ofwat and other water companies so we can standardise how we share and describe data across the industry. We have begun publishing our first datasets through Stream and we will continue to develop our own open data strategy to support our stakeholders.

→ [See page 65 for more information.](#)

## Our business model continued

### Rising concerns about the environment

Demand to protect the environment is driving change in government priorities.

- Social media rapidly exposing environmental harm.
- Pollutions no longer acceptable.
- Rare and fragile chalk streams under threat.
- Storm overflow systems no longer acceptable to communities.
- Open-water swimming increasing in popularity.

### Material issues

Compliance; health, safety, security and wellbeing; public health; trust, transparency and legitimacy; company structure, ownership; political and regulatory environment; and stakeholder engagement and networks.

### How we are responding

- We have increased myth-busting updates across our social media channels, explaining our processes and providing more information about the work we are doing in communities to limit the impact of our operations on the environment, for example through our Clean Rivers and Seas Task Force.
- We have published the fifth iteration of our Pollution Incident Reduction Plan that details the steps we are taking to further reduce Category 1-3 pollutions. The work already delivered in this area, analysing root cause, upgrading our pumping stations, and continuing our sewer cleaning and relining programme, has already delivered year-on-year reductions in total pollutions. Sadly, serious pollutions have increased, and we are focused on improving our telemetry, modelling and visualisation tools in our Control Centre to drive a proactive rather than reactive response to address this.
- Our Catchment Management team has delivered a series of river restoration projects in Hampshire, Sussex and on the Isle of Wight to re-route and reinvigorate local chalk streams and improve water quality. Read more on page 61.
- The task force published its detailed Clean Rivers and Seas Plan in November 2023, asking for customer feedback on our proposals for reducing our use of storm overflows. This feedback will inform our delivery plans from 2025–30.

→ See pages 50 to 61 for more information.

## Climate change

Climate change is impacting our environment and the way we operate our water and wastewater services.

- Need to reduce carbon emissions.
- Forecasts for more extreme weather, warmer land, air and sea, polar ice melting, changes in ocean currents.
- Seasonal storms increasing in intensity and hyper-locality.
- Biodiversity reducing.

## Material issues

Compliance; climate change; public health; energy use; biodiversity and natural capital; responsible supply chain; water use; and materials and solid waste.

## How we are responding

- We are aiming to update and republish our Net Zero Plan in the coming year. Our updated plan will include an interim target of a 35% reduction in Scope 1 and 2 emissions between 2023–30, based on a 2022–23 baseline year. This interim target accounts for our forecast emissions and our planned investments in assets. The plan recognises the need to continue to develop our carbon culture to ensure it is fully embedded into decision-making processes. Involvement in innovation and industry collaboration is also key to enabling long-term reductions.
- We have undertaken capital carbon assessments of our future work programmes, i.e., for our 2025–30 programme, and developed capital carbon scenarios to 2050 to provide decarbonisation trajectories that help inform future and whole life carbon targets and design choices. These scenarios give insight into what the focus for engagement with the supply chain may be to facilitate and influence the decarbonisation of these supply chains.
- We have also continued to develop our carbon-related climate change reporting requirements and processes with our supply chain, including the continued integration and implementation within our risk and value process to facilitate effective consideration at all relevant project lifecycle gateway stages.
- We have also carried out climate change risk assessments (CCRAs) of relevant sites in order to assess relevant risks, including temperature, extreme rainfall, sea level rise, storms, etc. These risk assessments will inform the further integration of climate change adaptation planning and mitigation into our management systems.

[→ See pages 68 to 84 for more information.](#)

## In July 2023, Defra published the third National Adaptation Programme

This sets out a commitment to take clear and decisive action over the next five years to maintain our country's resilience to the impacts of climate change. The programme includes a voluntary fourth round of climate adaptation reporting. During 2024, we will prepare and submit our Climate Adaptation Report in line with the fourth round guidance (ARP4), which will include an action plan setting out how we intend to manage the risks we have identified in our risk assessment.

## Our business model continued

### Delivering value to our stakeholders

Water enables everything we do so we have a responsibility to meet the needs of a range of stakeholders

#### Customers and Communities

Our customers expect us to deliver wholesome water and effectively remove wastewater. They want us to deliver services sustainably, at affordable prices while supporting those in vulnerable circumstances.

Water for life is a shared responsibility which means we must build partnerships in our communities with interest groups and local charities as well as future customers. Our employee volunteering programme helps us to connect with our communities.

##### How we measure value

- Customer experience (C-MeX)
- Other metrics include value for money, community engagement, developer experience (D-MeX), complaints, vulnerability support and financial assistance.

#### Regulators

Standards and targets set by our regulators help to define our business plans, so we must constantly look to engage and influence them, where we can. Read more about our regulators on page 25.

##### How we measure this

- Outcome delivery incentives (ODIs); Environmental Performance Assessment (EPA)
- Regulatory price controls help to align shareholder value with customer and environmental priorities.

#### The Environment

Our natural environment, including reservoirs, river catchments and bathing waters, provide spaces for wildlife and recreation, and create value in terms of tourism. We work hard to protect and improve them while delivering our essential services.

##### How we measure value

- Environmental Performance Assessment, conducted by the Environment Agency
- Other metrics include pollutions, internal/external flooding, leakage, greenhouse gas emissions and natural capital value added.

#### Investors

To add value for our investors, we manage risk and provide an appropriate return, when we can. We invest their money to provide for growth and resilience.

##### How we measure this

- Outcome delivery incentives, Environmental Performance Assessment (EPA), GRESB
- Financial performance.

#### Our People and Partners

We want to attract, develop and nurture an inclusive and diverse workforce, making sure we look after the health, safety and wellbeing of every colleague and partner. We invest in the region's infrastructure, generating jobs, improving skills and helping to sustain the local economy through our capital construction programme. We work in partnership with our supply chain, ensuring transparency and fair treatment.

##### How we measure value

- Employee engagement; Voice of the Supply Chain (survey) engagement
- Other metrics include diversity and inclusion, learning and development
- Metrics also include those specifically related to health, safety, security and wellbeing, such as injuries and near misses.



## Case study

### Improving the reliability of water supplies

“Delivering a reliable supply of water for our customers is our top priority and one way we are achieving this is through our programme of reservoir and tank inspection and cleaning.

“After your water has been treated at one of our Water Supply Works it is stored in large tanks, often found up on a hillside, before the water then gravitates down in our network of pipes to your home.

“Our reservoir maintenance team will shut the inlet to the reservoir cell and drain the water into supply. They then enter the reservoir to complete a condition survey and to clean it. As it’s confined space, the team needs to carry escape breathing apparatus and have a team on the surface to make sure they stay safe.

“If any issues are spotted in the tank, such as a hairline crack or a faulty valve, the team will carry out the repairs, unless a more detailed structural survey or engineering works are needed.

“Once completed, the tank is fully sterilised before being re-filled with water. The water is then sampled to make sure it’s safe to put back into supply. Sometimes, we might also install a loose membrane over the roof, which wouldn’t mean that the reservoir needed to be taken out of supply.

“This programme of inspection, cleaning and maintenance has reduced risk to water quality and helped us find more potential structural defects which could impact water quality. Around 58% of our 355 storage reservoirs have now been inspected since 2020, and water quality compliance at our reservoirs is currently at 99.9%.

“The reservoir maintenance programme is critical to ensure water quality standards are met and that we protect these amazing, Victorian assets.”

**Joanne Harris**

Head of Water Performance

#### Stakeholders impacted



# 355

storage reservoirs

# 99.9%

water quality compliance



Read about how we are Ensuring a supply of high-quality water on pages 44 to 49.

# Our focus areas

## 26

### material issues



Read about how we create value for our stakeholders on page 30.

## Understanding what matters most to our stakeholders helps us prioritise our plans and reporting

Having a clear understanding of the material issues of each of our stakeholders allows us to create value for them. The matrix on the next page represents the results of that assessment for this year.

### Our approach to materiality

#### Step one – Defining the issues

We identified the issues, starting with last year's materiality assessment and then considered our stakeholder engagement over the year. We also considered our corporate strategy, external trends including the UN Sustainable Development Goals, enterprise risks, and sector benchmarks.

#### Step two – Prioritising the issues

The significance of selected issues was scored for four stakeholder groups – customers, stakeholders including regulators, government and NGOs, employees and investors – using insight from engagement during the year. 'One' indicating no impact/negligible ability to influence and very infrequent stakeholder interest. 'Five' indicating critical impact for all functions/ high levels of control, and significant interest of many stakeholders.

#### Step three – Internal validation

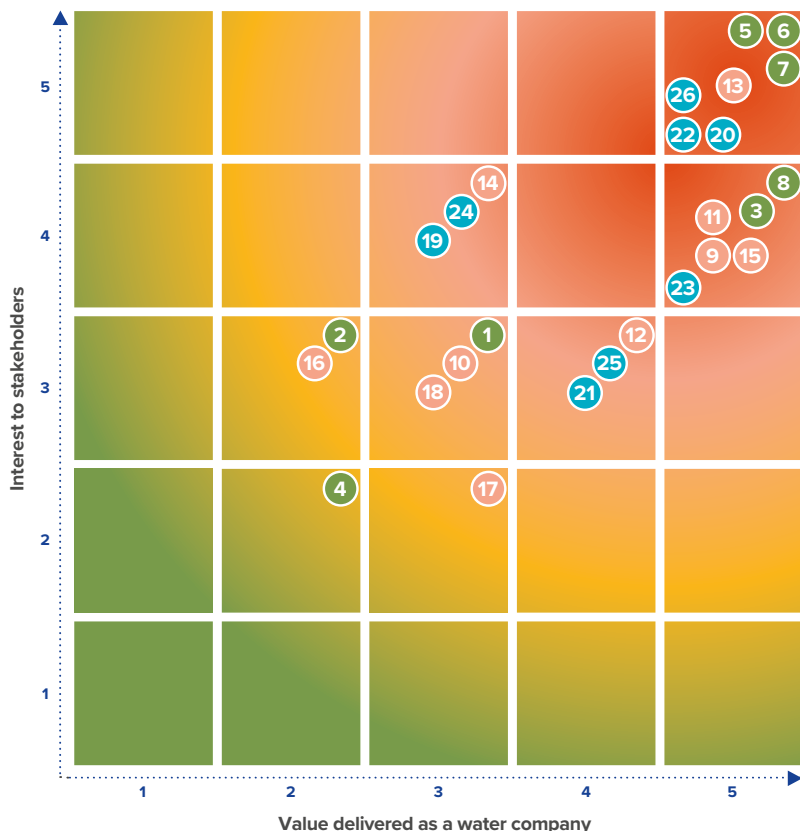
We tested the prioritisation scores with internal groups, including the Executive to validate the process and ranking.

### Our assessment process

To assess the importance of each issue, we considered its effect on our ability to create value internally and externally, for our customers and other stakeholders. The level of interest to stakeholders is based on views gathered through direct engagement throughout the year. This includes the insights gathered as part of the consultation process for our business plan 2025–30.

### Prioritising our material issues

A total of 26 issues were identified from this year's materiality assessment process with three new issues added – storm overflows, financial stability and risk management, and employee engagement. These issues were plotted on the matrix on the next page, representing the level of interest to stakeholders and how much each issue affects our ability to create value.



**Our material issues**

**Environmental**

- 1 Biosolids
- 2 Energy use
- 3 Compliance
- 4 Land management and access
- 5 Nature based solutions
- 6 Protection from climate change
- 7 Storm overflows
- 8 Water supplies

**Link to principal risks**

Wastewater – see page 120; Climate change – see page 122; Resources – see page 124  
 Climate change – see page 122  
 Compliance – see page 122  
 Compliance and Climate change – see page 122  
 Compliance and Climate change – see page 122  
 Climate change – see page 122  
 Read more on pages 57 and 61  
 Water – see page 120; Delivery – see page 123

**Social**

- 9 Affordability and vulnerability
- 10 Community engagement
- 11 Customer service
- 12 Diversity and inclusion
- 13 Drinking water quality
- 14 Fair and equal pay and working
- 15 Health, safety, security, and wellbeing
- 16 Human rights
- 17 Local economies
- 18 Skills and employment

**Link to principal risks**

Customer – see page 121  
 Customer – see page 121  
 Customer – see page 121  
 People – see page 125  
 Read more on pages 46 to 47  
 People – see page 125  
 Health and safety – see page 124  
 Resources – see page 124  
 Customer – see page 121  
 People – see page 125

**Governance dimension**

- 19 Company structure, ownership
- 20 Cyber security and data protection
- 21 Employee engagement
- 22 Financial stability and risk management
- 23 Political and regulatory environments
- 24 Responsible supply chain
- 25 Stakeholder engagement and networks
- 26 Trust, transparency, and legitimacy


**Link to principal risks**

Compliance – see page 122  
 Compliance – see page 122; Digital – see page 123  
 People – see page 125  
 Financial – see page 121; Compliance – see page 122  
 Financial – see page 121; Corporate affairs – see page 125  
 Resources – see page 124  
 Customer – see page 121; Corporate affairs – see page 125; Delivery – see page 123  
 Read more on pages 166 to 176

# Our operational performance

## Building a better future by understanding and supporting our communities

### Our performance at a glance

Outcome	Why it's important	Associated performance commitment	Performance				End of AMP target	Link to Executive remuneration
			2020-21	2021-22	2022-23	2023-24		
 <b>Deliver great service</b>								
Customer experience	Customers want to see us improve our customer service performance. They want us to minimise the impact of issues and disruptions to their daily life. When shown comparative information, they expect us to do better.	C-MeX	—	—	—	—	Median	Direct
		Void properties	—	—	—	⊙	2.56	
		Gap sites	—	—	—	—	65	
Sewer flooding prevention	It is essential that our network stops homes being flooded with waste from sewers. There is strong support to ensure we continue to improve sewer flooding prevention.	Internal sewer flooding	—	⊙	—	⊙	274	Indirect
Supporting the vulnerable	Customers find the concept of the social tariff acceptable. They want us to protect the most vulnerable in society, and find it acceptable to pay a little extra on their bill to help those in genuine need. They want us to partner and provide support by understanding and acting on customers' individual circumstances.	Customer satisfaction with vulnerability support	—	—	—	⊙	90	
		Effectiveness of financial assistance	—	—	—	—	90	
		Priority services for customers in vulnerable circumstances	—	—	✓	✓	7.0	
		Value for money	—	⊙	—	⊙	80	

#### Key



Ofwat target met or exceeded



Ofwat target missed but performance improved in relation to prior year outcome



Ofwat target missed and performance was worse than prior year outcome



Turnaround Plan priority areas

## How we measure our progress

Our Water for Life Business Plan 2020–25 is broad and ambitious and includes 47 clear customer commitments. We recognise that performance needs to be improved for our customers and the environment and we have detailed plans in place to do this. Our Turnaround Plan, our service commitment to customers, explicitly targets improvements in health and safety, capability, systems and technology, resilience of our assets, digitalisation, logistics, compliance and customer service.

Outcome	Why it's important	Associated performance commitment	Performance				End of AMP target	Link to Executive remuneration
			2020–21	2021–22	2022–23	2023–24		
<b>Use water wisely</b>								
Water consumption	Customers are interested in understanding more about their water usage. They see saving water as a partnership issue and are looking for us to help them save more.	Per capita consumption	🟡	🟡	🟡	🟠	118.8	
		Target 100	🟠	🟠	🟠	🟠	55.00	
		Water saved from water efficiency visits	🟠	🟠	🟠	🟠	2,500	
		Access to daily water consumption data	🟠	🟠	🟠	🟠	3,529	
<b>Fit for the future</b>								
Growth	Businesses think it is important to work with councils and developers on infrastructure. Customers recognise the challenge of new homes drawing on our network and expect us to ensure it is fit for the future.	D-MeX	🟠	🟠	🟠	🟠	Median	
Community engagement	Keen for us to focus on our role in the community, our customers want us to collaborate with local groups on important issues, support community outreach programmes and educate the next generation in schools.	Community engagement	🟠	🟡	🟠	🟠	75	
		Schools visited and engagement with children	✅	🟠	✅	✅	90	

### Key



Ofwat target met or exceeded



Ofwat target missed but performance improved in relation to prior year outcome



Ofwat target missed and performance was worse than prior year outcome



Turnaround Plan priority areas

## Our operational performance continued

### Building a better future by understanding and supporting our communities

continued

## Turnaround Plan highlights

### Where we were

Our customer service systems are outdated, which was affecting our ability to effectively manage customer data and analytics to inform improvements to our services.

### What we have done

Redesigned our web forms, reducing complaints. Launched a new website and a new job management system, speeding up fixes and processes for our customers.

### Priorities for this year

Continue to improve our new website and developer portals, increase the number of people on our support tariffs, and improve our response during supply incidents.

# 59%

reduction in complaints



Read about our face-to-face customer sessions, [Your Water Matters](#), on page 42.

### Improving customer experience C-MeX

While we continue to improve our services for customers and aim to increase our satisfaction measure (C-MeX), which sees us ranked in 16th position out of 17 water companies currently (2022–23: 16th), our score is impacted by broader reputational perceptions of Southern Water. The target set for us by our regulator is to achieve an average or median score among the total number of water companies.

Digital technology has been a key enabler of improvements put in place this year:

- The introduction of our new virtual inspector in July, using video triage with customers to resolve their water issues, has meant that we no longer need to send an inspector to visit a property, speeding up resolution of customer queries. The virtual inspector has avoided a significant number of inspector visits since it was introduced.
- We launched a new operational job management system in April, allowing us to log, manage and track customers' water and waste problems and keep customers up to date on the progress of their query more easily using text messaging.

- The launch of our new mobile-friendly website in April enabled us to provide the latest information to customers in a format that makes it easier for them to self-serve and find what they need more quickly.

In February 2023, the CCW (Consumer Council for Water) carried out an in-depth assessment of our complaint handling. Overall feedback was positive, and they noted significant improvements over the past 18 months, comparing us favourably to the industry leader and commenting on the clarity of our response letters and our efforts to talk to customers rather than sending letters or emails. CCW's report in March 2023 stated we are an improving company.

Our Turnaround Plan actions have helped cut complaints by 59% when compared to 2022–23. This moves us from one of the poorest performing companies to just below average.

As at 31 March 2024, 67,400 households in our region were registered as voids (unoccupied). This is 3.24% of our household properties, outside our target of 2.97% (2022–23: 2.82%). We incurred a penalty of £0.60 million. In 2023–24, there was an increase in the number of voids of approximately 12,000, due to the identification and creation of identified gap addresses. We improved our performance for gap sites with a total of 39 against a target of 65 (2022–23: 37).

## Protecting our customers' homes from flooding

We continue to work hard to protect customers and the environment from sewer flooding and any harm this may cause.

The number of internal sewer flooding incidents was 527 (2022–23: 496), incurring a penalty of £6.279 million. Our Ofwat end of year target is 294. In part, our performance has been driven by our region experiencing the wettest 18 months since records began.

Hydraulic overload (flooding of our networks) has prevented us from achieving a higher reduction, and groundwater levels are at a 10-year high.

To make further improvements, we are targeting flooding hotspots, as well as creating a standardised clean-up process, helping improve customer satisfaction. Our 23,000+ sewer level monitors and the sewer flushing programme continue to improve performance in this area.

## Supporting our customers in vulnerable circumstances

Our Turnaround Plan aims to boost support to customers in vulnerable situations. Our score for customer satisfaction with vulnerability support was 70% (2022–23: 73%). While there was no change in the proportion of customers who were dissatisfied, the score was impacted by those scoring extremely satisfied.

The percentage of customers that paid their bills in the immediate 12 months following the receipt of financial assistance currently stands at 76%, an increase on last year (2022–23: 71%), measuring the effectiveness of financial assistance provided.

The number of people on our Priority Services Register (PSR) increased to 235,901 (2022–23: 166,384) representing 12.0% of households (2022–23: 10.9%), against a target of 7%.

This increase is in part due to our partnership with Kidney Care UK and the introduction of a clearly defined incident process for those registered as receiving home dialysis.

The PSR has shown continued growth, with us now seeing over 5,700 registrations per month. Efforts are now underway to intensify our outreach in rural areas.

We have also made progress with our social tariff offering. In May 2023, we began to work with Age UK, focusing on better tariff allocation for customers of pensionable age and ensuring that qualifying customers receive a minimum 45% reduction in their annual water charges.

By leveraging data on residents receiving pension credits, we are better able to guide these individuals to the most suitable tariffs, bolstering their inclusion on the PSR and ensuring their wellbeing during incidents.

In collaboration with SEA (Surviving Economic Abuse), we introduced a dedicated Domestic Abuse Policy in April 2023. The financial relief provided in this area during the first year amounted to over £94,000.

We also offer a Hardship Fund, providing additional assistance to individuals experiencing financial difficulty or personal challenging circumstances. Through the fund we can support customers with debt write-off and grants towards specific home appliances. In 2023–24, we supported over 150 customers with debt write-off, averaging approximately £1,300 per customer, and provided over 200 white goods to those in need.

In March 2024, we received confirmation that we had been awarded the international kitemark for inclusive services, reaffirming our commitment to the vulnerable customer base.

# 527

total number of internal sewer flooding incidents

# 70%

satisfaction with vulnerability support

# Our operational performance continued

## Building a better future by understanding and supporting our communities

continued

**57%**

customers feel our services offer them value for money

**129.6**

litres of water per person, per day used

### Value for money

We are given a value for money score each year showing the percentage of customers surveyed by CCW that are satisfied with the value for money of water and sewerage services in their area. Our score was 57% (2022–23: 67%), which means we did not meet our target.

The water sector is under greater public scrutiny than ever before, meaning customers rightly expect to be able to see what they get in return for their money. We have spent a lot of time over the past few years explaining the investments we are making in communities and the benefits that these projects deliver to our customers and the environment.

We have created an [‘Improvements in Your Area’](#) section of our website, launched a monthly regional e-newsletter and we now meet customers face-to-face at our Your Water Matters events. We have also created a new infographic that explains ‘Where Your Money Goes’ for customers – see below – which is also on our website along with fact sheets explaining how we are funded.

### Supporting our customers and communities to save water

Our domestic customers are among the lowest water consumers (per capita consumption) within the UK. Our current three-year rolling average for daily water consumption is 129.6 litres per person per day (l/p/d) (2022–23: 133.7 l/p/d). Although a notable improvement on last year, consumption is outside the regulatory target for this year of 120.3 l/p/d.

Global, national, and regional events have impacted the amount of water customers are using, including the ongoing impact of COVID (working from home), the cost-of-living crisis, and climate change. To achieve our target of 100 l/p/d by 2045, we continue to explore ways to achieve a sustainable change in customer behaviour. Our approach is wide-ranging, from supporting primary school education programmes to testing devices that may assist customers to reduce their water use.

We have engaged directly with schools, working alongside our education partners, We Are Futures and the South East Rivers Trust.





Together we have provided educational materials and experiences that have reached over 80,000 students. And between May and September 2023, we delivered 36 community events across our region, engaging more than 13,000 customers, providing them with water saving tips, free products, and advice.

Our Water Efficiency team has been working on the five-year Save Every Drop project with the Watercress and Winterbournes team at the Hampshire and Isle of Wight Wildlife Trust (HIWWT). The project raises awareness of the connection between the water we use and the quantity and health of water in our chalk streams.

During 2023–24, we delivered 13,500 home visits, reducing water consumption by almost 300 cubic metres per day. Our home visits, which include providing behavioural advice, found over 1,100 leaky loos that were fixed by local plumbers. We took 8,400 water samples from customer properties that helped identify a further 271 leaks.

From speaking with customers, our engineers have referred 1,200 customers to our Affordability team, who contact customers to discuss payment options.

We also continue to trial new products with our colleagues and customers. For example, we are trialling a smart alarm device with 1,000 customers. The LeakBot alerts customers to the presence of water leaks on the mains supply, and when taps have been left running for long periods. Early results are encouraging, the device has helped identify leakage in 26% of homes. The average leak being 37 litres per day and the largest was over 364 litres per day.

We have also launched a Business Partnership Fund to support innovative ideas to help reduce water use in businesses across the South East.

As part of a pilot programme, we completed seven audits of non-household premises, including a school, leisure centre and football stadium, achieving savings in consumption of over 120,000 litres per day. A further 360 audits are planned between April 2024 and March 2025. Our Water Butt for Business Scheme is to be launched in April 2024. This scheme, aimed at schools, community groups and not-for-profit organisations, provides a free water butt kit to help customers reduce consumption.

To encourage developers to provide water efficient housing (100 litres per person per

day) we have introduced the environmental incentive scheme for water. It enables developers to claim incentives for taking action to achieve water neutrality – demand for water is the same after a new development is built, as it was before.

The introduction of smart metering is expected to bring several additional benefits associated with water wastage and leakage. Smart metering will enable better customer communication and will be important in driving customer behaviour change.

### Working with our communities to manage growth

Our Developer Services Measure of Experience (D-MeX) score places us 16th out of 17 water companies (2023: 15th). Our medium-term target is to raise performance to the ‘median’ industry score in the next three years, placing us around 8th or 9th out of the total number of water companies. The D-MeX score breaks down into the quantitative component, where we have completed a higher percentage of jobs on time than last year, and the qualitative component made up of customer services which has seen an improvement for the third year in a row.

To continue our improvement, we introduced welcome calls and gave our customers a named contact person to support them and answer any questions they may have. Our contact centre continues to answer over 95% of all calls with an average wait time of under 30 seconds, while our online chat capability, using AI to power our quality assurance (QA) processes, is offering us more data analysis tools to improve our reporting.

### Engaging with our communities and working with local charities

Engaging with our customers and stakeholders by getting out into the community has also been a priority.

Our community strategy has been shaped in response to feedback from our customer insight panel and dialogue with community partners. The strategy has four pillars: building skills for our community; making our communities stronger; caring for the environment together; and demonstrating our positive impact.

# 13,000

customers engaged at our community events

# 13,500

water-saving home visits for our high usage customers

## Our operational performance continued

### Building a better future by understanding and supporting our communities

continued

**60,000**  
students accessed  
our learning materials

**81,000**  
pupils engaged  
through our  
education  
programme

#### Building skills for our community

Our customers have told us that they want us to focus on the education of young people. This year we continued to deliver our schools educational resources – New Wave – including school assemblies, and expanded our schools programme to include site tours of our Wastewater Treatment Works at Peacehaven.

Around 60,000 students accessed our learning materials this year (2022: 30,000) – one module alone was accessed by 51,000 students. Our education programme is being rolled out over three years, starting with a focus on primary schools in 2023. During 2024 and 2025 we will develop the programme to include secondary schools. The education modules help young people to understand the industry and support their formal learning.

The modules are designed so that schools can run the programmes themselves as part of the school curriculum, making use of all the specially designed materials. During the past 12 months we have engaged 81,000 pupils in our programme both online and face-to-face, including visiting 152 schools from April to September 2023 and reaching out to 12,949 pupils. We ran a teacher's survey in July, where we received 100% positive feedback, meeting our 90% target.

This education programme sits alongside our work mentoring young people and organising outdoor learning experiences. To make sure these activities fully support participants, we provide subsidised travel bursaries and carefully arrange SEN adaptations to help ensure the offering is relevant, and inclusive.

#### Case study

### Sustainable drainage in local schools is helping to reduce storm overflow releases



Our SuDS in Schools programme has seen the installation of 93 sustainable drainage initiatives in local schools in

our region, enabling them to better manage rainwater run-off on their sites and reduce their wastewater bills.

The nature-based solution to manage surface water is part of a joint initiative with the Department of Education and Southern Water, which has seen sustainable drainage systems (SuDS) installed schools across the South East.

A recent installation at one school in Hampshire has managed to prevent over 300,000 litres of rainwater, the equivalent of 3,800 baths, from entering the sewer system and contributing to storm overflows in the area or pooling to cause floods.

#### Stakeholders impacted



**300,000**  
litres of rainwater (at just one school)  
has been prevented from entering the  
sewer system

## Case study

# Helping community centres keep their doors open in winter with special grants

In January, we awarded 24 Community Centre Grants – formerly known as energy grants – helping community centres keep their doors open during the cold winter months, across our region. It's all part of our commitment supporting community hubs providing vital services to our customers.

It was the second year we have given out the grants, delivered in partnership with our supplier CMDP, awarding 24 community centres £1,000 each. These community hubs help support over 8,700 people every week across East and West Sussex, Hampshire, The Isle of Wight and Kent. The funds helped with energy bills, assisting with the running costs that these centres have when supporting our shared communities.

We also expanded our mentoring support for young people this year. Two schools took part in the programme and 10 employees dedicated 40 working days to support and coach young students through our Dare to Dream programme, in partnership with the Love Local Jobs Foundation. Key themes of the programme were identity, character, self-belief, employability, resilience, and happiness.

### Making our communities stronger

After a successful pilot held on the Isle of Wight in March, where we invited customers and local stakeholders to meet our teams and learn more about our Your Water Matters drop-in, events are now being held at different venues across our region. Read more on page 42.

We now have 15 Community Ambassadors attending events in local communities and schools.

We wanted to reach as many community centres as possible with the news that the grants were available, so we reached out using our website, our grant mailing list and by engaging with our stakeholder team to let local councillors know about the scheme.

We received 130 applications this year and all the centres applying for a grant received an offer of a free community talk, access to our corporate volunteering programme and they were made aware of our schemes and tariffs for low-income households and all other funding streams.

### Caring for the environment

Through our volunteering activities, we have worked with a range of local community groups and charities, with our teams carrying out beach cleans and conservation work across our region. Through the 'Our Sites in the Community' programme we have also improved the look and feel of some of our own pumping stations, which had attracted unsightly graffiti, inviting local artists to showcase their work.

### Demonstrating our positive impact

We continue to work with Businesses of Social Impact (BSI) to make sure there is independent benchmarking of our community activities. In addition, we have an active membership with Business in the Community with representatives on the South East Board focusing on local regeneration programmes.

For the second year running, we also distributed 24 Community Centre Grants worth £1,000 each.

### Stakeholders impacted



# £1,000

grant for 24 community centres across the South East

# 40

working days of mentoring support to local schools

# 93

sustainable drainage initiatives in local schools

## Our operational performance continued

# Understanding and supporting our customers and communities

### Case study

## Listening to our customers and taking action (Your Water Matters)

“We were keen to hear from our customers about their challenges and opinions on how we’re performing. We also wanted to give them the opportunity to meet our teams face to face so they could hear about the work we’re doing in their communities. It gives us the chance to discuss the challenges we’re facing in the community, and to work with them to find solutions.

“Over the summer of 2023, we hosted a trial drop-in session on the Isle of Wight, inviting teams from across the business, both operational and environmental, and some of those involved in our key construction projects. Feedback was positive, and even the people that came with complaints or issues went away feeling like they had been heard and given some answers.

“We decided that a series of these events, across our region, would give us a chance to share more information with customers about what we’re doing to fix issues in their communities. So we called it Your Water Matters and started creating a list of locations.

“We’d had a lot of problems with flooding and pollutions, storm overflows and water outages in and around Hastings, so we partnered with the local council to spread the word that we’d be hosting an event at Stade Hall in October. We also promoted the event widely across media and social media. We had a lot of interest, with around 650 people attending, including some protestors that we met outside the hall. It was an opportunity for everyone to

have their say and to challenge us about the issues that were important to them.

“We want to have these difficult conversations with our customers so we can understand how we can change our processes and improve our services. We’ll only do this by understanding what our customers really need from us.

“Since then, we have hosted another two events, in Whitstable and Southampton. Customers who have attended these events have left with improved perceptions of Southern Water and having made human connections on very local issues. We have four more events planned in Hampshire, Kent and Sussex this year, with two more scheduled early next year in Kent and the Isle of Wight.”

**Katy Taylor**

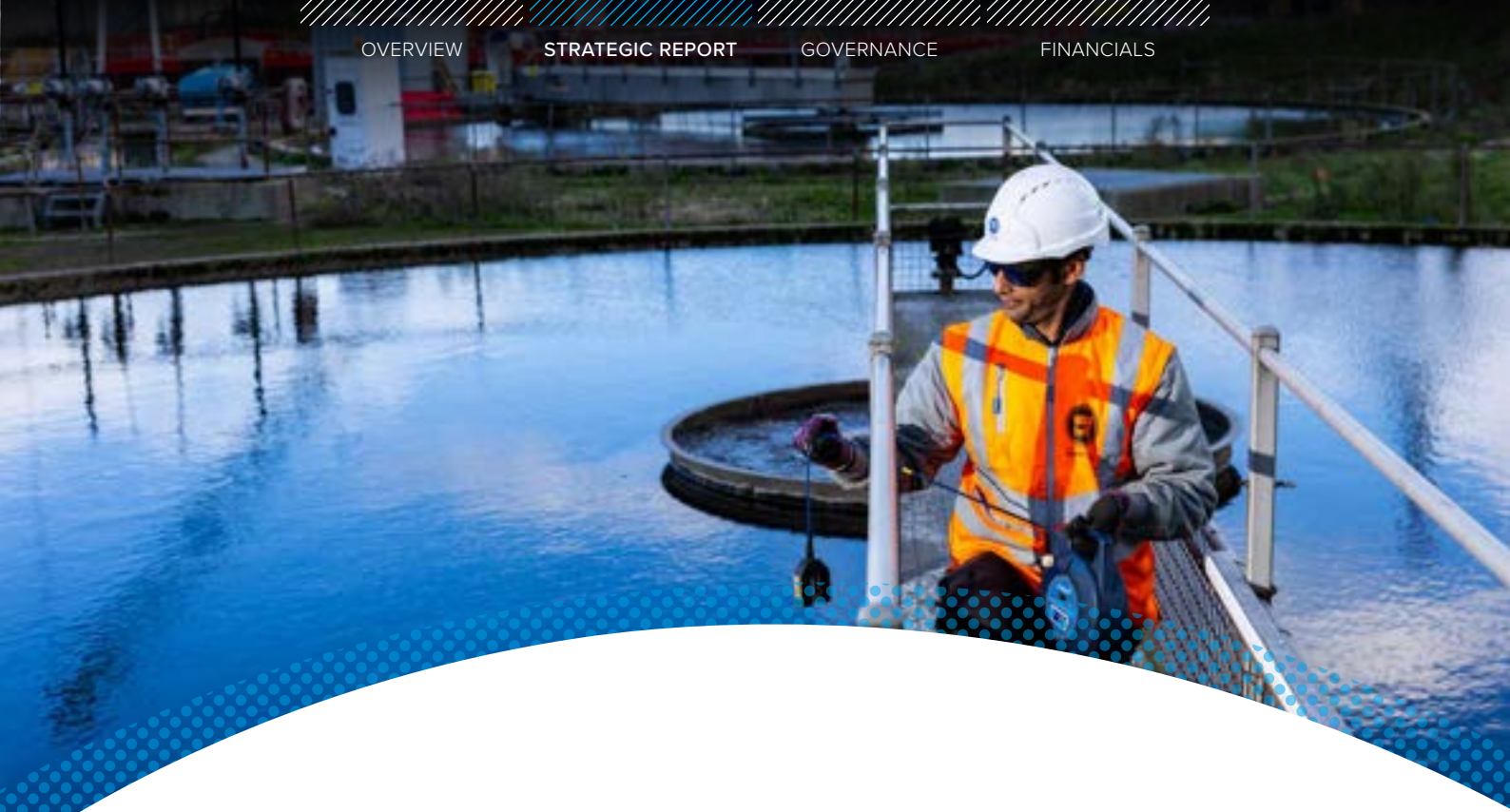
Chief Customer Officer

### Stakeholders impacted



# 650

customers attended our Hastings  
Your Water Matters drop in



## Case study

### Going ‘Beyond the Drain’ on our inclusive wastewater tour

“Our new [‘Beyond the Drain’](#) tour is an inclusive educational experience that takes account of special educational needs (SEN).

“The tour gives students from key stages 2 and 3 – as well as their teachers – a great insight into what happens to our wastewater and how it’s treated at our Peacehaven site. Special care is taken to make sure all the children in a class can have their needs met during the tour.

“A few days before the tour takes place, we visit the school and deliver our [‘Wastewater Quest’](#) assembly. This is a virtual tour, presented as a fun and engaging game show where teams compete for points. This helps with key vocabulary and context, so everyone knows what to expect when they’re on site. It’s also a great opportunity to talk through with teachers any additional or special educational needs for individuals, to have a tour that’s inclusive and accessible for everyone.

“From visiting the site to taking part in a fun ‘slow the flow’ workshop, there are lots of interesting things to see and hear about. It’s great to give young people a unique chance to learn about where all the wastewater goes after they take a shower or flush the loo. There’s a tour of the operational site in action, with everyone wearing PPE to keep them safe – this includes a safety helmet with a built-in microphone, making sure visitors can listen and ask questions.

“The workshop is another highlight of the tour, giving pupils the chance to carry out a fun investigation into the permeability of different types of driveway surfaces. Seeing how these surfaces manage water run-off develops an understanding of how they can help slow the flow of rainwater entering the sewer network. There are always good questions too, and our on-site colleagues are there to answer them from their own personal experience.

“It’s really inspiring to see how the young people get so engaged in what we’re talking about. They might not have thought about what happens when you flush the toilet, and once they understand that we all have a role to play in only flushing away the three Ps – pee, poo and paper – they get really motivated by the whole visit and how they can make a difference.”

**Kim Twine and Daniel Rodrigues**

Education Officer and  
Community Engagement Officer

#### Stakeholders impacted




## 2&3

Key stages offered educational resources

# Our operational performance continued

## Ensuring a supply of high-quality water for the future

### Our performance at a glance

Outcome	Why it's important	Associated performance commitment	Performance				End of AMP target	Link to Executive remuneration
			2020-21	2021-22	2022-23	2023-24		
 <b>Deliver great service</b>								
Water quality	It is essential to always provide clean, safe drinking water. This is seen as a basic service from a water company and the most important of the services we provide. Our customers' preference is for water to be as natural as possible.	DWI compliance risk index (CRI)	—	⊖	—	—	0.00	Indirect
		Drinking water appearance	—	—	⊖	⊖	0.46	
		Drinking water taste and odour	—	✓	⊖	—	0.21	
		Replace lead pipes	—	—	—	—	43	
Water supply interruption	Customers want us to be able to deal with problems, such as interruptions, quickly and efficiently. Any interruptions require clear communication, as they can cause inconvenience and distress to customers.	Water supply interruption	⊖	—	⊖	—	0:05:00	Indirect
Water pressure	Customers expect a standard of water pressure to be part of the basic service we provide.	Properties at risk of receiving low pressure	⊖	✓	✓	✓	182	Indirect

**Key**



Ofwat target met or exceeded



Ofwat target missed but performance improved in relation to prior year outcome



Ofwat target missed and performance was worse than prior year outcome



Turnaround Plan priority areas



Outcome	Why it's important	Associated performance commitment	Performance				End of AMP target	Link to Executive remuneration
			2020-21	2021-22	2022-23	2023-24		
<b>Use water wisely</b>								
Leakage	Customers say it is essential to reduce the amount of water lost through leaks from our network. They believe water is a precious, natural resource and expect us to look after and use it wisely.		—	—	⊙	⊙	84.9	Indirect
<b>Fit for the future</b>								
Asset health	It is essential to be investing in our sewer networks, pipes and drains. Our customers want us to upgrade where we can and use innovative and sustainable solutions.	Unplanned outage	✓	✓	✓	✓	3.25	Indirect
Water resilience	Customers want to ensure supply for future generations. They are willing to invest now to ensure that there is no deterioration of services in the future.	Water supply resilience	✓	✓	✓	✓	77,622	No link
		Long-term supply and demand schemes	✓	⊙	—	—	0	
		Risk of severe restrictions in drought	✓	✓	✓	✓	0.00	
		Impounding reservoirs	✓	✓	—	—	100	

**Key**



Ofwat target met or exceeded



Ofwat target missed but performance improved in relation to prior year outcome



Ofwat target missed and performance was worse than prior year outcome



Turnaround Plan priority areas

## Our operational performance continued

### Ensuring a supply of high-quality water for the future continued

#### Turnaround Plan highlights

##### Where we were

Our Control Centre did not have visibility of our site and network issues, many of our key sites needed upgrades and our front-line teams were not getting consistent training.

##### What we have done

Installed new monitors and alarms, replaced ageing equipment, upgraded treatment processes and increased safe operating procedure training at all our sites.

##### Priorities for this year

Continue our focus on risk and control, complete our reservoir cleaning programme and our leakage and reactive maintenance frameworks for 2025–30.

## 3.07

Compliance Risk  
Index score for  
water quality

## 75

audits of our Water  
Supply Works

#### Improving water quality

Drinking water is assessed by the Drinking Water Inspectorate (DWI) for failures, with any risks to water quality measured by the Compliance Risk Index (CRI). Our CRI score is 3.07 (2022: 6.38) which reflects improvements made to processes and procedures on site, and it is our best ever score since the measure was introduced in 2017. Although this means we are on track to meet our Turnaround Plan target for water quality by the end of 2025, the CRI score is a volatile measure, which can be affected by just one site failure.

To improve water quality, we are in the process of upgrading four of our major surface supply works. This has been supported by enhanced maintenance and operational checks. We have also completed 75 audits of our supply works to reduce water quality risks, as well as carrying out the cleaning and inspection of 70 service reservoirs. Read more on page 31.

The improvement in the water quality measure has been further strengthened by our team training programmes.

For drinking water taste and odour contacts, we achieved a score in line with last year of 0.24 contacts per 1,000 population (2022–23: 0.24), slightly above our Turnaround Plan target of 0.23 contacts and close to our Ofwat target of 0.22.

Our score for drinking water appearance was 1.00 contacts per 1,000 population (2022–23: 0.93), missing our Ofwat target of 0.55, with our Turnaround Plan target for 2025 of 0.76.

Performance for drinking water appearance has been impacted due to the limited amount of proactive flushing of our network being undertaken and necessary network changes, including reversal of flows.

To further improve drinking water appearance and taste and odour, we have continued our flushing programme in the high-risk zone in Hampshire. We have also rolled out bespoke training to our network inspectors, including practical training on how to minimise surges in the network which may stir up sediment. We have introduced a new process to add in further steps to risk assess all planned work, and we have developed a company-wide strategy to manage the risk of discolouration.

In Deal, Kent, work has been ongoing since July 2022 to replace old water mains containing lead, to the boundary of customers' properties. As part of the project, customers have been offered sampling in their homes, as well as advice and support about replacing internal lead pipes, if they want to get a plumber. We have also offered drop-in sessions; in case they were worried about lead pipes in their homes. Information was





sent out to those affected, and we created a central information hub on our website.

This pilot project helped to shape the strategy for other lead replacement schemes across our region. Limited progress has been made on this project as customer feedback showed there was a lack of interest in replacing lead pipes.

### Working to limit the time our customers are without water

A resilient water supply is key to us keeping our customers in supply. If there is an interruption to supply during an incident, we want to keep the average time they are without water – measured in hours, minutes and seconds over three hours – to an absolute minimum. We scored 01:21:33 (2022: 01:28:10), well above our target of 00:05:23, meaning we incurred a penalty of £4.237 million.

The average time for water supply interruption was affected by an incident at Hardham works in May, Testwood in November, followed by Easton in January and Wingham in February. Without these incidents, we would have been on track to improve our score. Testwood treatment works feeds the Isle of Wight, and the incident causing the outage there in November added 34:05 minutes to the time. This outcome is pending a decision by Ofwat on the Testwood incident, after which the number of minutes may be reduced.

We are putting measures in place to improve our performance, such as enhancing our incident response, as well as taking action to make our sites and networks more resilient, including using pressure reducing valves (PRVs) and increasing logging coverage for the network teams.

### Managing water pressure and reducing leakage

For properties at risk of receiving low pressure, we had 173 properties on the register (2022–23: 207), outperforming our Ofwat target of 197. We had a peak in the summer months of properties on the register following seasonal demand trends, and we continue to work to bring this figure down to a minimum.

Our three-year rolling average performance for leakage was 104.3 MI/d, above our Ofwat target of 87.9 MI/d, incurring a penalty of £4.346 million. In year, we have reduced leakage for the first time since the start of the pandemic to 107.5 MI/d. We continue to aim for a significantly reduced level of leakage to meet our Turnaround Plan target of 94.9 MI/d by 2025, completing 90% of the actions in our plan.

The Leakage Recovery Plan continues to drive progress through targeted initiatives focusing on find-and-fix, smart networks and advanced pressure management. We are now moving our focus to larger leaks. More than 3,000 additional acoustic sensors have been deployed, bringing the total number to 12,000, and a new GIS location system is helping pinpoint complex problems on our network.

We have built machine learning applications to help identify where leaks are most likely to occur, meaning we can detect larger leaks more quickly, reducing the amount of water lost and disruption for our customers.

### Improving the health of our assets

For unplanned outage – the percentage of production capacity lost due to unplanned maintenance work – we scored 5.68% (2022–23: 6.44%). This outperformed our Ofwat target of 6.45%. The reduction compared to last year is mainly due to the re-classification of some outages to ‘planned works’, in line with regulatory guidance.

# 104.3

million litres per day  
(three-year rolling  
average) leakage

# 5.68%

unplanned outage

## Our operational performance continued

### Ensuring a supply of high-quality water for the future continued

# 131,610

properties at risk  
of long-term loss  
of supply

#### Improving water supply resilience

Making progress on water supply resilience is measured by the risk of loss of water supply, long-term supply demand schemes, the risk of severe restrictions in drought and schemes to enhance impounding reservoirs.

Limiting the number of properties at risk of long-term loss of water supply (>48 hours) is a key part of providing water supply resilience. We recorded 131,610 properties (2022–23: 129,111), meeting our Turnaround Plan target and outperforming our Ofwat target of 142,987.

The long-term supply and demand schemes are due for delivery by 31 March 2027. Due to changes in customer demand and scheme deliverability, we have made a representation to our regulator, Ofwat, to amend this outcome target as part of our business plan submission for 2025–30.

The risk of having severe restrictions from a 1-in-200-year drought is an industry-wide metric, measuring the percentage of the customer

population at risk, on average over 25 years. The risk of customers having severe restrictions from a 1-in-200-year drought in our region is currently recorded as 0% of our customers being at risk for the fourth year running.

Schemes for impounding reservoirs have been delayed. The schemes enhance the safety of four reservoirs; Bewl, which is progressing. Meanwhile Darwell, Powdermill and Weir Wood schemes will be delivered in the next investment period.

#### Case study

### Protecting wildlife on our sites

Our sites are home to many species of wildlife and there are lots of initiatives to encourage and protect a wide variety of birds and animals. Our Oxted site went the extra mile this year, giving bats special bat boxes, placed in suitable locations around the site. And it's not just bats that are being cared for there. Lots of nesting boxes for swifts, housemartins, owls and kestrels have also been installed around the

site, locating them neatly in spaces where they can get the protection they need. With birds such as swifts and housemartins being in decline, this work on our site should give them a chance to flourish. The initiative was shared with the 60 colleagues in our Environmental Champions Network, to spread the knowledge to other sites wanting to adopt a similar approach.

#### Stakeholders impacted



## 60 champions

## Case study

# A new recycling project to solve water scarcity in the South East

“Water scarcity will increasingly become a challenge in the South East. Climate change and an ever-growing population are set to make the demands on water greater as the years go on. It’s hoped that a new project in Hampshire is going to change that.

“I work on a first-of-its-kind water recycling project. Although water recycling is already being used successfully around the world, particularly in water-stressed areas, this will be a new process in the UK. It speeds up the natural water cycle, reducing the amount taken from the environment.

“The plan is to use advanced treatment techniques to turn highly treated wastewater, that is usually pumped far out to sea from our Budds Farm treatment works, into purified recycled water. This recycled water will be pumped to a new reservoir being built at Havant Thicket where it will mix with spring water.

“The reservoir itself is a huge undertaking. It’s the first reservoir to be built in the South East since the 1970s and is being funded by Southern Water and built by Portsmouth Water. Water taken from the reservoir will be pumped along a new 40km pipeline to our Otterbourne Water Supply Works where it will be treated to strict drinking water standards before being sent into supply.

“One of the most amazing things about this project is the scale of what we’re trying to achieve. It will require a huge team and the project will span a 10-year period, needing significant financial investment.

“We’re currently in the pre-planning phase of the transfer pipeline, so all the work we’re doing

is about providing the information needed for approvals. We’re carrying out surveys to make sure the environment will be protected both during and after the project is put in place, and we’ve already done nearly 3,000 ecological surveys for wildlife such as bats and badgers.

“Such a huge project means that collaborating and engaging with stakeholders is vital. We’re working in partnership with Portsmouth Water and regularly collaborate with RAPID – the Regulators’ Alliance for Progressing Infrastructure Development – a group of regulators comprising Ofwat, the Environment Agency and the Drinking Water Inspectorate, supported by Natural England and the Consumer Council for Water.

“I’m proud to be working on a project that will help us provide a resilient water supply long into the future, benefiting people and wildlife across Hampshire and the Isle of Wight for many years to come.”

### Rob Lawless

Programme Lead for Water for Life  
– Hampshire

### Stakeholders impacted





# 10

year project timeline

# Our operational performance continued

## Protecting and improving the environment

### Our performance at a glance

Outcome	Why it's important	Associated performance commitment	Performance				End of AMP target	Link to Executive remuneration
			2020-21	2021-22	2022-23	2023-24		
 <b>Deliver great service</b>								
Sewer flooding prevention	It is essential that our network stops homes being flooded with waste from sewers. There is strong support to ensure we continue to improve sewer flooding prevention.	External sewer flooding	✓	✓	✓	✓	3,525	Indirect
 <b>Protect and improve the environment</b>								
Pollution	Customers want us to treat and dispose of wastewater in a way that does not harm the environment. They rightly believe we have a duty to protect and improve the environment in which we operate, and ensuring we do no harm through pollution incidents is the minimum they expect.	Pollution incidents	⊖	⊖	⊖	⊖	77	Indirect
		Thanet sewers	✓	✓	✓	✓	0	
High-quality bathing and river waters	Our customers want to see us do more to deliver excellent bathing and river water quality. They want us to recognise the importance of this to tourism.	Delivery of Water Industry National Environment Programme (WINEP) requirements	⊖	⊖	⊖	✓	Met	Direct and indirect
		River water quality	✓	✓	✓	✓	182.30	
		Maintaining bathing waters at 'excellent'	✓	✓	✓	⊖	57	
		Improve the number of bathing waters at 'good'	✓	✓	✓	✓	5	



**Key**

✓ Ofwat target met or exceeded

⊖ Ofwat target missed but performance improved in relation to prior year outcome

⊖ Ofwat target missed and performance was worse than prior year outcome

□ Turnaround Plan priority areas

Outcome	Why it's important	Associated performance commitment	Performance				End of AMP target	Link to Executive remuneration
			2020-21	2021-22	2022-23	2023-24		
 <b>Protect and improve the environment continued</b>								
High-quality bathing and river waters <i>continued</i>	Our customers want us to see us do more to deliver excellent bathing and river water quality. They want us to recognise the importance of this to tourism. <i>continued</i>	Improve the number of bathing waters to 'excellent'	✓	✓	✓	✓	2	Direct and indirect
		Treatment works compliance	⊙	—	—	—	100.00	
		Combined sewer overflow monitoring	⊙	—	—	—	100.00%	
Water resource abstraction	Customers want us to use a range of sources to provide reliable services in the future and expect removal of water from the environment to be done in a sustainable way.	Distribution input	⊙	—	⊙	⊙	506	Indirect
		Abstraction incentive mechanism	✓	✓	⊙	✓	-15	
		Effluent re-use	✓	✓	✓	✓	0	
Renewables	We should be increasing the amount of renewable energy we use in our operations. There is a growing expectation that we should be using our own wastewater services to generate more energy as well.	Renewable generation	—	⊙	⊙	⊙	24.00	Indirect
		Natural capital	✓	✓	✓	✓	3	
		Satisfactory bioresources recycling	✓	✓	✓	✓	100%	
 <b>Fit for the future</b>								
Asset health	It is essential to be investing in our sewer networks, pipes and drains. Our customers want us to upgrade where we can and use innovative and sustainable solutions.	Mains repairs	⊙	✓	⊙	—	87.3	Indirect
		Risk of sewer flooding	✓	✓	✓	✓	12.42%	
		Sewer collapses	⊙	—	—	—	222	
Growth	Businesses think it is important to work with councils and developers on infrastructure. Customers recognise the challenge of new homes drawing on our network and expect us to ensure it is fit for the future.	Surface water management	⊙	—	—	—	39,730	Direct

The combined sewer overflow monitoring status reflects Ofwat's performance measurement in this area, relating to the percentage of coverage by the monitors for 12 months of the year.

**Key**



Ofwat target met or exceeded



Ofwat target missed but performance improved in relation to prior year outcome



Ofwat target missed and performance was worse than prior year outcome



Turnaround Plan priority areas

## Our operational performance continued

### Protecting and improving the environment continued

#### Turnaround Plan highlights

##### Where we were

We needed to increase the reliability of our sites and networks, and the volume of wastewater that they can treat and return to the environment safely.

##### What we have done

We have focused on improving our treatment works compliance and capacity, while continuing to install monitors and alarms that feed information into our Control Centre.

##### Priorities for this year

Focus on the root cause of our serious pollution incidents, continue to upgrade our wastewater treatment sites and networks, and reline/seal sewers in critical areas.

# 3,245

external sewer  
flooding incidents

# 35%

reduction in total  
pollutions

#### Protecting the environment from sewer flooding

We continue to work hard to protect customers and the environment from sewer flooding and any harm this may cause. We had 3,245 external sewer flooding incidents (2022–23: 3,748), outperforming our Ofwat target of 3,702, giving us a reward of £1.703 million. This is in line with the target set in our Turnaround Plan to achieve less than 3,171 by 2025, despite the extremely wet weather at the beginning of 2024.

We are targeting flooding hotspots, as well as creating a standardised clean-up process helping improve customer satisfaction. More than 23,000 sewer level monitors have been deployed and the sewer flushing programme continues to improve performance in this area.

#### Working to improve our pollutions performance

We are making progress in reducing pollutions, recording 234 category 1-3 pollutions (2022–23: 358), a 35% reduction on the previous year and representing a 46% reduction since 2019. Our performance is outside our Ofwat target of 88 pollutions, giving us a penalty of £8.382 million.

A year away from the end of our current investment period to 2025, we can see that our Turnaround Plan target of no more than 77 pollutions by the end of 2025, was ambitious.

However, the trend towards reducing pollutions shows that our efforts continue to build resilience into the network, bringing us closer to our goal of zero pollutions caused by our own site or network failures.

Most pollutions come from our foul sewers, where blockages from FOG – fat, oil and grease – continue to be an issue. Our sewer level monitors, placed at strategic points on the network, are helping to pinpoint blockages, however, connectivity issues with the monitors means they are not yet working at their full potential. We are currently developing a pollution risk model, to address the fact that 92% of pollutions in foul sewers are sites that polluted for the first time in 2023.

There has been a significant reduction in pollutions from pumping stations and rising mains, showing how our operation is becoming more resilient during wet weather. The improvement is mainly due to both investment in our assets and embedding a second line of defence (proactive control) – outlined in the root cause analysis learning in our 2023 Pollution Incident Reduction Plan – to spot issues before they occur. As part of this analysis, we carried out 44 pumping station resilience surveys, resulting in an improvement of these pollutions from 31 in 2022 to one in 2023.

October's Storm Ciarán brought with it a record volume of rainfall, at 189mm – over three times the long-term average. This was not the only month with unprecedented amounts of rain, as February saw over double the average rainfall, in addition to higher-than-average amounts in all other months of the financial year 2023–24, excluding January, May and June.

The focus to reduce the number of serious pollutions (category 1) continues. We had 13 serious pollutions compared to five in 2022. To reduce serious pollutions, we carry out a root cause analysis of every incident and reports on these are sent to the Board. This analysis informs our Pollution Incident Reduction Plan and interventions.

The self-reporting of pollutions – when we inform the Environment Agency of pollutions that we or our customers have spotted – has seen a decline over the year.

We have developed a self-reporting improvement plan focusing on making it easier for customers to report pollutions, as well as looking at how we can improve our business processes.

The project to enhance Thanet sewers is progressing. Its core aim of protecting the groundwater in Thanet from pollution by making the century-old sewers resilient is on track to be achieved within the regulatory time frame.

## 189mm

rainfall recorded in October 2023. Three times the average and wettest 18 months on record

## Case study

### Reducing demand for tankers to zero

Our Clean Rivers and Seas Task Force worked on an innovative pilot project to prevent high groundwater levels inundating sewer pipes and flooding communities in an area of Hampshire.

Work was carried out to seal 300 private pipes, totalling a distance of 2.5km, 2km of our own pipes, and nearly 70 manholes with an innovative approach using a sealing gel.

Previously we'd relied on a fleet of 36 tankers in this area to remove the excess flows. Since the end of last year, in the face of the highest groundwater levels for more than 20 years, that number was reduced to zero, limiting disruption to the communities of Amport, East Cholderton, Monxton, Fyfield, Kimpton, Abbots Ann and Thruxton and protecting the environment.

#### Stakeholders impacted



**300**  
of private sewer pipes sealed

## Our operational performance continued

### Protecting and improving the environment continued

# 102.7

kilometres of river  
improvements made

# 48

bathing waters  
with Excellent status

#### Maintaining and enhancing bathing and river water quality across the South East

We met our commitments for the year under the Water Industry National Environment Programme (WINEP), to deliver schemes to enhance rivers, streams, coastal waters and groundwater sources.

We delivered a total of 65 individual schemes and investigations, meeting all reporting requirements for this year.

The schemes included installing event and duration monitors (EDM) on an additional 62 storm overflows, meeting our December 2023 target of 100% coverage of our overflows, in line with government requirements. Data from these monitors is available on our website.

During this financial year, we also delivered a programme of work in partnership with our neighbours South East Water and Affinity Water in the Little Stour catchment in Kent. Catchment Sensitive Farming Officers were deployed to review, categorise and advise on agricultural land use that could have an impact on the watercourses in this river catchment.

More work has also been done on effluent flows released back into the environment. By the end of 2023, new ultraviolet (UV) disinfection was installed to enhance the treatment of the continuous effluent flows from our Slowhill Copse and Millbrook treatment works. This specialised UV disinfection treatment has been installed at these works for the first time, as part of our efforts to improve water quality in this important shellfish harvesting area.

In addition, we are also actively working on the delivery of 455 additional WINEP schemes and investigations for completion by 2025.

Our performance commitment for river water quality improvements was met in 2022–23 (102.7 km). Our WINEP does not contain any 2023 improvements specifically linked to this measure, so it remains static for 2023–24.

We monitor bathing water closely, using data from sampling carried out by the Environment Agency. For 2023, there was a reduction in the number of bathing waters at 'Excellent' from 57 to 48 – dropping below our Ofwat target for excellent bathing waters of 57, increasing the number of bathing waters categorised as 'Good' from 22 bathing waters last year to 26. The number of bathing waters at 'Sufficient' is six, with four bathing waters categorised as 'Poor'.

Improvement plans have been developed to identify specific actions to target the worst bathing waters, looking at possible sources of poor bathing water quality, including overflows, misconnections, leaky sewers, or surface water run-off. Our ongoing improvement plans highlight any issues to be addressed with our assets that may affect bathing water quality.

In Hastings, substantial work has been carried out to track misconnections and leaky sewers, helping the bathing waters there achieve a status of 'Good'. At some locations, such as Thanet, we work with local partners to clean surface water systems before the bathing season starts, and in targeted areas, we carry out wet well cleaning and make additional pumping station checks.

Work continues to reduce releases to the environment from any blocked sewers. Our FOG (fat, oil and grease) team and the Network Protection team identify and resolve blockages, looking for root causes to reduce the risk of further blockages and flooding. We also work closely with stakeholders, including local councils and farmers.



Our treatment works compliance saw a significant improvement over the past year with our best ever performance, scoring 99.36% (2022–23: 98.22%). This is close to our 100% Ofwat target and outperforming our Turnaround Plan target of 99.04%.

Our Go-To-Green programme has successfully taken our sites to green status from amber, by reducing risks to improve compliance to a status where there are three or less failed works. As part of this programme, we carried out holistic checks at our top 30 sites, assessing risk, available data and root cause analysis of issues, to produce a desktop study. This information was then used to make tactical improvements on site.

Part of our work to reduce the use of combined sewer overflows is closely monitoring their use. For combined sewer overflow (CSO) monitoring, we met Defra's target of 100% coverage of CSO monitors installed on our network by the end of 2023.

### Limiting the amount of water we take from the environment

We need to limit the amount of water we take from the environment to protect local ecosystems. This means balancing demand from customers, abstracting only the raw water required, and re-using effluent where we can.

We put more clean water into our network compared to the previous year, registering 570 MI/d (2022–23: 566 MI/d). This is outside our Ofwat target of 510 MI/d.

We outperformed our target for the amount of water taken from the Rivers Test and Itchen in September, with an abstraction level of -16 MI/d (2022: -14 MI/d) below the limit set. This was inside our Ofwat target of -15 MI/d and improved on our 2022 figure, meaning our average daily abstraction was below the limit

set in this month at Otterbourne and Twyford, when the river level is at its lowest. River levels this summer did not fall below levels where a Temporary Use Ban (TUB) would need to be put in place. A TUB had to be put in place in 2022 to save water and preserve the precious water resources that these rivers provide.

Over the past year, we made 79 m<sup>3</sup> of effluent available for customers (2022–23: 82 m<sup>3</sup>). By making effluent available, we reduce the overall demand for fresh water from local authorities, businesses and farmers.

### Increasing our use of renewables

We did not meet our target for renewable generation, making 13.32% of the energy needed on our sites (2022–23: 13.03%), incurring a penalty of £1.326 million. Higher consumption on our sites, less solar generation during an unusually wet summer, and the decommissioning of the Testwood solar array in January 2024 (243MWh) to make way for a water treatment upgrade to improve water quality, all contributed to us not increasing the amount of renewable energy generated.

Combined Heat and Power (CHP) engines have not performed this year. We have included plans to invest in newer, more reliable and efficient CHPs in our business plan 2025–30 submission to Ofwat. We have made good progress and have now nearly completed our programme of bioresources sub-metering, enabling us to gain greater insight into operating efficiencies in our largest wastewater treatment works.

We completed commissioning of the roof-mounted solar array at Peel Common and continue to develop solar arrays at feasible locations so we can benefit from this renewable energy source.

## -16 MI/d

abstraction level  
on the Rivers Test  
and Itchen

## 13.32%

of renewable  
energy generated

## Our operational performance continued

### Protecting and improving the environment continued

# 11

catchments now  
have a completed  
set of natural capital  
accounts

# 67%

value attributed  
to air quality

#### Understanding our natural capital – taking a closer look at our catchments

We published our [natural capital accounts](#) for 11 catchments in March, meaning we are ahead of the 2025 target set by Ofwat. Detailed breakdowns of our published catchment accounts are presented in the appendices of the report, giving individual catchment summaries, as well as key data associated with the individual locations. This report follows the publication of the baseline capital accounts for the first three catchments the previous year.

The aim of the natural capital accounts is to better understand the current condition of the environment that we own, or can influence, and the impact of its interventions. The accounts help us prioritise actions to improve the environment, ensure sustainable delivery of our water services, and inform our investment and planning decisions. Our key findings are:

- Agriculture is the main use of land across our catchments and it is vital for food and the local economy.
- Water quality in our catchments is most influenced by agriculture and the water industry, as well as urbanisation and transport.

- Our catchments are critical for public water supply services and some catchments, such as the river Itchen, are relied on more than others.
- The catchments are essential for public enjoyment and sustaining biodiversity.

The accounts give a value to different aspects of the catchment, acting as a benchmark for the future. Our accounts show that nearly 90% of the ecosystem service value across our operating area is attributed to those aspects that deliver benefits to society ('societal value'), as opposed to private organisations ('private value'). In fact, the largest monetary value was linked to air quality – accounting for about £2.3 billion or 67% of the total value – followed by food (crops and livestock) and global climate regulation (carbon sequestration) services.

#### Case study

### A wetlands partnership to help create a sector-leading strategy

Wetlands are an environmentally friendly way of treating wastewater, so when we had the opportunity to partner with the Wildfowl and Wetlands Trust (WWT), we knew this could help create a robust strategy for protecting wetlands. Plans are underway to

use wetlands more for wastewater treatment in our region, providing wildlife with a precious habitat where biodiversity can thrive. The wetlands strategy will be sector leading, and with the expertise of the WWT, it will

enable us to show how best to protect them in the future.

#### Stakeholders impacted



## Recycling our bioresources

We met our target of 100% compliant sludge disposal. We maintained our Biosolids Assurance Scheme certification for a further 12-month period in July 2023.

We are still progressing with the construction of our first advanced anaerobic digestion plant, which will begin to output enhanced quality biosolid products for the use by farmers in Sussex in 2024. We have also improved resilience in the region by purchasing mobile plant, meaning we have been able to treat all sludge.

## Improving the health of our assets

Keeping our assets in good working order is important for their resilience.

The number of mains repairs we had was an improvement on last year at 121.1 repairs per 1,000 km of our network (2022–23: 152.8), outside our Ofwat target of 97.4 but within our Turnaround Plan target for 2025 of 150. This performance meant we incurred a penalty of £2.11 million.

We achieved a level of 10.87% for the percentage of the region's population at risk from flooding following a one-in-50-year storm, outperforming our target of 12.42% (2023: 11.55%). This is based on internal hydraulic flooding (network flooding) modelled predictions.

We maintained our performance for the number of sewer collapses, calculating a slight reduction compared to last year, with 234 (2022–23: 247), above our Ofwat target of 222. Our outcome for this year is ahead of our Turnaround Plan target of no more than 250 sewer collapses by 2025.

## Managing surface water

Under the specific criteria of our performance commitment for surface water management, we have – as in previous years – recorded an outcome of zero. This is because our focus has been in areas of higher impact driven by our Clean Rivers and Seas Task Force. It continues to lead the industry with work to find sustainable solutions to surface water run-off.

The task force is leading work on at least six Pathfinder projects, working with partners across Kent, Hampshire, the Isle of Wight and Sussex. The projects aim to reduce the amount of excess water (surface or groundwater) entering our sewer network. By separating or slowing this flow of water we can reduce the need to use storm overflows and help reduce flooding and pollutions. We use innovative and nature-based sustainable drainage solutions (SuDS) where possible, including slow drain water-butts, wetlands and rain gardens.

These challenges require new ways of thinking, especially to be applied at scale. Although storm overflow releases are permitted by our regulators to prevent homes, roads and businesses from flooding, we know we need to find more sustainable solutions.

We published our Clean Rivers and Seas Plan on our website in November, hosted on an interactive map. The map shows details of our work planned across the region to reduce the use of storm overflows through different interventions, see page 61.

# 100%

compliant sludge disposal

# 234

sewer collapses

To prevent or slow down surface water entering the network, after detailed insight and surveying of the catchment area, we decide which solutions to roll out. We are already seeing excellent results from the work, which is broken down into five steps.

### 1. Optimisation

Reconfiguring our sites and making better use of existing to help us reduce storm overflows, while also working with third parties to optimise their assets.

### 2. Illegal

**connections**  
Redirecting surface water that has been illegally connected into the foul/combined sewer.

### 3. Household SuDS

Rolling out 'slow the flow' measures at scale on properties in our catchments.

### 4. Non-

**household SuDS**  
Targeting large roof/impermeable areas with 'slow the flow' measures to deliver impact.

### 5. Highway schemes

With significant volumes of surface water coming from public highways, influencing the design of placemaking schemes and retrofitting drainage will be an essential part of the solution.

# Our operational performance

## continued

## Our environmental disclosures

### 3

years' recertification for our Environmental Management System

### 5

years' certification under the EA's Monitoring Certification Scheme

### Increasing our focus on compliance

Our Environmental Management System (EMS) is a key tool for managing and mitigating environmental and compliance risk and delivering continual environmental improvement within the organisation. The system continues to be certified to the ISO14001 standard through annual external surveillance audits and was recertified in 2023 for a further three years demonstrating our commitment to environmental improvement and performance.

The EMS remains a successful framework for managing and mitigating compliance risk in relation to waste management and control, pollution prevention, water quality and resources, consumables (energy and chemicals), customer nuisance concerns and biodiversity.

Our environment policy reflects our environmental ambitions and stakeholder commitments which ensures continual environmental improvement.

MCERTS is the Environment Agency's Monitoring Certification Scheme for equipment, people and organisations, that provides guidance on the standards we must meet to monitor emissions that affect the environment.

The MCERTS standard applies to multiple sites under the Environmental Permitting Regulations (EPR), and ensures we monitor liquid flow and collect and record results of the monitoring undertaken. The self-monitoring of flow scheme is built around proven international and European standards to ensure monitoring data is of a high standard.

The scheme continues to be certified through annual external surveillance audits and was recertified for a further five years in 2024; this demonstrates that our measuring and monitoring of flow conforms to regulatory requirements ensuring accurate and transparent reporting of data.

### We are developing our Nature (Biodiversity) Strategy

We have scoped a Nature (Biodiversity) Strategy to decide how we can enhance biodiversity and the state of nature through our operational activities across the region and on our own estate. This has shown where we are currently taking positive actions, where we can do more, and highlighted opportunities for collaborative working.

We have also developed an interim approach to manage the delivery of a minimum 10% statutory Biodiversity Net Gain (BNG) for developments which require planning permission. In future, we plan to link to regional opportunities to improve ecosystem services, including biodiversity enhancements identified in emerging Local Nature Recovery Strategies (LNRS). In the delivery of our extensive capital programme for the next investment period, we anticipate a significant requirement to deliver statutory BNG as we develop projects on and off our estate.

This year we have completed detailed 'ground truth' habitat survey on several of our larger sites by using our desktop review of our own estate in partnership with regional wildlife trusts. This will help us identify opportunities for biodiversity restoration and creation projects, which will also increase the capture of carbon on our sites.

This forms the first stage of delivering our Biodiversity Performance Commitment, where we will seek to find opportunities to enhance biodiversity across our estate following the completion of the baseline surveys.

### Meet our Environment Champions

Our own Environment Champions and operational teams continue to use our Biodiversity Toolkit to make small but important practical changes on our sites to benefit the ecosystems around us. Approximately 110 bird boxes, 50 dormice nest boxes and over 60 bird feeders have been installed on our operational sites across the region using a network of local stores that we have set up to support this work.

Further biodiversity enhancement work is planned with wildflower seed sowing days planned in and volunteering opportunities for colleagues with conservation partners across the region.

### Tackling non-native species

An emerging issue in the UK, particularly in the South East, is the spread of the non-native species the Asian hornet. Originating in Southeast Asia, likely from the shipment of imported goods, the Asian hornet is spreading rapidly across Europe. The hornets prey on a wide range of insects, including honeybees, which disrupt the key ecological role bees provide.

Colleagues have teamed up with the Asian Hornet Alert group as part of a new pilot programme, installing selective traps to catch the species' queens across nine sites in Kent and one in East Sussex. If the scheme proves to be successful, it has the potential to be rolled out to a wider area.

### Focusing on improving the health of our rivers

Our catchment teams have been busy undertaking a wide range of projects to enhance biodiversity working across our region. For example, working with our Catchment Partnerships and delivering workshops to collaboratively design project activities on the Upper Arun Catchments and the Arun and Western Streams.

Our business plan 2025–30 contains proposals to significantly scale up the creation and delivery of wetlands to help improve biodiversity and connectivity within our landscape, and to tackle water quality issues, as well as to reduce nutrients within our water courses.

## 160

nest boxes installed for birds and dormice on our sites



Read more about our river restoration work on the Isle of Wight and Sussex on page 60.

## Our environmental disclosures continued

### Protecting and improving our environment



Read more on page 59.

#### Case study

### Improving our environment by enhancing river water quality

“Over half of our water supplies in the South East come from groundwater (up to 85% in some places), with the rest from rivers. We need to be careful of how much water we take from these sources to ensure sufficient water is still available to the environment, to support flow in rivers and maintain other water-dependent habitats such as wetlands.

“We carry out investigations with Natural England and the Environment Agency to better understand the potential impacts our water abstractions may be having on their surrounding environment. Where impacts are identified, we reduce the amount of water we can abstract as well as restoring river and wetland habitats to improve habitat quality and make them more ecologically resilient.

“On the Lukely Brook, a chalk stream on the Isle of Wight, we’ve been working with the Environment Agency, local Catchment Partnership and landowners to deliver a range of ecological resilience works on the brook and adjacent floodplain meadows. The works have included floodplain reconnection schemes, restoration of historically modified sections of channel and the removal of a stone weir which was acting as a barrier to fish movement. Some of the works were undertaken close to a roman villa so an archaeological investigation was undertaken with the Isle of Wight Council and Historic England to make sure our work would not affect the preservation of any remains.

“Similarly, on the Lewes Winterbourne Stream in Sussex we’ve worked with the Railway Land Wildlife Trust to reprofile riverbanks, install berms and deflectors, and plant vegetation to improve aquatic and riverbank habitats and make the stream more ecologically resilient. A new boardwalk and footpath has been constructed as part of the project to improve access for the community.

“We’ve had great feedback on both projects and the improvement in the environment is clear for all to see. It’s something I’ve been proud to be a part of.”

**Chris Woolhouse**

Catchment Hydrogeology Strategy Manager

#### Stakeholders impacted



## 85%

of water supplies come from groundwater in some areas of our region



## Case study

### Our Clean Rivers and Seas Plan in action

“We wanted to provide our customers and stakeholders with an easy way to find out what we’re doing in their area to reduce the use of storm overflows. We created a map of our area, showing what the proposed plans are. The information can be accessed on our public website, by clicking on each area of the Clean Rivers and Seas Plan.

“When you click on the map, you can see that we’re planning lots of interventions. These include constructing wetlands to hold and manage excess flows, lining public and private pipework to prevent groundwater infiltration, and we plan to install over 150,000 slow the flow measures, such as water butts, to prevent rainfall from overwhelming the sewer system. It also includes plans to prioritise areas such as shellfish waters and bathing sites. These are just some examples of the solutions you can see on our map, and some are already being put in place.

“We were the first water company to provide an online plan like this. The plan is already being used as a key communications tool and to gather customer views about the speed and prioritisation of our reduction plan. We tested the plan with over 1,000 customers and their feedback was positive, saying the map was clear and allowed easy access to tailored information. The feedback showed that 74% were in favour of the plan and only 4% opposed it.

“They told us they supported the prioritisation of projects and felt we had struck the right balance with pace of delivery and affordability.

“The map reflects our £1.5 billion 2025–35 proposal. The plan was submitted to Defra and the Environment Agency in October, and it will be further updated following feedback, later this year. It’s a transparent way to keep everyone updated on the extensive work planned across our area.”

#### Nicole McNab

Head of Strategic Partnerships, Clean Rivers and Seas Task Force

#### Stakeholders impacted



## 150,000

sustainable drainage measures will be installed across our region as part of our Clean Rivers and Seas Plan



[Read more on page 57.](#)

## Our operational performance continued

### Enabling and empowering our people

#### Turnaround Plan highlights

##### Where we were

Poor health and safety risk management and injury prevention. Low levels of health and safety knowledge and competency, risk management and culture.

##### What we have done

Introduction of a new mobile risk safety app. Training to improve the knowledge, skills, and awareness to make safe decisions. Reviewed onboarding programmes.

##### Priorities for this year

Managing compliance through new systems, inspections and assurance. Supporting colleagues through our Inspire Academy, internships and a graduate programme.

## 29th

in the Inclusive Top 50 UK Employers

## 0.2

lost-time injury rate

#### The health, safety, security and wellbeing of our colleagues is a priority

To get every single colleague focused on health and safety our CEO, Lawrence, issued them with an Empowerment Card this year, encouraging them to stop, think and be safe. Worn in company lanyards, it is a daily reminder, that he is directly empowering every member of our teams, and our supply chain, to put safety first.

After a successful pilot course, we have also now launched our safety leadership training 'Stop, Think, Safe' to enable employees to further understand their role as a safety leader. The training covers coaching on how to challenge unsafe situations and discuss safety concerns with peers and managers. Read more on page 66.

There has been a year-on-year reduction in our lost time injuries since 2022, and we are on track to achieve our Turnaround Plan objective to manage a safe and ethical workforce with a reduction of lost-time injury rate of 0.2 by 2025, achieving 0.18 this year.

In September, we began a programme of senior management health and safety site visits, enabling our leaders to gain on-site experience, and giving operators opportunities to benefit from the insight of senior colleagues.

We introduced health and safety standards for all sites, with our first three sites visited achieving a gold and two silver awards. We also issued new state-of-the-art gas monitors with a lone worker function, and a person down alarm.

We ran the cultural safety survey again, helping to understand how our colleagues feel about safety at work and to reflect and understand where we are getting it right and where we could do better.

#### Focusing on diversity and inclusivity

We want to create a culture in our company where everyone can thrive, so they can be happy and perform at their best. A positive climate of equality, diversity and inclusion is key to this.

In December we were officially ranked as 29th in the Inclusive Top 50 UK Employers List (IT50UK). This was a significant increase from 44th last year, showing our commitment to equality, diversity and inclusion (E, D&I), enabling everyone to bring their best selves to work. The list showcases UK companies that can demonstrate their progression of inclusion across all protected characteristics.

Our Employee Resource Groups are key to our work in E, D&I, and they continue to grow in number and membership, supporting colleagues in the workplace. We now have six groups in



total and have soft-launched new groups for carers and languages:

- The Women's network hosted its first in-person conference in April 2023, with external speakers, a panel and networking opportunities. Then in May, the network hosted an allyship session, led by our partners, BITC (Business in the Community). The network also hosted Helen Tomlinson, Head of Talent at The Adecco Group and the recently appointed Government Menopause Employment Champion, for a menopause awareness session in June.
- Our LGBTQ+ group, BeYou, hosted an all-day allyship training workshop with the local charity partner, [MindOut](#) in June, with the group's executive sponsor, Stuart Ledger, Chief Financial Officer and Lawrence Gosden, our CEO, participating.
- We joined the Endometriosis Friendly Employer Scheme in July, with the intent of launching a new endometriosis Employee Resource Group.

In June, we carried out an allyship pilot with two companies and two employee working groups to find a new training partner in this area. We are now partnered with Right Track Learning who offer in-person training sessions with professional actors. We are also pursuing additional allyship, intersectionality, menopause and neurodiversity training resources.

We launched our Adjustment Passport in September, enabling people with particular needs to have these taken into consideration for any necessary adjustments. The passport gives employees and their line managers the opportunity to understand individual needs.

Also in September, we hosted our first inter-peer online event for National Inclusion Week, partnering with Anglian Water on Intersectionality and Gender led by British Water, Morrison Water Services discussing allyship, United Utilities

on mentoring, and Welsh Water talking about carers. More than 400 colleagues took part in the sessions during the week.

A new partnership with Working Families was also launched in September. This is a national charity working for parents and carers. The charity hosted a Lunch and Learn session during National Inclusion Week, discussing Top Tips for Embedding a Flex Culture.

To help improve the experience of our disabled colleagues, we partnered with Business Disability Forum (BDF) in December. BDF specialises in building disability-smart organisations, through partnering with government, businesses and disabled employees.

Our celebrations so far for 2024 include hosting See Her Thrive – for International Women's Day, and Weirdly Successful – for Neurodiversity Celebration Week. See Her Thrive specialise in women's health and wellbeing at work, and Weirdly Successful is a neurodivergent team who work with neurodivergent and neurotypical employees to raise awareness and develop strategies.

Attending and supporting community events is also part of helping everyone to feel included and supported. As part of our Pride celebrations, colleagues attended Worthing Pride in July, and Swale Pride and Eastleigh Pride in September.

As reported in our 2023 Gender Pay Gap report, we still have a relatively small gender pay gap and it is lower than the national average. Our mean gender pay gap has decreased to 0.07, while our median gender pay gap is -7.18, continuing its three-year decreasing trend. However, our bonus pay gap increased last year. The data from the April 2023 snapshot showed we had a predominantly male Executive team, however at the time of this report, our Executive team is split 60-40 between men and women.

# -7.18

median gender  
pay gap

## Our operational performance continued

### Enabling and empowering our people continued

## £1.4m

on training and  
development

## 20

Inspire Leadership  
Programme modules

#### We are developing talent

We spent over £1.4 million on training and development over the past year. Work continues to develop the Inspire Academy for managers, with the aim stated in our Turnaround Plan to support 500 managers by the end of 2024.

We launched 20 Inspire Leadership Programme modules and continue to roll out the programme. Over the past year, 487 colleagues have benefitted from the programme. The programme uses mixed learning, with some online and some face-to-face courses, and most managers have completed a third of the course so far. Modules cover both the management and people aspects of managerial roles, with courses in behavioural leadership and people processes.

Our talent pool of high potential individuals took part in a pilot for our Discovering Leadership programme, aimed at aspiring managers. After the successful four-month pilot, the programme now forms part of our suite of learning and development courses.

Over the past 12 months we have launched three new applications on Workday – our internal intranet system – to support learning, talent and performance. This is now the one-stop-shop for all the learning activities, and employees can self-serve to pick the skills and experience they need to do their jobs effectively.

We continue to support our people in their work in various ways. This includes our new commitment to becoming a Disability Confident Employer, under the government's scheme focused on employing disabled people. There are also study opportunities for employees.

Our apprenticeship programme continues to go from strength to strength, with 36 new apprentices starting in September 2023, including 15 mechanical, operational and electrical technicians as well as six instrumentation, control and automation technicians. We actively recruit for external

apprentices and provide opportunities for internal apprentices too. Four per cent of our people are currently undertaking apprenticeships, and with several more schemes starting post September, this number will increase. During the course of the year, we have had 109 apprenticeships running at various stages of the process.

#### Making sure our company is a great place to work

We want to enable everyone to be their best selves at work, so it is important for us to regularly measure the levels of engagement, as well as to celebrate success.

In January, we launched a new engagement survey. In total, 86% of our employees responded to the new survey – that makes over 2,295 colleagues across the business giving us their feedback on how we can make things better. It identified that colleagues feel 50% engaged overall, with the highest score around how people feel about their manager at 81% favourable. Managers across the business have been empowered and encouraged to create action plans based on their teams' results, using feedback through results sharing and team meetings. In addition, the company level action plan has committed to focusing on career progression and development, as well as communicating performance and making the Executive team more accessible to all levels of the business.

Our STARS recognition portal was refreshed in February. The portal gives everyone the opportunity to thank colleagues and celebrate their good work following one or more of our four core company values of succeeding together, always improving, doing the right thing and working with care. We also recognise long service milestones, special occasions, our Stars of the Year, and offer employee discounts and link company benefits.

### Meeting the needs of our partners

We recognise the importance of building stronger supplier relationships, given how vital our supply chain partners are to the delivery of our plans.

We have developed SRM (Supplier Relationship Management) Framework principles, informed by our supply chain partners. These principles have been embedded into our ambitious procurement programme – a programme preparing us for the next five-year investment period.

We understand that the less time we spend on manual processes, means more time for strategic supplier collaboration, resulting in long-term partnerships that drive company value. To better enable real-time collaboration between us and key supply chain partners, we are currently exploring developing a Supplier Relationship Management platform. The platform will leverage our current technical platforms and support the end-to-end supplier relationship lifecycle.

### Volunteering

Everyone working in our company can volunteer in the local community for up to two workdays every year. Over the past year, our employees contributed a total of 3,175 hours of volunteer work to local communities, including:

- Beach cleaning – litter picking on Ferring Beach, West Wittering, Worthing seafront
- Turning Tides – supported the revamp of their Littlehampton centre
- Parental support for school trips
- Supporting school governance activities
- A sponsored walk for Blood Cancer UK
- RSPCA Sussex – cleaning cages
- South Downs near Seddlesham Farm – vegetation management
- Hedge cleaning and fence maintenance in Wisborough Green.

## 86%

colleagues responded to our latest engagement survey

## 3,175

hours of volunteering in our community

### Case study

## Using AI to help save £8 million

Our Engineering and Technical Solutions (ETS) modelling team looked at ways to deliver a wastewater system for the new 6,000-home Welborne development near Fareham. The use of Artificial Intelligence meant 30,000 potential options – with costs ranging from £nil to £27 million – could all be simulated in just 11 hours. Combining AI with the team's expertise, a new

project costing £3 million compared to the original £11 million estimated, was put together. The project includes one new pumping system and sustainable drainage solutions. The work is another example of how digital technology is helping us get value for money when we deliver better services to customers and protect the environment.

### Stakeholders impacted



## 30,000

potential options in 11 hours

## Our operational performance continued

### Enabling and empowering our people continued



Read more on page 62.

#### Case study

### Empowering our colleagues to challenge unsafe behaviours – Stop, Think, Safe

“Stop, Think, Safe is our new immersive safety leadership training event, designed to give our employees the tools they need to value safety above everything else. Working with care is one of our core values. We want to make sure that everyone who works for, or on behalf of Southern Water, goes home safe at the end of every day.

“As a precursor, over the summer, we empowered anyone to stop an activity if they feel it can’t be carried out safely, and we did this with the introduction of ‘empowerment’ cards. These were handed out to every colleague, giving them permission to challenge unsafe behaviours or situations and not walk on by.

“The Stop Think Safe event will reinforce this message and is a new one-day course that we want everyone to attend. Facilitated by external safety training specialists, ATT, it’s intended to help colleagues work through scenarios where they’ll need to think about how and when they should raise a challenge.

“The day is split into two parts. The first uses the scenario of a service strike incident on a construction site. The story is told through a mix of video and actors bringing the on-screen characters to life. It means people can question the actors about their motivations and decisions as the incident unfolds, giving everyone a chance to practice the challenge skills they are being taught. The service strike causes life changing injuries to one of the characters that could have been prevented if people were challenged in the events leading up to the incident.

“The second session focuses on how to give constructive feedback. Scenarios are played out by actors and delegates who can provide advice to steer their approach so the feedback lands in a positive way.

“By the end of the day, they’ll have a clear understanding of their individual responsibility for their own safety and that of colleagues, as well as practical communication tools so they feel confident speaking up if something isn’t safe.

“So far we’ve had some positive feedback on the training, with some saying: “It’s the best training I have ever had!”. Hopefully, this will encourage others to book themselves on the course!

“We have had over 460 colleagues join the course since November. They will be running until the end of 2024.”

**Sally Ford**

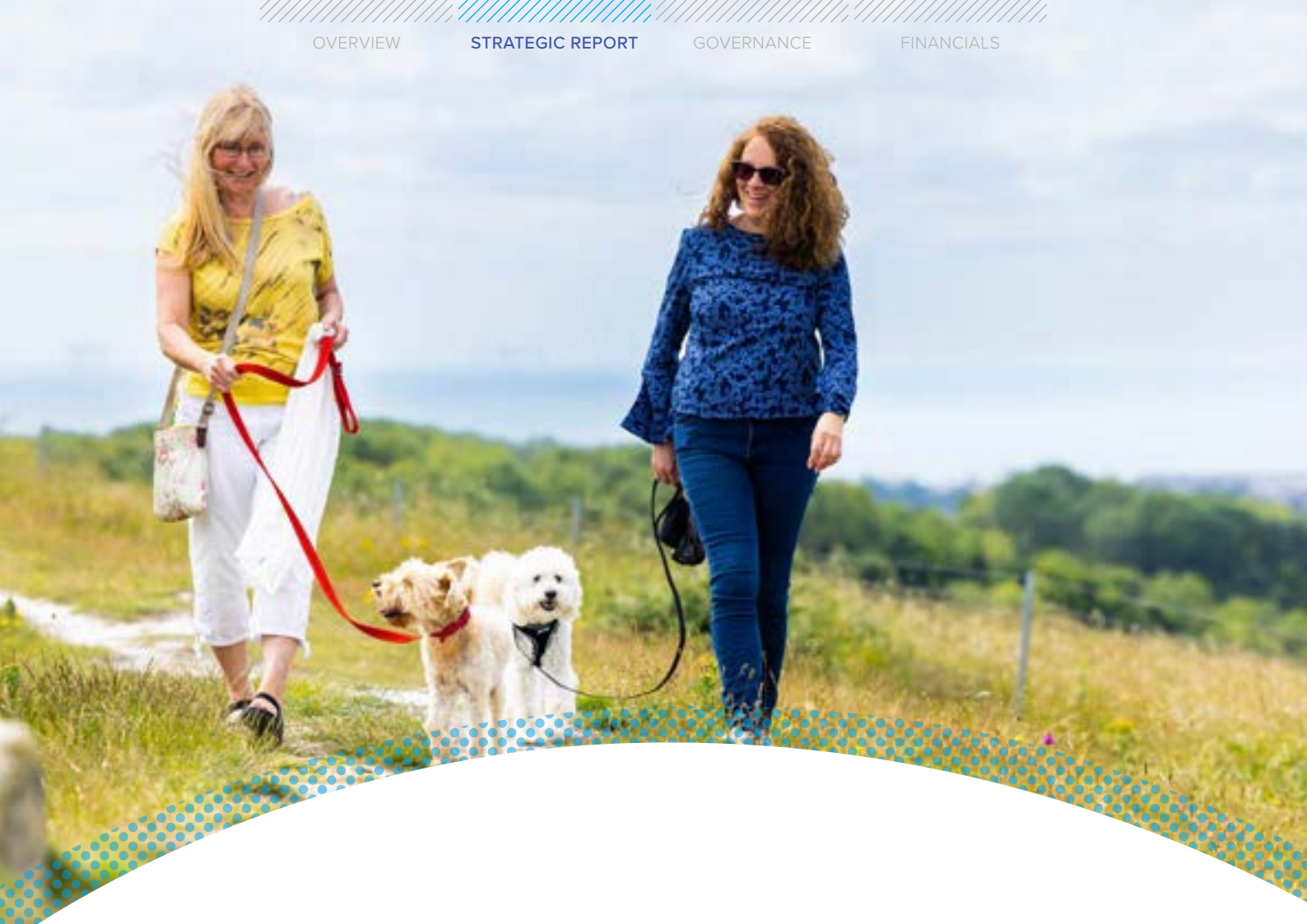
Director Health, Safety, Security and Wellbeing

#### Stakeholders impacted



## 460+

colleagues completed  
training in first four months



## Case study

### National Inclusion Week – a new approach

“National Inclusion Week is a great opportunity for us to focus on how to help everyone bring their best selves to work. This year for the first time, we invited other water companies in the UK to share their expertise in different areas. We put together a one-day event, attracting over 400 participants.

“The event gave colleagues the opportunity to hear about how companies are supporting working families, carers, allyship, mentorship and intersectional gender identity. It was amazing to see the support given to colleagues, and the opportunity to hear real life stories was a powerful way to learn and understand more about these areas.

“There was also an executive panel discussing the importance of equality, diversity and inclusion (E, D&I). We hosted this section, facilitated by our partners from the Women’s Utility Network. Our CEO led the discussion.

“Having been on the peer’s Women’s Network Chairs group for a couple of years, I have really enjoyed the opportunity to share each other’s insights.”

**Naomi Turner**  
Inclusion Partner

#### Stakeholders impacted



# 400

colleagues took part in the sessions



Read more on pages 62 and 63.

## Our operational performance continued

### Climate-related Financial Disclosures

We are dedicated to disclosing transparent information to stakeholders on climate-related risks and opportunities relevant to our business activities.



Read more about Board oversight of climate-related initiatives on page 71.

The impacts of the changing climate, amplified by population growth, present huge challenges, particularly in the South East. We are committed to providing transparent information to our stakeholders on climate-related risks and opportunities for our business.

This section of our report presents our climate-related financial disclosures (CFD). From this year the Companies Act 2006 sections 414C, 414CA, and 414CB requires us to report against eight climate-related financial disclosures. While we believe we are compliant with these requirements there is still the opportunity to mature our disclosures and we welcome your feedback.

The eight mandatory disclosures largely implement the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). This means the TCFD's four recommendations and 11 recommended disclosures. We voluntarily adopted the TCFD recommendations in last year's report and continue to do so this year.

During the year the TCFD was disbanded and its monitoring responsibilities moved to the International Sustainability Standards Board (ISSB). The ISSB incorporated TCFD recommendations into its standards, specifically the document IFRS S2 Climate-related Disclosures. Over time, we will seek to voluntarily adopt this standard.

To assist readers, the table on the next page indicates where disclosures are in this report and other documents that provide more detailed information.

We have considered climate change in the preparation of our financial statements on pages 95 to 174, and specifically included information in note 2 on page 225.

## Index table for Companies Act disclosures and TCFD recommendations

Disclosures	Disclosure level	Pages in this report	Reference to other information sources
<b>Governance</b>			
<p><b>Companies Act disclosure:</b> (a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities.</p> <p><b>TCFD recommendation:</b> Disclose governance around risks and opportunities: a. The Board's oversight of climate-related risks and opportunities.</p>	Full	<p>Strategic Report</p> <ul style="list-style-type: none"> <li>CFD: Governance 70 to 71</li> <li>Delivering value to our stakeholders 30</li> </ul>	<ul style="list-style-type: none"> <li>Website: Board of Directors and the Terms of Reference of its committees</li> </ul>
b. Management's role in assessing and managing climate-related risks and opportunities	Full	<p>Financial performance</p> <ul style="list-style-type: none"> <li>Risk oversight and governance 114 to 115</li> <li>Principal Risks 121</li> </ul>	
	Full	<p>Corporate governance</p> <ul style="list-style-type: none"> <li>Board of Directors 135 to 141</li> <li>Remuneration policy, applicable in year (unaudited) 184 to 188</li> </ul>	
<b>Strategy</b>			
<p><b>Companies Act disclosure:</b> (d) a description of the principal climate-related risks and opportunities arising in connection with the company's operations, and the time periods by reference to which those risks and opportunities are addressed.</p> <p>(e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy.</p> <p>(f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios.</p> <p><b>TCFD recommendation</b> – Disclose the actual and potential impacts of risks and opportunities on businesses, strategy, and financial planning where such information is material: a. Short, medium, and long term risks and opportunities identified.</p>	Full	<p>Strategic Report</p> <ul style="list-style-type: none"> <li>CFD: Strategy 72 to 78</li> </ul>	<ul style="list-style-type: none"> <li>Business Plan 2025–30: SRN02 Long-Term Delivery Strategy; SRN05 Wholesale Water; SRN06 Wholesale Wastewater</li> </ul>
b. Impact of risks and opportunities on the business, strategy and financial planning.	Full	<p>Financial performance</p> <ul style="list-style-type: none"> <li>Notes to financial statements – Note 2: Climate change 225</li> </ul>	<ul style="list-style-type: none"> <li>Draft Water Resources Management Plan</li> </ul>
c. The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a two degree or lower scenario.	Partial		<ul style="list-style-type: none"> <li>Drainage and Wastewater Management Plan</li> </ul>
	Partial		<ul style="list-style-type: none"> <li>Climate Change Adaptation Report, 2021</li> </ul>
	Partial		
<b>Risk management</b>			
<p><b>Companies Act disclosure:</b> (b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities.</p> <p>(c) a description of how processes for identifying, assessing, and managing risks are integrated into the company's overall risk management process.</p> <p><b>TCFD recommendation</b> - Disclose how the company identifies, assesses, and manages climate-related risks: a. The organisation's processes for identifying and assessing climate-related risks.</p>	Full	<p>Strategic Report</p> <ul style="list-style-type: none"> <li>CFD: Risk management 79 to 80</li> </ul>	<ul style="list-style-type: none"> <li>Draft Water Resources Management Plan</li> </ul>
b. The organisation's processes for managing climate-related risks.	Full	<p>Financial performance</p> <ul style="list-style-type: none"> <li>Risk management approach 112 to 113</li> </ul>	<ul style="list-style-type: none"> <li>Drainage and Wastewater Management Plan</li> </ul>
c. How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Full		<ul style="list-style-type: none"> <li>Drought Plan</li> <li>Climate Change Adaptation Report, 2021</li> </ul>
<b>Metrics and targets</b>			
<p><b>Companies Act disclosure:</b> (g) a description of the targets used to manage climate-related risks and to realise climate-related opportunities and of performance against those targets.</p> <p>(h) a description of the key performance indicators used by the company to manage climate-related risks and realise climate-related opportunities and of the calculations on which those KPIs are based,</p> <p><b>TCFD recommendation</b> – Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material: a. Metrics to assess risks and opportunities in line with strategy and risk management process.</p>	Full	<p>Strategic Report</p> <ul style="list-style-type: none"> <li>CFD: Metrics and targets 81 to 84</li> </ul>	<ul style="list-style-type: none"> <li>Annual Performance Report, 2024</li> </ul>
b. Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Full	<ul style="list-style-type: none"> <li>Streamlined Energy and Carbon Report (SECR) 85 to 87</li> </ul>	<ul style="list-style-type: none"> <li>Business Plan 2025–30: SRN46 Net Zero Carbon</li> </ul>
c. Targets used to manage risks and opportunities and performance.	Partial	<ul style="list-style-type: none"> <li>Our operational performance 34 to 68</li> </ul>	
	Full		

## Our operational performance continued

### Climate-related Financial Disclosures continued

#### Governance



Read about this year's reports of Board's committees on pages 163 to 196.

#### Board oversight

Our Board has oversight of climate-related risks and opportunities and scrutiny of management's identification, assessment and management of these risks and opportunities. The Board continues to monitor performance of our Turnaround Plan, targets and long-term plans such as our Draft Water Resources Management Plan.

It reviews and receives papers from the Executive that provide updates for discussion on performance, programme delivery and plans.

This year the Board discussed climate-related matters on at least 10 occasions; covering aspects including our business plan for 2025–30, risk management, Water for Life – Hampshire and water recycling, asset resilience, pollutions, Drought Plan and our decarbonisation plans.

This year Christèle Delbé and Kerensa Jennings joined us as Independent Non-Executive Directors both to the Board and to the Board ESG Committee, bringing considerable leadership expertise in sustainability and digital.

Climate change is one of our 12 principal risks and the Board considers updates on climate-related risk profiles and emerging risks. Our CEO, is responsible for managing the business and the implementation of its business plan and policies and is accountable to the Board for climate matters. Specific matters brought to the Board by the Executive to support decision-making processes included the following: its review of our submitted business plan for 2025–30 including the Water Resource Management Plan (WRMP), Drainage and Wastewater Management Plan (DWMP), resilience plans, Water for Life – Hampshire plans including the Hampshire water recycling and water transfer project; approval of our updated decarbonisation interim target; and oversight of our Clean Rivers and Seas Task Force's stormwater plans and Pathfinder projects.

The Board is supported by the Audit and ESG Committees. The Audit Committee has oversight of our reporting, internal controls and management system, and compliance. It discussed climate change-related issues concerning assurance of our WRMP and DWMP, disclosure requirements,

and risk assessment and control processes. At each meeting, the committee receives an update on risk, which includes climate-related matters. The ESG Committee supports the definition and delivery of our ambitions and plans. Climate change remained a focus of the committee, and in particular the update to our interim decarbonisation target, approved by the Board. The committee was updated at each meeting during the year.

#### Executive management

The Executive have day-to-day accountability for climate-related issues and the Executive Committee meets monthly to review matters of performance, plans and compliance. This year the committee monitored development of, and ultimately approved the update to our interim decarbonisation target, and received updates on matters including our leakage performance, non-financial assurance, our long-term strategy, our pollution incident reduction plan, approach to the Industrial Emissions Directive and Drought Plan.

The Executive sponsors and is supported by several committees and steering groups. The Executive Risk Committee reviews enterprise risks, improvements and a strategic review. The Executive Performance Committee reviews our financial and non-financial performance including climate-related matters, this year including our sludge strategy, leakage, demand management, pollutions, and operational resilience.

We engage with all stakeholders to understand their expectations on climate-related issues. This includes our Independent Climate and Environment Group (ICEG), and our Customer and Communities Challenge Group (CCCG). These groups are attended by members of the Executive and other senior managers. They also provide regular feedback to the Board ESG Committee.



## Climate-related governance framework

Board of Directors			
Ultimate oversight of climate-related risks and opportunities, strategy, and performance.			
ESG Committee	Audit Committee	Remuneration Committee	Nomination Committee
Oversight of priorities, strategy and plans on environmental and social matters.	Responsible for internal controls system, reporting and assurance.	Responsible for our remuneration policy.	Responsible for Board appointments to support our business plan.
Executive Committee (ExCo)			
Day-to-day running of our company by our executives, including matters related to ESG. This includes oversight of ERM risk profile and emerging risks scanning. The executive delegates accountability for certain climate-related matters to its committees.			
Performance Committee	Investment Committee	Environment Steering Group	
Oversight and challenge of our financial and non-financial performance.	Responsible for investment decision-making including climate considerations.	Cross-business group responsible for environmental strategic issues.	
Independent stakeholder groups			
Strategic advice and challenge, insights on stakeholder priorities, perceptions and feedback on our plans.			
Independent Climate and Environment Group		Customer and Communities Challenge Group	
Customer focus groups			

Senior management and employees are incentivised to deliver on our ambitions in relation to climate-related issues. Objectives are applicable to all employees including executive management and are based on a range of stretch targets, with performance-related remuneration measures focused on climate-related matters including leakage, flooding and pollution incidents.



Read more:

On how we engage with stakeholders, pages 21 and 30.

On Board competence and independence, pages 144 to 156.

On Board effectiveness and evaluation, pages 161 to 162.

On the work of the Board's committees, pages 161 to 162 and 144 to 196.

On risk oversight and governance, pages 114 to 115.

On our principal risks, page 118-125.

On our performance targets for this year and how they relate to directors' remuneration, pages 179 to 196.

## Our operational performance continued

### Climate-related Financial Disclosures continued

#### Strategy



Read our [Climate Change Adaptation Report](#).

#### The impacts of climate-related risks and opportunities on our business, strategy, and financial planning

We are already seeing the impacts of a changing climate. This year we experienced the impact of October's Storm Ciarán and the intense, heavy rain it brought with it. February 2024 saw over double the average rainfall, in addition to higher-than-average amounts of rainfall in all other months of the financial year 2023–24, excluding January, May and June. Our business planning integrates consideration of both adaptation to, and mitigation of climate change. Planning processes include the identification, assessment and management of physical and transition risks and opportunities, to ensure the resilience of our assets and services, for the benefit of our customers and the environment.

Our latest adaptation report was published in 2021. We will be publishing our updated Climate Change Adaptation Report later in 2024. Our business plan for 2025–30 considered the results of the carbon impact assessment of our long-term plans and scenario modelling for a changing climate. This included consideration in our Long-Term Delivery Strategy, Water Resources Management Plan, Drainage and Wastewater Management Plan and operational resilience plans. The planning process strengthened our long-term delivery strategy and adaptive planning to support management of future uncertainties, including that of a changing climate.

#### Our climate-related risks and opportunities

Climate change is one of our principal risks and we apply an ongoing, iterative process to assess and manage the range of risks and opportunities. These are typically considered as part of a broader range of factors, to understand how they interconnect and impact our business. For more on our climate-related risk identification and management processes see pages 73 to 74. The changing climate also has the potential to impact several of our other key risks, as summarised below:

Key physical risks and opportunities	Key transition risks and opportunities
*Indicates a principal risk to our business. For more on our principal risks see pages 116 to 125.	
<p><b>WATER*</b></p> <p>Our ability to provide customers with access to a supply of high-quality drinking water now and in the future.</p>	<p><b>CLIMATE CHANGE*</b></p> <p>Our ability to improve our resilience to climate change including changes in policy, regulation, and markets.</p>
<p><b>WASTEWATER*</b></p> <p>Our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater.</p>	<p><b>CORPORATE AFFAIRS*</b></p> <p>Our ability to appropriately monitor and adapt to changes in political and regulatory frameworks to support our relationships and reputation with our customers and stakeholders.</p>
<p><b>NATURAL CAPITAL</b></p> <p>Our ability to protect and enhance natural capital across our region.</p>	

The following pages summarise our climate-related risks and opportunities over the short, medium, and long-term. The tables refer to published documents that contain more detail on our climate change risk management processes and plans. For more on how we define short, medium, and long-term horizons see pages 10 and 11.

## Acute and chronic physical shocks and stressors – risks and opportunities

Description	Potential business impacts	Mitigating risks and realising opportunities
<b>WATER: Our ability to provide customers with access to a supply of high-quality drinking water now and in the future</b>		
<p><b>Short to medium term:</b> Risk of reduced water availability and higher demand due to chronic higher temperatures, with drier and hotter summers, and an increased frequency of drought.</p> <p><b>Short to long term:</b> Risk of impacts on infrastructure and increased risks of contamination due to increase in number and severity of storms and floods e.g. run-off polluting water sources, greater agricultural land run-off.</p> <p>Opportunity to ensure ongoing security of water supply.</p>	<p>Accelerated asset deterioration.</p> <p>Supply of water fails to meet demand – service disruption.</p> <p>Financial penalty and reward position.</p> <p>Further investment in infrastructure and incident management.</p> <p>Elevated risk to health, safety and wellbeing of colleagues and the public due to elevated pressures to respond, and increased use of water courses to cool off.</p>	<p><b>Business planning</b></p> <ul style="list-style-type: none"> <li>Comprehensive modelling and short- and long-term plans feed into our five-year business plans and capital investment programme:</li> <li>Water Resources Management Plan (WRMP) forecasts how much water we will need in the future and proposes options to make sure we have enough.</li> <li>Operational resilience framework and action planning to improve asset, system and service resilience and organisational capability monitoring.</li> <li>Drought Plan outlines the steps we would take to make sure we can maintain supplies of drinking water to customers during drought events.</li> <li>Water for Life – Hampshire Phase 2 plan – a Strategic Resource Option (SRO).</li> <li>Health, safety, security, and wellbeing in business planning, including Turnaround Plan.</li> </ul> <p><b>Incident management</b></p> <ul style="list-style-type: none"> <li>Incident preparedness and management planning to provide a continuous service to customers.</li> </ul> <p><b>Customer engagement</b></p> <ul style="list-style-type: none"> <li>Target 100 water-saving customer engagement programme to encourage reductions in demand.</li> <li>Community engagement programme raising awareness on water saving, including in schools.</li> </ul>
<b>WASTEWATER: Our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater.</b>		
<p><b>Short to medium term:</b> Risk of increase in volumes of water entering the system due to increased intensity and frequency of storms.</p> <p>Risk of drought/reduction in rainfall and temperature increases, elevating the risk of blockages and internal and external flooding.</p> <p><b>Long term:</b> Risk of increase in sea level and risk of river flooding of assets.</p> <p>Opportunity to enhance asset resilience.</p>	<p>Accelerated asset deterioration.</p> <p>Financial penalty and reward position.</p> <p>Further investment in infrastructure and incident management.</p> <p>Pollution event fines or other penalties.</p>	<p><b>Business planning</b></p> <ul style="list-style-type: none"> <li>Comprehensive business plans, including DWMP and operational resilience planning that feed into our business plans and capital investment programme.</li> <li>Drainage and Wastewater Management Plan (DWMP) assesses and plans for future investment needs across our region, 11 river basin catchments, and 61 of the highest risk of our 381 wastewater systems.</li> <li>Pollution Incident Reduction Plan details programme of activities to reduce pollution incidents to zero by 2040, including adapting to changing weather patterns.</li> <li>Clean Rivers and Seas Task Force driving projects to manage surface water flooding and reduce storm overflow releases, including sustainable drainage systems SuDS and wetlands.</li> </ul> <p><b>Incident management</b></p> <ul style="list-style-type: none"> <li>Incident preparedness and management planning to provide a continuous service to customers and protect the environment.</li> </ul> <p><b>Customer engagement</b></p> <ul style="list-style-type: none"> <li>Fat, oil, grease (FOG) and unflushables team raising awareness on ways to keep our wastewater networks free of blockages.</li> </ul>
<b>NATURAL CAPITAL: Our ability to protect and enhance natural capital across our region</b>		
<p><b>Medium to long term:</b> Increased run-off and higher volumes of water, leading to pollution of rivers and seas.</p> <p>Drought/reductions in water leading to impacts on habitats and species.</p>	<p>Financial penalty and reward position.</p> <p>Pollution event fines or other penalties.</p> <p>Stakeholder expectations not met.</p> <p>Less resilient assets.</p>	<p><b>Catchment management</b></p> <ul style="list-style-type: none"> <li>Increasing catchment resilience by working with farmers to protect and enhance natural capital and deliver a range of ecosystem services, including improved water quality.</li> <li>Ecologists within business focused on opportunities to enhance biodiversity and comply with Biodiversity Net Gain.</li> <li>Measuring and evaluating our natural assets by catchment to understand the state of our land and water sites and help prioritise improvements.</li> </ul> <p><b>Business planning</b></p> <ul style="list-style-type: none"> <li>Draft WRMP adaptive planning approach represented a range of future scenarios. Environmental assessment included biodiversity net gain and natural capital. Options included nature-based solutions.</li> <li>Our plans under the Water Industry National Environment Programme (WINEP) for water and wastewater, including increasing focus on catchment and nature-based solutions.</li> </ul>

## Our operational performance continued

### Climate-related Financial Disclosures continued

#### Transition to a low-carbon future – risks and opportunities

Description	TCFD risk type	Potential business impacts	Mitigating risks and realising opportunities
<b>CLIMATE CHANGE:</b> Our ability to improve our resilience to climate change including in policy, regulation, and markets.			
<p><b>Medium to long term:</b> Emerging technologies, creating operational risks and opportunities including changes to skills required and operational requirements.</p> <p>Example: a shift to hydrogen production via hydrolysis creates additional water demand.</p>	Technology	Investment in new and emerging technologies, skills enhancement, and new ways of working. Examples include technologies to support the reduction of process GHG emissions.	<ul style="list-style-type: none"> <li>Bluewave. Our research, innovation, and development lab leading thinking including trials tackling the monitoring and extraction of process carbon emissions.</li> <li>Engagement with our partners and supply chain to support delivery of our ambitions.</li> </ul>
<p><b>Medium term:</b> Changes in energy and smart buildings markets and management, including cost increases, additional taxation, decarbonisation of fuel sources (market risks).</p> <p>Example: grid energy dependency and stability creates plant resilience, growth and price volatility risks.</p>	Policy and legal Market	<p>Increased costs.</p> <p>Increased focus on self-generation.</p> <p>Investment in new infrastructure.</p> <p>Examples include investment to move from gas to electric sourced building heating.</p>	<ul style="list-style-type: none"> <li>Policy Advisory Group tracking policy and government information.</li> <li>Energy strategy in business plans; example of switching energy sources from gas to electricity; on-site and near-site renewable energy strategy and plans.</li> <li>Engagement with our partners and supply chain to support delivery of our ambitions.</li> <li>Monitoring GHG emissions and target performance.</li> </ul>
<p><b>Medium term:</b> Changes in transport market and management, including decarbonisation of fuel and development of no and low carbon fuel infrastructure.</p> <p>Example: diesel engine ban from 2035.</p>	Policy and legal Market	<p>Investment in new, no and low carbon fleet.</p> <p>Investment and operational adjustments considering alternative fuelling/charging infrastructure.</p>	<ul style="list-style-type: none"> <li>Policy Advisory Group tracking policy and government information.</li> <li>Fleet replacement strategy in business plans including transforming vehicles to no or low carbon fuels an engagement with haulage contractors.</li> </ul>
<p><b>Medium to long term:</b> Population growth, household composition and appliance efficiency changes driving changes in demand for services.</p>	Market	Further investment in infrastructure to meet changing demand levels.	<ul style="list-style-type: none"> <li>Forecasts modelled and included in business plan 2025–30.</li> <li>Engagement with the sector, such as Water Resources South East.</li> </ul>
<b>CORPORATE AFFAIRS:</b> Our ability to appropriately monitor and adapt to changes in political and regulatory frameworks to support our relationships and reputation with our customers and stakeholders.			
<p><b>Short to long term:</b> Changing public sentiment driving changes in regulatory targets, permits, licenses, and enforcements, leading to increased non-compliance (policy and legal risks)</p> <p>Regulatory penalty/incentive reward for GHG emissions commences 2026.</p>	Policy and legal Reputation	<p>Financial penalty and reward position.</p> <p>Increased risk of fines from non-compliance.</p> <p>Increased cost of carbon emissions, such as a carbon tax.</p>	<ul style="list-style-type: none"> <li>Policy Advisory Group tracking policy and government information.</li> <li>Strong engagement programme with regulators, MPs, and other stakeholders.</li> <li>Engagement with our partners and supply chain to support delivery of our ambitions.</li> <li>Governance framework including policies and risk management, that document accountabilities, processes and policies to aid decision making during business planning and delivery.</li> <li>GHG emissions monitoring, management and targeting approach implemented. Carbon costs incorporated into investment decision-making processes</li> </ul>
<p><b>Medium term:</b> Changing customer sentiment on the pace and scale of ambition and solutions.</p>	Reputation	<p>Further investment required.</p> <p>Investment funding challenged.</p>	<ul style="list-style-type: none"> <li>Strong customer insights, engagement, and consultation programmes.</li> <li>Publishing our long-term plans including decarbonisation and adaptation, such as our WRMP. Consultation process during drafting of plans.</li> <li>Community engagement programme raising awareness on water saving, including in schools.</li> </ul>

## Addressing the impact of climate change in our strategy and planning

Being resilient to the changing climate is critical for us to deliver services to customers and protect the environment. So, it is vital we understand the risks, so we can plan and adapt for a resilient future. Responding to climate-related issues is therefore embedded in our business planning processes.

### Long-term Delivery Strategy

Our Long-term Delivery Strategy (LTDS) explains how we will respond to these challenges over the next 25 years. It integrates our short, medium, and long-term plans into one long-term strategy and sets out how we have used an adaptive planning framework that identifies the range of investments we could need to meet the future challenges. Our LTDS is based on our five long-term priorities:

- Ensuring a reliable supply of high-quality water for the future
- Protecting and improving the environment
- Becoming a renewable power generator
- Understanding and supporting our customers and communities
- Enabling and empowering our people.

The LTDS is part of our business plan for 2025–30. It builds on the low and no regrets investments of our plans for the next five-year business plan and includes eight adaptive pathways – with additional investments to respond to climate change, new environmental challenges, or higher levels of population growth. Two of these eight adaptive pathways specifically relate to potential climate change impacts. The adaptive approach responds to the guidelines of our regulator, Ofwat, and the results of our scenario testing.

Scenario testing has shown that for our business enhancement plan the water network is sensitive to the potential impact of climate change.

Within our long-term plans we have considered a moderate adaptive pathway based on the RCP 2.6 climate change projections and an adverse adaptive pathway based on the RCP 8.5 level. These levels are about modelling using UK Climate Projections 2018 (UKCP18) climate scenarios that are based on the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) climate scenarios, specifically RCP 8.5 (the highest baseline emissions scenario) and RCP 2.6 (the lowest baseline emissions scenario). The moderate pathway plans provide for increased investment for additional wastewater storage tank and network flow capacity to absorb more frequent and more intense climate change driven stormwater surges. The adverse pathway delivers further climate-driven enhancement like the moderate pathway. We anticipate that the earliest trigger for either pathway could occur in 2035.

### Drainage and Wastewater Management Plan

The LTDS was informed by our Drainage and Wastewater Management Plan (DWMP). We first published our DWMP in May 2023 and this was our first 25-year look at the investments we need to make in our wastewater network across our region.

The DWMP explains the current and future challenges our drainage and wastewater systems face and how we will address them. It looks at each of our 381 sewerage systems, understanding the current and future risks. We created three alternative pathways based on different levels of climate change and growth to enable us to test the sensitivity of our investment plan; the alternative pathways are aligned to the climate change scenarios set out in the national DWMP Framework. Through it we identified a need for additional investment over the next 25 years, with an emphasis on tackling issues at source, working with nature and delivering wider multiple benefits for our customers and their communities.

## Our operational performance continued

### Climate-related Financial Disclosures continued



Read more:

[On our decarbonisation transition plan.](#)

[On our third-round Climate Change Adaptation Report, published in 2021.](#)

[On our longer-term trends, challenges and priorities.](#)

[On our plans to secure water out to 2075.](#)

[On our plans to secure a resilient drainage and wastewater system.](#)

#### Revised Draft Water Resource Management Plan

Our Water Resources Management Plan (WRMP) is published every five years and forecasts how much water we will need in the future and proposes a mix of options to make sure we have enough. We are currently revising our draft plan for the next 50 years. We consulted on our draft plans in 2022–23, issued our Statement of Response in the summer of 2023 and our regulator asked for some revisions to be made to the plan. We plan to reconsult on our draft WRMP in the summer of 2024.

We assessed a range of climate scenarios to look at the impacts on water supply, specifically examining rainfall and evapotranspiration, and incorporated this into our planning. Our assessment approach aligns with that followed by all Water Resources South East companies and modelling includes use of UK Climate Projects 2018 (UKCP18) climate scenarios that are based on the IPPC PRC scenarios, specifically RCP8.5 and RCP2.6.

The options in our plan are based on four priorities, with a mix of options at different times and in different places:

- Efficient use of water and minimal wastage across society means we'll help customers reduce how much water they use and cut leaks by at least 50% by 2050.
- New water sources that provide resilient and sustainable supplies, including desalination, water recycling, reservoirs and transfers from other regions.
- A network that can move water around the region means making the best use of the water we already have and moving it to where it's most needed.
- Catchment and nature-based solutions that improve the environment we rely upon to help increase the resilience of our existing sources.

#### Operational resilience planning

As part of developing our business plan for 2025–30 we identified six major challenges we must address to improve our operational resilience and protect our environment.

They are:

- Population growth and demand pressures
- Climate change
- Drought
- Ageing assets
- Cyber security
- Transition to net zero.

In terms of climate change, the plans build on the qualitative adaptation risk assessment we undertook in 2020 and have assessed the susceptibility of around 18,000 of our operational assets to the potential impacts of climate change. The review considered the latest UK Climate Predictions, in UKCP18, to assess vulnerability to six shocks and stresses: flooding risk, coastal erosion, heat, subsidence, saline intrusion and risks to natural capital. Some of our sites are becoming more vulnerable to coastal erosion and power failures caused by extreme weather. We have identified 75 vulnerable sites and equipment and started a long-term programme to improve resilience; these are included in our business plan and focus on the following programmes, additional to our base expenditure plans:

- Coastal erosion resilience
- Power resilience
- Groundwater infiltration resilience
- Flooding resilience
- Heat stress resilience.

We do not believe any of these sites are in immediate danger of becoming obsolete or impaired through climate change, and all are operational.

### Financial planning

Note 2 of the Notes to Financial Statements includes critical accounting judgments related to climate change in the context of the assessments described here. See page 225.

### Our net zero transition plan

We understand the important role we, and the water sector must play in reducing emissions while balancing this with the need to provide our services at an affordable price to our customers.

We remain committed to achieving net zero by 2050 and this plan is aligned with national government net zero targets. Our long-term decarbonisation approach remains to follow the location-based approach and apply the below carbon hierarchy; however, we continue to believe best value to our customers will not be served by purchasing external offsets for residual emissions.

#### Reduce and avoid

Through efficiency savings



#### Replace

Use alternative solutions that are lower carbon



#### Remove

Through sequestration on our estate



#### Offset

Use responsible carbon offsetting for any residual emissions

### Our 2050 net zero roadmap

Our net zero 2050 plan is in integral part of our submitted business plan for 2025 to 2030 and focuses on the six areas outlined below to help deliver our ambition:



#### Greening our energy demand

This includes improving energy efficiency to reduce energy demand and source renewable energy from onsite or adjacent sources to meet our energy needs.



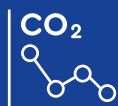
#### Decarbonising our fleet

In line with the government's target, we will transition our fleet of cars and vans to electric vehicles by 2035 and investigate low carbon fuels such as biodiesel bio-compressed natural gas and hydrogen to decarbonise our HGVs by 2040.



#### Improving efficiencies in our bioresource processes

This will be done by developing new infrastructure (e.g., Advanced Anaerobic Digestion), implementing new technologies and solutions (e.g., Advance Thermal Conversion), and recycling our waste into biogas that can be used by others across the country.



#### Focusing attention on process emissions

We are concentrating our efforts on researching and developing ways in which process emissions can be monitored and reported in the short-term. In the medium term we will build on the trials being undertaken by our Bluewave innovation team to further research and development in to reducing process emissions. We believe this approach will help us identify or develop cost effective technologies and solutions that can be implemented in the medium to long term to deliver emission reduction benefits.



#### Implementing a holistic approach to scope 3 emissions and capital carbon

This involves developing a procurement framework with carbon embedded in it, to encourage our supply chain partners to provide sustainable and carbon conscious solutions. We will also mature our companywide carbon culture, to embed carbon conscious decision-making throughout our business. This will allow us to improve the coverage, scope, and quality of capital programmes.



#### Exploring natural carbon stores

We believe nature-based solutions and sequestration will play a part in helping us to manage our carbon footprint, restore our natural environment, and provide multiple benefits to our customers and the wider community. As a result, we are investigating ways in which we can better manage our own land and the catchments we operate in.

## Our operational performance continued

### Climate-related Financial Disclosures continued

# 35%

target reduction  
in Scope 1 and 2  
emissions

# 10%

forecast rise  
in emissions  
during the next  
investment period

Last year we reported how we faced significant challenges to deliver our interim target of net zero operational emissions by 2030 without the use of external offsets. This year we completed a review of our interim target, and the Board approved a revised commitment to reduce Scope 1 and 2 emissions by 35% by 2030, compared to 2022–23 emissions.

This interim target accounts for our forecast that emissions will rise by nearly 10% during our business plan period 2025–30. This increase is due to the impact of population growth – we will serve more customers and operational emissions will rise – and our proposed planned investments in assets including actions in our Water Resources Management Plan and Water Industry National Environment Programme (WINEP). Our interim target to reduce emissions relies heavily on projected UK grid decarbonisation and delivery of interventions, including transitioning from natural gas to more carbon efficient electric heat pumps for office heating, moving our fleet from combustion vehicles to low or zero emission vehicles and investment required at our sewage sludge anaerobic digestion (AD) facilities to support compliance with the Industrial Emissions Directive (IED). We continue to explore opportunities that deliver additional emission reductions above this target, including efficiency actions, plant replacement and optimisation.

Our decarbonisation roadmap is underpinned by four principles: further embedding a culture for decarbonisation; industry collaboration; innovation and research and development; and an adaptive approach. We will continue to develop our decarbonisation roadmap out to 2050 and report our progress on this, and our interim target, on an annual basis. Our published Net Zero Plan will be updated during this year. A key part of this is our continued work to progress the accuracy and completeness of our capital carbon emissions, following the guidance of Ofwat, and enhancing our supplier relationships to leverage their information, expertise and knowledge.

#### The resilience of our strategy, taking into consideration different climate-related scenarios

We remain committed to ensuring a safe and secure water supply for our customers and protecting the environment. We know that

securing resilient water and wastewater services is key to addressing the growing pressures and long-term challenges our sector faces.

Since delivering our 2019 Resilience Action Plan we have been on a journey to improving our operational resilience and ensuring that resilience is embedded at the heart of our strategy. Our 2020–25 business plan activities are focused on delivering cost – effective and quick win solutions to address our most pressing issues impacting our customers and the environment first. For 2025–30, our submitted business plan focuses on enhancing our operational resilience to respond to our future challenges through programmes designed to bolster the resistance of our assets, introduce redundancy options, and enhance the reliability of our services.

An adaptive planning approach has been applied to our long-term business plans including LTDS, DWMP and WRMP and included consideration of climate change scenarios. Our operational resilience assessments considered scenario conditions included a representative concentration pathway ‘RCP8.5’ as an ‘adverse’ scenario for subsidence, saline intrusion, and heat stress and ‘RCP2.6’ as a ‘benign’ scenario for coastal flooding. The work categorised sites into either: further work required to enhance resilience; sites where further investigations were required; or sites for which no further enhancement was required. Seventy-five priority sites and equipment have been identified and are included in our 2025–30 business plan long-term programme to improve resilience.

In preparing the financial statements, the directors have considered the impact of climate change, in the context of the risks identified. There has been no material impact identified on the financial reporting judgments and estimates. It is expected that any impact identified through our business planning processes would materialise over a longer period of time, rather than a single year, and no impact from this was identified in the current year. See page 225 in the financial statements for more on climate change financial considerations. For more on our approach to identify and manage risks, see pages 112 to 125.



# How we identify, assess, and manage climate-related risks

## Risk management

### Identifying climate-related risks

Our process for identifying and assessing climate-related risks is integrated in our risk management process. This is described below, with further detail on pages 112 to 113.

Our business planning processes include the identification and assessment of climate-related risks and opportunities. This includes our five-year business plan development process

and related management plans that are often regulatory documents. These include our WRMP, DWMP, Drought Plan, Climate Change Adaptation Report, and operational resilience plans. These business plans are discussed and approved at Board level.

We consider a variety of time horizons as part of our climate-related risk assessment processes, and these broadly align with our planning horizons.

Planning horizons	Business strategy approach	Our key climate-related plans and processes
<b>Short term</b> One to two years	Imminent risks requiring a tactical response.	<ul style="list-style-type: none"> <li>Risk management: risk profile reviews</li> <li>Pollution Incident Reduction Plan: one year</li> <li>Turnaround Plan: two years</li> <li>Incident management planning</li> </ul>
<b>Medium term</b> 2025–30	The five-year business planning cycle.	<ul style="list-style-type: none"> <li>Business Plan: five years</li> <li>Drought Plan: five years</li> <li>Risk management: emerging risks profile</li> <li>Climate Change Adaptation Report</li> <li>Clean Rivers and Seas Plan (storm overflows)</li> <li>Hampshire Water Transfer and Water Recycling Project</li> </ul>
<b>Long term</b> 2030 onwards	Risks related to our long-term priorities and strategy.	<ul style="list-style-type: none"> <li>DWMP: 25+ years</li> <li>WRMP: 50 years</li> <li>Water for Life – Hampshire</li> </ul>

Additionally, we assess our greenhouse gas emissions on an annual basis, to understand the volume and source of emissions, develop our decarbonisation plan and report performance. For more on this, see pages 86 to 87.

Long-term planning requires making decisions for an uncertain future. To manage uncertainty, we used an adaptive planning approach. We have looked at multiple supply-demand balance scenarios in view of the uncertainties associated with growth forecasts, the level of reductions required in the water we take from the environment and climate change impacts.

Our WRMP is published every five years and we are updating our plan following consultation on a first draft in 2023. The plan predicts how much water we'll need for people, businesses, and the environment in the future – out to 2075. As well as aiming to reduce the existing demand for water, we look at new sources, infrastructure – including reservoirs – water storage and new options such as desalination and water

recycling. We worked with Water Resources South East (WRSE) – an alliance of the six water companies serving the South East – to develop a region-wide plan for water resources. The draft regional plan is reflected in our draft WRMP.

Our Drainage and Wastewater Management Plans (DWMPs) set out our plans for investment in drainage and wastewater services. This is to ensure our networks of sewers, pumps and wastewater treatment works meet the needs of our customers and protect the environment into the future. The purpose of the DWMPs is to plan for future climates and population while reducing storm overflows, flooding, and pollution for the benefit of customers, communities, and businesses and to protect and improve the water environment.

The above long-term plans were supported by the conclusion of a review of the operational resilience of our sites, including an assessment of the impact of climate-related risks. Six shocks and stresses were considered: flooding; asset



Read more:

On our Long-term Delivery Strategy, visit: [srn02-long-term-delivery-strategy.pdf](#) (southernwater.co.uk)

On our plans to secure water out to 2075, visit: [Water Resources Management Plan](#).

On our plans to secure a resilient drainage and wastewater system, visit: [Our Drainage & Wastewater Management Plans \(DWMPs\)](#).

On our storm overflow plan, visit: [Clean Rivers and Seas Plan](#).

On our third-round climate adaptation report, published in 2021, visit: [Climate Change Adaptation Report](#).

## Our operational performance continued



Read more:

On our risk management approach, see Risks – pages 112 to 113.

On our plans to secure water out to 2075, visit: [Our Water Resources Management Plan](#).

On our plans to secure a resilient drainage and wastewater system, visit: [Our Drainage & Wastewater Management Plans \(DWMPs\)](#).

On our plans to maintain a secure water supply and protect the environment during dry weather and drought, visit: [Drought Plan](#).

On our third-round climate adaptation report, published in 2021, visit: [Climate Change Adaptation Report](#).

On our longer term decarbonisation plans, see 2025–30 Business Plan technical annexe, [SRN46 Net Zero Carbon](#), visit: [srn46-net-zero-carbon\\_\\_redacted.pdf](#).

heat stress; subsidence; coastal erosion; water source salination; and resource availability (natural capital).

### Managing climate-related risks

Our climate-related risk management approach is integrated into our company-wide risk management framework and processes.

Our risk management process includes risk identification and ownership; risk assessment; risk response; risk monitoring, reporting and escalation for all possible types or sources of climate-related risks and opportunities.

The risk management process is owned by the relevant risk owners, reviewed by our enterprise risk team and moderated by the Executive Committee. Our risk responses consider our ability to mitigate, transfer, accept or control the identified climate-related risks and where possible, to capitalize on opportunities. Selected risk responses are proportionate to the complexity and type of risk assessed over a range of time-horizons relative to the longer-term uncertainty and nature of the risk.

Our risk appetite defines the risks and opportunities we are willing to accept for identified categories. Seven risk components are identified for the principal risk of climate change, with the risk appetite set at ‘moderate’ for all. In addition, the changing climate has the potential to impact several of our other key risks. Most notably these are: our ability to provide customers with access to a supply of high-quality drinking water, now and in the future, and ensuring the capacity and resilience of our wastewater assets to effectively remove and treat wastewater. Principal risks are monitored by the Executive Risk Committee, reporting to the Audit Committee and ultimately the Board.

We also regularly consider new, changing, or emerging risks that could affect our ability to achieve our long-term objectives. These emerging risks are considered using a PESTLE model (political, economy, social, technological, legal and environmental) across short-, medium- and long-term time horizons and with a view on the speed of onset (rapid, moderate and slow). For more on emerging risks see pages 116 to 119.

Engagement with our customers and other stakeholders is an important aspect of our management of climate-related risks. We use strategic engagement with stakeholders to support the development of our plans. This includes our WRMP, DWMP, Long-Term Delivery Strategy and Business Plan for 2025–30.

We recognise the importance and reliance we have on supply chain partners to support delivery of our plans. To support us in our work, we are a member of the Supply Chain Sustainability School. This year we have enhanced the sustainability expectations and requirements written into significant frameworks that will support delivery of our business plan for 2025–30. This includes supporting our decarbonisation and natural capital activities.

### Integrating climate-related risk into overall risk strategy

We operate a risk management process that is a core component of our governance and internal control framework. It supports us to make better decisions through an improved understanding of risk across the business. This includes climate-related risks.

Our risk management process involves identification of the significant risks to the business, and classification of them using a scale of low to major impact. The criteria defined in our risk assessments are:

- Business disruption/customer experience
- Brand and reputation/legal and regulatory
- People/health, safety, environmental and security
- Financial – within year and lifetime.

## Metrics and targets

### Metrics and targets used to assess and manage relevant climate-related risks and opportunities

We measure a range of metrics to support us in monitoring and managing our risks related to the changing climate, and other risks including population growth. These metrics focus on water supply, wastewater removal, and natural capital. We also report on our carbon emissions, in alignment with regulatory requirements and to report progress on our decarbonisation targets.

The following table summarises the key metrics we use. Further information on our performance can be found in our [Annual Performance Report](#).

Identified risks and opportunities	Target	Metric	Performance summary
Water: our ability to provide customers with access to a supply of high-quality drinking water now and in the future	Leakage: regulatory end of year target 87.9 ml/d	Megalitres per day (Ml/d)	We have introduced a new GIS location and asset register system to improve our ability to both find and fix more complex issues on our network. We're also increasing the size of our leakage team and trialling a smart water leak alarm. Read more on page 47.
	Water use: regulatory end of year target 120.3 l/p/d	Per capita clean water usage litres per day	This year we continued to explore ways to achieve a sustainable change in customer behaviour including engaging with schools, completing water audits at non-household premises, home visits and conducting smart meter product trials. Read more on pages 38 to 39.
	Water resources: Long-term supply and demand schemes: delivery by 31 March 2027	Months delay	We continue to collaborate, through Water Resources South East, to increase supply and meet demand in water-stressed areas. Our Water For Life – Hampshire programme continues to develop solutions for this region. Read more on page 48.
Wastewater: our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater	Internal sewer flooding incidents: regulatory end of year target: 294	Number of incidents	We continue to work hard to protect customers and the environment from sewer flooding. This includes targeting flooding hotspots, deploying Sewer Level Monitors and continuing to invest in our asset, applying a risk assessment approach. Read more on page 37.
	Number of pollutions categorised 1-3: regulatory end of year target 88	Number of pollutions categorised 1-3	We are making progress in reducing pollutions. There has been a significant reduction in pollutions from pumping stations and rising mains, showing how our operation is becoming more resilient during wet weather. Read more on pages 52 to 53.
Climate change: our ability to improve our resilience to climate change including in policy, regulation and markets	N/A	Energy used in the reporting period	We report energy use and generation in the Streamlined Energy and Carbon Report (SECR) section of this report. Read more on page: 85.
	Generate 24% of our own renewable energy by 2025	Renewable energy generation as a proportion of energy use	This year: 13.32% (2022–23: 13.03%). Target not met due to higher consumption on our sites and less solar generation during the unusually wet summer, and the decommissioning of the Testwood solar array in Jan 2024. Read more on pages 55 to 56.
	N/A	Proportion of fleet that is low carbon/electrified fleet	We have not yet transitioned our fleet to low carbon and our developing our strategy, having identified the first vehicles which will be economically viable to transition to electric. Read more on pages 83 to 84.
Customer and community affordability: community support	Net zero emissions by 2050 Interim target to reduce scope 1 and 2 emissions by 35% by 2030	Absolute Scope 1, Scope 2, and Scope 3 emissions and emissions intensity	We report energy use and generation in the Streamlined Energy and Carbon Report (SECR) section of this report. Read more on page: 85. This year we concluded a review of our decarbonisation target. This review considered the impact of our business plan submitted for 2025–30 and our recognition of the significant challenges we faced to deliver our net zero 2030 commitment, as we reported in our 2023 Annual Report and Accounts. Read more on pages 77 to 78.
	N/A	Remuneration: Proportion of executive management remuneration linked to climate considerations	We report on remuneration in the Directors' Remuneration Report. The following 2023–24 metrics are key to our climate change resilience and are measures included in our Annual Bonus Plan (for our executive and all employees): Pollution incidents, internal sewer flooding incidents and leakage. Read more on page 188.

# Our operational performance continued

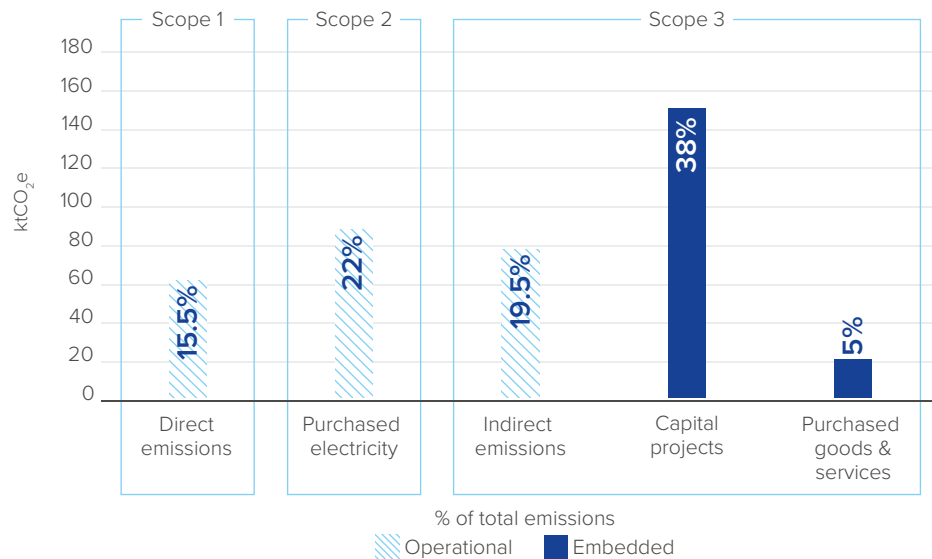
## Our operational and embedded carbon emissions

In 2024 our net location-based operational emissions were 229.9 kilotonnes of carbon dioxide equivalent (ktCO<sub>2</sub>e) (2023: 229.8 ktCO<sub>2</sub>e). Our market-based operational emissions were 281.2 ktCO<sub>2</sub>e (2023: 117.9 ktCO<sub>2</sub>e). Operational emissions relate to the carbon emitted due to our day-to-day activities, so our use of energy, process and fugitive emissions, vehicle fleet and business travel, waste disposal and use of chemicals.

Our embedded emissions relate to our purchase of goods and services, and capital carbon – emissions from the manufacture, construction, and installation of our assets. In 2024 our embedded emissions were 152.8

ktCO<sub>2</sub>e (2023: 198.1 ktCO<sub>2</sub>e). We continue to enhance our coverage of capital carbon emissions, working with our supply chain partners, and have improved the accuracy of our calculations for emissions from purchased goods and services, sourcing more appropriate carbon conversion factors.

These emissions are presented in the chart below, including how they associate to Scopes 1, 2 and 3 – this aligns with how emissions are presented in our Streamlined Energy and Carbon Report (SECR) on pages 85 to 87. 2023 figures have been restated and an explanation for this, and assurance of our figures, is provided in our SECR.



Note: The chart above shows gross emissions by source in the year 2023–24, calculated using a location-based approach. For more on the methodologies used to calculate these emissions, see our SECR report on pages 85 to 87.

## Performance against targets

We monitor our emissions performance against our interim carbon reduction target. Our gross scope 1 and 2 emissions reduced by 0.1% against the same baseline year. Emissions in all scope 1 categories (emissions from fuels, process and fugitive emissions, and emissions from transport) have increased slightly - this reflects a continued increase in operational demands. Electricity consumption has decreased (-8%) however this has been offset by an increase in the average UK grid emissions factor (+7%).

This year our reported operational net emissions scopes 1, 2 and 3 have increased by 0.1% since our baseline year 2022–23.

We are enhancing our understanding of our complete footprint for scope 3, seeking to improve our coverage and calculation methodologies so that we are better placed to develop our 2050 decarbonisation plan and monitor performance against this.

## Reducing operational emissions

### Demand reduction, energy efficiency and using renewable energy

Emissions from our use of energy formed 38% (location-based approach) of our 2023–24 gross operational emissions. Most of our energy is electricity, and we also use gas for heating, diesel for generators and gas oil to support heating our anaerobic digestors. In 2024 we used 472,470 MWh of energy, a decrease on 2023. Wastewater is the largest user of energy, accounting for 70% of consumption. Most of this energy is used to power our pumps and blowers.

We are working with customers to save water, through our Target 100 programme, which supports customers to reduce their daily water use to 100 litres per person per day. We have been raising awareness about water efficiency and scarcity, installing smart meters, and providing incentives. Reducing water consumption helps our customers save money, helps the environment, and contributes to net zero, by reducing the overall demand. Improving efficiency through reducing water supply leakage is also a key part of our efficiency programme, as it is directly proportional to a reduction in energy demand and thus emissions. We have been investing in new technologies such as the advanced pressure management solution, to help reduce leaks.

We have continued to invest in energy efficiency this year, in multiple ways and using a variety of solutions, including the following:

- Completion of thermal hydrolysis plant (THP) at Goddards Green WTW, which will increase biogas production, and reduce HGV transportation of sludge cake.
- Ongoing focus on maintaining CHP performance and generation, and investment to improve CHP reliability and gas quality.
- Digester cleaning to improve gas quality at Ashford WTW.
- Ongoing investment in aeration systems to improve the efficiency of treated wastewater process.
- Elimination of waste initiative, focused on the top six wastewater treatment energy use sites.
- Completion of sub-metering installation across our bioresources sites; monitoring consumption in detail to analyse and improve efficiency.

While the electricity grid is decarbonising, we continue to review options to change the source of our energy and currently generate 13.32% of our electricity from renewable sources. We have invested in renewable on-site electricity by installing solar panels. We completed commissioning of the roof mounted solar array at Peel Common in spring 2023 and yielded 182 MWh YTD. Unfortunately, we had to decommission solar generation at Testwood WSW to make way for a vital project to maintain water quality and resilience. We also generated 62,273 MWh of energy in wastewater via our CHP engines, which offsets 18% 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. Our solar generation totalled 2,813 MWh, helping to ease the need for imported energy at our supply works.

We continue to explore other low-carbon sources of energy either on site or in partnership such as via a Power Purchase Agreement. We are also focused on energy efficiency and for details on our actions on this, and our energy use data, see our SECR on page 85.

## Our operational performance continued



Read more on our regulatory Streamlined Energy and Carbon Report: pages 85 to 87.

### Understanding our process emissions

Emissions from water and wastewater treatment were 25.3% of our 2024 operational emissions, and the largest source of scope 1 emissions. Process emissions occur primarily from our sewage and sludge treatment processes producing methane and nitrous dioxide emissions, both of which have a significantly higher global warming potential than carbon dioxide emissions.

To date, process emissions data from wastewater treatment works, in the UK, have largely been theoretical. Developed on the basis of data modelling and assumptions. However, there is a pressing need to understand the actual emissions from these processes, using the most appropriate and cost-effective methodologies to do so for the long-term. To try and capture process emission data accurately, our Bluewave innovation team, in conjunction with industry partners Costain, Hach, Suez and Cobalt Water, have installed N<sub>2</sub>O (N<sub>2</sub>O, a GHG 300 times more potent than CO<sub>2</sub>) sensors at some of our wastewater treatment works. These sensors are allowing us to capture process emission data.

### Updating our fleet

Emissions from the use of fuel to power vehicles used for business activities were 1.7% of our 2024 operational emissions. This year we have been developing our strategy to electrify our fleet, identifying 35 priority locations for installing charging infrastructure hubs, and profiling our fleet to identify the priority vehicles to switch to electric alternatives. These hubs will be essential for enabling the roll-out of electric vans within our fleet. In the meantime we have been reducing the carbon impact of our fleet by specifying solar panels on our new vans, which enables them to operate electric hand-tools at remote locations without idling their engines. We installed electric vehicle charging points at our Durrington Office, that have enabled our employees to save over 11,000 kgCO<sub>2</sub>e travelling to and between our sites. We also launched our low carbon vehicle salary sacrifice scheme, with 32 employees so far utilising the benefit to switch to a low carbon vehicle.

### Reducing embedded carbon

We have integrated carbon cost curves into our project cost estimating and assurance processes. This allows us to estimate capital carbon emissions based on spend and activity. To build our understanding of capital and purchased goods and services emissions we have included requirements for carbon reporting in our contracts with suppliers and will work with key suppliers to understand their carbon reduction commitments and opportunities for emission reduction. We will continue to build our understanding and engagement with our suppliers, including enhancing our membership with the Supply Chain Sustainability School.

# Streamlined Energy and Carbon Report (SECR)

This section fulfils the requirements of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2019.

Further information about our climate change activities can be found on pages 68 to 84 of this Annual Report.

## Targets

To mitigate the company's climate impact, it is committed to delivering net zero by 2050 and to reduce Scope 1 and 2 emissions by 35% by 2030, compared to 2022 emissions. This interim target accounts for forecast emissions and our planned investments in assets.

## Energy efficiency action

Energy use is a significant source of GHG emissions, and we have continued to invest heavily in energy efficiency throughout 2023–24, in multiple areas, covering multiple technologies.

- Completion of thermal hydrolysis plant (THP) at Goddards Green WTW, which will increase biogas production, and reduce HGV transportation of sludge cake.
- Ongoing focus on maintaining CHP performance and generation, and investment to improve CHP reliability and gas quality.
- Digester cleaning to improve gas quality at Ashford WTW.
- Ongoing investment in aeration systems to improve the efficiency of treated wastewater process.
- Elimination of Waste initiative, focussed on the top six wastewater treatment energy use sites.
- Completion of sub-metering installation across our bioresources sites; monitoring consumption in detail to analyse and improve efficiency.

## Quantification and reporting methodology

The methodology used to calculate operational greenhouse gas emissions for the provision of water and wastewater services follows the GHG Protocol – Corporate Reporting Standard.

The water sector employs a bespoke carbon accounting workbook which reflects best practice and is updated every year to use the latest emission factors, derived from the UK's GHG Conversion Factors. Version 18\_V03.02 of the Carbon Accounting Workbook (May 2024) has been utilised to prepare the GHG estimations.

Embedded emissions are not included in the Carbon Accounting Workbook, and we calculate these using internal estimating tools in our Capital Carbon Management Framework. This was developed in line with the principles of the standard PAS2080: 2023 Carbon Management in Infrastructure and Built Environment.

## Operational boundary

The reporting boundary covers all the company's operational services and is congruous with our financial reporting boundary.

## Assurance statement

This quantification of greenhouse gas emissions and energy usage is checked internally through a governance framework and assured by independent consultants in accordance with the methodology of the AA1000 Assurance Standard v3. This is done as part of the company's annual regulatory reporting process.

# 35%

target reduction  
in Scope 1 and 2  
emissions



For details on our carbon reduction plans see pages 77 to 78.

# Streamlined Energy and Carbon Report (SECR) continued

## Energy use

Area	2023–24 kWh	2022–23 kWh
Electricity	484,069,984	486,491,717
Imported	426,817,694	432,453,458
Self-generated	57,252,290	54,038,259
Gas	3,321,624	2,364,641
Business transport	16,521,848	15,303,066
<b>Total incl. self-generation</b>	<b>503,913,456</b>	<b>504,159,424</b>
<b>Total excl. self-generation</b>	<b>446,661,166</b>	<b>450,121,165</b>

The company's self-generated supply comes from combined heat and power (CHP), solar PV and diesel generation. In addition, the company exported excess electricity to the grid, predominantly renewable energy from the company's 16 CHP installations.

## Greenhouse gas emissions

Scope	Description	Included in Scope	2023–24 (ktCO <sub>2</sub> e)	2022–23* (ktCO <sub>2</sub> e)
1	Direct emissions from activities that the company own or control including combustion of fuel	Gas oil use, process emissions, company transport	63.8	62.6
2	Indirect emissions from purchase of electricity (location-based)	Grid electricity	88.4	89.8
	Indirect emissions from purchase of electricity (market-based)	Grid electricity	140.3	0.0
3	Other indirect emissions	Business travel on public transport/private vehicles, outsourced activities, grid electricity transmission and distribution, purchased chemicals, waste disposal, purchased fuels: extraction, production, transmission and distribution, embedded emissions and purchased goods and services.	253.8	307.6
Total gross emissions (Scopes 1 and 2)	Location-based approach**		152.2	152.4
	Market-based approach***		204.1	62.6
Total gross emissions (Scopes 1, 2 and 3)	Location-based approach**		406.0	460.0
	Market-based approach***		457.9	370.2

\* 2022–23 emissions have been restated to account for (i) addition of emissions from administrative activities for retail and ozone treatment, (ii) corrections to emissions to reflect actual purchased electricity and (iii) an update to the apportionment of emissions to water and wastewater services following receipt of more data.

\*\* Location-based approach uses the average grid emission factor for power from the electricity grid.

\*\*\* Market-based approach uses the carbon intensity of the energy we procure from the electricity grid. Market-based emissions have increased from 0 ktCO<sub>2</sub>e to 140.3 ktCO<sub>2</sub>e as we no longer retain all the Renewable Energy Guarantees of Origin (REGO) certificates. For electricity use that is not REGO-backed we are mandated to use the residual grid emissions factor that has a higher carbon intensity than the average grid emission factor.



## Energy intensity and greenhouse gas emissions intensity

Energy	Unit of measurement	2023–24	2022–23
All company energy (incl. self-generation)	kWh/ £100,000 of turnover	58,635	63,616
All company energy (excl. self-generation)	kWh/ £100,000 of turnover	51,974	56,798
Water services (electricity incl. self-generation)	kWh/MI	689	769
Water services (electricity excl. self-generation)	kWh/MI	676	755
Water services (total energy incl. self-generation)	kWh/MI	720	798
Water services (total energy excl. self-generation)	kWh/MI	706	784
Wastewater services (electricity incl. self-generation)	kWh/MI	611	715
Wastewater services (electricity excl. self-generation)	kWh/MI	513	603
Wastewater services (total energy incl. self-generation)	kWh/MI	635	741
Wastewater services (total energy excl. self-generation)	kWh/MI	537	629
<b>GHG emissions</b>	<b>Unit of measurement</b>	<b>2023–24</b>	<b>2022–23</b>
All company (location-based approach)	Scope 1 and 2: gross tonnes of CO <sub>2</sub> e per £100,000 turnover	17.7	19.2
All company (market-based approach)	Scope 1 and 2: gross tonnes of CO <sub>2</sub> e per £100,000 turnover	23.7	7.9
Water services (location-based approach)	Operational emissions: gross kgCO <sub>2</sub> e per megalitre (MI) of water treated	251	270
Water services (market-based approach)	Operational emissions: gross kgCO <sub>2</sub> e per megalitre (MI) of water treated	353	76
Wastewater services (location-based approach)	Operational emissions: gross kgCO <sub>2</sub> e per megalitre (MI) of water treated	323	383
Wastewater services (market-based approach)	Operational emissions: gross kgCO <sub>2</sub> e per megalitre (MI) of water treated	374	224

Note: Turnover 2023–24 reported as £859.4 million for use in intensity metrics. This reflects a reduction of £27.1 million due to an Ofwat regulatory settlement.

# s172 Statement

To make effective decisions, the Board needs to consider the interests of its stakeholders.

## How the Board is kept informed of stakeholders' interests



### Customers

- Reports from our customer challenge groups.
- Regular reporting on customer performance metrics and performance.
- Customer insight from customer panels.



### The Environment

- Reports from management on: Independent Climate and Environment Group (ICEG), environmental stakeholders and performance against key metrics.



### Communities

- Reports of participation in local community groups.
- Consultation feedback.
- Meetings between our Executive and community groups.
- Insights from Customer and Communities Challenge Group and ICEG.
- Reports from ICEG.
- Updates from our face-to-face Your Water Matters events.



### Colleagues

- 'Workforce engagement' director.
- Employee voice.
- Speak Up (independent whistleblowing service).
- Regular reports on employee health, safety, security and wellbeing.
- Employee engagement results and culture update.



### Regulators

- Regular meetings between Chair, CEO and the senior leadership of regulators.
- Engagement with environmental regulators.
- Reports from management.
- Regulator annual reports and key correspondence.
- Regulator research.
- Attendance by regulators to Board meetings.



### Suppliers

- Regular reports on supplier performance and matters, including health, safety, security and wellbeing performance.

## Ensuring effective stakeholder engagement

Under section 172 of the Companies Act 2006, directors need to consider the interests of the company's key stakeholders as well as the need to consider any impacts on the environment and outcomes over the long term. The company and its Board engage with a variety of stakeholders through membership of stakeholder panels, regular meetings with stakeholders, public meetings as well as simply speaking to people and visiting operational sites.

Our customers' priorities inform our business strategy. In addition to regular reports from management regarding customer service performance, the Board has received updates on feedback and perceptions on the company's performance. The Board considers the impact of the company's operations on customers and receives regular updates from management, providing challenge and feedback, particularly when a significant operational event has occurred that impacts customers. This is in addition to monitoring of satisfaction levels through the C-MeX measure.

Understanding the needs of our most vulnerable customers is a focus for the Board, and management has continued to provide updates on the assistance the company provides, whether through the level of discount offered via our social tariff or capping of water bills, payment breaks or its Hardship Fund.

Key members of the Board, such as Dame Gillian Guy, the former Chief Executive of Citizens Advice, who serves as an independent non-executive director and Chair of our ESG Committee, continue to provide further awareness of the needs and concerns of customers.

Our Board receives regular updates on environmental matters, including legislative changes, key areas of risk such as climate change, biodiversity and water resources. Our Board also engages with our regulators to hear their views on the company's performance and plans. A representative from our Customer and Communities Challenge Group and the Chair of our Independent Climate and Environment group attended the ESG Committee and provided insight and views of customers and stakeholders.

Neil Corrigan, a non-executive director, has the remit of engaging with the company's workforce and ensuring that their views are communicated to the Board. As reported previously, the CEO and leadership team hold regular Company Conversations with the company's workforce which address a variety of topics, including Southern Water's performance. They are also an opportunity for colleagues to express their views and ask questions. Management seeks the views of employees when developing plans. These 'in-person' forms of engagement are supported by regular engagement surveys.

Board members also attended employee training days focused on our Turnaround Plan and health and safety.

Regular meetings between senior representatives of our key regulators – Ofwat, the Environment Agency and the Drinking Water Inspectorate – and our senior executives and Chair take place, in order to discuss our performance and compliance with our statutory obligations as well as to communicate our plans for the future.

Since the major investment by funds managed by Macquarie Asset Management in the group, the shareholder-nominated directors ensure that the views of the company's majority shareholder are communicated to the Board. In addition, the Board and executive has engaged extensively with Macquarie Asset Management, including through various 'deep-dives' into aspects of the company and in terms of developing its strategy.

## s172 Statement continued

### Overview

Section 172(1) of the Companies Act 2006 sets out several factors which the Southern Water Board considers in its activities and decisions.

#### Section 172 considerations key:

- Likely consequences of decisions in the long term
- The interests of the company's workforce
- The need to foster relationships with suppliers, customers and others
- Impact of operations on the community and environment
- Maintaining high standards of business conduct
- The need to act fairly between members of the company

We continue to engage with our stakeholders and customers on the development of our plans so we know their top priorities are a continuous supply of clean, safe and wholesome water, reliable services now and for future generations, protecting and improving our environment, reducing leakage and the company's use of storm overflows, while making sure that bills remain affordable. Environmental NGOs, campaign groups have shared their priorities to protect our environment: [southernwater.co.uk/media/2kwpzbwr/srn03-customer-acceptability.pdf](https://www.southernwater.co.uk/media/2kwpzbwr/srn03-customer-acceptability.pdf)

The Company is also bound by its regulators to deliver key regulatory and statutory obligations including WINEP Storm Overflows Discharge Reduction Plan WRMP

These priorities and obligations have been considered by the Board when considering options, setting the direction and approving investment and associated plans.

### Link to Section 172 considerations:



#### Long-term impact

Investing for the long term, with focus on the impacts of climate change.

#### Community and the environment

Ensuring that the company's impact on the environment is minimised to enable enjoyment of water resources and natural environment to continue into the future.

#### Maintaining high standards of business conduct

Minimising the number of pollution incidents, or mitigating their impact where they do occur, and acting as a good 'corporate citizen'.

#### Outcomes and actions:

As part of our Pollution Incident Reduction Plan (PIRP), we have continued to invest in proactive maintenance of our sewerage network, alongside root cause analysis of any pollution incidents. We consult directly with the Environment Agency on the development of the PIRP.

The Board hears directly from the Environment Agency, through attendance at the company's Board meetings.

Our Clean Rivers and Seas Task Force continues to upgrade our infrastructure and develop sustainable drainage solutions to reduce our use of storm overflows, working with community partners. The team continues to engage with stakeholders, the UK Government and regulators on this matter to inform public policy. Our [Clean Rivers and Seas Plan](#) outlines our proposed investment to 2030, published in November 2023.

Additional investment in our wastewater networks to improve resilience.

#### Link to risks:

Water; wastewater; compliance; customer; climate change; health, safety, security and wellbeing; financial; corporate affairs; people.

#### Link to strategy:

Deliver great service, protect and improve the environment and fit for the future.

➔ [Read more about our Clean Rivers and Seas Plan on page 61.](#)

### 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 the impacts of climate change and population growth, and limited access to water resources in the South East.

#### Customers and suppliers

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

#### Shareholders

Engaging with our shareholders and obtaining their support for our investment plans.

#### Outcomes and actions:

During 2023–24 we made a capital investment of £215.5 million in water and £509.0 million in wastewater on base maintenance and enhancement of our sites and networks.

We developed and published our Turnaround Plan 2023–25, to deliver a short, sharp improvement in our performance, supported by a £1.6 billion investment from our shareholders.

We developed and submitted our largest business plan to date at nearly £8 billion covering the period 2025–30. It includes significant investment in improving the capacity of our water and wastewater treatment sites, and the quality of the water leaving them. It includes plans to further reduce our use of storm overflows using natural sustainable drainage solutions alongside improvements to our sites and networks. It will see us deliver new water sources for the South East while reducing demand through the introduction of smart metering and further reductions in leakage.

#### Link to risks:

People; customer; compliance; water; wastewater; financial; resources; climate change; corporate affairs.

#### Link to strategy:

Deliver great service; use water wisely; protect and improve the environment; fit for the future.



Read more about our Turnaround Plan on pages 36, 46, 53 and 63.

### 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 to 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:

We have consulted extensively with key stakeholders in developing our plans: [southernwater.co.uk/about-us/our-plans/water-for-life-hampshire/consultations/southernwater.co.uk/about-us/our-plans/clean-rivers-and-seas-plan/](https://southernwater.co.uk/about-us/our-plans/water-for-life-hampshire/consultations/southernwater.co.uk/about-us/our-plans/clean-rivers-and-seas-plan/).

Development of our largest environmental programme yet for 2025–30 – part of WINEP – to deliver a step change in our environmental performance to 2030 and beyond.

Consultations over the course of the year for our Water for Life – Hampshire programme.

Our Clean Rivers and Seas Task Force continued to deliver six Pathfinder projects across our region to upgrade our infrastructure and develop sustainable drainage solutions to reduce storm overflows – in some areas releases have already been reduced by 70%.

#### Link to risks:

Delivery; resources; corporate affairs; customer; water; wastewater; health, safety, security and wellbeing and climate change.

#### Link to strategy:

Use water wisely; protect and improve the environment; fit for the future.



Read more about our Water for Life – Hampshire programme on page 49.

# Non-Financial and Sustainability Information Statement

To comply with the non-financial reporting requirements (NFR), contained in sections 414CA and 414CB of the Companies Act 2006, we are providing the details below to help stakeholders understand our position on key non-financial matters.

We have used cross referencing, as appropriate, to deliver clear, concise and transparent reporting.

Non-financial information	Pages
Business model	20 to 31
Principal risks	112 to 125
Turnaround Plan	34, 46, 52 and 62

Performance against our strategic non-financial measures is one indicator of the effectiveness and outcomes of our policies and guidance.

Across Southern Water, policies and statements of intent are in place to ensure consistent governance on a range of issues. For the purposes of the NFR requirements, these include, but are not limited to:

## Our people

Our people are our business. Every day they are helping us to succeed, driving the right outcomes for our customers, business and environment. We value and seek to harness the unique skills, experiences and backgrounds of every colleague. We are committed to maintaining a safe, inclusive and great place to work, and we strive to attract and retain diverse talent, so we remain representative of our communities. Our policies support our people and are available on our company intranet – The Hub – with [key policies](#) also available on our website.

**Non-financial information:** External environment, pages 20 and 24 to 29; enabling and empowering our people, pages 62 to 67; gender pay, page 63; diversity of the board, pages 141; operational performance, pages 34 to 67.

**Policies:** Code of conduct; health and safety; Code of Ethics; equality, diversity and inclusion; domestic violence and abuse; volunteering; grievance; harassment; probity; supplier code of conduct and Speak Up (whistleblowing).

## The environment

We can only provide high-quality water and efficient wastewater services to our customers in the South East if we protect and improve our natural environment. As such we are committed to improving our environmental performance and, at a minimum, complying with environmental and regulatory standards.

What we do, and how we do it, can have a positive and lasting impact on the environment. By going above and beyond compliance, we can create value.

We are working with our customers, stakeholders, delivery partners, suppliers and regulators to do this. We have a number of policies in place to help us address our impact on the environment. Further information can be found in the following sections of this report:

**Non-financial information:** External environment, pages 20 and 24 to 29; operational performance, pages 34 to 67.

**Policies:** Environment; biodiversity; plastics; carbon; sustainable and ethical trading; Code of Ethics; supplier code of conduct and responsible business.

## Climate-related financial disclosures

The impacts of the changing climate, amplified by population growth, present huge challenges, particularly in the South East. Being resilient to the changing climate is critical for us to deliver services to customers and protect the environment. So, it is vital we understand the risks, so we can plan and adapt for a resilient future. Responding to climate-related issues is therefore embedded in our business planning processes, including our Business Plan 2025–30, Water Resources Management Plan and Drainage and Wastewater Management Plan.

**Non-financial information:** Our business at a glance; Climate-related Financial Disclosures, pages 68 to 87; case studies: Ensuring a supply of high-quality water for the future, page 44 to 49; Protecting and improving the environment, page 50 to 61.

**Policies:** Carbon; environment; sustainable and ethical trading and biodiversity.

## Human rights

We operate in accordance with the United Nation's guiding principles on business and human rights. We promote human rights through our employment policies and practices and through our supply chain. We have policies and processes in place which ensure we are compliant with these requirements, and they are enforced throughout our business. Further information can be found in the following sections of this report:

**Non-financial information:** Enabling and empowering our people, pages 62 to 67.

**Policies:** Modern slavery statement; privacy notice; information governance; Speak Up; sustainable and ethical trading; supplier code of conduct and responsible business.

## Social impact

We support people, our business partners and the communities we operate in. As well as the specific policies mentioned below, we have guidance and initiatives in place to support the following:

- Age UK, Citizens Advice Bureau and debt advice bodies
- An employee volunteering programme and community grants scheme
- Promotion of skills development through apprenticeships and graduate schemes as well as university partnerships
- Relationships with environmental groups such as the local Wildlife and Rivers Trusts.

Further information can be found in the following sections of this report:

**Non-financial information:** Enabling and empowering our people, pages 62 to 67; Understanding and supporting our customers and communities, pages 36 to 43.

**Policies:** Tax; equality, diversity and inclusion; responsible business; Code of Ethics; volunteering; sustainable and ethical trading; Guaranteed standards of service; Code of Practice; donations and sponsorship; health and safety; environment and supplier code of conduct.

## Anti-corruption and anti-bribery

We promote a culture of honesty and integrity, and we will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data. In addition to our Code of Ethics we have policies in place, which are available on our intranet. We also have a confidential 24-hour anonymous Speak Up hotline. This is an independent whistleblowing service for colleagues to raise concerns. Further information can be found in the following sections of this report:

**Non-financial information:** Read more about our values on page 2.

**Policies:** Speak Up (whistleblowing); Code of Ethics; bribery; supplier code of conduct; probity and sustainable and ethical trading.

# Financial performance





# Chief Financial Officer's review

Our financial performance for 2023–24 reflects challenging economic and operational environments. External pressures, together with a focus on activities to improve our operational performance, resulted in a loss for the year and a reduced cash flow, as costs increased at a faster rate than revenues, which continue to include a discount to bills for poor performance.

For example, the extreme weather conditions, which saw the wettest winter in over 100 years in the South East, resulted in significant additional operational costs of £27.9 million to manage the high levels of groundwater and prevent flooding for our customers.

To help manage the issue of surface water drainage and improve our performance, we are investing in sustainable drainage solutions to manage flows. In total during the year, we spent £13.8 million on these schemes of which £6.5 million related to operating cost initiatives.

In addition, our cost base was subject to high levels of inflation, in particular relating to power, which increased by 40% following the end of our previous fixed price contract.

As set out on page 18, in February 2024 we announced that a limited amount of data had been stolen from our server estate. We have been working closely with expert technical advisers to assess the impact on some of our customers and employees and provide credit checking support to those potentially affected. This activity resulted in additional costs of £4.5 million in the year.

During the year we continued to invest heavily in improving our assets both to meet our regulatory commitments and to deliver our Turnaround Plan. Through our capital delivery programme, we invested a record £828 million in our network and assets. We remain well placed to maintain these high levels of capital investment for the rest of this price review period to March 2025 and then onwards into the next to March 2030 to deliver the ambitious business plan we have submitted to Ofwat.

As reported in our Annual Report last year, this period of additional spend and investment has put pressure on our debt covenant ratios and credit ratings. We remain in a credit rating Trigger Event following the downgrade by Fitch of our credit rating to BBB (negative outlook) in July 2023 and an Interest Cover Ratio Trigger Event. We expect to remain in Trigger for the remainder of the investment period to March 2025.

On 11 July 2024 Ofwat will provide its initial assessment of our plans. We will assess its feedback in preparing our revised submission which will be made in August 2024.

Our plans are fully supported by our majority shareholder who demonstrated their continued commitment to the overall group with an equity injection in October 2023 of £550 million. Of this equity, £375 million was injected into Southern Water to assist with the funding of our capital investment programme and Turnaround Plan.

Following the equity injection, we were also able to access the capital markets to raise additional debt financing totalling £1,092 million between December 2023 and March 2024. Part of this funding was used to repay an existing loan with the remainder available to support the capital investment programme. As a result, we ended the year in a strong liquidity position with £513.5 million of cash and investments at 31 March 2024.

This commitment from our shareholders comes at an important time, as we move towards the end of this regulatory period and prepare to deliver our new business plan for 2025–30. For the seventh year in succession, no ordinary dividends were declared by our ultimate parent company. As a result, our external shareholders did not receive a dividend as we prioritised the critical investment we need to make in our systems and assets to improve resilience for the benefit of our customers, communities and the environment.

Further details of our financial performance in 2023–24 is provided on the next page.



**Stuart Ledger**  
Chief Financial Officer

8 July 2024



## £28m

spent on managing the wettest winter on record

## 7th year

of no dividends paid to external shareholders

## £550m

equity injected into the group, October 2023

# Financial performance



Read more about our performance on pages 34 to 67.

The financial results have been prepared in accordance with FRS 101 and the material accounting policies of the company as set out in note 1 to the financial statements.

## Financial performance

	Years ended 31 March	
	2024 £m	2023 £m (Restated)*
<b>Income statement</b>		
Revenue	859.4	792.5
Amortisation of regulatory settlement payments	27.1	23.2
Total revenue	886.5	815.7
Other operating income	1.8	1.8
Operating costs before charge for bad and doubtful debts	(582.9)	(476.8)
Charge for bad and doubtful debts	(15.4)	(12.0)
Depreciation and amortisation	(362.8)	(347.1)
Operating loss	(72.8)	(18.4)
Profit on disposal of fixed assets and other income	0.5	6.5
Loss before interest and tax	(72.3)	(11.9)
Net finance costs	(223.4)	(278.6)
Fair value gains on derivative financial instruments	88.1	659.1
(Loss)/profit before taxation	(207.6)	368.6
Taxation	(3.3)	(166.8)
(Loss)/Profit for the financial year	(210.9)	202.0

\*Please refer to note 1 for details of the prior year restatement.

## Revenue

Revenue increased to £859.4 million (2023: £792.5 million). This is principally due to the application of inflationary increases, totalling £56.3 million, in line with the allowances set by Ofwat and the application of lower penalties for Outcome Delivery Incentives (ODI) to our revenues offset by lower consumption and changes to our tariffs to support customers.

In 2023–24 ODI penalties, relating to performance in 2021–22, were applied to our water and wastewater revenue totalling £49.0 million (2023: penalties of £51.6 million and an element for tax of £12.0 million). We confirmed with Ofwat that the tax element of the adjustment should not have been applied to reduce our tariff and revenues in 2022–23 and we have recovered this, adjusted for inflation, through revenues in 2023–24.

Details of the other significant movements affecting our revenues are described here and shown in the diagram on the following page:

- Revenue estimation – most of our customers are billed based on metered water usage.

At each period end we make an estimate for water used but not yet billed. In 2023–24, we billed £11.2 million less than we accrued in relation to consumption to March 2023 (2023: £3.1 million lower), resulting in a movement of £8.1 million in revenues in the year.

- Consumption – due to the wet weather across 2023–24, we have experienced lower levels of water consumption. This has reduced revenue by £10.4 million in the year.
- Support tariffs – to assist customers in financial hardship, we increased the discount available through our Essentials tariff. This reduced overall revenues in the year by £5.0 million.
- Developer-related income – we receive income from developers for new connections, infrastructure charges, requisitions, diversions and adoptions. The revenue recorded for these activities depends on the scale and level of developer activity – in 2023–24 these revenues increased by £4.5 million.

In 2018–19, we made provision for customer rebates, based on our regulatory settlement with Ofwat, to be provided to customers over the period 2020–25. These customer rebates are now included within our tariffs and so part of the revenue reported in the income statement. The provision made in 2018–19 for these rebates is being released in line with the

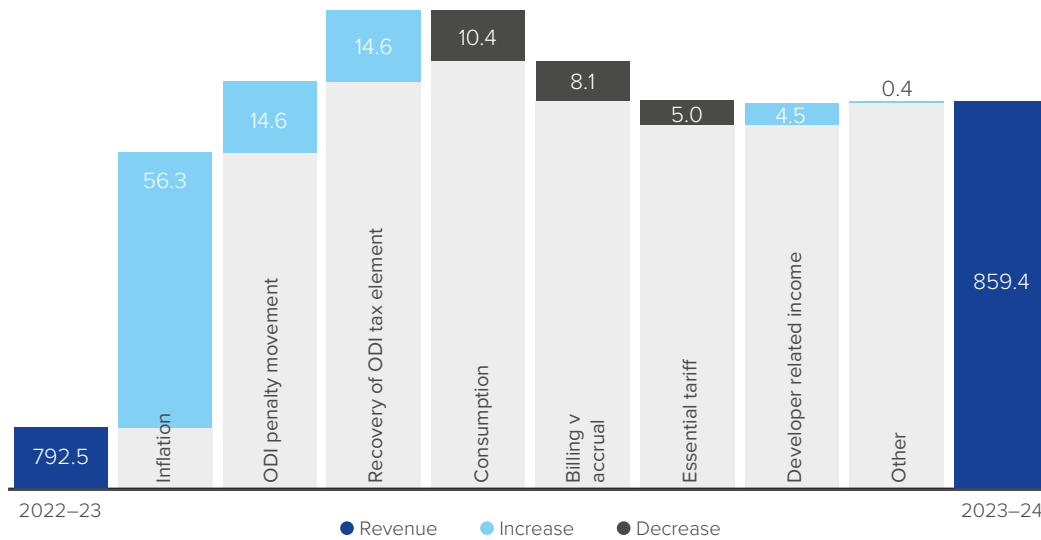
tariff adjustment over the same period. £27.1 million was released in 2023–24, an increase from the prior year, reflecting the impact of inflation on our revenues.

An analysis of revenue is provided in note 5 to the financial statements.



Read more in the Financial statements on pages 206 to 256.

### Movement in revenue £m



## Financial performance continued

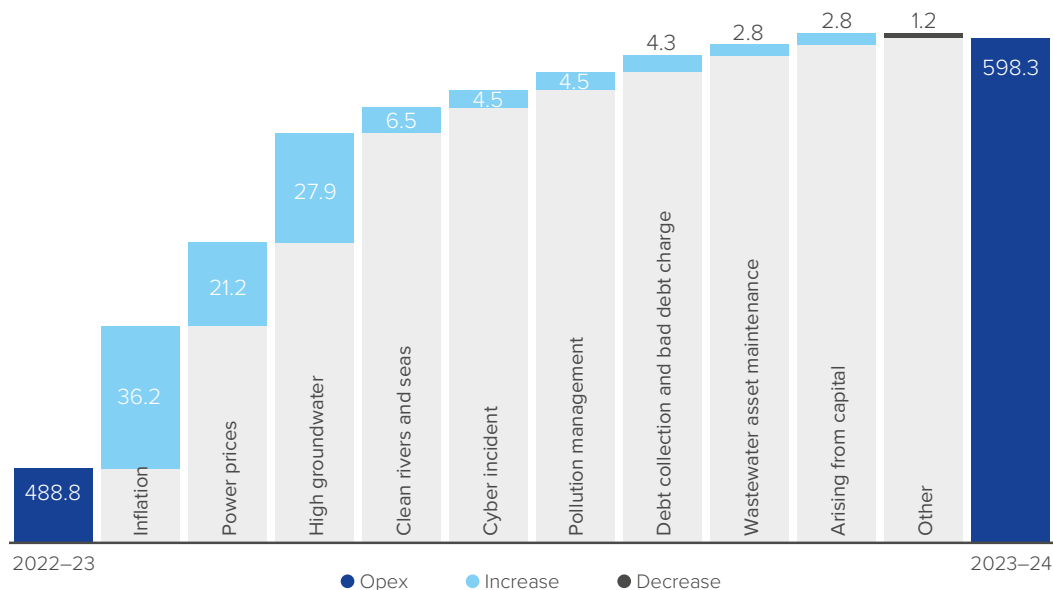


Read about our operational performance on pages 34 to 67.

### Operating costs and charge for bad and doubtful debts

Operating costs, including the charge for bad and doubtful debts, for the year increased by £109.5 million from £488.8 million to £598.3 million. This increase is explained in the chart below:

#### Movement in operating costs, including charge for bad and doubtful debts £m



Over the course of the year, the most significant cost increases were:

- **Inflation** – general inflation added a significant amount to our underlying costs, £36.2 million, with average inflation rates across most of our cost base lying between 7% and 11%.
- **Power prices** – power costs increased by £21.2 million during the year, with an average inflationary rise of 40% following the end of our fixed price arrangements.
- **High groundwater levels** – during 2023–24 we experienced the wettest period of weather on record. On average in the past six months our region experienced 825mm of rainfall, which is more than we expect to receive in a year. As a result of this exceptional weather, we incurred significant additional tankering costs of £27.9 million, dealing with ground water levels.
 

As this increased activity has taken place over the latter months of the year a proportion of these costs remains accrued at the year end and will be paid during 2024–25.
- **Clean rivers and seas** – Our Clean Rivers and Seas Task Force is undertaking a series of Pathfinder projects to aid the reduction

of storm overflows. These projects include initiatives to slow the flow of rainwater into our network, for example capital investment to make capacity and asset improvements, nature-based solutions such as wetlands and rain gardens and the installation of water butts.

The latter initiatives, which do not result in assets that we own, incurred £6.5 million of additional operating costs during the year out of a total spend of £13.8 million on these Pathfinder projects.

- **Cyber incident** – as disclosed on page 18, in February 2024 we announced that data from a limited part of our server estate had been stolen through an illegal intrusion into our IT systems. We engaged external cyber security experts and legal advisers in response, as well as contacting anyone whose personal data may have been at risk. We have incurred £4.5 million in responding to this exceptional incident during the year.
- **Pollution management** – we continue to focus our efforts on the proactive maintenance of our sewer network, to reduce pollution incidents, with a further increase in costs of £4.5 million in the year.

- **Debt collection and bad debt charge** – as described on page 96, we have seen an increased number of customers taking advantage of our support tariffs, which are aimed at helping those in financial difficulty in the current economic climate. However, we have also experienced some reduction in cash collection too and this has resulted in an increase in our bad debt charge of £3.4 million to £15.4 million (2023: £12.0 million) as well as increased debt collection costs of £0.9 million.
- **Wastewater asset maintenance** – to improve our overall wastewater compliance and pollution performance we have increased proactive asset maintenance activities at our pumping stations and treatment works, resulting in additional operating costs of £2.8 million.
- **Arising from capital** – we have been making a significant investment in our assets through our capital investment programme. For example, installing new chemical dosing equipment across several wastewater treatment works to reduce the level of phosphorus released to the environment and chemical dosing equipment to improve compliance at our Testwood Water Supply Works. As a result of capital investment, ongoing operating costs increased by £2.8 million.

## Depreciation and amortisation

Depreciation and amortisation increased to £362.8 million (2023: £347.1 million) following the completion and commissioning of a number of capital investment schemes delivering compliance and operational performance improvements to our water and wastewater assets. Examples include a network digitisation scheme targeted at reducing pollutions and a major refurbishment of our Testwood Water Supply Works.

## Operating loss

As a result of the increase in operating costs and depreciation, we incurred an operating loss of £72.8 million (2023: £18.4 million loss).

## Financing costs and profit before tax

Net finance costs decreased by £55.2 million to £223.4 million (2023: £278.6 million). This decrease is largely driven by lower indexation on our index-linked debt of £57.0 million due to falling inflation, and increased interest capitalisation of £29.0 million. These decreases were offset by higher interest payable on loans of £28.8 million.

The actual interest paid in cash on these loans was £240.7 million and included a prepayment towards future interest of £72.5 million. This was offset by receipts from financial derivatives of £85.6 million.

The fair value gain on our derivative financial instruments amounted to £88.1 million (2023: gain £659.1 million). The primary driver for changes in the valuation is the fluctuation in UK Government bond yields, which are used to discount the future cash flows and inflation which increases the liability associated with our index-linked instruments. As government gilt yields are constantly moving and inflation has remained high over the past year, the valuation of our derivative instruments is volatile. The balance sheet value represents the present value of future cash flows using financial market forecasts for inflation and interest rates. This balance sheet value does not, however, reflect the expected impact of inflation on future revenues and future Regulatory Capital Value (RCV) which is expected to more than offset the reported balance sheet value.

The loss before tax for the year amounted to £207.6 million (2023: £368.6 million profit).

## Taxation

We have recognised a total tax charge to the income statement of £3.3 million (2023: £166.6 million tax charge restated). This differs from the credit that may be expected of £51.9 million, based on the loss before tax of £207.6 million and the current period tax rate of 25%, as described in note 10.



Read more about our pollutions performance on pages 52 to 53.

## Financial performance continued



Read about our investments to protect water supplies in Hampshire on page 49.

### Cash flow statement

Overall, cash and cash equivalents increased in 2023–24 by £297.7 million (2023: £41.6 million decrease) and details of the principal movements in the cash flow are provided in the table below.

	Years ended 31 March			Explanation
	2024 £m	2023 £m	Movement £m	
<b>Cash from operations</b>	<b>247.6</b>	348.3	(100.7)	Largely driven by the cashflow associated with our higher level of operating costs as described above.
<b>Investment in assets</b>	<b>(732.1)</b>	(676.9)	(55.2)	Driven by our capital investment programme to make improvements to our assets and drive improvements to future operational performance.
<b>Proceeds from share issues</b>	<b>369.2</b>	–	369.2	In October 2023, funds managed by Macquarie Asset Management, the majority shareholder in Southern Water's ultimate parent company Greensands Holdings, increased their investment in the group with new equity totalling £375.0 million issued by Southern Water Services less issue costs of £5.8 million.
<b>Net interest-related transactions</b>	<b>(150.3)</b>	(86.3)	(64.0)	In total, the net cash outflow in relation to interest increased by £64.0 million. The principal reasons were:  The timing of cash payments to our financing subsidiary SW (Finance) I plc, in effect a prepayment of future interest £72.5 million.  No payments were made for preference share dividends during the year (2023: £12.3 million).
<b>Net increase on borrowings</b>	<b>667.3</b>	57.2	610.1	During the year, we made loan repayments totalling £420.7 million (2023: £343.2 million); these were offset by the issue of new loans totalling £1,088.0 million (2023: £400.4 million).
<b>Movements in short-term investment</b>	<b>(100.0)</b>	285.0	(385.0)	Funds held on deposit for periods greater than three months increased by £100.0 million (2023: £285 million decrease) following the receipt of funds from new loans. These funds will be used to support our ongoing capital investment programme.
<b>Investment in subsidiary</b>	<b>–</b>	33.9	(33.9)	In FY23 we closed our Cayman subsidiary, SWSF, resulting in the return of our investment of £29.2 million and a final dividend received in cash into SWS of £4.7 million.
<b>Other</b>	<b>(4.0)</b>	(2.8)	(1.2)	
	<b>297.7</b>	(41.6)	339.3	

### Statement of financial position

	31 March 2024 £m	31 March 2023 £m (Restated*)
Non-current assets	<b>7,783.0</b>	7,297.8
Current assets (excluding cash)	<b>461.5</b>	263.8
Cash and cash equivalents	<b>413.5</b>	115.8
Total assets	<b>8,658.0</b>	7,677.4
Current liabilities	<b>(617.0)</b>	(530.4)
Non-current liabilities	<b>(7,102.2)</b>	(6,365.3)
Total liabilities	<b>(7,719.2)</b>	(6,895.7)
Total net assets	<b>938.8</b>	781.7
Total equity	<b>938.8</b>	781.7

\*Please refer to note 1 for details of the prior year restatement.

At the end of the year to 31 March 2024, we had non-current assets of £7,783.0 million (2023: £7,297.8 million), an increase of £485.2 million from March 2023. This increase largely results from our ongoing capital investment programme, which – after depreciation – increased the value of property, plant and equipment and intangible assets by £465.2 million.

Overall, during 2023–24 our capital investment in property, plant and equipment was £811.5 million (2023: £707.7 million). This step-up in expenditure was targeted at making refurbishments to our assets to improve operational performance as well as schemes to enhance the level of wastewater treatment we undertake, for example to reduce phosphorus and nitrogen levels, improve storm tank capacity and increase the amount of wastewater our works can treat.

In addition, we experienced an increase in the value of our non-current financial derivative assets of £20.9 million.

Current assets increased to £461.5 million (2023: £263.8 million). This increase is mainly driven by three factors:

- Higher cash held in short-term investments £100 million (2023: £nil) following new bond issues in the year to support our ongoing capital investment programme.
- An increase in our main trade debtors and accruals of £27.7 million, largely due to the impact of inflation on our revenues.
- An increase in the inter-company debtor with SW (Finance) I plc of £72.5 million. This cash is used to pay the interest on our loans.

The increase in current liabilities to £617.0 million (2023: £530.4 million) largely resulted from:

- Higher opex creditors and capital creditors, £15.3 million and £24.8 million respectively, resulting from the higher operating costs and capital investment programme in 2023–24.
- A higher interest payable accrual of £27.4 million due to the payments for some of our loans falling into April as 31 March 2024 fell at the weekend, and higher interest due in the period associated with our new loans.

- An increase in short-term borrowings of £13.8 million, largely due to a new credit facility.

At 31 March 2024, non-current liabilities totalled £7,102.2 million (2023: £6,365.3 million restated). This increase of £736.9 million was principally the result of the following:

- An increase in borrowings of £738.0 million, mainly from the issuance of new loans totalling £1,080.7 million and indexation on our inflation-linked bonds of £83.5 million, offset by the repayments of £420.7 million of existing loans.
- An increase in the derivative financial instrument liability of £18.3 million, which also reflected the impact of trades that were restructured during the year.
- An increase in the deferred tax liability of £2.7 million, largely resulting from the loss before tax reported for the year.
- An increase in retirement benefit obligations of £5.0 million from the impact of movements in market conditions at 31 March 2024, which increased the deficit by £1.6 million, together with past service and financing costs of £3.4 million.
- The transfer of £28.2 million of the Ofwat regulatory settlement provision to short-term liabilities for rebates that will be applied through bills to customers' bills during 2024–25.

Overall, net assets increased from £781.7 million to £938.8 million.

## Financial performance continued



Read about our tax arrangements on page 104.

### Dividend policy

Our dividend policy is formulated to ensure a fair balance of reward between customers and investors. To enable the successful delivery of our plan for 2020–25, all stakeholders must share in success: customers benefiting through enhanced service and lower bills, and shareholders earning a fair return on equity invested.

When proposing payment of a dividend, the directors of Southern Water Services Limited, acting independently in accordance with their directors' duties and with the company's licence, will apply the following principles:

1. Determination of a base level of dividend, based on an equity return consistent with our most recent Final Determination and our actual level of gearing. This recognises our management of economic risks and capital employed.
2. In assessing any adjustment to the base level of dividend, we will take into account all aspects of our performance. This would reflect our overall financial performance as compared to the final business plan as agreed by Ofwat and would explicitly consider a qualitative assessment of customer service levels and how customers share in our successes.
3. We will consider our financial resilience ahead of any dividend decision and whether any financial out-performance should be reinvested to benefit customers. This consideration will include taking into account the interests of our employees, other stakeholders, and our pension schemes.  
Our dividend policy is intended to support the financial resilience and investment grade credit ratings of the business and ensure continued access to diversified sources of finance. As part of step three, we carry out an assessment of:
  - a. headroom under debt covenants
  - b. the impact on the company's credit rating
  - c. the liquidity position and ability to fulfil licence conditions
  - d. key areas of business risk.
4. We will be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.
5. We will publish our dividend policy annually (in the Annual Report) and highlight any changes.

No ordinary dividends were declared or paid in 2023–24 (2023: £nil).

No payments were made in relation to preference share dividends (2023: redemption of £5.2 million and dividends of £12.3 million).

Dividends on the preference shares accrue like interest and from an accounting perspective they are treated as interest, even though they are called dividends. The payment made in July 2022 was our first payment since 2020. These payments are made to a SWS group company and enable the payment of external interest on loans within the group. None of this money is paid to Southern Water shareholders.

An accrual totalling £9.1 million in relation to the cumulative liability of preference share dividends to 31 March is included within the financial statements as an inter-company creditor.

### Tax strategy and policies

Southern Water and all group companies adopt the tax strategy and policies outlined below.

Our approach to the management of tax affairs is driven by our core values of succeeding together, always improving, doing the right thing and working with care, alongside the corporate strategy of the company. We have a low-risk tax appetite, and this is reflected in our management of tax.

The foundation of our tax strategy is to comply fully with tax legislation and to focus upon maintaining a strong tax compliance culture and an open and transparent relationship with HMRC.

To enable this, we undertake regular compliance reviews both internally and externally to ensure our tax policies are consistently applied. Our approach to tax planning is to align to business decisions made in the best interests of customers and stakeholders, rather than use tax planning to drive or determine business decisions. The very nature of our business means we always take a long-term view on all the activities we undertake.

We therefore ensure our tax strategy, and approach to tax, is sustainable, ethical, considers both social and corporate responsibilities and can stand up to external scrutiny. When faced with a decision or business case, the ongoing tax impact is always considered as part of that decision-making process.



## Our approach to tax management and governance

We ensure we are fully compliant with tax laws, rules, regulations and reporting requirements in all operations. This extends to following both the letter of the law as well as the spirit of the law. A culture of doing the right thing is embedded in our core values and our approach to tax embodies this by ensuring we pay the right amount, in the right place, at the right time. We also use the expertise of professional tax advisers to ensure we maintain best practice in our approach to compliance and in circumstances when additional advice is deemed appropriate.

The management of the tax affairs of Southern Water and all companies in the group, including the relationship with HMRC, is the responsibility of the Tax team. Roles and responsibilities within the Tax team are clearly defined. The Tax team reports to the Group Treasurer, who in turn reports to the Chief Financial Officer (CFO). The CFO is the Senior Accounting Officer (SAO) and has ultimate responsibility for the tax affairs for Southern Water and the Southern Water Group companies.

## Our management of tax risk

As indicated above, we adopt a conservative approach to tax risk. Our tax management focus is on compliance, systems and governance and our tax planning is always aligned with our commercial and economic activity. All companies within the group are subject to UK tax and all companies are UK tax resident, irrespective of their place of incorporation, ensuring that each company is subject to UK tax.

Tax risk primarily emanates from the evolution and complexity of the business, along with the ever-changing regulatory and legislative environment. We manage this risk by having an experienced Tax team dedicated to tax compliance and the identification and management of tax risks in our business.

Our Tax team works with the business to ensure there are processes and controls in place and determine what level of risk is acceptable. We also work with industry tax experts who provide specialist services, check what we are doing and provide guidance on compliance requirements. Our Internal Audit team also carries out assurance on the control environment relating to the transactional processes underpinning our payments to the

Exchequer and our collection of taxes on behalf of the Exchequer.

## Our relationship with His Majesty's Revenue and Customs (HMRC)

A key factor in our management of our tax affairs is our relationship with HMRC.

We meet all statutory and legislative requirements and we manage our tax affairs in an open and transparent way. This extends to us sharing information with HMRC, which goes beyond the normal filing of statutory returns, such as the sharing of internal process manuals and other documents so that we can be open and transparent in our approach to managing tax risk. HMRC shares our view of our low-risk approach to the management of our tax affairs, with the last HMRC assessment, in September 2020, being that we were deemed to be a 'low-risk' company. This was reaffirmed with HMRC in January 2024.

## Maintaining public trust

As previously stated, we are committed to complying fully with tax legislation, maintaining a strong culture of compliance and having open and constructive relationships with tax authorities. We do not use tax avoidance schemes or take an aggressive approach on tax planning when interpreting tax legislation.

We apply government and fiscal authority tax incentives and exemptions, where they exist. For example, the UK tax system recognises the benefit to the economy of investment in infrastructure and environmental protection through the availability of capital allowances, which reduce the corporation tax Southern Water pays. Any benefits of this are passed to our customers through reduced bills.

Southern Water and all Southern Water Group companies pay taxes in the UK and do not use offshore companies to avoid tax or levies. In October 2022 all assets and liabilities from our Cayman subsidiary were transferred to two new UK tax registered entities (both subsidiaries of Southern Water Services Limited) and this Cayman Islands registered entity has now been dissolved effective at the end of June 2023. It was originally set up to issue debt in the UK. Its Cayman Island registration did not have any impact on the tax due by the group.

## Financial performance continued



Read about other tax contributions on page 105.

Although our tax strategy is reviewed and updated each year, it is not expected to significantly change from year to year.

We regard this publication as complying with our duty as required under paragraph 16(2) of Finance Act 2016 for the financial year ended 31 March 2024.

### Understanding our taxable profits and our corporation tax

Our taxable profits are generally different to our accounting profits for the following reasons:

- Capital allowances and depreciation** – capital allowances are a way of obtaining tax relief on certain types of capital expenditure. These are treated as a business expense and so reduce our taxable profit. Depreciation represents how much of an asset's value has been used up and reduces accounting profit. Capital allowances are applied at different rates than used for depreciation. As a result, there is a difference between capital allowance deductions made against our taxable profits and depreciation made against our accounting profits. The annual variance between capital allowances and depreciation results in a difference between our taxable profit and our accounting profit. Due to the large scale of our capital expenditure programme and the level of capital allowances available and utilised, our taxable profits are significantly reduced.
- The treatment of interest costs** – we borrow money to finance our capital expenditure programme. The interest associated with this borrowing is recognised as both an accounting and tax expense, reducing profit and the amount of tax we pay. However, there are differences between the amounts of interest recognised for accounting profits and for taxable profits. Examples are that movements on the fair value of our financial derivatives are not recognised in our taxable profits, interest that is capitalised in our financial statements is treated as an expense when calculating our taxable profits, and a portion of interest that is restricted under corporate interest restriction rules.
- Group relief** – Southern Water is part of the Greensands Holdings group of companies as set out on pages 108 to 110. All of these companies are taxable as UK companies and profits or losses of the companies within the group can be set off against one another in the financial year. Group relief can be claimed by Southern Water Services Ltd where the standard rate of tax for the losses claimed is paid. For 2023–24, no tax for these losses was paid, therefore there was no group relief claimed.
- Deferred tax** – the cumulative difference between taxable profits and accounting profits, which are expected to be temporary and reverse in future years, is presented as deferred tax on the statement of financial position. Changes to the future rate of corporation tax revise the carrying value of these differences.

Our tax charge is reduced by our large capital expenditure programme and the interest we are charged on borrowings. The benefit of this is passed to our customers through reduced bills. There is no corporation tax allowance within our customer bills for the regulatory period from April 2020 to March 2025.

Details of our tax charge for the current financial year are disclosed in note 10 to the financial statements and the current year charge to the income statement is also explained further on page 99.

## Our other tax contributions

Our other contributions to the Exchequer amounted to £90.1 million. These are explained below:

- Business rates of £32.5 million paid to local authorities (2023: £27.7 million) and payments to the Environment Agency of £8.6 million (2023: £8.5 million) for abstraction licences and discharge consents, which reduce profits chargeable to corporation tax.
- Employment taxes of £49.0 million (2023: £45.9 million) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions.

No payments have been made to other group companies for tax losses surrendered to the company. As a result of capital allowances and interest charges, no corporation tax was paid by the company to HMRC in 2023–24.

## Financial KPIs

Within our financial debt structure is a comprehensive set of covenanted financial ratios. Of these, there are two key ratios, namely the ratio of net debt to Regulatory Capital Value (RCV) and the ratio of adjusted net cash income to net interest cost.

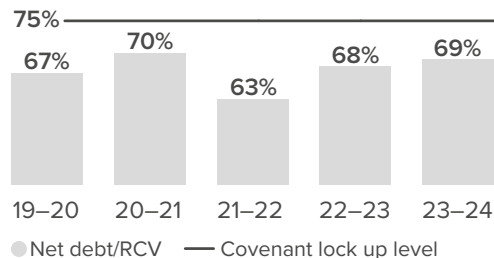
The net debt to RCV ratio is calculated as short and long-term senior borrowings less cash and short-term deposits, for the consolidated SWS group of companies, to the RCV. The RCV is set by Ofwat at each five-year review and reflects our initial market value plus subsequent capital investment and inflation. The RCV is adjusted at each periodic review for relevant changes to the level of expenditure or performance during the five-year period.

The adjusted cash interest cover is measured as the ratio of net cash inflow from operating activities less RCV depreciation to net cash interest expense for the consolidated group of SWS companies.

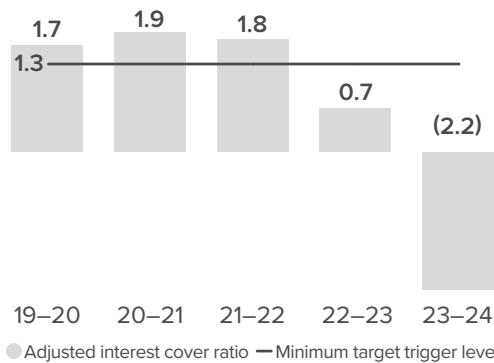
Credit ratings shown here are as at the date of publishing the accounts.

## Debt covenant

### Net debt/RCV



### Adjusted cash interest cover ratio



The covenanted lock-up level/trigger level refers to debt covenants where payment of dividends by Southern Water is not permitted or, in the case of net debt/RCV restrictions on our ability to issue further debt. These are structural buffers to protect against a default covenant, e.g. the covenanted default net debt to RCV level is at 95%.

## Credit rating as at date of publishing the accounts

### Standard & Poor's

#### Class A debt:

**BBB** (stable outlook)

### Fitch

#### Class A debt:

**BBB** (negative outlook)

### Moody's

#### Class A debt:

**Baa3** (stable outlook)



SWS is in a debt covenant trigger event under our Common Terms Agreement which restricts the payment of dividends and requires the preparation of a remedial plan for our lenders. Southern Water has obtained a waiver from its lenders to continue to access permitted financial indebtedness to refinance the business to March 2023 in the event of a trigger event.

SWS is also in a credit ratings trigger event which also restricts the payment of dividends under the terms of our Common Terms Agreement, which states that a trigger event occurs if any two of the credit ratings fall to BBB (Standard & Poor's), BBB (Fitch) or Baa2 (Moody's) or below; and a Default would occur if any two of the credit ratings are less than the minimum rating required for the status of investment grade.

A further credit rating downgrade or the assignment of a negative outlook by Moody's, would lead to a restriction on the payment of dividends under the terms of our licence.

# Capital structure



Read about where our customers' money goes on page 107.

## Why Southern Water raises finance

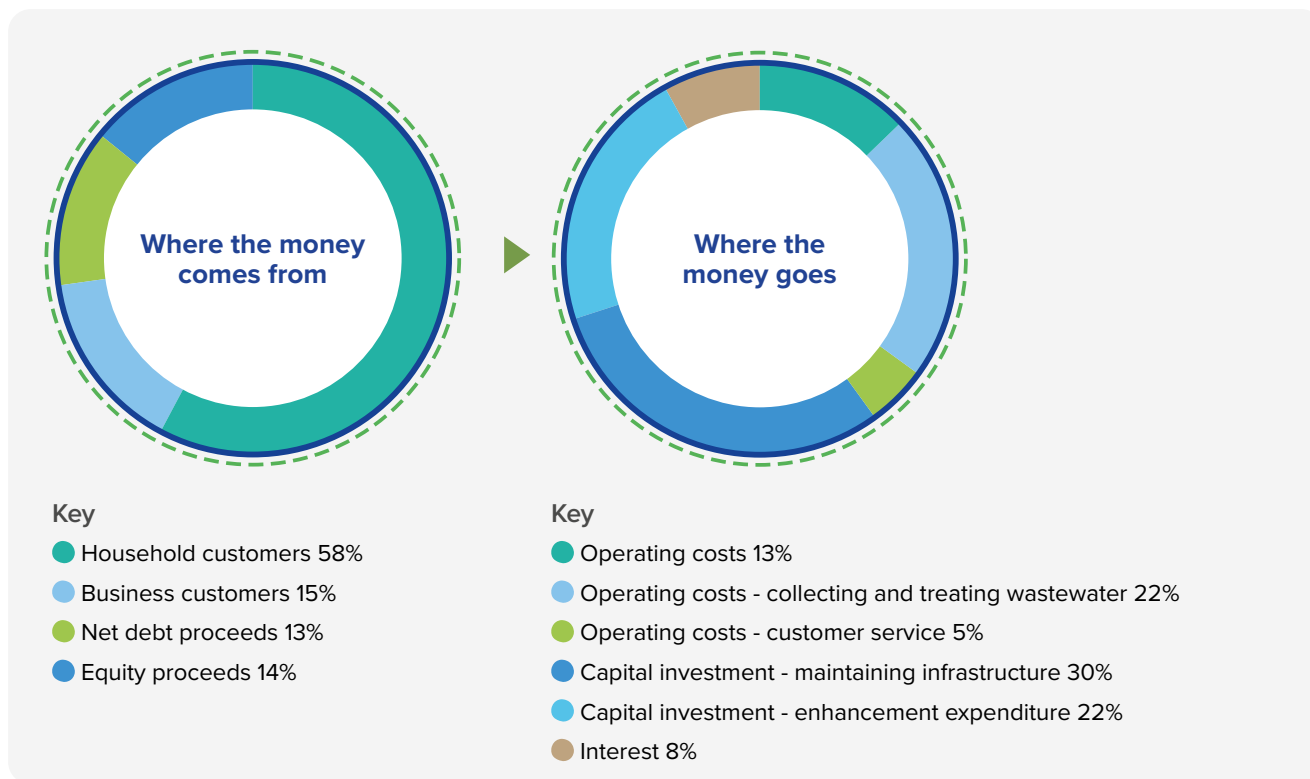
Significant capital investment has been a feature of our business since privatisation in 1989. We have invested in both maintaining our existing asset base and constructing new assets to improve the environmental quality of wastewater, improve the quality of drinking water and accommodate population growth in our area of operation.

As an example, before privatisation, 350,000m<sup>3</sup> of wastewater per day was discharged into our coastal waters untreated, but the completion of our £300 million Cleaner Seas for Sussex scheme in 2013 marked the conclusion of a programme of capital investment to fully treat wastewater of the coastal towns and cities from Kent to Hampshire and the Isle of Wight. A further example is our £100 million construction project at Woolston, which has improved the quality of effluent discharged into the River Itchen and reduced odours.

We raise finance to pay for the construction of new assets and to repay loans taken out in previous years. We cannot rely wholly on raising new finance to pay for the construction of new assets. Our shareholders contribute approximately 30% of the funds we require towards this and to also provide the financial buffer we need to absorb financial risk.

Revenues from our customers are used to meet the costs of running the business (our operating expenditure), the cost of maintaining our assets, and to pay for the interest on the finance we raise and a return on the equity provided by our shareholders, to finance the capital investment programme. Our economic regulator, Ofwat, ensures that we can only charge our customers for an efficient level of cost, which is benchmarked against our peers.

The charts below illustrate the sources and uses of expected cash flows for the business plan 2020–25 and demonstrate our requirement to raise finance to fund our capital investment programme. The data is based upon the regulatory price determination for 2020–25, which sets out both our performance obligations and the limits on customer bills for this five-year price period.



### Where the money comes from

**Household customers** – income for the provision of our core water and wastewater services to households.

**Business customers** – income from the provision of our core water and wastewater services to retailers for business customers and developers for the provision of infrastructure and new connections to our network.

**Net debt proceeds** – new loans raised to fund the capital investment programmes less loans repaid.

**Equity proceeds** – additional financing raised from shareholders to support the delivery of our capital investment programme.

### Where the money goes

**Operating costs** – Day-to-day running costs include wages, power, chemicals, materials and bad debt\* costs.

\*Bad debt = the cost of providing for unpaid customer charges.

**Capital investment maintaining infrastructure** – investment to maintain our existing pipework and treatment works.

**Capital investment enhancement expenditure** – investment to construct new assets to enhance and improve treatment standards, compliance with environmental obligations and cater for population growth.

**Interest** – is interest on money we have borrowed to finance improvements to the business over the long term.

## Capital structure continued



### **GHL ownership MSCIF Wight Bidco Ltd**

Funds managed by Macquarie Asset Management on behalf of long-term investors including pension funds and insurance companies.

### **IIF Int'l SW UK Int'l Ltd**

A constituent entity of the Infrastructure Investments Fund, a fund advised by JP Morgan Asset Management (JPMAM), a large-scale global asset manager advising institutional investors.

### **UBS Asset Management**

Shareholding advised by UBS Asset Management, a large scale global asset manager, offering investment capabilities across all major traditional and alternative asset classes.

### **Hermes**

#### **Infrastructure funds**

Hermes Infrastructure is part of Federal Hermes International and is a specialist infrastructure manager operating a diversified, well-established, UK-focused shared investment platform.

### **Other**

Minor shareholdings held by infrastructure investment companies.

## Ownership and structure

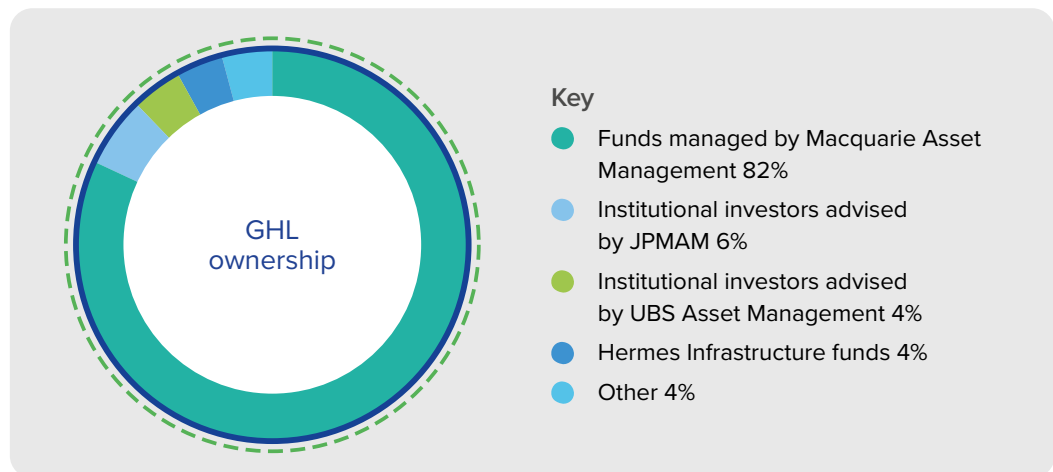
Southern Water Services Limited (SWS) is a privately owned company and is the principal subsidiary of Greensands Holdings Limited (GHL). All companies in the group are UK tax resident and liable for tax in the UK.

### Ownership

GHL is owned by a consortium of long-term investors representing infrastructure investment funds, pension funds and private equity.

In September 2021, funds managed by Macquarie Asset Management (MAM) acquired a majority stake in GHL with an investment of over £1 billion of new equity into the group. In

October 2023, funds managed by Macquarie Asset Management (MAM) agreed to invest an additional £550 million of equity into the group, increasing their ownership proportion from 62% to 82%. The equity injected was used to recapitalise the ownership structure and improve the financial resilience of Southern Water. None of the proceeds were paid to the existing shareholders of GHL.



### GHL Board

The GHL Board comprises three directors, appointed by its majority shareholder.

The purpose of GHL is to act as a single-purpose entity as the ultimate holding company for Southern Water and the other companies within the group. The GHL Board complements and supports the aims of Southern Water for its long-term success. While certain matters are reserved to the GHL Board and/or shareholders in it, they do not impact the day-to-day operations of Southern Water and nor do they materially affect Southern Water's ability to function as a company in providing an essential public service.

### Group structure

In September 2007, the Greensands group of companies was established for the purpose of the acquisition of 100% of the share capital of Southern Water Capital Limited, the then ultimate parent company of Southern Water, from the Royal Bank of Scotland (investing

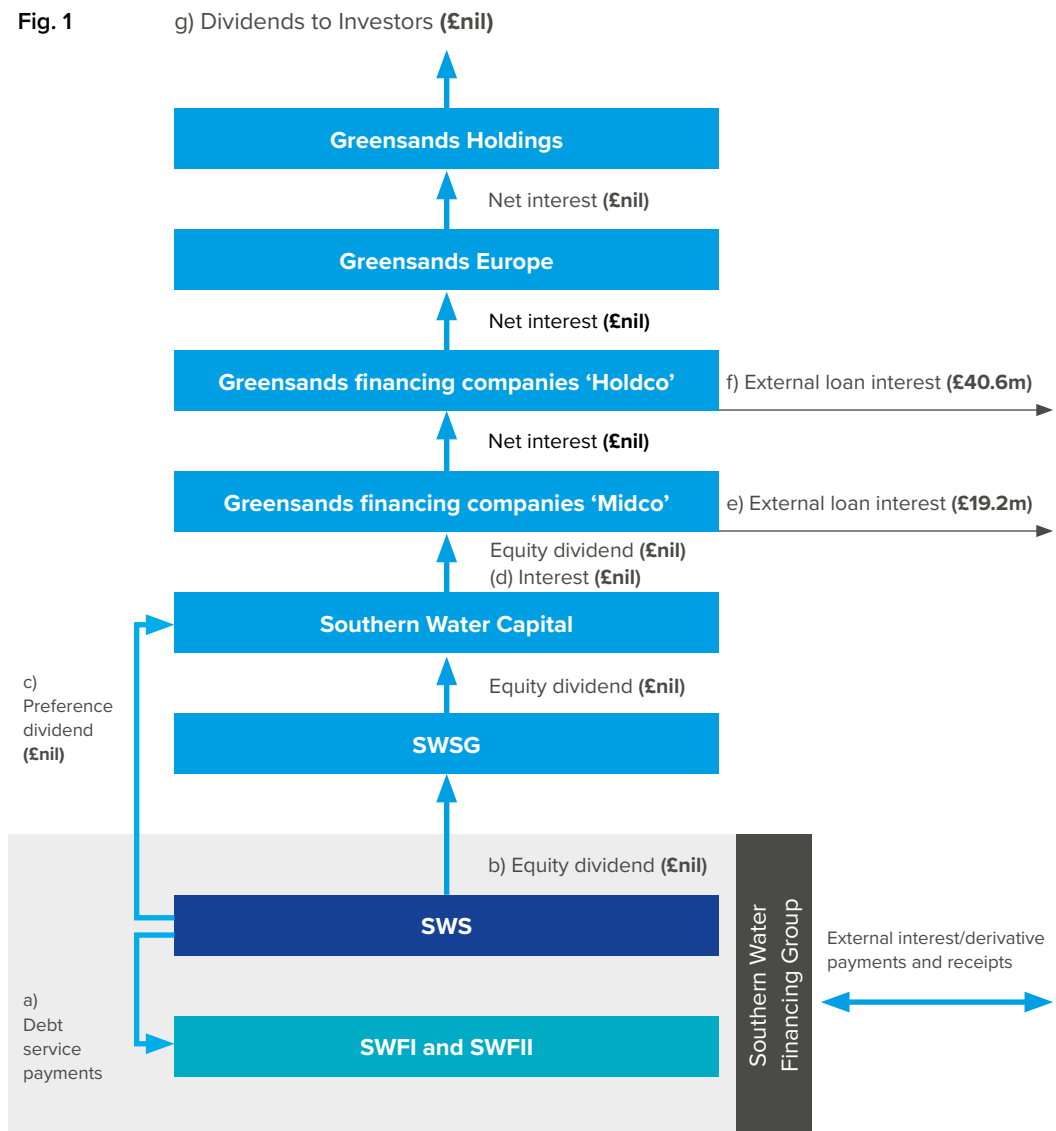
£1.9 billion of equity and debt to finance the acquisition).

During 2018–19, additional Greensands financing companies were added to the group structure as part of a financing plan to improve financial resilience of Southern Water ahead of the five-year price review period starting April 2020.

As mentioned above, funds managed by Macquarie Asset Management acquired a majority stake in the Greensands group in September 2021. This investment was used by the group to repay external debt totalling £476.0 million and make a cash injection into Southern Water Services totalling £529.9 million from the settlement of an inter-company loan and the issue of new equity.

Of the further equity injection, of £550 million made in October 2023, £175 million was retained in group companies to support interest payments on external debt and £375.0 million was injected into Southern Water Services.

A summarised group structure, together with details of the interest and dividend payments between companies, are shown in figure 1 below.



In summary, SWS has made no payments to internal companies. Greensands companies have paid external loan interest payments of £59.8 million.

No interest or dividends have been paid to investors in Greensands Holdings.

Footnote:

- a. Interest payments from SWS to SWSF I and SWSF II on the loans taken out by these companies on behalf of SWS. This is then used by SWF I and SWF II to pay the interest on these external loans.
- b. There were no ordinary dividends during the year.
- c. Dividend payments made on the preference shares issued by SWS in relation to dividends accrued at March 2024.
- d. Interest payable on inter-company loans from Southern Water Capital to Greensands Investments.
- e. External interest paid by GSF Ltd, funded from interest receivable and cash held at 'Midco'.
- f. External interest paid by SWGF, funded from interest receivable and cash held at 'Holdco'.
- g. Dividends paid to investors.

## Capital structure continued



Read more about how we finance the business on page 111.

Corporate level	Companies	Description
Greensands Holdings	Greensands Holdings Limited (GHL)	The ultimate parent company for the group.
Greensands Europe	Greensands Europe Limited (GSE)	Intermediate holding company. Listed (Jersey) Eurobonds held by shareholders in proportion to their equity were converted to an inter-company loan with GHL in June 2021.
Greensands financing companies 'Holdco'	Greensands UK Limited (GSUK) Greensands Junior Finance Limited (GSJF) Southern Water (Greensands) Financing plc (SWGf) Greensands Senior Finance Limited (GSSF) Greensands Investments Limited (GSI)	A group of companies established to provide additional external financing for the acquisition of the Southern Water Capital group of companies in 2007 plus a further £250 million of additional finance raised in 2019, the proceeds of which were invested into SWS. The security granted to the lenders of this financing is limited to the share capital of GHL. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWS is fully protected, and fully isolated, from a default at any Greensands company.
Greensands financing companies 'Midco'	Greensands Finance Holdings Limited (GSFH) Greensands Finance Limited (GSF Limited) Greensands Financing plc (GSF plc)	A group of companies incorporated in 2018 as part of a financial restructuring exercise to improve the financial resilience of Southern Water. The objective of the restructuring was to reduce the total leverage within the Southern Water Financing Group. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWS is fully protected, and fully isolated, from a default at any Greensands company.
Southern Water Capital	Southern Water Capital Limited (SWC) Southern Water Investments Limited (SWI)	Intermediate holding companies established 2002 as part of a previous ownership structure.
Southern Water Services Group	Southern Water Services Group Limited (SWSG)	Intermediate holding company established as part of a previous ownership structure.
Southern Water Financing Group	SWS Group Holdings (SWSGH) SWS Holdings Limited (SWSH) <b>Southern Water Services Limited (SWS)</b> SW (Finance) I plc (SWF I) SW (Finance) II Limited (SWF II)	SWS is the regulated water and wastewater company. It is the company that this Annual Report and financial statements relates to. SWF I and SWF II have been incorporated to raise finance on behalf of SWS. The Southern Water Financing Group was established in 2003 and comprises a legal framework where each company guarantees the obligations of others within the group. Security granted to the lenders within this group is limited to the share capital of SWS Group Holdings Ltd. This structure ensures that SWS can continue to operate as a regulated water and wastewater company in the event of a default by any of the group companies above the financing group.

All companies are UK tax resident and therefore subject to UK taxes.

Most companies within the group are incorporated in the UK. The only exception is:

- Greensands Holdings Ltd is incorporated in Jersey, but UK tax resident. The company was incorporated there in 2007 because Jersey law allowed greater choice than the UK about the way distributions can be made to shareholders while treating UK and non-UK investors equally.



## How we finance the business

In note 20 to the financial statements, we provide an analysis of our outstanding debt at 31 March 2024 and 31 March 2023. Our loans comprise: sterling bonds, issued by our financing subsidiaries SWF I and SWF II and listed on the UK Stock Exchange; other loans, including loans from US insurance companies; bank loans; and a loan from the European Investment Bank.

The regulatory framework under which revenues and the RCV are indexed exposes us to inflation risk. This risk is managed through the use of inflation-linked loans and derivatives within the overall debt portfolio. We do not intend to access future inflation-linked debt through the use of derivatives, but will instead seek such debt from natural sources, such as public and private bond markets. As a consequence, we expect the proportion of the RCV and debt that is currently linked to inflation through the use of derivatives will decrease over time. We are not restricted to issuing only sterling debt, but will ensure any other currency loans are fully hedged back to sterling. We also hedge our exposure to interest rate volatility by ensuring that at least 85% of our outstanding debt liabilities (in respect of Class A and Class B debt) is either inflation-linked or fixed rate for the current five-year regulatory period and at least 70% in the next period (on a rolling basis).

We also consider refinancing risk by ensuring that loan maturities are not concentrated in any single year or regulatory period. When issuing new loans, we test that refinancing obligations are less than 20% of RCV in any two consecutive years and 40% of RCV within any five-year regulatory period. The maturity profile of loans extends to March 2056, which ensures we comfortably meet this test. Although not formally required, we ensure that inflation-linked swap accretion payments are included within our maturity analysis.

We ensure that sufficient liquidity (cash and committed bank facilities) is in place to fund the business for at least the next 12 months (including loan and inflation-linked swap accretion maturities), which is an important consideration given that we have negative cash flow generation in the majority of years as a result of our continuing capital investment programme.

As a result of our prudent liquidity policy, we can have large cash balances at times. We reduce the risk of losing cash on deposit, from bank or fund failure, by setting maximum limits on cash deposits and minimum credit ratings for each bank or fund. Banks must have, as a minimum, a credit rating of P1 (Moody's), A1 (Standard & Poor's) or F1 (Fitch). Funds must have the most secure rating of AAA rated.

The Greensands companies also have their own external loans:

- Loans issued by Southern Water (Greensands) Financing plc, represented in the diagram above as part of the 'Holdco' financing companies.
- Loans issued by Greensands Finance Limited and Greensands Financing Plc, represented in the diagram above as part of the 'Midco' financing companies.
- The Greensands financing companies also maintain liquidity facilities (£40.0 million at Greensands Midco financing companies to October 2027), which can provide a source of finance to pay interest on loans.

# Risk management approach



Read about our risk oversight process on page 114.

## The purpose of our approach to risk management is to support better decisions through an improved understanding of risk.

Risk management is a core component of our governance and internal control framework, which provides the structure through which we conduct business.

Risk is inherent in our business, and we face a diverse range of risks and uncertainties that cannot be completely eliminated. The purpose of our approach to risk management is to support better decisions through an improved understanding of risk. Those risks that have the potential to have a material impact on our company and our ability to deliver on our strategic objectives are our principal risks. Our risk governance model ensures that we can manage, monitor and report on our principal risks to maintain a resilient business. These risks are described on pages 120 to 125.

### Managing risk

Our approach to risk management is designed to provide a clear and consistent framework for managing and reporting risks associated with our operations, to the Executive and to the Board.

Our risk management framework is the totality of systems, structures, policies, processes and people that identify, measure, monitor, report and control or mitigate internal and external sources of risk.

The framework seeks to promote better decision-making to strengthen our operational resilience, and support the best outcomes and opportunities for the company and our customers through effective:

1. **Risk identification and ownership:** understand the risk environment, identify the specific risks we face and assess potential exposure.
2. **Risk assessment:** determine how best to manage identified risks to balance exposure.
3. **Risk response:** take action to manage the risks we are exposed to, ensuring our resources are effectively and efficiently prioritised and used.
4. **Risk monitoring, reporting and escalation:** report on a quarterly basis to the Executive Committee, Audit Committee, and the Health and Safety and Operational Risk Committee and to the Board on a periodic basis on how significant risks are being managed, monitored, assured and the improvements that are being made.

### 5. Risk appetite and communication:

use our analysis to support the Board's determination of risk appetite and to monitor and report against it.



Across the company our risk management approach is embedded within the business directorates and their business processes. We have put in place an approach that provides a consistent basis for measuring risk to:

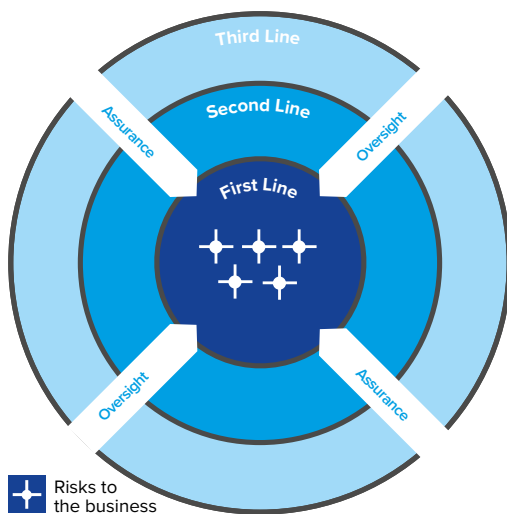
- establish a common understanding of risks on a like-for-like basis, taking into account potential impact and likelihood,
- report risks and their management to the appropriate levels of the company,
- inform prioritisation of specific risk management activities and resource allocation.

All areas of the company review significant risks and business processes to help inform and enable risk-based decision-making. As part of our annual planning process, the Executive and Board review the company's principal risks, emerging risks, and high impact low likelihood (HILL) events.

## Three lines of defence

Our approach to risk management adopts the 'three lines of defence' model in which risk ownership responsibilities are functionally independent from oversight and assurance:

- Primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all employees is to ensure they manage risks appropriately.
- The Risk Management function forms the second line of defence and provides independent and objective review and challenge, oversight, monitoring and reporting in relation to material risks.
- Independent External Assurance and the Internal Audit function act as the third line and provide independent assurance on the business control environment and the effectiveness of the wider system of internal control.



### First line

- The functions that own and manage risk.

### Second line

- The internal functions that oversee risk and regulatory compliance activities.
- Provide guidance, direction and oversight.
- Develop the related assurance frameworks.

### Third line

- Provides independent assurance on the business control environment, and the effectiveness of the wider system of internal control.

## The next 12 months

The coming year will focus our risk management efforts on maturing our control environments and risk mitigation activities, including:

- Maintaining our risk-aware culture.
- Continue to prioritise the identification of risks and opportunities.
- Enhanced our focus on climate adaptation strategies and their related risks and opportunities.
- Risk assessment and response to our Price Review Draft Determination from Ofwat.
- Focused mitigation activities to reduce risks related to regulatory compliance and cyber security.
- Risk assessing our strategic Turnaround Plan.
- Dynamic risk reporting to support risk based decision-making and deliver business intelligence insights.
- Continued training across the company to embed our business partnering model.
- Strengthening our analytical risk management capabilities through use of our governance, risk and compliance (GRC) system.

The continuous improvements to our risk management approach are critical to support long-term organisational development, value and sustainability, ensuring the decisions we make are considered and demonstrate continued commitment to delivering value to our customers and stakeholders.



Read more about the Board's role in mitigating risks on pages 114 to 115.

# Risk oversight and governance



Read more about our principal risks from pages 116 to 125.

To successfully embed risk management, the process is supported by a governance structure that defines roles and responsibilities at each level of the company. The Board has overall accountability for risk management but discharges this role through the Audit Committee. It oversees and advises on enterprise risks, while the Health and Safety and Operational Risk Committee oversees and advises on operational risk.

## Role of the Board

The role of the Board is to promote the long-term sustainability of our company and our responsibilities to shareholders, customers, employees, and the communities in which we operate. It has overall responsibility for risk management within the company.

The Board is responsible for maintaining an effective risk culture and is committed to:

- reviewing, endorsing and monitoring our approach to risk culture and conduct
- forming a view on our risk culture and the extent to which it supports our ability to operate consistently within our risk appetite.

The Board defines our risk appetite, enabling the company, in both quantitative and qualitative terms, to judge the level of risk it is prepared to take in achieving its overall objectives.

Our risk appetite is directly aligned to our principal risks. The risk appetite for each of these underpins our governance and reporting framework and is subject to regular review by the Board. The alignment of our principal risks with risk appetite allows for an informed analysis and discussion of our risk position and provides the Board with the insight to make key decisions.

As a company we are tolerating a level of risk which is outside our current risk appetite and is reflected in the review of our principal risks in the coming pages. This can result in more focus on short-term issues than longer-term resilience.

The Board ensures the oversight and monitoring of our risk culture, risk appetite and risk management activities through the Audit Committee.

## Role of the Audit Committee

The Audit Committee is responsible for the review of the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. It advises the Board on the company's overall risk appetite, tolerance, culture and strategy, considering the current and prospective regulatory, legal, political, macroeconomic and financial environment with the Board retaining overall ownership and approval.

The Audit Committee oversees and advises the Board on current risk exposure and longer-term strategic risks to determine our future risk strategy. It also has a key role in risk assessment:

- reviewing the company's overall risk assessment processes for enterprise and corporate risks that inform the Board's decision-making, ensuring qualitative and quantitative metrics are used;
- reviewing regularly and approving the parameters used in these measures and the methodology adopted; and
- setting a standard for the accurate and timely monitoring of large exposures and corporate risk types of critical importance.

In addition, the Audit Committee reviews the company's capability to identify and manage new and emerging risk types and reviews reports on any material breaches of risk limits and the adequacy of proposed action.

## Role of the Health and Safety and Operational Risk Committee

The Health and Safety and Operational Risk Committee is responsible for the oversight and assessment of the overall adequacy and effectiveness, of the health, safety and wellbeing policies, strategies; processes and controls; operational risk management and compliance with relevant legal and regulatory requirements, with the Board retaining overall ownership and approval.

The Health and Safety and Operational Risk Committee has a key role in:

- reviewing the areas of significant corporate and individual health, safety, wellbeing and operational risk whether the executive is managing these risks effectively, including via the supply chain;

- reviewing the company’s health, safety, security and wellbeing performance;
- reviewing operational risk and risk management of information security, information governance, water, wastewater and customer services;
- reviewing of the scope, and results, of any: health, safety, wellbeing, information security, information governance, water, wastewater and customer operational risk audits; and
- considering the findings of internal and external investigations and executives’ response.

### Role of the ESG Committee

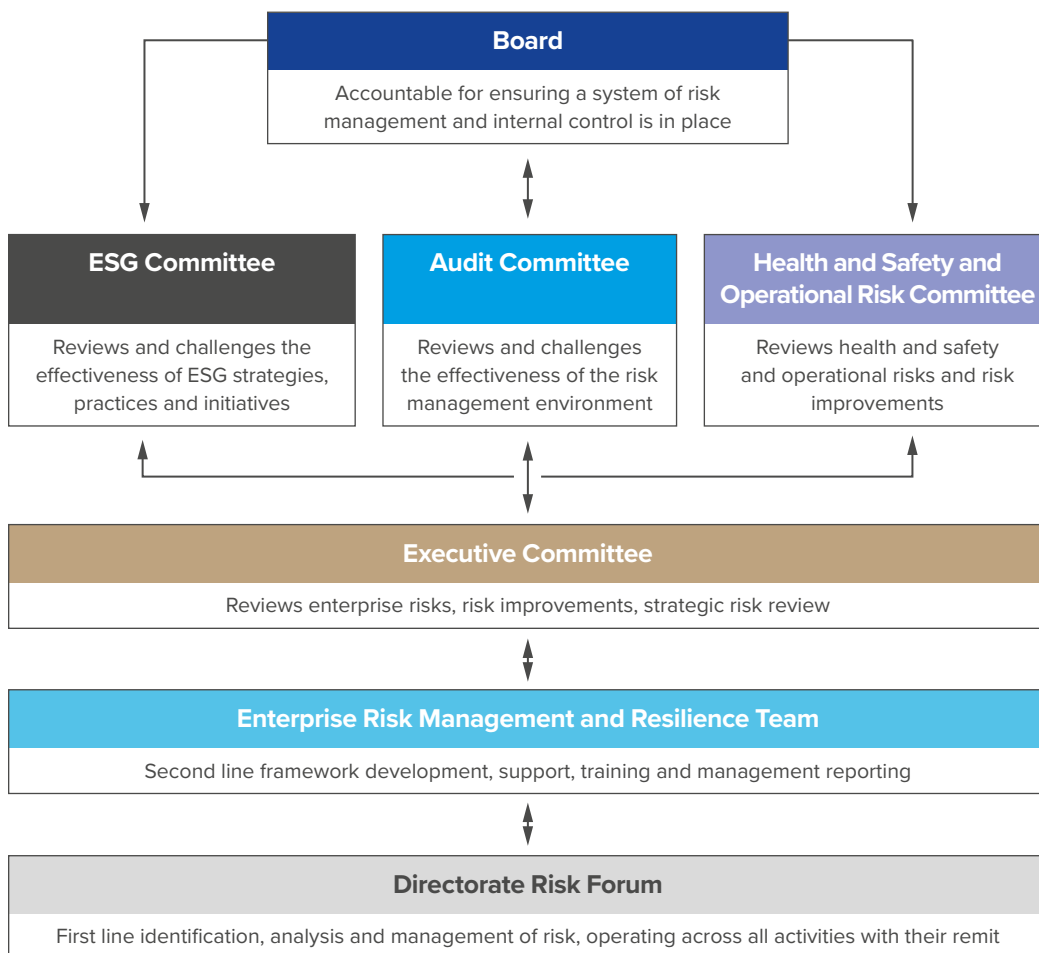
The ESG Committee provides consideration of the material environmental and social matters relevant to the company’s activities, as well as oversight of wider governance matters.

ESG Committee is responsible for the review of the risks related to our environment, social, and governance practices, commitments, policies, and strategies.

The ESG Committee has a key role in:

- Board approval of our decarbonisation targets and plan, and monitoring the delivery of such.
- Reviewing our annual ESG-related disclosures, including climate-related financial disclosures.
- Reviewing the progress of our equality, diversity, and inclusion objectives and plans.
- Reviewing the progress of our environmental and social impact programmes and plans, including nature and biodiversity and community engagement.

### Key risk and governance responsibilities include:



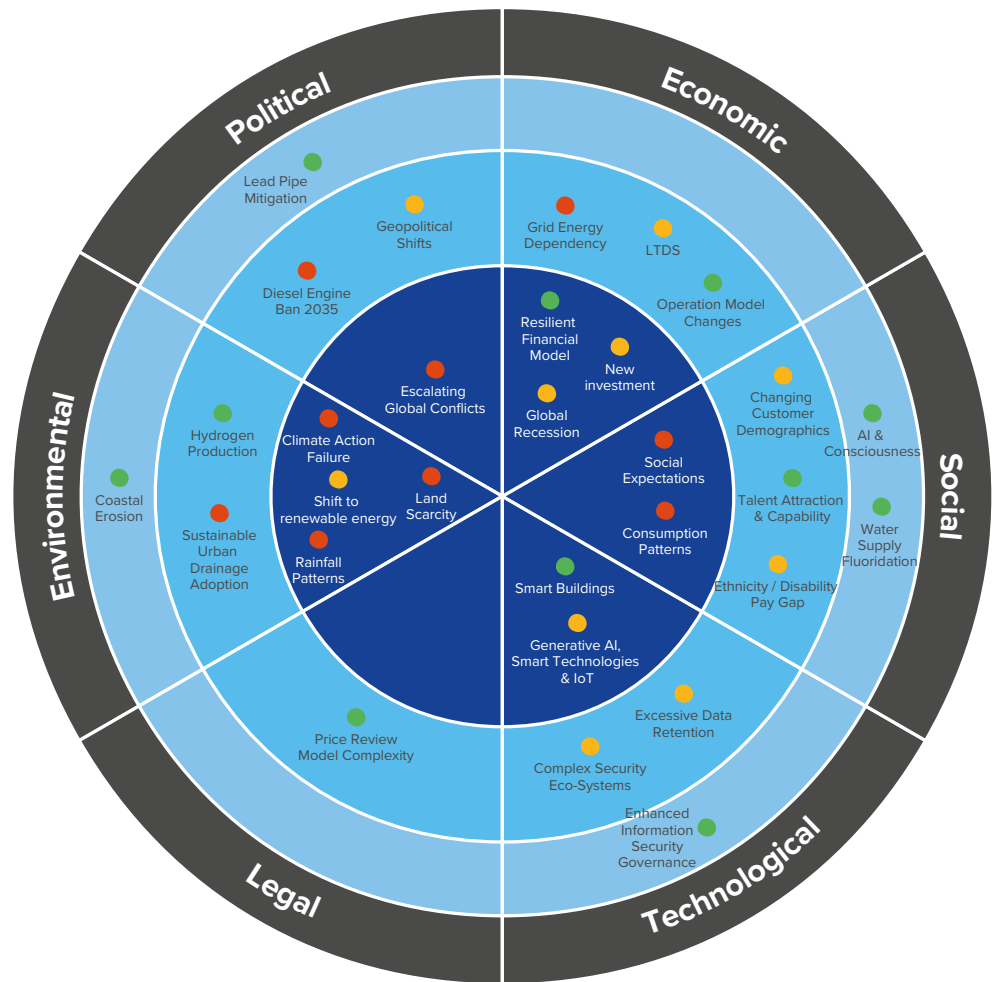
# Emerging risks, high impact low likelihood (HILL) events and principal risks

## 12 risks

### Emerging risks

We regularly consider new, changing, or emerging risks that could affect our ability to achieve long-term objectives. We define emerging risks as uncertain future events that are challenging to assess due to their unpredictable nature or lack of reliable information. We undertake regular horizon-scanning exercises to identify and monitor emerging risks. Our risk assessment process monitors available management information from a wide variety of internal and external business and environmental sources and analyses potential causes, impacts, likelihood, and the time frame over which a risk could occur.

Our immediate horizon scan reviews possible emerging risks and their potential impact on the company, as illustrated.



#### Time Horizon

- 0–5 years
- 5–10 years
- >10 years

#### Speed of Onset

- Rapid
- Moderate
- Slow

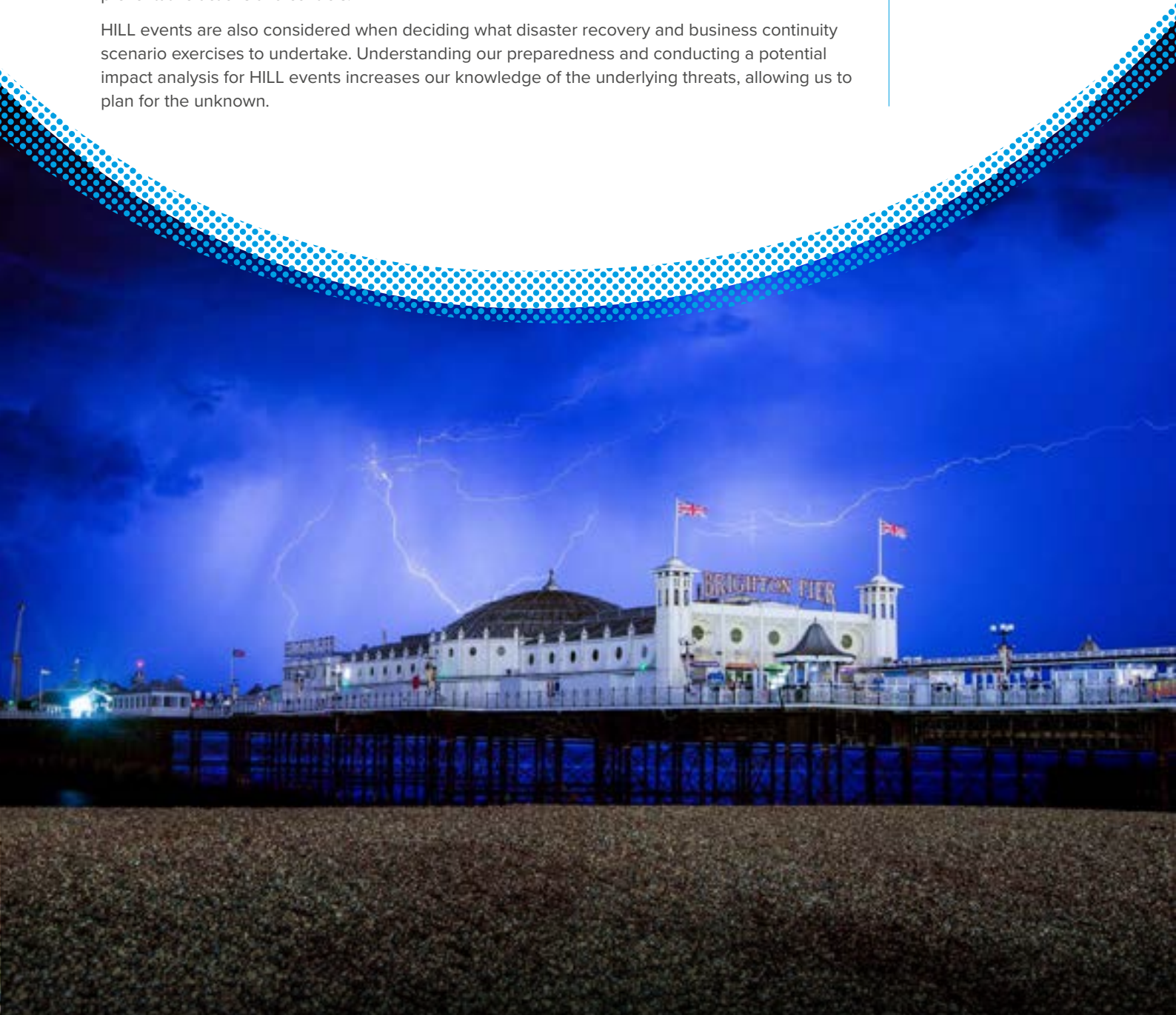
## High impact low likelihood (HILL) events

High impact, low likelihood (HILL) events by their very nature are disruptive, and difficult to identify and control due to their unfamiliarity and infrequency of occurrence. Whilst rare, they can materially affect business operations and the strategic objectives of the company, but preparing for every possible event is impossibly costly.

We regularly review a representative range of challenging yet plausible HILL event scenarios to understand the potential impact of such events, calling on expertise and business knowledge, and the application of our risk management framework, to identify, assess and prioritise each event.

Key mitigation for HILL events is the preparedness of the enterprise-wide continuity planning to provide resilience in our planned “response and recovery”. This is critical to have in place in addition to any preventative actions and controls.

HILL events are also considered when deciding what disaster recovery and business continuity scenario exercises to undertake. Understanding our preparedness and conducting a potential impact analysis for HILL events increases our knowledge of the underlying threats, allowing us to plan for the unknown.



# Emerging risks, high impact low likelihood (HILL) events and principal risks continued



Read more on our principal risks on pages 120 to 125.

## Principal risks

Those risks that have the potential to have a material impact on the company’s strategic objectives are our principal risks.

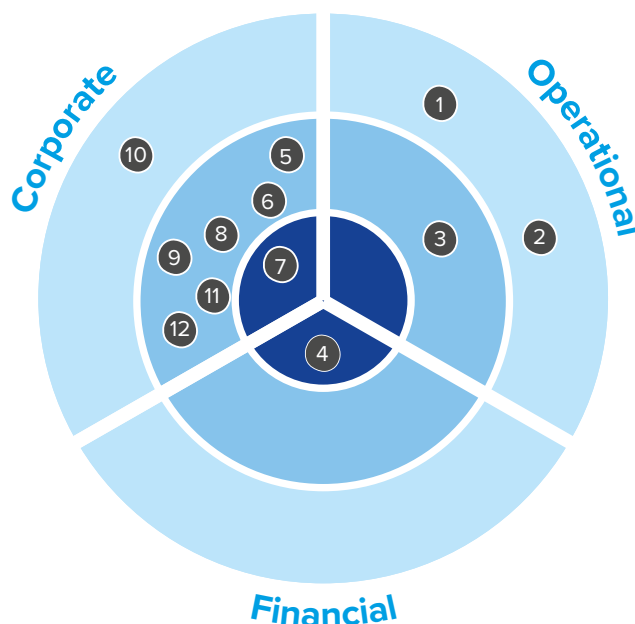
As part of our annual planning process, we manage, monitor and report on the principal risks for the Executive and the Board to review.

We have 12 principal risks. These are a key feature of our risk taxonomy and risk appetite. We review our principal risks and their risk components on an annual basis, in response to changes in internal and external operational environment, ensuring emerging risks are reflected and that the current structure adequately reflects the risk context at Southern Water.

### Principal risk radar

The principal risk radar provides an indicative view of the current risk position of each of the principal risks, relative to each other.

- Improving
- Stable
- Deteriorating





Risk	Category	Risk climate	Commentary
1. Water	Operational	▲	Higher than average rainfall has replenished our groundwater sources, reservoirs and rivers. Our investment schemes are building our network resilience and improving our water quality metrics. We have several ongoing focused programmes of work to improve our network leakage performance.
2. Wastewater	Operational	▲	Higher than average rainfall has caused significant drainage, groundwater infiltration and flooding across our region. Our Clean Rivers and Seas Task Force are delivering sustainable drainage solutions to reduce the use of storm overflows. Our pollution performance has significantly reduced, our wastewater treatment network has 99%+ compliance with our treatment and permit standards and we are focused on reducing serious pollutions. Risk remains around Flow and Spills performance but is being heavily mitigated by key programmes.
3. Customer	Operational	◀▶	We are focused on improving our customer service, communications and experience. We have reduced customer complaints by 59%, expanded our community education programmes and continue to support our most vulnerable customers.
4. Financial	Financial	▼	There is increased pressure on our credit profile following our ratings downgrade. We continue to be supported by our majority shareholder whose funds invested an additional £550 million equity during the year. The continued regulatory uncertainty is a key factor for the going concern and long-term viability of the company and requires a supportive regulatory determination to deliver the proposed 2025–30 capital programme. Read more in our going concern statement on page 200.
5. Compliance	Corporate	◀▶	We are challenged to keep pace with the volume and speed of change in governing regulation and legislation. We are focused on our operational strategies to help our business adopt and adapt to regulatory change and ensure our legal and compliance obligations are achieved. Key compliance risk on flow compliance, storm overflow discharges and upcoming Industrial Emission's Directive (IED) legislation is a focus of the business.
6. Climate Change	Corporate	◀▶	Planning and mitigation for climate change is embedded in our long-term strategic plans e.g. our Drainage and Wastewater Management Plan, Water Resources Management Plan, Water Industry National Environment Programme, which includes consideration of the long-term management and resilience of our water and wastewater assets to ensure that they continue to be available to provide services to customers and adapt to the changing environment we live in.
7. Delivery	Corporate	▼	Our Turnaround Plan has enabled focused delivery of our capital investment programme and Opex funded strategic projects. Our proposed business plan for 2025–30 is our most ambitious plan to date and includes significant uncertainties around deliverability.
8. Digital	Corporate	◀▶	We experienced a cyber-attack in late 2023 exposing data from a limited part of our server estate in February 2024. Our services to customers were not impacted and continued to operate normally. We continue to build our compliance with the NIS Cyber Assessment Framework. Our digital estate requires continual maintenance and improvement to deliver the required capability for the business and the digital technologies to advance our various projects and programmes to meet customer and regulatory expectations.
9. Resources	Corporate	◀▶	During the year we have continued to experience the ongoing impact from the rising costs of goods and services due to rapid inflation and delays or failures in the global supply chain. While inflation rates are slowing, the UK construction market continues to be saturated with infrastructure development across multiple sectors. Major operational and capital delivery frameworks are being procured in readiness for our 2025–30 business plan. The expected expansion of our delivery programmes into the next five-year investment period is likely to put more pressure on this area.
10. Health and Safety	Corporate	▲	Our Health and Safety Transformation Plan is delivering improvements in our operational processes, ways of working, compliance with regulations and embedment of our Safety First culture across the business. We have experienced a 50% reduction in our Lost Time Incident Accident Frequency Rate over the past two years.
11. Corporate Affairs	Corporate	◀▶	We have improved our communications in relation to service event management and recovery and work closely with our customers, community leaders, activist groups and regulators to share cause, impacts and future mitigation to prevent recurrence.
12. People	Corporate	◀▶	We continue to manage challenges in relation to talent attraction and retainment especially in the Technical and STEM roles. Our recruitment efforts are also impacted in part by our geographic location and more recently by the increasingly competitive employment environment which has been strongly influenced by rising inflation and the cost-of-living crisis.

Risk climate ▲ Improving ◀▶ Stable ▼ Deteriorating

# Principal risks and uncertainties

## Operational risk

### 1 Water

We are committed to maintaining a sufficient supply of high-quality drinking water to cater for a growing population of more than 2.7 million across the region. Failure to do so could result in water contamination and being unfit for consumption or customers may experience disruption to their supply.

#### Executive accountability:

Managing Director – Water

#### Risk climate: ▲

Changes in weather patterns and events, and to our regulatory operating environment, impact our supply/demand balance and increase our risk in relation to drought, raw water source depletion and abstraction. We have experienced the wettest 18 months on record with a higher than average rainfall, which has replenished our groundwater sources, reservoirs and rivers. We continue to work with our regulators to manage our licenced abstraction volumes, balancing the security of supply with the protection of our natural environment.

The adverse impact of such rainfall, however, is its effect on raw water quality and subsequent increased challenges in the treatment process. Despite that amplified challenge, we have experienced significant improvement in our water quality compliance measure as a result of initiatives included in our Water First and Turnaround Plan programmes.

We continue to work to reduce leakage, using digital technology to better detect leaks, increasing our field resource, and investing in pressure calming solutions, as well as increasing the speed of any repairs.

During the year, we experienced several significant water supply disruption events on key operational sites, which resulted in an increase in interruptions to supply for our customers. Our teams deployed an immediate response and repair plan, along with establishing bottled water stations and issuing regular communications, across several media platforms, to keep customers informed.

We have significant investment schemes underway at our key strategic water supply works, building resilience and ensuring further water quality improvements for our customers. The investment over the previous year has helped reduce our outage levels and improve water production resilience.

We have also improved our Safe Control of Operations (SCO) procedures, providing us with a better view of planned work so we can limit any impact on water quality or supply interruption for our customers.

#### Mitigating strategy:

- Water for Life – Hampshire, capital and asset improvements to provide long-term resilience.
- Water First programme, improving processes and asset performance.
- Capital scheme investments at our four main sites, increasing reliability and resilience of our water supply works, benefiting 62% of our customers.
- Investment to improve our leakage remediation.
- Development of our incident management capability.
- Investment in reducing site outage to provide enhanced production network resilience.
- Further improvements in performance for our customer in water quality and resilience during 2025–30 investment period.

#### Cross reference:

- ➔ Read more about how we are understanding and supporting our customers and communities on pages 34 to 43.
- ➔ Read more about how we ensuring a supply of high-quality water for the future on pages 44 to 49.

## Operational risk

### 2 Wastewater

We are committed to providing our customers with reliable wastewater services essential to maintain public health and protect the environment. Failure to do so could result in a discharge of non-compliant sewage causing pollution, spills to the environment and/or sewer flooding impacting the environment or public health.

#### Executive accountability:

Managing Director – Wastewater

#### Risk climate: ▲

We have experienced the wettest 18 months on record with a higher than average rainfall causing significant drainage, ground water infiltration and flooding issues across our region. Our operational performance has been challenged, specifically in light of an increase in extreme weather events/patterns, increased capacity demand and challenging regulatory targets. During the past year we have reduced pollution events by 35%, however, we have experienced an increase in serious pollutions. Improving our pollution performance is our primary focus. We are increasing our mitigation activities through our strategic Turnaround Plan and our Pollution Incident Reduction Plan to continually improve performance.

We have successfully built capacity and resilience at our wastewater treatment works to reach 99%+ compliance with treatment and permit standards, to reduce pollution occurrences and the impact our operations might have on the environment. This means making sure our pumping stations and networks continue to operate effectively as our climate changes.

Our Clean Rivers and Seas Task Force is working to reduce the use of storm overflows. Its projects are delivering reductions through source control measures to manage the excess water (ground or surface) so it does not enter our networks, including: smart optimisation of our assets and the construction of wetland treatment ahead of grey infrastructure. We continue to work with our customers, the general public and stakeholders with respect to our impact on the environment; with a key focus on spills affecting rivers, chalk streams and bathing waters.

#### Mitigating strategy:

- Over £1.5 billion investment to 2025 to improve the capacity, capability and resilience of our wastewater network across the region.
- Increased investment in storm overflow reduction and scaling of the team ahead of the start of the next investment period in 2025.
- Enhanced Pollution Incident Reduction Plan.
- Improved maintenance standards, emergency response and proactive control measures to stop assets failing.
- Digitalisation of our sewer network to reduce pollutions and flooding, using industry-leading monitors, artificial intelligence for prediction and maintenance.
- Effective Event Duration Monitoring (EDM).
- Upgrades to our spill notification service, Beachbuoy, in order to cover all storm overflows across our region. The launch of Rivers and Seas Watch (summer 2024) is the next iteration of this capability.
- Improving training, development and productivity by upskilling front-line colleagues.
- Enhance operational resilience, with a focus on groundwater resilience, coastal erosion, power and heat resilience.

#### Cross reference:

- ➔ Read more about how we protect and improve the environment on pages 50 to 61.

**Risk Climate Key:**

▼ Deteriorating

▲ Improving

◀ Stable

**Operational risk****3 Customer**

We are committed to providing an excellent customer experience. Our customer service teams are trained to understand and respond to our customers and their unique needs. During times when we experience an interruption to services, we are committed to providing up-to-date information about the issue, any available support and updates on return to service. Failure to do so will result in an increase in complaints and dissatisfaction from our customers and regulators.

**Executive accountability:**

Chief Customer Officer

**Risk climate:** ▶

During the year, we have experienced a number of significant water supply and extreme weather events, as well as a cyber-attack that we estimate affected around 10% of our customers. These events resulted in service disruption which has negatively impacted our customers' view of our performance and has damaged our reputation. This was reflected in our annual customer satisfaction (C-MeX and D-MeX) performance metric measures. In response, we have enhanced our customer communications by implementing customer text messaging during incidents to keep them informed about our repairs and return-to-service timelines.

During the year, we launched our remote triage and video diagnoses for water inspectors to help us better understand and fix customer issues quicker and more efficiently. We also invested in a new system to manage water and waste customer enquiries and improve operational contact management. Overall, we experienced a reduction in customer complaints of 59%. We also re-designed our website making it easier for customers to find the information they need.

We expanded our education programme and site visits, both of which have helped improve our community engagement and outreach. We developed a programme of community drop-in sessions called 'Your Water Matters', enabling us to directly engage with customers, gathering their feedback and providing advice and information on our long-term business plan, services, sites, usage and the environment.

We continue to support our most vulnerable customers who have been impacted by the ongoing cost of living crisis. We increased our social tariff cross-subsidy from £6.00 (for a dual service customer) to £8.50. This has allowed us to increase the minimum discount offered from 20% to 45% and supports a further 21,000 customers in addition to the 107,000 who are supported through the lower subsidy amount.

**Mitigating strategy:**

- Improving the digital customer experience including video assistant, a new website, improving customer journeys, data quality and complaints process.
- Enhancing our customer culture through customer promises and customer service training for all colleagues and partners.
- Better engagement with our communities through improved multi-channel and direct communications, education programmes and regular stakeholder forums.
- Supporting customers in vulnerable situations by improving our priority services during incidents and our social tariff offering.

**Cross reference:**

- Read more about how we are understanding and supporting our customers and communities on pages 34 to 43.
- Read more about how we ensuring a supply of high-quality water for the future on pages 44 to 49.

**Financial risk****4 Financial**

We are committed to managing the financial position of the company to ensure sufficient liquidity to meet our funding requirements and maintain service delivery for our customers. A failure to do so could impact our credit ratings which could in turn increase our interest costs, reduce the availability of new capital and breach of our licence conditions.

**Executive accountability:**

Chief Financial Officer

**Risk climate:** ▼

The parliamentary election has created a climate of political and regulatory uncertainty. The UK water sector is under increased public scrutiny and Ofwat has elevated their concerns about the financial performance of several of the UK water utilities it regulates. This has increased market instability and curbed potential new investor interest and capacity and impacted our ability to raise additional finance from new sources to fund the capital investment programme and to refinance debt maturities.

In recent years macroeconomic volatility has increased the pressure on our operating and capital budgets and created significant cost control issues leading to a prolonged financially uncertain outlook. Additional cost control pressures have arisen from our operational incident response activities. This has negatively impacted our current business plan's financial performance and funding. We are working to improve processes and the resilience of our assets to reduce the impact of these operational events as well as strengthening our financial controls to help mitigate the financial impact of events that may occur.

In July 2023, Fitch Ratings downgraded our credit rating to 'BBB' from 'BBB+', with a Negative Outlook due to execution risk related to our 2020–25 business plan, arising from operational and environmental challenges, high interest costs and a long-dated derivatives portfolio with meaningful mark-to-market liabilities. The downgrade reflected increased pressure on our credit profile. We continue to be at risk of a credit rating downgrade as a result of our poor operational performance and rapidly rising inflation. See page 105.

In October 2023, funds managed by Macquarie Asset Management invested an additional £550 million of equity funding into the group, of which £375 million was injected into Southern Water Services in order to support our Turnaround Plan and manage the impact of a high inflation and interest rate environment on operating, maintenance and funding costs. It will also support our capital investment for the regulatory period (2020–25).

Following the equity injection, we have successfully issued new bonds, totalling £1,088.0 million and made loan repayments of £420.7 million as part of our overall financing to plan to support our capital investment programme for this regulatory period.

In October 2023, we submitted our £7.8 billion business plan (2025–30) to Ofwat. It is our most ambitious plan to date, almost doubling in size from £4 billion 2020–25 business plan. However, there are a number of uncertainties contained within the proposed plan around deliverability and financeability. Ofwat will issue their initial assessment of our proposed plan in its Draft Determination in July 2024, with our response due in August 2024. The continued regulatory uncertainty is a key factor for the going concern and long-term viability and requires a supportive determination to deliver the proposed 2025–30 capital investment programme.

**Mitigating strategy:**

- Liquidity testing and reporting is carried out on a regular basis, forming part of the 'going concern' assessment.
- Sufficient cash and facilities are maintained to mitigate risks.
- Detailed budgetary scrutiny of operational and capital spend
- Improved operational performance.

**Cross reference:**

- Read more about our financial performance on pages 94 to 105.

# Principal risks and uncertainties continued

## Corporate risk

### 5 Compliance

As a regulated industry, we are committed to meeting a high standard of compliance with regulatory and corporate legislation. Failure to comply can result in regulatory enforcement, fines, legal action and, in the worst case, the loss of our licence to operate.

#### Executive accountability:

General Counsel

#### Risk climate:

The regulatory compliance environment in which we operate is rapidly evolving and becoming increasingly complex to manage across the business at all levels. Changes in regulation impact our work process as well as our permit conditions.

We remain under continued scrutiny by our regulators. We continue our work to resolve a number of prior year investigations by the Environment Agency (EA) for wastewater permit breaches, sampling processes and governance approach. We continue to assist the EA with its ongoing investigations into these legacy issues and with their national investigations into flow compliance. The Drinking Water Inspectorate (DWI) and the EA continue to monitor our delivery of regulatory schemes (either as part of the Water Industry National Environment Programme or as part of DWI Final Enforcement Orders and notices). We are working with our regulators to prioritise the delivery for those key sites, and have detailed supporting work plans in place.

We are nearing the end of our five-year programme of work on our S19 undertakings with Ofwat – these relate to work on flow compliance and a package of interventions to build capability to support compliance across our business. The work with Ofwat also focuses on compliance with Condition P of our licence. This work is intrinsically linked to our compliance with our regulatory and statutory obligations.

#### Mitigating strategy:

- Delivery of key transformation and training programmes in both water and wastewater operations.
- Ensuring appropriate governance through the embedding of a robust three lines of defence compliance model.
- A compliance framework with internal monitoring and assurance and an ethical business framework.
- Statement of Compliance self-assessment every six months.
- Transparent and timely communication with our various regulators.
- A yearly review of our licence of appointment with Ofwat.
- To support this area of work we have formed an Executive Compliance Committee to increase our focus and mitigation activities on regulatory compliance, regulatory change and legal and compliance obligations.

#### Cross reference:

 Read more about our three lines of defence on page 113.

## Corporate risk

### 6 Climate change

We are committed to understanding the impacts of climate change and appropriately adapting our business operating model to ensure reliable continuity of service to our customers, while protecting our natural environment and resources. Failure to do so will impact our ability to deliver a sustainable supply of water to meet the growing demands of our customers, and our ability to effectively manage the capacity and capability of our assets and sewer network. We must be resilient to both the physical effects, from extreme or prolonged weather events that could lead to flooding, pollution or damage to operational sites from coastal erosion or subsidence, and from transition risks including changes in policy, regulation and markets.

#### Executive accountability:

Chief Executive Officer

#### Risk climate:

Extreme weather events are becoming more frequent. Severe winter storms and heavy rainfall impact our ability to effectively manage flooding and pollution events. Extended periods of dry weather greatly reduce the reliable availability of our water supply. We are challenged to balance the limitations of our stringent abstraction licences with our ability to meet customer demand, while protecting our natural resources and the environment.

We are a long-term business and as such we are required to produce strategic plans that include consideration of the long-term management and resilience of our water and wastewater assets. This ensures that they continue to be available to provide services to customers and adapt to the changing environment we live in.

These include our Water Resources Management Plan, which sets out how we will balance supply and demand for water in the future out to 2075, and our Drainage and Wastewater Management Plan, which analyses the key wastewater challenges and solutions in each of our drainage catchments over the next 25 years.


Our operational emissions have significantly reduced over time due to external factors like the decarbonisation of the electricity grid. We have also made significant progress in implementing measures to further the transition, including the use of renewable energy and process and operational efficiencies that have significantly contributed to the reduction of emissions from our operations.

In October 2023, we submitted our business plan, for 2025–30, to Ofwat, which outlined the investment we need to ensure the resilience of our assets and services, including mitigating and adapting to climate change risk.

#### Mitigating strategy:

- Net zero transition plans, including energy and fleet plans.
- Water Resources Management Plan.
- Water for Life – Hampshire programme, including Hampshire water transfer and water recycling project.
- Drainage Wastewater Management Plans.
- Target 100 water-saving customer engagement programme.
- Drought Plan.
- Operational resilience plans.
- Bioresources strategy.
- Clean Rivers and Seas Task Force interventions.
- Water Industry National Environment Programme for water and wastewater, including catchment and nature-based solutions.
- Research and innovation projects.

#### Cross reference:

 Read more about our approach to tackling climate change on pages 68 to 84.

 Read our [Climate Change Adaptation Report](#).

**Risk Climate Key:**

▼ Deteriorating

▲ Improving

◀ Stable

**Corporate risk****7 Delivery**

We are committed to deliver our planned programme of work on schedule, providing an excellent service to our customers. Failure to do so could result in an inability to fulfill our regulatory obligations and commitments made in our business plan 2020–25.

**Executive accountability:**

Managing Director – Water and Managing Director – Wastewater

**Risk climate:** ▼

We continue to make progress in the delivery of our business plan 2020–25. To achieve this, we aligned our programmes of work to our strategic Turnaround Plan, including upgrades to our four large water treatment plants at Testwood, Otterbourne, Hardham and Burham between now and 2032. Our investment includes a significant environmental enhancement with nutrient reduction and additional treatment and storage capacity for high flows.

We have significantly invested in upgrading our existing operational sites and sewer networks and developing our capital programme. We have also increased our investment in technology to advance our ways of working to deliver a more responsive customer experience. However, the ambition of the current capital investment delivery programme, combined with external economic pressures, have impacted our ability to deliver our plan on time and within budget.

In October 2023, we submitted our business plan (2025–30) to Ofwat. It is our most ambitious plan to date and reflects our long-term commitment to our customers and the environment. There are, however, a number of uncertainties contained within the plan around deliverability and financeability and we are awaiting the Draft Determination outcome from Ofwat (due July 2024).

**Mitigating strategy:**

- We have brought significant investment capability in house, including:
  - An engineering and capital delivery function.
  - An established long-term delivery partner supply chain.
- Risk and value are considered at each step of the investment cycle to provide best value for money to our customers.
- Monitoring the delivery of our 2020–25 business plan obligations, continually assessing our financing status.
- Procurement and planning process are underway and on track to support the 2025–30 business plan delivery.
- Moving to a managing director model to ensure greater focus on delivery in our water and wastewater operations.
- Early start on key programmes of work such as reducing storm overflows.
- Additional delivery partners to facilitate the required step up in our scale of investment.

**Cross reference:**

- ➔ Read more about our Long-Term Priorities and how they inform our five-year delivery strategy on pages 10 and 11.

**Corporate risk****8 Digital**

We are committed to maintaining the resilience of our operational and corporate digital networks and systems. Failure to do so could have a significant impact on our business continuity, and the resilience and capability of our operational assets.

**Executive accountability:**

Chief Digital and Transformation Officer

**Risk climate:** ▶▶

We are committed to providing digital services, capability and support to the business and improving our ways of working. We maintain the essential resources and processes to protect the company from external or internal attack, both physical and virtual and to protect our digital network, systems and data in accordance with our obligations under relevant regulations and legislation.

We also hold and process personal and payment data about our customers and colleagues. Failure to properly protect the data we hold could lead to reputational damage and loss of confidence from our customers, as well as significant fines under Data Protection (GDPR) and the Network and Information Systems (NIS) Directive.

The global geopolitical landscape has increased the disruptive and destructive cyber-threat attacks on organisational digital networks and systems by cyber hackers. This has escalated risks associated with cyber security across all businesses.

In February 2024, we announced that a small amount of data from a limited part of our server estate had been stolen and estimated that it affected around 10% of our customers' data. We engaged leading independent cybersecurity experts to monitor the 'dark web' on our behalf.

We take data protection and information security very seriously and, in accordance with our regulatory obligations, we immediately notified those potentially affected. At this point there is no evidence that our customer relationships or financial systems have been affected. Our services were not impacted and are operating normally.

We also informed the government, our regulators and the Information Commissioner's Office; and are following the advice of the National Cyber Security Centre (NCSC) as our investigation and remediation continues.

We continue to build our compliance with the NIS Cyber Assessment Framework (CAF) to achieve and demonstrate an appropriate level of cyber resilience. We regularly review and adapt the resilience of our approach to cyber security to ensure we are adequately protected from future potential cyber threats.

As a mature company, our digital estate needs continual maintenance and improvement to deliver the required capability across the business. We are also challenged to manage the volume of demand from across the company for digital solutions and technologies, and expertise, to advance our various projects and programmes, and to meet customer and regulatory expectations.

**Mitigating strategy:**

- Business continuity processes reducing impact on digital systems.
- Active programme for migration of services off legacy infrastructure and onto new fully managed infrastructure.
- Migration of critical and core service applications to new data centres.
- Enhanced digital general controls following alignment to the NIS – CAF.
- Continued investment in cyber threat mitigation strategies in response to the ever-changing risk landscape.

# Principal risks and uncertainties continued

## Corporate risk

### 9 Resources

We are committed to appropriately protecting the resilience of our contractor network and supply chain. Failure to do so could lead to significant business interruption and result in an inability to deliver our commitments to our customers and stakeholders.

#### Executive accountability:

Chief Financial Officer

#### Risk climate: ▾

We are committed to maintaining a sustainable, resilient, outcome-based supply chain for the provision of essential goods and services. This not only supports the delivery of our business plan, it also helps us to adapt to market shocks. These include the supply of engineering, construction and asset management advice to support our capital delivery programme; repair and maintenance services; chemicals, fuel, and spare parts to ensure continuity of service across our network and operational sites; and the energy required to power our operations, at a commercially viable price.

During the year we have been impacted by the rising costs of goods and services due to rapid inflation and delays or failures in the global supply chain. While inflation rates are slowing, the UK construction market continues to be saturated with infrastructure development across multiple sectors.

We have mitigated some of the impact on our operational costs and our capital programmes and projects delivery through improvements in our contract management and negotiation approach and processes, budgeting process and long-term planning. We are focused on cost management to drive opportunities, mitigate risk, benchmark prices, and achieve savings and efficiencies. Where possible we are using hedging strategies to mitigate the effect of such market events. We have experienced significant impact from the long lead times on vehicles in 2023. We are mitigating that with rationalisation, bulk discounts on orders, and tightening and strengthening processes around demand and fuel spend.

In October 2023, we submitted our business plan, for 2025–30, to Ofwat. There are significant material uncertainties related to both deliverability and financeability embedded in our proposed plan. We are awaiting the Draft Determination response from our regulators.

Major operational and capital delivery frameworks are being procured in readiness for 2025–30. These procurement and planning processes are designed to attract and secure key contractors and suppliers. We are reviewing our second and third tier supply chain resilience to ensure capacity and capability to support the increased demands of the 2025–30 capital programme.

We will be implementing enhanced processes to support the Procurement Act 2023, which is effective from October 2024. This will promote commercial and value driven outcomes.

#### Mitigating strategy:

- Hedging strategy is in place for energy cost fluctuations/increases to manage impact to end customers.
- An enhanced contract management framework was implemented, focused on mitigating post-deal value erosion.
- Sustainable/tiering of supply chain within strategic frameworks (such as chemicals) is being established to ensure continuity of supply and any changes within the marketplace managed effectively.
- Renegotiation of terms and conditions (including risk provisions).

## Corporate risk

### 10 Health and safety

We are committed to ensuring that the health, safety, security and wellbeing of our colleagues and the public. The nature of our work requires that our colleagues and contractors undertake activities or use equipment which, if uncontrolled, have the potential to cause significant harm. Failure to comply with our Health and Safety Management System and associated procedures could result in death, serious injury or adverse health effects.

#### Executive accountability:

Chief People Officer

#### Risk climate: ▲

The safety of our communities, colleagues, and supply chain partners remains our highest priority. We have significantly progressed our programme of work designed to support our company-wide Health and Safety Transformation Programme. In June 2023, we launched our new corporate value, 'Working with Care'. Together they will improve safety standards, establish a robust system of risk management controls, comply with governing regulations and legislation and support our colleagues and contractors in their day-to-day work to embed our safety within our culture across the business. The results of this are already being seen in the 50% reduction in our Lost Time Incident Accident Frequency Rate experienced over the past two years.

Our approach to security is being strengthened. We are creating a security transformation programme to review and update our policies and procedures, ensure assets are specified to mitigate risks and embed a security mindset into our company-wide culture.

#### Mitigating strategy:

- A review and update of all our safety and security policies and procedures, including a new policy statement and the issuing of CEO empowerment cards to encourage adherence and challenge in the business.
- The roll-out of a new, application-based, online safety reporting system to improve information flow, awareness and the management of hazards and incidents.
- Upgrading the capacity and capability of the health and safety team to enhance investigations and deliver better support to front-line teams.
- Improving the safety of our colleagues when conducting physical work through the introduction of a new mobile AI-based point of work risk assessment safety application.
- Delivery of a behavioural change programme, including an actor led away day, a revised site audit and inspection plan, enhanced manager health and safety training and a mandated senior leadership visit programme.
- Enhanced communications, including the launch of the fourth corporate value, 'Working with Care', our 'Stop, Think, Safe' campaign and target local initiatives.
- A continued focus at Board level with a Health and Safety and Operational Risk Committee.
- The integration of safety in every meeting or activity, including at the Executive Safety Committee, which has been expanded by 33% to cater for the growth in reporting.
- Enforce suppliers and delivery partner safety standards.
- Strategic reviews of security and wellbeing.
- Managing our compliance through new systems, inspections and assurance.
- Supporting our mental health first aiders.
- Senior manager site visits.
- Our supply chain partner safety leadership team has been reinvigorated to provide a forum to continuously improve working standards.
- A site pride award scheme has been implemented to drive improvements in site safety and housekeeping.

**Risk Climate Key:**

▼ Deteriorating

▲ Improving

◀ Stable

**Corporate risk****11 Corporate affairs**

We are committed to engaging in regular and transparent communication with our customers and stakeholders. We are positioned to monitor and adapt to any changes in our political and regulatory frameworks, or take a lead role to advocate and influence positive change to the political or regulatory landscape impacting both our industry and our natural environment. Failure to do this may impact our relationships and reputation with our customers and stakeholders and may result in business disruption or regulatory fines.

**Executive accountability:**

Director of Corporate Affairs

**Risk climate:** ◀

Our relationships with customers and stakeholders are closely connected to our operational performance. During the year we were challenged by several significant service disruption events and non-compliant spills, which resulted in an increase in event-related customer complaints and negative media coverage. We understand that increased monitoring is essential to improve our wider environmental performance and to achieve a significant reduction in the use of storm overflows. We continue to invest in improvements in the timeliness, contextual comprehensiveness and accuracy of the data we publish. We have engaged in open conversations with our customers, community leaders, activists and regulators; and we provide timely reporting of events to share causes, impacts and future mitigation to minimise the likelihood of recurrence. We are committed to improving our performance and accountability to rebuild our connection with our communities and, consequently, trust.

**Mitigating strategy:**

- Work with our customers to understand their service delivery needs and expectations.
- Monitor developments in requirements from all of our regulators on key issues.
- Maintain close dialogue with Government, Ofwat and other regulators on key issues.
- Continue to engage constructively with all of our regulators with regards to water scarcity challenges.
- Invest in, and reporting the successes of projects to improve our storm overflow performance.
- Investment in Event Duration Monitoring (EDM) and the expansion of coverage on our online spill reporting service for bathing waters, which has been expended to include inland waterways.
- Work with our regulators to demonstrate that we have listened, understood and addressed our customers' needs in setting the targeted outcomes of our business plan for the period 2025–30.

**Cross reference:**

→ Read more about our Long-Term Priorities and five-year delivery strategy on pages 10 and 11.

**Corporate risk****12 People**

We are committed to attracting and retaining a workforce with the right skills for the role. A central part of our long-term strategy is to continually develop our workforce and actively maintain succession planning for key roles, failure to do so could significantly impact our ability to ensure the company is agile and adaptable to change.

**Executive accountability:**

Chief People Officer

**Risk climate:** ▶

We have designed our people risk framework to support a diverse and inclusive culture that promotes employee engagement and demonstrates the desired conduct and behaviours that align with our values. It includes building and retaining an industry-leading workforce and managing our people to upskill and develop our talent. This means we can ensure that we have the right resources to support our operations while implementing processes and procedures that support, protect and manage our people, and provide a fair and transparent reward and recognition programme.

We continue to manage challenges in relation to talent attraction and retention especially in technical and STEM roles.

Our recruitment efforts are also impacted in part by our geographic location and, more recently, by the increasingly competitive employment environment which has been strongly influenced by rising inflation and the cost-of-living crisis.

We have established industry relationships with specialty recruitment partners to help us execute against our talent attraction strategy. We are committed to supporting an empowering and collaborative work environment that recognises performance and facilitates career progression and development, and we do this in an ethical way.

**Mitigating strategy:**

- Ongoing workforce planning analysis and high-level strategic talent reviews take place across the business to assess capability and capacity needs.
- Ongoing talent management programmes driving strong performance management and robust succession planning.
- Maintaining a market indicated total rewards package, based around the midpoint of the market.
- Delivery of our Talent Acquisition Strategy.
- Our internal INSPIRE Academy supports in-role development and career progression.
- Our recruitment strategy streamlines our best route to market
- Our annual engagement surveys assess our employee satisfaction with remedial action plans developed by teams.
- Strong inclusion and diversity culture.

**Cross reference:**

→ Read more on our people on pages 62 to 67.

# Viability statement

Southern Water Services (SWS) is a regulated utility which is characterised by a long-term investment horizon, over multiple price control periods with stable revenues. Ofwat sets price controls for five-year periods, which reduces the potential for variability in revenues from the regulated business. The company benefits from a rolling 25-year operating licence.

Ofwat regulates the water industry in England and Wales and has a statutory obligation to ensure that water and wastewater companies can finance their functions. In addition, Ofwat has a primary duty (under the Water Industry Act 1991 as amended by the Water Act 2014) to ensure that water and waste companies have the long-term resilience to meet the needs of customers.

In preparing the long-term viability statement (LTVS), SWS has conducted an assessment covering the period up to March 2030, which aligns to the price control cycle and covers the current and next cycle. The analysis has taken into account current performance, planned improvements, funding of the defined benefit pension scheme and the principal risks that affect the business as documented in the Strategic Report on pages 116 to 125. Scenarios were developed with reference to a quantification of financial effects of specific risks incorporated in the principal risks, and the recovery in the next five years period of additional expenditure incurred during the current five-year period. These risk scenarios were then tested both individually and in combined scenarios. An overview of this analysis is provided below. Mitigating actions and their effectiveness were also considered.

The analysis has also considered the long-term financing needs of the business, including the maturity profile of existing debt, which extends to 2056. Future financing plans assumed for LTVS include £400 million of new finance to be raised by March 2025, plus over £4 billion of projected new finance used for the capital investment programme, including the repayment of more than £2 billion of debt maturities and inflation-linked accretion repayments during the period 2025–30.

## Assessment period

For the LTVS, the Board continues with a forward-looking term up to 31 March 2030:

- SWS has accepted the commitments and customer promises in the Final Determination for 2020–25 (PR19) and the Board has agreed a business plan for the period to 31 March 2025.
- The Board notes that analysis of financial resilience over the period 2025 to 2030 (PR24) is uncertain given a plan for this period will not be agreed with Ofwat, our regulator, until at least February 2025. SWS will, however, be producing an updated plan for the period from 2025–30 as part of their response to Ofwat's Draft Determination in August 2024, following which there will be a period of review by Ofwat, leading to a final determination in December 2024. SWS will have the right to appeal the Final Determination which will extend the period of uncertainty into 2025. The plan submitted to Ofwat on 28 February 2024 has been used for the long-term viability assessment, and in making this assessment we have taken account of Ofwat's statutory duty to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions. However, cost allowances, performance challenges and returns are yet to be set, implying a wide range of potential outcomes which have been taken into account in the stress tests below and which will in turn inform the Board's response to Ofwat's Draft Determination.

- Extending the period beyond 2030 would require making assumptions about the price review process for the period 2030–35 (PR29). Given the inherent uncertainties already present in the forecasts used to 2030, as PR24 is not yet agreed, management has determined that extending the assessment period beyond 2030 would introduce greater uncertainty as the variability of potential outcomes increases.

## Stress tests

The 'principal risks' identified (pages 116 to 125) are recognised as the key risks facing SWS and those that will have the potential greatest impact on the business. These are regularly reviewed by the Board. Based on the principal risks, the following risk factors are considered to have the potential for a negative impact on the financial position of SWS and have been used as the basis for severe but plausible stress testing scenarios.

- **Outcome Delivery Incentive (ODI) or other regulatory penalties:** These may materialise as a result of under-performing on performance commitment targets set by Ofwat or other statutory obligations which carry a financial consequence.
- **Increased expenditure:** Increased expenditure has been considered in light of the challenging cost allowances set in the PR19 Final Determination, in addition to the (as yet unknown) PR24 Final Determination, as well as unexpected costs arising from high energy prices, high inflation, operational incidents, and maintaining service during periods of severe weather.



- **Outturn inflation is different to forecast:** SWS's financial projections are sensitive to inflation scenarios given the index-linked nature of business cash flows and a number of credit metrics which include inflation adjustments (SWS uses inflation forecasts published by HM Treasury). SWS has in place inflation linked debt and derivatives to mitigate some of this risk.
- **Outturn interest rates are different to forecast:** SWS's financial projections make assumptions about future levels of interest rates when assessing net interest payable. SWS has in place interest rate derivatives and issues fixed rate debt to mitigate some of this risk.

The likely individual financial impact of these risks has been estimated and used in the construction of severe, but plausible, downside scenarios. In developing these scenarios, we have considered combinations of risk factors and the potential correlations between risk factors.

Stress test	Link to principal risks	Specification of stress test
ODI or statutory penalty	Operational risks	Significant one-off penalty in year with lowest headroom.
Increased expenditure	Operational risks Corporate risks	Increased expenditure as compared to allowances assumed in our plan (+5% p.a.).
Macroeconomic shock, low inflation	Financial	Inflation forecast reduced by 5% across the plan.
Macroeconomic shock, high inflation	Financial	Inflation forecast increased by 5% across the plan.
Macroeconomic shock, higher interest rates	Financial	Interest rate increase by 1% from current assumptions.
Combined operational scenario	Operational risks Corporate risks	5% overspend to 2030 combined with the financial penalty and high inflation.
Combined operational scenario	Operational risks Corporate risks	5% overspend to 2030 combined with the financial penalty and low inflation.

## Assessment of results and mitigating actions

There is limited financial flexibility within the assessment period to 2030. This is primarily the result of a significant mandated level of planned expenditure to improve resilience of SWS assets, to accommodate population growth in the Southeast, and to reduce the impact on the environment from the treatment and processing of water and wastewater.

For the period to 31 March 2025 SWS will have spent an additional £1.3 billion above the Final Determination to improve asset resilience whilst also incurring significant unexpected costs arising from high energy prices, high inflation, operational incidents, and maintaining service during periods of severe weather.

Should a severe weather event occur (or a greater number of events in succession), management believes that the costs can be accommodated, although it (or any other significant one-off cash cost) may require rephasing of borrowing and spending plans. ODI penalties incurred during the period and customer reparation to 2025 also reduce customer receipts. Significant resource has been invested in a turnaround plan, which has resulted in cash out-flows and higher borrowing in the short term but is expected to achieve continued improvement in performance by the end of 2025.

The additional investment to 2025 is expected to improve operational resilience for the period 2025–30. The requirement for further investment will, however, result in limited financial flexibility as the 2025 to 2030 investment plan

is expected to be around 50% larger than the plan determined for the period to 2025.

A consequence of the significant increase to planned spend is that even if dividends could be made, they will not be declared by SWS during the remainder of AMP7. This, in addition to the receipt in October 2023 of £375 million of new equity, contribute to the financing of enhancement expenditure. Restricting dividends is, therefore, not available as a mitigation to increased expenditure in the current year, although this becomes an option in AMP8.

SWS is in a credit rating trigger event as a result of current ratings as well as in debt covenant trigger event under its debt documents. There is a risk of a further downgrade if SWS is unable to deliver its planned improvement to operational performance and business efficiency for the remainder of the current regulatory period to March 2025. SWS also expects the debt covenant trigger event to continue for the remainder of the current period to 2025 as a result of the impact on financial ratios of significant additional expenditure.

Credit ratings and financial ratios including gearing are expected to improve during the period from 2025 to 2030 towards the targets set by Ofwat as a result of improved operational performance from the significant additional expenditure in the period to 2025, plus the natural reset associated with a new five-year regulatory period, including the cessation of customer reparation from 2025.

## Viability statement continued

Therefore, SWS is expected to be out of trigger event for the period 2025–30. There is, however, a risk of a trigger event during the period 2025–30 if operational performance does not adequately recover by 2025 and if increased expenditure cannot be effectively mitigated within planned expenditure to 2030.

A trigger event would result in restrictions on the payment of dividends and for SWS to prepare a plan, for the Security Trustee, of how it plans to recover from trigger. SWS obtained a waiver from its lenders in 2021 to permit continued access to financial indebtedness, and to finance the business in a credit rating trigger event or a financial ratio trigger event to March 2025. A further waiver and extension to March 2035 was secured as part of its new equity raise in 2023.

A default event is considered unlikely and does not materialise in any of the scenarios tested.

For each of the scenarios tested, we have identified appropriate mitigating actions if stress tests would result in projected metrics deteriorating materially. These mitigating actions are set out in the table below.

### Viability

The Board has assessed the viability of SWS to the period 31 March 2030. In doing so, it has considered SWS's current financial and operational position, the principal risks facing the company and resulting stress tests, and the impact of mitigating actions.

The other companies in the Greensands group are principally in place to support the viability of the regulated business. The Board has taken into consideration the activities of these companies (pages 108 to 111) as well as the overall group structure and is satisfied that it poses no additional risk to the financial flexibility of SWS.

In making their assessment, the directors have assumed that the capital markets will be available to provide funding for the significant capital investment programme as well as for the refinancing of debt, credit facilities and financial derivative maturities when due. The directors anticipate the ability to raise new finance and a stable and supportive regulatory environment.

The Board is satisfied that it has sufficient information to judge the viability of the company and has a reasonable expectation, based on the assumption that it will be possible to raise additional debt, that the company will be able to continue to operate and meet its obligations over the period to 31 March 2030.

Severe but plausible scenario assessed	Potential impact on viability (pre-mitigation)	Possible mitigants available
Significant one-off penalty in year with lowest headroom.	Cashflow impact which increases net debt, increasing gearing, no breaches forecast.	<ul style="list-style-type: none"> <li>Review dividend assumptions</li> <li>Manage short-term working capital</li> <li>Review spend profile of capital programme</li> <li>Consider new sources of debt funding</li> <li>Close out derivative financial instruments in asset positions to generate cash</li> <li>Engage with ratings agencies and banks to discuss short-term impacts and renegotiate/obtain waivers for covenants</li> </ul>
Increased expenditure as compared to the allowances assumed in our plan (+5% p.a.).	Cashflow impact which increases net debt, increasing gearing. Potential breach of covenants and pressure on credit ratings without mitigants.	<ul style="list-style-type: none"> <li>Review dividend assumptions</li> <li>Manage short-term working capital</li> <li>Review spend profile of capital programme</li> <li>Cost reduction programme, with a focus on discretionary/non-essential items</li> <li>Consider new sources of debt funding</li> <li>Close out derivative financial instruments in asset positions to generate cash</li> <li>Engage with ratings agencies and banks to discuss short-term impacts and renegotiate/obtain waivers for covenants</li> </ul>
Inflation forecasts reduced by 5% across the plan.	Cashflow impact, index linked debt/derivatives and RCV will reduce. Due to proportionately higher RCV exposure to inflation, gearing increases. Potential breach of covenants and pressure on credit ratings without mitigants.	<ul style="list-style-type: none"> <li>Review dividend assumptions</li> <li>Manage short-term working capital</li> <li>Review spend profile of capital programme.</li> <li>Cost reduction programme, with a focus on discretionary/non-essential items</li> <li>Consider new sources of debt funding</li> <li>Close out derivative financial instruments in asset positions to generate cash</li> <li>Engage with ratings agencies and banks to discuss short-term impacts and renegotiate/obtain waivers for covenants</li> </ul>

Severe but plausible scenario assessed	Potential impact on viability (pre-mitigation)	Possible mitigants available
Inflation forecast increased by 5% across the plan.	Cashflow, index linked debt/derivatives and RCV will increase. Due to proportionately higher RCV exposure to inflation, gearing decreases. Potential pressure on cashflow related credit ratings without mitigants.	<ul style="list-style-type: none"> <li>Review dividend assumptions</li> <li>Manage short-term working capital</li> <li>Review spend profile of capital programme</li> <li>Cost reduction programme, with a focus on discretionary/non-essential items</li> <li>Consider new sources of debt funding</li> <li>Close out derivative financial instruments in asset positions to generate cash</li> <li>Engage with ratings agencies and banks to discuss short-term impacts and renegotiate/obtain waivers for covenants</li> </ul>
Interest rates increase by 1% from current assumptions.	Increase in new debt cost, cashflow impact, offset in part by interest receivable. Limited impact due to high proportion of fixed rate debt.	<ul style="list-style-type: none"> <li>Review dividend assumptions</li> <li>Manage short-term working capital</li> <li>Review spend profile of capital programme</li> <li>Proactive pre-hedging of new debt issuance</li> </ul>
5% overspend to 2030 combined with the financial penalty, and high inflation.	Cashflow, index linked debt/derivatives and RCV will increase. Due to proportionately higher RCV exposure to inflation, gearing decreases. Potential pressure on cashflow related credit ratings without mitigants.	<ul style="list-style-type: none"> <li>Review dividend assumptions</li> <li>Manage short-term working capital</li> <li>Review spend profile of capital programme</li> <li>Cost reduction programme, with a focus on discretionary/non-essential items</li> <li>Consider new sources of debt funding</li> <li>Close out derivative financial instruments in asset positions to generate cash</li> <li>Engage with ratings agencies and banks to discuss the short-term nature of the impacts and renegotiate/obtain waivers for covenants</li> </ul>
5% overspend to 2030 combined with the financial penalty, and low inflation.	Cashflow, index linked debt/derivatives and RCV will increase. Due to proportionately higher RCV exposure to inflation, gearing increases. Potential pressure on cashflow related credit ratings without mitigants.	<ul style="list-style-type: none"> <li>Review dividend assumptions</li> <li>Manage short-term working capital</li> <li>Review spend profile of capital programme</li> <li>Cost reduction programme, with a focus on discretionary/non-essential items</li> <li>Consider new sources of debt funding</li> <li>Close out derivative financial instruments in asset positions to generate cash</li> <li>Engage with ratings agencies and banks to discuss short-term impacts and renegotiate/obtain waivers for covenants</li> </ul>

## Governance and assurance

The Board has reviewed the company's medium-term plan and reviews the company's principal risks from a strategic perspective, which form the basis of the stress tests modelled.

The Audit Committee supports the Board in reviewing the results of the analysis as part of its normal procedures. To support the Board in its assessment, a third-party assurance was obtained over the calculations applied to the financial projections for the LTVS in 2021.

The Strategic Report, including the directors' Section 172(1) Statement, on pages 13 to 129, was approved by the Board of Directors and signed on its behalf by:

**Richard Manning**  
General Counsel and Company Secretary

8 July 2024

# Corporate governance



## Chair's overview



Keith Lough  
Chair

“

We remain steadfast in our resolve to provide services at costs that represent value, and which allow us to invest for the longer term in wider environmental protections, not least to our iconic Hampshire chalk streams.”



Read about our Board composition on page 141.

It has been my privilege to lead the Board of Southern Water for a fifth year.

I pay tribute to the professionalism, dedication and commitment of my Board colleagues for steering the company through another year, in which we have seen both real progress and continuing challenges. The past year has also given us the opportunity to chart our way beyond the immediate issues to the longer term, and to lay the ground for much needed substantial investment in our networks and our environment.

The Board sits in a critical position, balancing the interests of our customers, public authorities, our colleagues, our investors and our many other stakeholders. We look both to the short term, not least our Turnaround Plan, and to the long term, including the major environmental investments needed. We remain steadfast in our resolve to provide services at costs that represent value, and which allow us to invest for the longer term in wider environmental protections, not least to our iconic Hampshire chalk streams. We must also always ensure the financial resilience of the company, balancing these critical trade-offs is at the heart of our governance work. I believe the Board has discharged this fundamental role in a responsible and proper way.

Our major focus during the year has been on setting future strategy, particularly in the context of preparing our submission for the next investment period 2025–30 (PR24) to Ofwat. Our thinking was led by a sub-group of the Board working with the Executive to chart the options for bringing new water resources into the region and improving environmental resilience as asked for by our customers.

The Board itself was closely engaged with all the major decisions, which underpin the final submission. At its heart it proposes an £8 billion investment programme over the five-year period. Our shareholders have given their support to this proposal.

Not only did we look to the immediate five-year investment period, but we also looked to the much longer-term challenges we will face and charted scenarios to meet them. We challenged the Executive to come up with new ways of partnership working, including with our local authorities, to effectively implement such large-scale future investment. We have also devoted much attention to the shorter-term Turnaround Plan, ensuring that this is properly funded and actioned.

We listened closely to our customers, who stressed to us the importance they place on protecting the environment. We have also focused attention on the support that can be provided to more vulnerable customers as they cope with the increasing costs of living, and we are expanding the reach of our schemes to help these customers.

The Board has also had to devote attention to unexpected events, not least a major cyber attack and data compromise in early 2024. This occurred despite our best preparations and management of our cyber defences. We oversaw the operation to work with expert cyber investigators to protect the position of a number of customers whose data had been compromised. Regrettable as the incident was, I believe that as a Board we ensured that the company took proper and prompt action.

We also suffered a number of pollution incidents caused by extreme weather conditions and other factors. The Board spent time on detailed root-cause analysis and oversaw major remedial actions, as part of our Pollution Incident Reduction Plan. The Board has challenged management to continue to drive its approach to reducing pollutions and improving the self-reporting of any such incidents.

We continue to focus on the management of risk – including regulatory risk, the risks from per- and polyfluoroalkyl substances (PFAS) chemicals and restrictions on the disposal of sludge on land. These, and other factors, may provide a new set of challenges for us to contend with in the future.

We have maintained a focus on the culture of the company and we believe that our values, our code of ethics and our commitment to responsible business are now fully embedded throughout the company. The Board has continued to pay attention to colleague survey results – which show consistent engagement, and guide our improvement initiatives.

As a Board, we welcomed the announcement in August 2023 that funds managed by our major shareholder, Macquarie Asset Management, had agreed to invest an additional £550 million of equity into the Southern Water group. This additional funding has helped maintain the momentum of our Turnaround Plan, while managing the impact of the higher inflation and interest rate environment on our operating, maintenance and funding costs. I am also grateful to Macquarie who throughout the price review process have engaged, particularly through their appointed Board non-executives, in a productive debate about investment, impact, and value. As with the rest of our sector, investment in our company is a long-term business, underpinned by the prospect of stable revenues over the period.

The year has seen various changes to Board membership; with our Nomination Committee overseeing the appointment of two new independent non-executive directors, Kerensa Jennings and Christèle Delbé. Two new non-executive directors joined the Board, Phil Swift in May 2023 and Neil

Corrigall in November 2023. Mark Mathieson resigned as a non-executive director in October 2023. Neil Corrigall assumed the role of workforce NED.

The Nomination Committee keeps Board membership under review and looks to fill gaps to ensure an appropriate range of skills and experience, as well as diversity. We also look for Board colleagues who can engage robustly and properly with their role as non-executives. Lawrence Gosden has almost completed two years as Chief Executive Officer and has given strong leadership to the company in this period. Stuart Ledger joined as Chief Financial Officer at the beginning of 2023 and in his first full financial year with the company has acted to bolster our financial resilience.

I thank the Chairs and members of our permanent committees and also of the committees and Board working groups (for example for the Price Review, Water for Life – Hampshire, Water Resources Planning and Cyber) set up to help take our business forward. Without the detailed scrutiny these committees and groups have been able to give to the issues within their remit the business of the Board could not have been conducted in such a diligent way. They also provide a means for our Board members to engage more informally with the Executive and to bring to bear the value of their experience in a more direct way. We have changed the responsibilities of several committees throughout the year, a more detailed overview of the work of these committees and groups is given on page 146.

During the year, we have kept corporate governance under review. We are required to meet the objectives set out in Ofwat's Board Leadership, Transparency and Governance Principles (the 'Ofwat Principles'). We set out our assessment of our compliance with the Ofwat Principles on pages 177 and 178. In addition, the Board has further sought to embed more consistently its consideration of section 172(1) factors in its decision making. Our section 172(1) Statement can be found on pages 88 to 91 of our Strategic Report.

As Chair, I have engaged with, and heard directly from key stakeholders, to ensure that we, as a Board, understand the issues and priorities of others.

A separate overview of the main areas on which the Board has focused during the year is at page 142.

**Keith Lough**  
Chair

8 July 2024

# Overview of corporate governance

This section sets out an overview of requirements on the Board and its compliance with those requirements. The Board has monitored developments in corporate governance requirements during the year and always aims to improve its process and practice.

## Ofwat's Board Leadership, Transparency and Governance Principles

Our starting point is Ofwat's four high-level principles:

### 1. Competence and independence

**Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.**

Committees and associated ad-hoc working groups have given the Board the ability to exercise oversight carefully and deeply across all aspects of the company's business. Each committee has a strong independent director component. The Board and its committees demand and receive high-quality analysis and proposals from the Executive. Board members are also able to bring to bear their own experience and background and ensure there is a wider knowledge base to draw on and enhance the quality of decision making.

### 2. Purpose, values and culture

**The regulated company Board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.**

The Board's key strategy activity during the year was its engagement with the Price Review process for the investment period 2025–30. This required the Board to look long and deep at the company's purpose, strategy and values, for the immediate period and for the very long term. The Price Review involved extensive stakeholder consultation and listening. The Board has maintained its focus on reinforcing a strong ethical culture as a bedrock of the business and a condition of trust with our customers, our regulators and other stakeholders.

### 3. Effectiveness

**The regulated company has an effective Board with full responsibility for all aspects of the regulated company's business for the long term.**

The Board has worked effectively during the year. It provides a forum in which the views of executive directors, non-executive shareholder directors and independent non-executive directors can debate issues clearly and transparently and come to agreed decisions. Through its committees the Board has a direct view of all aspects of the regulated business and is able to hold executives to account for different aspects of the company's performance.

### 4. Transparency and accountability

**The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.**

The Board aims to ensure strong openness and transparency. This report sets out who Board members are, our skills and qualifications for the job, how we work and the key issues we have examined during the year. We believe that the combination of skills and experience, including a majority of non-executive members gives the Board a strong and independent perspective on the governance of the company.

Section 'Ofwat Principles' on pages 177 to 178 sets out in table form more detailed cross references to the sections of this report which show the Board's compliance with the principles.

## Financial Reporting Council Corporate Governance Code

During 2024, the Financial Reporting Council (FRC) issued updated Corporate Governance Code Guidance. As the FRC states, the guidance is very much a prompt for board's to examine their own competence and improve their effectiveness. There are a number of issues in the guidance to which the Board will be giving its attention, for example the consolidated good practice guidance for the successful management of committees and guidance on performance reviews. The Board has kept up to date with changes to controls declarations.

## Board effectiveness and Chair evaluation

The Board conducted an evaluation led by the Nomination Committee. See page 161 to 162.



# Board of directors



**Keith Lough**  
Chair

## Non-executive

**Independent:** On appointment

## Committee membership:



\*until 31/07/2023

## Date of appointment:

01/08/2019

## Experience:

Keith has extensive experience in the natural resources and energy sectors in both finance and leadership roles, including as finance director for British Energy plc between 2001 and 2004 during a period of major restructuring.

In addition, Keith served as non-executive chair of Gulf Keystone Petroleum plc following a successful debt restructuring. Immediately prior to his appointment to the Board of Southern Water, Keith was a non-executive member of the Gas and Electricity Markets Authority (Ofgem), where he was chair of the audit and risk assurance committee, having served on the board since 2012.

Keith holds an MA in economics and MSc in finance and is a Fellow of the Association of Chartered Certified Accountants.

## External appointments:

Keith is a non-executive at Hunting plc and Rockhopper Exploration plc as a senior independent director.



**Lawrence Gosden**  
Chief Executive Officer

## Executive

**Independent:** No

## Committee membership:

N/A

## Date of appointment:

01/07/2022

## Experience:

Lawrence joined Southern Water in May 2020 and was appointed to the Board on 1 July 2022 when he was appointed CEO.

Lawrence brings significant experience to the Board having worked in the water sector for over 30 years. He has a track record for successful operational and capital programme delivery and a wealth of experience delivering major infrastructure programmes, asset management, customer service and operational transformation alongside the provision of impactful and inclusive strategic leadership.

Prior to his return, to Southern Water, Lawrence spent 12 years at Thames Water in a variety of senior executive and leadership positions. Notably, he was managing director for wastewater and subsequently chief operating officer.

Lawrence gained a first-class honours degree in engineering before starting his career as a graduate at Southern Water.

## External appointments:

Lawrence is a non-executive director at National Highways where, among other things, he chairs their health and safety committee.

## Key

**A** Audit Committee

**E** ESG Committee

**N** Nomination Committee

**RI** H&S and Operational Risk Committee

**RE** Remuneration Committee

**●** Committee Chair



**Stuart Ledger**  
Chief Financial  
Officer

#### Executive

**Independent:** No

#### Committee membership:

N/A

#### Date of appointment:

03/01/2023

#### Experience:

Stuart joined Southern Water as CFO on 3 January 2023.

He has held senior positions both inside and outside the water sector. Stuart was previously the CEO at Affinity Water and the CFO for Affinity for the four years prior to that. Stuart's extensive experience in the industry also includes nine years at Thames Water as the CFO of the retail business and as group financial controller. Prior to this, he was financial controller at Wolseley, following almost eight years at EDF Energy.

#### External appointments:

Stuart is a director of Landlord Tap Limited, which is a website that gives details to water companies of those responsible for paying water or wastewater charges for their tenanted properties. He is also a trustee of Rett UK, a charity supporting sufferers of Rett Syndrome, as well as their families and carers.



**Mike Putnam**  
Independent  
non-executive  
director

#### Non-executive

**Independent:** Yes

#### Committee membership:

RI RE

#### Date of appointment:

26/09/2017

#### Experience:

Mike has over 25 years' experience leading and managing multiple businesses across development and construction. He is known for his values-based approach to leadership. He has since transitioned to a plural career with a portfolio of non-executive directorships.

Mike was president and CEO of Skanska UK between 2009 and 2017, responsible for a business with c.£1.8 billion revenues and 6,000 employees. Prior to this, he was executive vice president and main board director from 2001, as well as working across the group as a non-executive director on some of the international boards. Throughout his career he has been closely involved with the successful delivery of many high-profile projects and programmes.

Mike was a member of the Construction Leadership Council. He has also been chair of the Green Construction Board; a member of the CBI Construction Council; and a non-executive director of the Association of Consulting Engineers.

Mike is a Chartered Engineer and a Fellow of both the Institution of Civil Engineers and Royal Institute of Chartered Surveyors.

#### External appointments:

Mike currently serves on the boards of Network Rail, Arcadis NV, Bazalgette (Tideway) Tunnel Ltd and Finning Inc.

## Board of directors continued



### Non-executive

**Independent:** Yes

### Committee membership:

**E**

### Date of appointment:

12/11/2018

### Experience:

Gillian joined the Board in November 2018.

Gillian is a lawyer and has a background in the public and voluntary sectors and consumer services. She was Chief Executive of the London Borough of Ealing before becoming Chief Executive of Victim Support and then Citizens Advice. She is currently the Independent Assessor for the Financial Ombudsman Service.

Gillian was awarded a CBE in 2015 for services to consumers and a Damehood in 2020 for services to the public and voluntary sectors .

Gillian served as a non-executive Board member and Chair of the Audit Committee of the National Audit Office and as a non judicial member of the Sentencing Council for England and Wales. She was previously Chair of the UK Finance Consumer Advisory Group and a member of the Financial Services Culture Board, formerly the Banking Standards Board.

### External appointments:

None.



### Non-executive

**independent:** Yes

### Committee membership:

**A RE RI**

### Date of appointment:

23/12/2019

### Experience:

Malcolm joined the Board in December 2019 and was appointed as Chair of the Audit Committee.

Malcolm worked for around 30 years at National Grid plc, British Gas plc and other companies. He was a member of the board of both National Grid Gas plc and National Grid Electricity Transmission plc.

Malcolm was previously a non-executive director of St. William. He is also a past president of the Association of Corporate Treasurers and was a member of the Listing Authority Advisory Panel of the FCA.

Malcolm has a degree in Pure Mathematics and is both a Fellow of the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.

### External appointments:

Malcolm is a non-executive director at: Morgan Sindall plc where he chairs the audit committee and the responsible business committee; MORhomes plc where he is senior independent director and chairs the credit committee; Local Pensions Partnership Investments Ltd where he chairs the audit and risk committee; and Custodian Property Income REIT plc where he chairs the audit committee.

### Key

**A** Audit Committee

**N** Nomination Committee

**RE** Remuneration Committee

**E** ESG Committee

**RI** H&S and Operational Risk Committee

**●** Committee Chair



**Christèle  
Delbé**  
Independent  
non-executive  
director

#### Non-executive

**Independent:** Yes

#### Committee membership:



#### Date of appointment:

31/05/2023

#### Experience:

Christèle Delbé is a sustainable business director with more than 18 years pioneering strategic initiatives and shifting behaviour to unlock tangible commercial benefits across food, consumer goods, technology and non-profit sectors. She is an issues expert on responsible supply chains and consumption, carbon, waste, packaging and human rights.

Christèle was head of innovation and partnerships for Bonsucro, where she shaped and secured £1.5 million in funding for seven multi-stakeholder impact programmes. She has also advised organisations including UNICEF, Solidaridad, RNIB and Producers Direct on developing strategic partnerships with the corporate sector. As supply chain solutions director at KSAPA, she is co-creating solutions for smallholder-led agriculture value chains with organisations including GPSNR, Reckitt Benckiser and Coca-Cola.

Previously, as head of sustainable innovation for the Vodafone Group, Christèle pioneered a programme that created four mobile products for Unilever, Nestle, Danone and Anglo American to address supply chain, community and water challenges in Africa and Asia. As group head of sustainability at Orange Group, Christèle embedded global sustainability strategy, ethics and reporting frameworks into seven countries.

#### External appointments:

Her current portfolio includes lecturing with the Cambridge Institute for Sustainability Leadership (CISL); consulting with KSAPA on smallholder value chain partnerships; trustee and interim chair at Producers Direct.



**Kerensa  
Jennings**  
Independent  
non-executive  
director

#### Non-executive

**Independent:** Yes

#### Committee membership:



#### Date of appointment:

31/05/2023

#### Experience:

Kerensa Jennings is an award-winning digital leader and adviser who has held senior leadership positions in the private, public and charitable sectors. Selected by Computer Weekly among the most influential tech leaders in the UK, she has served on a range of boards including commercial companies, social enterprises, charities and government committees.

A former director at the Royal Household where she was CEO of a Royal social enterprise based at Buckingham Palace, she was previously the BBC's head of strategic delivery and BT group director of data platforms, helping BT transform from telco to techco. Kerensa is also a professionally qualified executive coach and a bestselling author, and CEO of Inglenook Global Ltd.

#### External appointments:

Her current portfolio includes non-executive adviser and board member at Knight Frank, a global limited liability partnership; trustee at Sir John Soane's Museum; board member at Founders4Schols, visiting professor of Media, Strategy and Communications at University of Huddersfield; Fellow at RSA; and advisory board member at Digital Leaders, Noon, Digital Boost.

## Board of directors continued



**Steve Fraser**  
Non-executive  
director

### Non-executive

**Independent:** No

### Committee membership:

N/A

### Date of appointment:

01/05/2022

### Experience:

Steve has over 20 years' experience of managing and transforming infrastructure businesses latterly as chief operating officer and a main board director of the FTSE100 water and wastewater company United Utilities.

He has a degree in Management Studies and a Master's in Engineering Management from UMIST and also holds a diploma in Advanced Management from Harvard University.

After leaving education, Steve trained in utilities operations working across water, electricity, and latterly high-pressure gas pipelines.

He became a director of Bethell Group where he worked to establish them as a leading player in the energy services sector prior to joining United Utilities in 2005 to run the global outsourcing division Energy and Contracting Services working across the UK, Europe and the Middle East.

### External appointments:

Steve is the CEO at Cadent Gas, accountable for serving c.11 million customers across four gas distribution networks by operating the system and maintaining it safely as well as running the National Gas Emergency Number on behalf of all distribution networks.



**Will Price**  
Non-executive  
director

### Non-executive

**Independent:** No

### Committee membership:

RE N

### Date of appointment:

08/09/2021

### Experience:

Will joined the Board in September 2021.

Will joined Macquarie in 2007, and head the Utilities and Networks team for Macquarie Asset Management in EMEA.

Will has been involved in several acquisitions including Thyssengas, Czech Grid Holding, EP Infrastructure, E-Redes, MEIF Power Romania, National Gas and Last Mile Infrastructure. Will currently serves as a director on the board of EP Infrastructure and Czech Grid Holding.

As well as acquisitions, Will has experience across disposals, debt financing, regulation, operational improvement, restructurings and carve-outs.

Will has a Bachelor of Science in Economics and Politics from the University of Bristol, UK. He also holds a Master of Finance from INSEAD Business School, France.

### External appointments:

Will is currently a director on the board of Czech Gas Networks, EP Infrastructure and National Gas.

### Key

**A** Audit Committee

**E** ESG Committee

**N** Nomination Committee

**RI** H&S and Operational Risk  
Committee

**RE** Remuneration Committee

**●** Committee Chair



**Non-executive Independent:** No

**Committee membership:**



**Date of appointment:**

29/11/2023

**Experience:**

Neil is an Operating Partner for Macquarie Asset Management.

Prior to joining MAM, Neil held multiple leadership roles at Severn Trent Plc covering regulation, strategy, business development, M&A and corporate finance. Most recently he had full P&L and operational accountability for the group's diversified renewables division, Severn Trent Green Power, covering biomethane production from waste, onshore wind, solar and hydro power. Before that, Neil was a management consultant at McKinsey & Company focusing on utilities, energy and infrastructure and at Coca-Cola as a strategy analyst. He has an undergraduate degree in Industrial Engineering and holds an MBA from London Business School.

**External appointments:**

Neil serves as a non-executive director on the boards of Cadent Gas and Czech Grid Holdings, the largest gas distribution business in the Czech Republic.



**Non-executive Independent:** No

**Committee membership:**



**Date of appointment:**

31/05/2023

**Experience:**

Former President, National Grid Electricity Distribution (NGED)/CEO Western Power Distribution (WPD).

Phil joined WPD (then SWEB) in 1992 after graduating as an engineer and following an apprenticeship in the aerospace industry.

In July 2013, Phil was appointed to the board of WPD as operations director. In this role, he was responsible for the business' network services, design, logistics and safety and training activities. In November 2018, Phil was appointed as chief executive.

In July 2020, Phil supported the sale process of WPD. This completed successfully in June 2021 with the acquisition by National Grid plc. WPD was renamed and rebranded in mid 2022.

Phil left NGED at the end of March 2023.

**External appointments:**

Elenia Oy, Finland.



**Committee membership:**

Secretary to all Committees

**Date of appointment:**

24/07/2018

**Experience:**

Richard joined Southern Water in July 2018 as General Counsel and Company Secretary and has overall responsibility for risk and assurance alongside his legal and governance roles. He is a member of the Executive Committee and the Executive Leadership Team.

He has held similar roles in a number of listed and private companies including GCap Media plc, JJB Sports plc and Waterstones, and brings a wide experience of legal and governance matters.

Richard holds a law degree and an MBA and is a qualified solicitor.

**External appointments:**

None.

Other Board members who served in 2023–24 were Mark Mathieson, non-executive director who resigned from the Board on 31 October 2023.

## Board of directors continued



Read about how we are planning for the future on pages 10 and 11.

### Our Board's composition (as at 30 June 2024)

#### Board composition

There have been a number of changes in the composition of the Board during the year, as previously reported, with the Nomination Committee appointing two new independent non-executive directors, Kerensa Jennings and Christèle Delbé. Two new non-executive directors joined the Board, Phil Swift in May 2023 and Neil Corrigan in November 2023. Mark Mathieson resigned as a non-executive director in October 2023. Neil Corrigan assumed the role of workforce NED.

Keith Lough has served as Chair since 1 August 2019. Will Price and Neil Corrigan are also directors of the company's ultimate parent company, Greensands Holdings Limited.

As at 31 March 2024, women made up 25% of the Board (three out of 12 directors). The company is committed to having a diverse workforce that reflects the communities it operates in. The company publishes a Gender Pay Gap Report. Our report showed that the median pay gap remains in favour of female employees at -7.18%. In terms of the bonus gap, we saw an increase to 23.80% in favour of male employees, predominantly driven by the composition of the Executive team during the 2022–23 period, before the composition changed with the arrival of new female executives.

We are committed to supporting the aspirations of our talented female workforce and have implemented plans to address the gender pay gap. Read the full [report](#).

In accordance with good governance practice, the roles of the Chair and Chief Executive Officer are separate.

#### Board gender profile



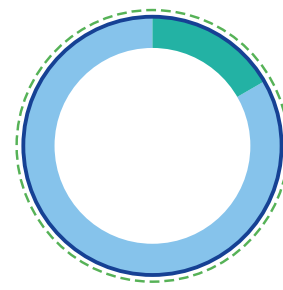
- Male (9)
- Female (3)

#### Board independence



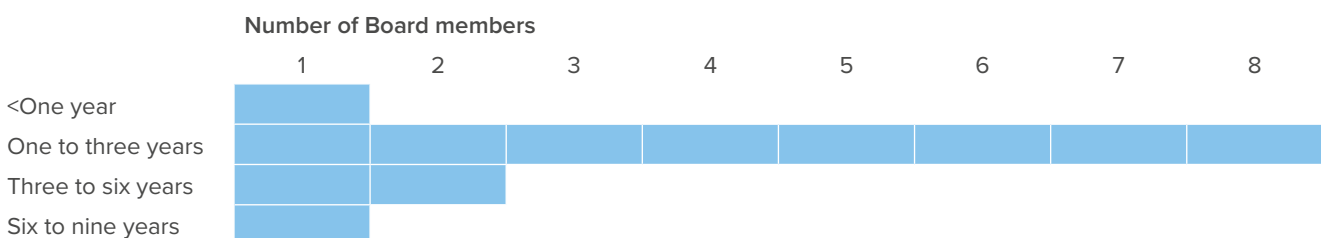
- Executive (2)
- Independent on appointment (1)
- Independent (5)
- Shareholder nominated (4)

#### Executive and non-executive directors



- Executive (2)
- Non-executive (10)

#### Board tenure



# Governance at a glance

## It has been another full agenda for the Board this year.

### Operational performance

- Tracking progress against our Turnaround Plan.
- Water quality: To deliver improved water quality and resilience at four key sites.
- To deliver the company's leakage target.

### The environment

- Overseeing performance on flow monitoring and compliance.
- Approving 2024 Pollution Incident Reduction Plan to drive improved performance.
- To deliver resilience through our Water for Life – Hampshire programme, Water Resource Management Plan and Drought Plan.

### Cyber

- Support and challenge of cyber security strategy.
- Support on the response to the recent cyber security attack.

### Price Review 24

- Developing the business plan 2025–30.

## Committee highlights

### Nomination Committee

#### Areas of focus this year:

- Recruitment and onboarding of two new independent non-executive directors.
- Promotion of Board and Executive diversity.
- Conducting an internal Board and Chair review.

#### Priorities for 2024–25

- Recruitment and onboarding of a new independent non-executive director to replace Mike Putnam.
- Succession planning.
- Externally facilitated Board effectiveness review.

### Audit Committee

#### Focus:

- Annual and interim financial statements.
- Non-financial assurance.
- Progress on undertakings and commitments given to our regulators.
- Compliance and controls.

#### Priorities for 2024–25

- Assurance of our business plan for the period 2025–30.
- IT and compliance controls.

### Health and Safety and Operational Risk Committee

#### Areas of focus this year:

- Impounding reservoirs.
- Operational safety, toxic gas and chemical supply and enterprise risk.

#### Priorities for 2024–25

- Delivering progress against the Health, Safety, Security and Wellbeing Transformation Plan.
- Wellbeing.
- Security.
- Safety risks .

### Remuneration Committee

#### Areas of focus this year:

- Setting and reviewing executive remuneration, objectives and KPIs.
- Gender pay gap and reporting.

#### Priorities for 2024–25

- Environmental and customer KPIs and objectives.
- Incentives to achieve the Turnaround Plan.

### ESG Committee

#### Areas of focus this year:

- Net zero plans.
- Customers in vulnerable circumstances.
- Feedback from customer challenge groups.
- Clean rivers and seas.
- Equality, diversity and inclusion and colleague engagement.

#### Priorities for 2024–25

- Culture and E, D&I strategy.



## Governance at a glance continued



Read about our Board committees on page 145.

### How we are becoming a more resilient organisation and ensuring long-term success Our journey of delivering better outcomes for customers

As a provider of essential water and wastewater services to customers in the South East, the company's and the Board's focus is on improving our performance to deliver for our customers. Owing to the nature of our business and the 25-year licence to supply services, the Board and company must take a long-term view in order to ensure provision of services in the future within a challenging and changing environmental, demographic and regulatory context.

#### Delivering operational performance through our turnaround plans

To support the delivery of our 2020–25 business plan, the Board has overseen and approved the next phase of the company's transformation, through the development of the company's turnaround plans. These plans, while delivering a short, sharp, ambitious improvement by 2025, will ensure that the company is on a solid operational footing to deliver its long-term plans.

### Water resource planning that is fit for the future

In addition to considering and supporting the development of the company's long-term water resource management plans, the Board endorsed the development of a programme of work to reduce risk at four of the company's strategic water sites, therefore, improving the improving water quality and supply resilience for customers in the short, medium and long term.

The Board has spent a significant amount of time on the development of the company's plans for 2025–30 having consideration for the company's priorities, what our customers want from us, and delivery of an affordable plan that protects our vulnerable customers.

#### Listening to our customers and stakeholders

Having approved a number of additional investments last year to improve our environmental performance, the Board has continued to listen to customers and stakeholders to take bold steps to reduce the impact the company has on the environment through the use of storm overflows. The Board approved accelerated funding to tackle storm overflows and reduce spills and has continued to monitor the company's plans to reduce the number of pollution incidents.

# Corporate governance report

1

## Competence and independence

Boards and their Committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

**“The diversity of skillsets that our Board brings is critical in the delivery of the company's ambitious plans.”**

**Keith Lough**

8 July 2024

## Overview of the Board's responsibilities

The Board's role is to:

- Establish the company's purpose, strategy and values,
- Develop and promote the company's purpose in consultation with a wide range of stakeholders;
- Determine overall strategic aims and direction consistent with the company's purpose;
- Monitor and assess the company's values and culture to ensure that behaviour throughout the business is aligned with its purpose;
- Have full responsibility for all aspects of the company's regulated business in the long term;
- Ensure obligations to, and interests of, all company stakeholders are known and met appropriately;
- Provide effective leadership and collective responsibility for the long-term success of the company for the benefit of its members, taking into account the interests of a wide range of stakeholders, including customers, local communities, employees, suppliers and the company's impact on the environment;
- Ensure that sufficient resources are available to the CEO and his team to operate, manage and develop the business appropriately; and
- Ensure that appropriate and effective processes and controls are in place to assess and appropriately manage risk.

## Greensands Holdings Board

The shareholders' agreement of our parent company, Greensands Holdings Limited reserves certain matters by exception to the board and shareholders of that company. This includes the company's dividend policy, which can be found on page 102. While the policy governing dividends is subject to shareholder approval, the decision whether or not to recommend payment of a dividend from Southern Water Services Limited sits with the Southern Water Board. A schedule of those matters reserved to Greensands Holdings Limited is published at [southernwater.co.uk/greensands-ownership-of-southern-water](https://southernwater.co.uk/greensands-ownership-of-southern-water).

During the year 2023–24, a number of matters required shareholder and/or Greensands Board approval. These included approval of the annual budget.

## Corporate governance report continued



Read about the Board's priorities during the year on page 147.

### 1. Competence and independence continued

#### Shareholders

#### Greensands Holdings Limited Board of Directors

Certain key matters are reserved to the Board of Greensands Holdings Limited and/or the shareholders.

#### Southern Water Services Limited Board of Directors

The Board of Southern Water is ultimately responsible for the company.

#### Executive Committee (ExCom)

Comprising the Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary, Chief Customer Officer, Chief People Officer, Chief Information and Transformation Officer, Managing Director – Water, Managing Director – Wastewater, Director of Corporate Affairs and Director of Transition, it meets to agree areas of strategy and other matters critical to the company.

#### Executive Sub-Committees

The ExCom, alongside members of the company's senior leadership team, support the CEO in driving the implementation of strategy in the company. Comprised of the senior leaders of the functions and operational units, the Executive Sub-Committees meet regularly to:

- Consider performance and make decisions on operational matters;
  - Oversee the company's transformation programme; and
- Consider health, safety, security and wellbeing, ESG and risk and compliance.

## The Board

- Has full responsibility for the company's business over the long term.
- Establishes the company's purpose, values and culture and sets its strategy.

## Audit Committee

- Monitors the integrity of the company's financial statements by challenging the basis of preparation and the judgments made.
- Monitors the integrity of non-financial information reported by the company.
- Keeps under review the company's internal controls and risk management systems.
- Reviews the company's overall risk appetite, tolerance and strategy and level of resilience.
  - Oversees Internal Audit and the relationship with the external auditor.

## Health and Safety and Operational Risk Committee

- Monitors and advises on health, safety, security and wellbeing and makes appropriate recommendations to the Board.
  - Reviews and monitors operational risks and related risk management systems.

## ESG Committee

- Reviews and provides oversight and consideration of the material environmental, social and governance matters relating to the company's activities.
  - Monitors the company's culture including employee engagement, equality, diversity and inclusion and community engagement.
    - Oversees the company's environmental plans.

## Nomination Committee

- Reviews the size, structure and composition of the Board.
- Evaluates the balance of independence, skills, experience and diversity on the Board.
- Leads the process for identifying and nominating candidates for approval by the Board of directors.

## Remuneration Committee

- Sets remuneration policy for all Executive Directors and the Chair.
  - Recommends and monitors remuneration for senior leaders.
- Approves the design of, and determines targets for, any performance-related pay schemes.
  - Reviews the design of all long-term incentive plans.
  - Oversees major changes to employee benefit structures.

# Corporate governance report continued

## 1. Competence and independence continued

### What the Board has done during the year

Key areas of focus	The Board's focus	Matters considered during the year (examples)
Set company purpose, strategy values and goals	The Board devoted considerable energy and time during the year to developing the submission to the Price Review process for 2025–30 (PR24). A Board working group oversaw this work on behalf of the Board. The Board itself spent a dedicated strategy day to the important issues, which needed to be resolved in shaping our response to PR24 and continued to devote time to the issues at subsequent meetings. This work required us to look at the very long term and to chart specific scenarios for the future. Our final submission to Ofwat represented the product of the Board's deep engagement with the future strategy of the company and the investment required to deliver that strategy. In parallel, the Board has driven a number of related strategies including Water for Life – Hampshire, which has at its heart proposals for a new reservoir to ensure long-term continuity of water supply.	<ul style="list-style-type: none"> <li>• PR24</li> <li>• Water for Life – Hampshire</li> <li>• Water Resources Management Plan</li> <li>• Drought Plan</li> <li>• PFAS chemicals long-term impact</li> </ul>
Monitor values and culture	The Board continued to monitor the values and culture of the company. After the major efforts of the last three years to establish a culture with a strong ethical base, the Board's attention has been on ensuring that this culture is embedded. The Board continues to believe that a strong culture among all our employees and the wider community who work with us, is vital to our future business success and to avoiding some of the issues that have caused damage in the past. The main instruments for the Board's monitoring of culture have been through the colleague survey and Employee Voice group. We have given attention to a number of underpinning policy statements, e.g. modern slavery policy.	<ul style="list-style-type: none"> <li>• Colleague engagement results</li> <li>• Report from ESG Chair</li> <li>• Code of ethics</li> </ul>
Engage with stakeholders	The Board engages in a number of engagement activities, formal and informal. The Board's ability to connect, to listen to and to translate into action views from our customers, our employees and our much wider stakeholder community is a critical strength on which to base our decisions about the future of the company. The process, which went into the PR24 submission, involved formal engagement with customers and wider stakeholders in our region. We listened to our customers' priorities and heard strong messages about the view they attach to environmental issues. The Board has given particular attention to the position of customers less able to pay and the effects of cost-of-living rises on them. We have put in place a number of schemes to alleviate their position.	<ul style="list-style-type: none"> <li>• Engagement exercise as part of PR24 process</li> <li>• Consideration of pricing and schemes to mitigate hardship as part of PR24</li> <li>• Customer plan</li> <li>• External liaison activities</li> </ul>
Hold the Executive to account for performance	The Board has had a major focus on the Turnaround Plan. We have looked in detail at some of the causes of shortcoming in performance and of pollution incidents. We have held the Executive to account for remedying performance, both through short-term measures and our consideration of the longer-term investment needed to improve our network for the future. We have held 'deep dives' on a number of matters. The Board regularly monitors leakage and pollution incidents. The Board recognises that progress has been made against key targets but knows there is much further to go and is constantly seeking to secure improvements in these critical aspects of the company's performance.	<ul style="list-style-type: none"> <li>• CEO, CFO and operational performance reports</li> <li>• Turnaround Plan</li> <li>• Water leakage reports</li> <li>• Bathing Water performance reports</li> <li>• Deep dive on pollution</li> <li>• Performance reporting in the months where there is no meeting</li> </ul>
Ensure that resources are deployed according to priorities	The Board maintains a continuous dialogue with its investors, not least through investor representation on the Board. The Board's task is to secure a balance between the interests of investors, including their right to expect a return for their investment, and the interests of the company in ensuring the vital investment needed to secure the future of its services. The Board believes that the company does enjoy financial resilience and will continue to use all its efforts to secure the trust of its investors and the proper interests of the company, its stakeholders, its customers and the environment.	<ul style="list-style-type: none"> <li>• Shareholder engagement</li> <li>• Condition P</li> </ul>
Oversee the management of risk	The Board considers risk as part of its cycle of meetings. The Board Health and Safety and Operational Risk and Audit Committees are the Board's principal mechanism for the detailed consideration of risk. The ESG Committee oversees the company's net zero plans.	<ul style="list-style-type: none"> <li>• Reports from Audit Committee</li> <li>• Reports from HSOR Committee</li> <li>• Reports from ESG Committee</li> </ul>
Ensure that the right processes and controls are in place	The Board considers processes and controls of substantive issues. It seeks to make improvements where it identifies the need. Following the criminal attack on our IT systems in 2023–24, the Board set up a Cyber Committee to oversee the company's response, including remediation. The Audit Committee also monitors key processes and controls for the Board.	<ul style="list-style-type: none"> <li>• IT and financial controls</li> <li>• Cyber</li> </ul>

## Board committees

In line with both the Board leadership, transparency and governance principles published by Ofwat and the UK Corporate Governance Code, as well as best practice, the Board has established a number of standing committees with specific responsibilities. These committees are:

### Audit

The Audit Committee has oversight of financial reporting matters, both internal and external auditors, and procedures for whistleblowing, internal controls and risk management systems.

### Health and Safety and Operational Risk

The Health and Safety and Operational Risk Committee has responsibility for monitoring and advising on operational risks and reviewing and monitoring health, safety, security and wellbeing performance.

### ESG

The ESG Committee oversees the material environmental and social matters relevant to the company's activities and supports the company in delivering its desired longer-term ambitions, plans and governance in key areas.

### Nomination

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and assessing the balance in terms of independence, skills, experience, expertise and diversity on the Board. The committee leads the process for identifying and nominating candidates to fill independent non-executive director vacancies.

### Remuneration

The Remuneration Committee has the responsibility for setting the remuneration policy and structure of the executive directors and senior executives. It is also responsible for setting the remuneration of the Chair.

These committees assist the Board by monitoring and reviewing performance and issues within their respective scopes. Specific responsibilities have been delegated to these committees.

Each committee has written Terms of Reference, which are published at [southernwater.co.uk/about-us/corporate-governance/](https://southernwater.co.uk/about-us/corporate-governance/). These Terms of Reference are reviewed at least annually.

In addition to the established committees, the Board constituted a committee to oversee the response to the Cyber event, Price Review 2024 and other regulatory submissions, including the Water Resource Management Plan and Drainage and Wastewater Management Plans.

Other committees are constituted if and when required for specific matters.

## Corporate governance report continued



Read more about the role of Board members on pages 151 to 152.

### 1. Competence and independence continued

#### Board meetings and attendance

A total of six\* Board meetings were scheduled to take place during the year.

The attendance at scheduled Board meetings during the year was as follows:

Member	Attendance
Keith Lough	6/6
Mike Putnam	6/6
Gillian Guy	5/6
Malcolm Cooper	6/6
Kerensa Jennings <sup>1</sup>	4/5
Christèle Delbé <sup>2</sup>	4/5
Phil Swift <sup>3</sup>	4/5
Mark Mathieson <sup>4</sup>	3/3
Steve Fraser	6/6
Will Price	6/6
Neil Corrigan <sup>5</sup>	3/3
Lawrence Gosden	6/6
Stuart Ledger	3/3

\*Short notice Board meetings were called for approvals and other matters, outside of the scheduled meetings. These are not included in the table above.

<sup>1</sup> Kerensa Jennings appointed 31 May 2023

<sup>2</sup> Christèle Delbé appointed 31 May 2023

<sup>3</sup> Phil Swift appointed 31 May 2023

<sup>4</sup> Mark Mathieson resigned as a director on 31 October 2023

<sup>5</sup> Neil Corrigan was appointed as a director on 29 November 2023

The agenda and papers are sent to Board members in advance of each meeting. A monthly performance report is distributed for the months when there is no scheduled meeting.

The Board usually holds its meetings at the company's head office in Worthing. The Board also holds some meetings at an operational site during the year. In addition to the scheduled Board meetings, the Board holds a strategy day each year in order to provide an opportunity to discuss the company's future strategy and plans.

Where a director has a concern over any unresolved matter, they are entitled to require the Company Secretary to record that concern in the minutes of a meeting. Should the director later resign over the issue, the Chair would bring it to the attention of the Board.

All members of the Board were, and are, able to allocate the necessary time to the company in order to be able to discharge their responsibilities effectively.





## Corporate governance report continued

### 1. Competence and independence continued



#### Chair

The role of the Chair is to lead the Board in its shared responsibilities, to encourage and facilitate the contributions of its members and to ensure adherence to the governance principles and processes of the Board. Keith Lough has served as the company's Chair since 2019. In line with the Ofwat Board leadership, transparency and governance principles as well as the UK Corporate Governance Code, Keith was viewed as independent on appointment.

The Chair discusses and agrees Board meeting agendas with the Chief Executive Officer and Company Secretary, although any director may sponsor an item to be included on the agenda. The Chair has authority to act and speak for the Board between its meetings, which includes engaging with the Chief Executive Officer. The Chair reports to the Board, chairs of its Committees and individual directors as appropriate on decisions and actions taken between Board meetings. The Chair also meets with the non-executive directors, without the executive directors present, to consider the performance of the executive directors and to provide feedback.

The Chair is not a member of the Greensands Holdings Limited (the company's ultimate parent company) Board.



#### Chief Executive Officer

The Chief Executive Officer is a member of the Board and has all the responsibilities of a director of the company. Lawrence Gosden has served as the company's Chief Executive Officer since July 2022. In his executive role, responsibility has been delegated to him to deliver the company's strategy. He is empowered to take all decisions and actions that further the company's strategy and which, in his judgment, are reasonable within the Chief Executive Officer's limits set out in the company's internal controls and matters reserved to the Board. The non-executive directors, led by the Chair, appraise his performance annually.



#### Chief Financial Officer

The Chief Financial Officer is a member of the Board with all the responsibilities of a director of the company. Stuart Ledger was appointed as the company's interim Chief Financial Officer in January 2023. In his executive role and reporting to Lawrence Gosden, he has the responsibility for managing the company's financial affairs and assisting the Chief Executive Officer in the delivery of the company's strategy. His performance is reviewed annually by the Chief Executive Officer.



#### Senior independent non-executive director

Gillian Guy is the senior independent non-executive director for the reporting period. Gillian chairs the ESG Committee and is also a member of the Nomination Committee.

As senior independent non-executive director, ordinarily, Gillian would chair Board meetings in the event that the Chair was unable to do so for any reason. In the capacity of senior independent non-executive director, she is available to discuss matters or concerns with investors as required.



### Independent non-executive directors

The largest group on the Board are the independent non-executive directors (which include the senior independent non executive directors) in accordance with the Ofwat Principles and as a matter of good governance practice. The number of independent non-executive directors is also in accordance with the company's licence conditions, which require at least three independent non-executive directors on the Board.

They provide independent advice and perspectives and review and challenge decisions and reporting on behalf of all stakeholders, including customers and employees. The independent non-executive directors have been appointed for their external expertise and experience in specific areas, such as customer service, the environment, operations, procurement, capital project delivery, regulation, transformation and general corporate management.

The non-executive directors also appraise the Chair's performance.

The standard terms and conditions for the appointments of independent non-executive directors can be viewed at [southernwater.co.uk/corporate-governance](https://southernwater.co.uk/corporate-governance).



### Shareholder representative non-executive directors

Under the terms of the Shareholders' Agreement, certain investors have a right to nominate for appointment non-executive directors to the Board of Southern Water. As a statutory director, such an individual has all the duties, obligations and rights of a director of Southern Water and, as such, act in accordance with the directors' duties set out in the Companies Act 2006, including those set out in section 172 to promote the success of the company for the benefit of its members as a whole, having regard to the long term and the interests of the company's stakeholders.

The funds managed by Macquarie Asset Management have nominated four directors – Will Price, Steve Fraser, Phil Swift and Neil Corrigan – to act as shareholder representative non-executive directors. Please refer to pages 134 to 138 for details of the background and experience of the shareholder representative non-executive directors.

Will Price does not receive any remuneration from Southern Water.



### Company Secretary

All directors have access to the advice and services of the Company Secretary, Richard Manning, and the Company Secretariat team. The Company Secretary is responsible for ensuring that the Board operates in accordance with the adopted governance framework and that there are good information flows to the Board and its committees and between senior executives and the non-executive directors. The appointment and removal of the Company Secretary is a matter reserved to the Board.

Directors are also able to obtain appropriate independent professional advice in connection with the performance of their duties.

# Corporate governance report continued



Read more about the skills and experience of the Board on pages 135 to 140.

## 1. Competence and independence *continued*

### Board independence

In accordance with the Board Leadership, Transparency and Governance Principles published by Ofwat, the majority of non-executive directors have been independent and independent non-executive directors were the largest single group on the Board throughout the year.

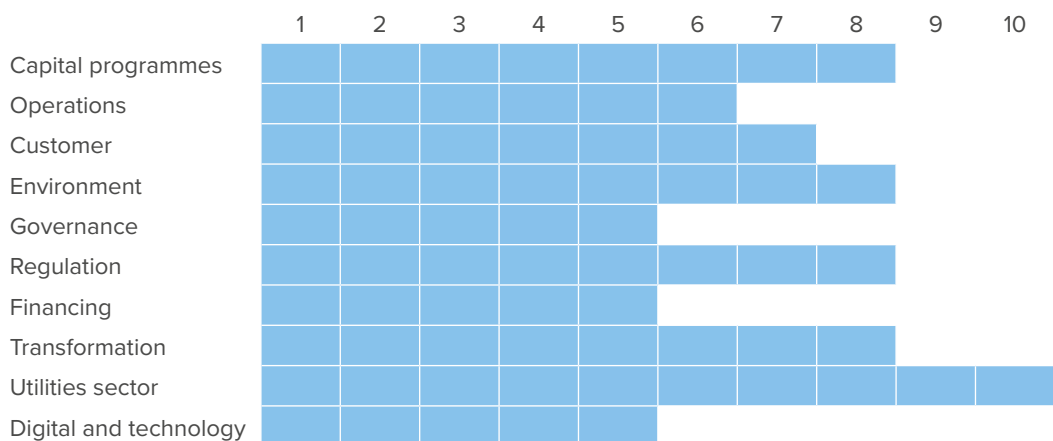
Following listed company best practice, the Board takes into account those matters listed in Provision 10 of the UK Corporate Governance Code as well as any other relevant circumstances or considerations in forming its assessment of the independence of directors.

The Board considers that the independent non-executive directors were throughout the year, and continue to be, independent in character and judgment and persons of standing with relevant experience, collectively having connections with, and knowledge of, the company’s area and understanding of the interests of our customers, communities, workforce, suppliers and the environment and how these can be respected and protected.

Conflicts or potential conflicts are governed by the Companies Act 2006. The Board does not have power to authorise conflicts under the company’s Articles of Association. If a conflict should arise, the conflicted director takes no part in discussions and may not vote on that issue. During 2023–24, no director declared a material interest at any time during the year in any contract of significance with the company.

### Balance of skills and experience of the Board (as at 30 June 2024)

The Board, as a whole, has an appropriate balance of skills, experience, independence and knowledge of the company, and the Board provides independent support and advice as well as new ideas and healthy challenge. The number of directors with significant and/or material skills, knowledge and experience related to the key areas necessary to deliver the company’s strategy is summarised below. Details of the individual Board members’ experience are on pages 135 to 140.



### Moving towards creating a resilient water future for our customers

In order to be able to deliver for our customers and the communities we serve, the Board requires a diverse range of skills and experience. The table above shows the current Board members in terms of their primary skills and experience.

## Board report

### Introduction

The Board takes full responsibility for setting the company's strategy and holding the executive to account for performance. Specifically, the Board's role is to:

- establish the company's purpose, strategy and values
- develop and promote the company's purpose in consultation with a wide range of stakeholders
- determine overall strategic aims and direction consistent with the company's purpose
- monitor and assess the company's values and culture to ensure that behaviour throughout the business is aligned with its purpose
- have full responsibility for all aspects of the company's regulated business in the long term
- ensure obligations to, and interests of, all company stakeholders are known and met appropriately
- provide effective leadership and collective responsibility for the long-term success of the company for the benefit of its members, taking into account the interests of a wide range of stakeholders, including customers, local communities, employees, suppliers and the company's impact on the environment
- ensure that sufficient resources are available to the CEO and his team to operate, manage and develop the business appropriately
- ensure that appropriate and effective processes and controls are in place to assess and appropriately manage risk.

The Board plays a critical role in setting the tone of the company and acting as interface with key stakeholders – the company's customers and shareholders, communities, government, regulators.

The Board works through, and with, its committees to ensure proper oversight of the company's business. The role of committees is described on page 146. Each committee makes its own report setting out its responsibilities and the key areas it has addressed during the year. This report of the Board's activities sets out the areas on which the Board has focused during the year.

### Setting long-term strategy

A key focus for the Board in 2023–24 has been the submission of the company's investment plan for the next AMP period 2025–30. With a focus on the company's plans for 2025-30, and building on the published long term priorities, the Board met in April 2023 to discuss and consider the company's Long-Term Delivery Strategy. Our long-term priorities informed our strategy, focusing on protecting and improving our environment, the supply of high quality drinking water and understanding and supporting communities.

### Aligning purpose, values and culture

The Board continues to prioritise culture, monitoring key indicators whether directly or through its committees. Management explained its approach to obtaining feedback from colleagues on culture through roundtable sessions and its established Employee Voice group. Results of the latest colleague engagement survey were shared with the Board and form part of the continuing work on culture.

The Board reaffirmed the company's purpose and vision, which remain:

**Our purpose:** To provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

**Our vision:** To create a resilient water future for customers in the South East.

## Corporate governance report continued



Read more about Hampshire's water resource schemes on page 49.



Read more about the company's pollutions performance on page 52.



Read more about operational performance on pages 34 to 67.

### 1. Competence and independence continued

#### Monitoring performance

The Board continued to focus on monitoring and challenging the company's performance and delivery against its published Turnaround Plan.

There has been continued scrutiny on water companies throughout the year on the operation of their storm overflows and management of discharges to the environment. The Board approved expenditure for improvements at treatment works to reduce discharges into shellfish waters and received deep dive updates on the company's pollutions performance and insight driving action to reduce the number of events. The Board approved the company's 2024 Pollution Incident Reduction Plan, building on the previous year's plan.

The Board has continued to support the company's continued focus on meeting water quality standards, building on the development and delivery of the strategic plans and Turnaround Plan. In September 2023, the Board welcomed Marcus Rink, Chief Inspector of the Drinking Water Inspectorate, to enable a sharing of views and observations on the company's performance. The Board tracked delivery of the water plan against both leading and lagging indicators.

Within the reporting year, several significant operational incidents have occurred, impacting the supply of water to some of our customers. The Board ensures that it is kept up to date during these events, challenging and supporting management to ensure that key learnings are identified and acted upon, including the support provided to customers both during and after the event.

#### Turnaround Plan

In April 2023, the company published its plan to rapidly improve performance. The Board has supported the development of the plans by management, which contain stretching performance targets and underpin business priorities to improve our service to customers and the environment. During the year, the company suffered a major cyber attack. The Board was kept informed throughout the event and oversaw the actions to address.

#### Long-term resilience

Alongside the development and submission of the company's business plan 2025–30, the Board has overseen the company's water resource management planning (WRMP), including the significant Water for Life – Hampshire programme and Drought Plan. The Board is committed to the development of water resource plans that include innovative solutions to continue to provide a resilient water supply to its customers, while protecting the important river habitats within its region.

In addition to operational resilience, the Board has overseen and supported the activities of both shareholders and management in strengthening the company's financial resilience.

#### Holding the company to account for performance

The Board dedicates considerable time to the monitoring of performance. As will be seen from individual committee reports, they keep under review activities within their remit. The Board carries out its monitoring and oversight role as follows:

- Each committee chair reports matters considered by the committee at Board meetings
- At each meeting the executive presents a reporting suite, including the CEO and CFO reports, an outcome delivery incentive and operational performance report of key KPIs and delivery against the company's Turnaround Plan
- In addition to its core meetings, the Board conducts deep dives into specific topics, with matters considered in the year including
  - Cyber Security and NIS compliance
  - Risk Management
  - Pollutions including serious pollutions
- The Board conducts periodic site visits to enable it to get a first-hand feel for issues and to hear the views of employees.

Where performance falls below levels expected, the Board will always interrogate the facts and background to the issue and will seek to give firm support to the executive in ensuring appropriate remedies.

## Sustainability

The Board received regular updates from the ESG Committee and continues to have oversight of sustainability.

### Other key matters considered during the year

- Environmental Performance, as measured through the Environment Agency's Environmental Performance Assessment
- Leakage performance
- Customer charges and changes to the company's social tariff offering
- Compliance and monitoring reporting to Ofwat, including under the undertakings given to them in 2019
- Water quality (CRI) and delivery of Final Enforcement Orders (FEOs)
- Customer service
- Risk management
- Code of Ethics review.

## Stakeholder engagement

The Board sees itself at a pivotal point between stakeholders and the company. Individual Board members are actively engaged in outreach to customers and communities. The Chair and CEO in particular play an important role with investors, regulators, the wider industry and government.

## Corporate governance report continued

2

### Purpose, values and culture

The regulated company Board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

**“A company can only deliver its strategy effectively if this services the company's purpose and is delivered in accordance with the company's values.”**

**Keith Lough**

8 July 2024

#### Our purpose:

To provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

#### Our vision:

To create a resilient water future for customers in the South East.

### Laying the foundations for success

As reported last year, the five-year delivery strategy and focused Turnaround Plan are guided by our long-term vision to create a resilient water future for our customers in the South East. Through our Turnaround Plan we have committed to delivering four key priorities that support our purpose to provide water for life to enhance health and wellbeing and to protect and improve the environment. Our core values then provide the foundation and ethical decision-making framework by which we operate.

In 2019 the Board approved the company's vision, purpose and values which were developed through colleague and stakeholder engagement. In 2023, management considered the existing values and identified an absence of a specified safety core value. The Board was pleased to support and approve the fourth value, Working with Care.

### Embedding and monitoring culture

During 2020–21 the company re-established an Employee Voice group. Employee Voice members attend a quarterly company-wide session with members of the senior leadership team, to engage in meaningful conversations and agree key decisions and actions. Our Workforce Non-Executive Director Neil Corrigan, engages with the Employee Voice group, enabling insight into the culture of the organisation and the extent to which the purpose and values are embedded.

Face-to-face sessions were held through the year to enable all colleagues to understand the Turnaround Plan in more detail and what it means to them. Board members attended sessions, providing further opportunities for them to engage and speak with colleagues from across the business.

As reiterated by our CEO last year, the health, safety, security and wellbeing of our people is an overriding value and a core pillar of our strategy on how we make a behavioural shift to make sure we are always working with care. To enable this we launched a company-wide immersive training event to which every colleague is invited. Board members have attended the programme, further deepening their understanding of the embedding of our values and culture.

This year, the company delivered its all-employee survey through Culture AMP, the results of which were shared with the Board. The ESG Committee received a demonstration of the Culture AMP too, and a deeper dive into the results of the survey, together with insights to drive action planning.

All of the Board members continue to sign up to the Code of Ethics, which has been personally endorsed by the Chair and Chief Executive Officer.

The Board has further continued to monitor the company's culture through the review of metrics including:

- Employee engagement scores
- Gender hourly pay gap and bonus pay and gender distribution
- Safety observations raised
- Speeding events
- Pollution incidents and self-reporting
- Water quality compliance
- Customer satisfaction (C-MeX) and complaints
- Speak Up (whistleblowing) reports.

The ESG committee receives regular reports on people and culture, including equality, diversity and inclusion, colleague engagement and development.

The Health, Safety and Operational Risk Committee receives regular reports on health, safety and wellbeing matters, including the number and nature of incidents/accidents and the culture of health and safety in the company. The committee also received the results of a company-wide survey on health and safety culture.

### Stakeholder engagement

Throughout the year, the Board has been kept informed of the views of the company's stakeholders, including its regulators, suppliers, investors and government. The company's Chair and Chief Executive Officer regularly attend meetings with government bodies such as Ofwat, the Department for Environment, Food and Rural Affairs, the Environment Agency and Drinking Water Inspectorate.

The Chief Executive Officer also regularly attends meetings and other events with Water UK in respect of matters relevant to the water sector as a whole.

### Employee engagement

In accordance with the UK Corporate Governance Code, and in support of the Board's duty under section 172(1) to consider the interests of the company's workforce as well as part of the Board's role in its monitoring and assessing of culture, Neil Corrigan succeeded Mark Mathieson as the appointed non-executive director with the remit of communicating the views of the company's workforce (as defined in the UK Corporate Governance Code) to the Board.

The scope of this role includes:

- Obtaining and communicating to the Board the views of the company's workforce in respect of matters, including pay and conditions; health, safety and wellbeing; working environment; and culture. This enables the Board to give appropriate consideration of the interests of the workforce. Communication methods include: regular meetings with the company's workforce representatives, the Chief People Officer and Director of Health, Safety, Security and Wellbeing; attendance at workforce events; attending Employee Voice groups, and visits to operational sites and offices.
- Providing regular reports to the Board.
- At least annually, meeting with the Chair of the Remuneration Committee to enable the committee to take into account the conditions of the workforce when setting executive remuneration policy (in accordance with the UK Corporate Governance Code).



## Corporate governance report continued



Read more about the company's section 172(1) Statement on pages 88 to 91.



Read more about employee engagement on page 158.

### Board listening approach

Board listening channels	What this channel brings
Non-executive director for workforce engagement	This provides an opportunity for the Board to obtain information about the views of the workforce directly as opposed to via management.
'Company Conversations'	These provide an opportunity for all employees to directly ask questions of, and communicate their concerns to, the CEO and CFO.
All-employee surveys	The all-employee surveys give the Board an insight into the engagement and satisfaction levels of employees as well as insight into the culture and ethics of the organisation.

#### A message from Neil Corrigan



**Neil Corrigan**  
Non-executive director

Since the changes introduced by the UK Corporate Governance Code in 2018, one of the suggested methods for the Board to obtain a clearer understanding of the concerns of the workforce is to assign a non-executive director with the remit of engaging with the workforce and reporting to the Board.

After joining the Board in November, I succeeded Mark Mathieson to the role to provide an important, potentially, alternative route for employees to raise concerns as well as provide a perspective on employee concerns and engagement, independent of management. My roles on the various Board committees also allow me to convey my knowledge of employee concerns and attitudes.

I am pleased to see the progress made by the business on health and safety, particularly in proactively addressing security concerns of colleagues who feel threatened or intimidated in the field due to broader concerns about the performance of the water sector. Management has shown commitment to ensure that everyone should be safe at work.









During the cyber incident, management responded swiftly in addressing concerns from colleagues whose personal data was potentially exposed through a comprehensive package of enhanced data monitoring and support.

Finally, there is extensive discussion around the board table about the various challenges the business is facing in scaling up to deliver our ambitious AMP8 investment plan and considering the implications for our workforce and supply chain partners.

**Neil Corrigan**  
8 July 2024

## Board activities

During the year, the Board reviewed and considered a number of key matters as part of implementing the company’s strategy.

Area	What was reviewed and considered?	Link to our strategy
<b>Business strategy</b> The company’s Turnaround Plan to deliver against the business plan 2020–25.	The Board tracked progress of delivery against the plan. The Board approved the company’s ambitious business plan for the period 2025–30. The Board reviewed and approved the company’s WRMP, Drought Plan and key submissions for the company’s Water for Life – Hampshire programme.	 
<b>The environment</b> The company’s impact on the environment.	The Board approved the company’s 2024 Pollution Incident Reduction Plan. The Board approved the company’s net zero plans. The Board supported management’s approach to funding the leakage recover plan.	
<b>Our customers</b> The company’s delivery for our customers.	The Board approved an expansion of the social tariff to reach a further 21,000 more customers most in need, in addition to the 107,000 already supported. The Board reviewed the approach to improving customer service and customer satisfaction.	 
<b>Our finances</b> The company’s ability to continue to operate as a going concern and deliver its strategy	The Board welcomed the further equity injection by the company’s shareholders, Macquarie. The Board considered and approved key financing activities to support the financial resilience of the company.	 
<b>Our people</b> The health, safety, security and wellbeing of our workforce	The Board reviewed progress against the company’s Health, Safety, Security and Wellbeing Transformation Plan.	

### Key



Deliver great service



Protect and improve the environment



Fit for the future



Use water wisely

## Corporate governance report continued

3

### Board effectiveness and Chair evaluation

The regulated company has an effective Board with full responsibility for all aspects of the regulated company's business for the long term.

**“A Board effectiveness evaluation should consider the balance of skills, experience, independence and knowledge, and diversity of Board Members.”**

**Keith Lough**

8 July 2024

### Board evaluation

In line with the UK Corporate Governance Code and the Ofwat Principles, there is an annual evaluation of the Board in terms of its performance and effectiveness.

The Board, led by the Nominations Committee conducted an evaluation of its performance in early 2024. This followed external evaluations of performance in 2020–21 and 2021–22, and an internal evaluation in 2022–23. The Board's aim, in line with best practice is to conduct an external evaluation every three years. The Board intends there to be an external evaluation of effectiveness and performance in 2024–25.

The 2024 evaluation points to improvements in the diversity and skill base of the Board. It shows that the Board engages well with strategy and that its discussions are effectively managed (with good quality supporting papers and presentations). It reports a healthy and productive relationship between executives and non-executives and more generally amongst Board members. It finds an effective interaction between shareholder appointed directors and other Board members. The evaluation shows a number of areas – mainly process – in which improvements can be made.

The Board also conducted an evaluation of the Chair, led by the senior independent non-executive director. The feedback from the review by the senior independent non-executive director and from the non-executive directors consulted as part of this process was positive.

The 2024 evaluation was based on a number of key areas to be assessed. A summary of key findings under these areas is below. Besides these issues the Board also looked at the functioning of committees, effectiveness of Board members at meetings, and the relationship with investors.

Area	Findings
<b>Board composition</b> Board members were asked for their views on the mix of skills, experience, knowledge and diversity on the Board in the light of recent changes to membership and in the light of the challenges the company faces	<ul style="list-style-type: none"> <li>Overall the Board felt there had been an improvement in its skillset in terms of sector expertise, IT, sustainability, operations and regulation; that there had been improvements in diversity; but that there was room for more ethnic diversity and potentially some representation of the communities the company served.</li> <li>The Board felt that the different constituent members – independent non executives, shareholder representatives and executives brought reasonable balance.</li> </ul> <p>The Board secretariat will continue to keep a log of Board skills and experience and look to recruit to the Board in the future in the light of gaps in skills and experience.</p>
<b>Strategy</b> Board members were asked for their views on how effective the Board was at setting strategy	<ul style="list-style-type: none"> <li>In general Board members thought the Board had done well at setting strategy, but that there was always pressure from the immediate and the day-to-day issues which required Board attention.</li> <li>The Board used a number of methods to look at bigger issues, including 'deep dives'.</li> <li>Board members recognise that their ability to set strategy sits within strong constraints, e.g. regulatory and financial, and that this in turn should encourage the search for innovative solutions to problems.</li> <li>Board members recognised the need to spend time on monitoring the delivery of strategy as well as setting strategy.</li> </ul> <p>The Board secretariat will continue to find ways to enable the Board to focus on strategic issues, taking note of points made in the evaluation.</p>
<b>Leadership</b> Board members were asked if they believed there was sufficient clarity in and leadership given to purpose, direction, culture and values	<ul style="list-style-type: none"> <li>Board members all emphasise the importance of these issues. They believe good progress has been made in setting purpose and culture and values.</li> <li>The Board wish to maintain a strong focus on the culture of the company and how staff are engaged. They believe there is work still to be done and point to specific issues which the culture needs to address in particular to drive high performance.</li> </ul> <p>The Board will continue to monitor the culture and values of the company closely, through assessing relevant metrics and engaging directly with employees.</p>
<b>Conduct of Board meetings</b> Board members were asked to give their views on the preparation for and conduct of Board meetings	<ul style="list-style-type: none"> <li>Board members believe that their meetings are productive and are run effectively.</li> <li>They think that papers and presentations are generally of good quality that they receive the information they need to discharge their role effectively.</li> <li>The point to some improvements in process, e.g. around length and advance circulation of papers.</li> <li>Board members comment on their engagement with risk management and believe that they play an effective role. They want to put their future focus on 'fewer, bigger' risks.</li> </ul> <p>The Secretariat will incorporate these and other process improvements in to Board policy and practice.</p>
<b>Communication</b> Board members were asked about the quality of communication with leadership, management, employees and key stakeholders	<ul style="list-style-type: none"> <li>Board members believe that levels of communication are in general strong, having a strong relationship with the management team in particular. They welcome direct engagement with regulators. They will welcome further opportunity for staff engagement.</li> </ul> <p>The Secretariat will seek opportunities to further develop Board engagement with key groups.</p>

## Board development and training

As in previous years the Board also has access to professional development provided by external bodies and by the company's professional advisers. At the Chair's annual appraisal of the non-executive directors, he discussed individual training and development needs. The Board members individually also carry out their own training and development, such as by attending relevant seminars and workshops to ensure that their knowledge is kept up to date. There is also a programme of induction for new Board members.

The Board will continue to focus on its development in the coming period, looking in particular to ensure its engagement with big strategic issues/risks and its role in leading the company's culture and values. The Secretariat will put into action the various points for improvement that arose in the 2024 evaluation.

## Corporate governance report continued

### Nomination Committee Report

#### Message from the Chair



#### It has been another full year for the Nomination Committee.

Following the retirements, at the end of their respective terms, of Paul Sheffield and Rosemary Boot on 6 April 2023, and changes to the shareholder appointees, I am very pleased to welcome the four new non-executive directors. Christèle Delbé, Kerensa Jennings, Phil Swift and Neil Corrigan have joined at a crucial time as we approach the outcome of the price review process. Their appointment has necessitated a review of Board Committee membership, which has all been closely managed by the Nomination Committee.

As noted elsewhere in this report, after six years on the Board as an independent non-executive director, Mike Putnam is retiring on 31 July 2024 and the committee is leading a search for his replacement.

The committee has also supported the CEO in his development of the Executive. Appointments in the year include a new Director of External Affairs, and an interim Managing Director of Wastewater.

The committee has also overseen an internal Board effectiveness review, and Gillian Guy as senior independent non-executive director, has led a review of my effectiveness as Chair. These are important processes, designed to ensure continued evolution and development of the Board's effectiveness. An external review will be conducted during the current year.

**Keith Lough**  
Chair of the Nomination Committee

8 July 2024

### 3. Effectiveness continued

#### Committee membership



**Keith Lough**  
Chair

Attendance 3/3



**Gillian Guy**  
Committee member

Attendance 3/3



**Will Price**  
Committee member

Attendance 2/3

#### Areas of focus this year:

- Appointment of new non-executive directors and onboarding
- Continuing the promotion of Board and Executive diversity
- Conducting an internal Board and Chair review.

#### Priorities for 2024–25:

- Selection process and appointment of a new independent non-executive director to replace Mike Putnam
- Focus on succession planning at the Board and Executive
- Externally facilitated Board effectiveness review.

## Our role is to ensure an effective Board Introduction

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and, based on the results of this review, for assessing the balance in terms of independence, skills, experience, expertise and diversity on the Board and making appropriate recommendations based on this assessment. The committee leads the process for identifying and nominating candidates to fill independent non-executive director vacancies.

### Board appointment process

The Nomination Committee leads the appointment process for a new independent non-executive director based on criteria for skills, experience and knowledge determined as a result of the committee's review of the Board's composition. The committee, typically supported by an external search firm with no connection to the business, would produce a role specification and then lead the search for appropriate candidates. The preferred candidate would be selected through a series of meetings between Board members and the candidate(s).

When the committee was satisfied with its preferred choice, it would then recommend the appointment to the Board for approval. The candidate is also required to meet with Ofwat under the provisions of the Board leadership, transparency and governance principles. Once the candidate had met with Ofwat and, subject to receipt of approvals by the Southern Water Board and under the terms of the Shareholders' Agreement between investors in Greensands Holdings Limited, the individual would be appointed as a director on the terms published at [southernwater.co.uk/about-us/corporate-governance](https://southernwater.co.uk/about-us/corporate-governance).

The Board, as a whole, supported by the Nomination Committee, appoints those individuals nominated by investors under the terms of the Shareholders' Agreement. These candidates are, as with the independent non-executive directors, required to meet with Ofwat prior to appointment.

The current Chair would not chair the committee if it was considering the succession of the Chair.

## Director induction

On appointment to the Board, induction coverage is agreed with each appointee and then an appropriate comprehensive and individualised induction is provided. This will include access to, and time with members of the executive and other key staff, information on the company structure, the regulatory framework of our business, customer service and the operation of assets, strategic plans, financial reports, business plans and our governance framework and holding group structure. In addition, the appointee will meet with the company's external advisers as appropriate. The appointee will also be afforded the opportunity to visit the company's sites.

### Board diversity

Diversity of views and opinions in a decision-making body ensure that proposals face sufficient scrutiny and challenge and that decisions are made based on a broad range of perspectives.

Diversity and different perspectives facilitate innovation, which is of great importance for any business. Therefore, the composition of the Board is made up of individuals from a diverse range of backgrounds, industries and professions to encourage a diverse range of perspectives. Furthermore, a Board must also reflect the communities and other stakeholders served by that business and there should be representation of different genders and of different ages, ethnic and social groups.

The Board continues to be supportive of greater representation of those historically under-represented in senior leadership positions and seeks to, as a minimum, meet the expectation applicable to listed companies that at least 25% of Board members are female. As at 31 March 2022, two out of 11 (18%) directors were female. With the appointment of the two new independent directors, the Board will, as at 8 July 2024, have met its aspiration for a minimum of 25% female representation.

### Approach to succession planning

A considered and thorough assessment of the skills and expertise on the Board and what will be required in the future is of great importance for the long-term resilience of an organisation. The Board, assisted by the Nomination Committee, has reviewed its current array of skills and expertise as well as what is required in order to ensure that the Board continues to be effective.

## Corporate governance report continued



Read more about the different roles within the Board on pages 151 and 152.

### 3. Effectiveness *continued*

#### Conflicts of interest and time commitments

As a matter of law, as well as being able to function effectively, directors must be free of conflicts between the interests of the company and their own interests, or, where such conflicts are unavoidable, appropriate mitigations must be in place. Directors are required to declare any external interests that they, or persons closely connected to them, might have which could, reasonably, conflict with the interests of Southern Water. Under its Articles of Association, the Board of Southern Water is not permitted to authorise conflicts of interest.

The Board is aware of the potential for conflicts of interest in respect of the directors nominated by the investors and closely monitors this.

As statutory directors, these individuals must manage any conflicts arising from their position in accordance with the provisions of the Companies Act 2006.

It is accepted that most directors will also have appointments on other boards (or similar bodies) or, in the case of non-executives, potentially also have full-time executive positions in other companies.

This is viewed positively, as it allows for a breadth of experience and enables Southern Water to take advantage of perspectives and expertise from other industries and sectors. However, the director must be able to devote sufficient time to their role at Southern Water and be able to discharge their duties effectively. Therefore, the number of external appointments of each director is kept under review. Under their terms of appointment, independent non-executive directors are expected to devote at least 24 days per year to their role at Southern Water.

The Board is satisfied that all directors were able to devote sufficient time and attention to their role at Southern Water throughout the year.

## 4

## Transparency and accountability

The Board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

“One of the most important roles of the Board is to ensure that the financial and non-financial information published by the company is both transparent and accurate. The generation of such information must be supported by good governance and rigorous assurance processes.”

**Malcolm Cooper**

8 July 2024

## The Board is there to make sure that the company reports transparently about its performance to markets and key stakeholders such as its regulators and customers.

The publication of financial statements and other documents is a core element of ensuring transparency and accountability on the part of the company. These disclosures must be correct and accurate, otherwise they cannot be relied upon by their respective audiences. The Audit Committee plays a key role in this process.

The committee is supported in its work by both internal and external auditors who can give independent assurance of the information presented by management.

Companies must also be transparent about the market and environment in which they operate, including the risks faced and what risks the company is willing to accept as well as its strategies for mitigation of these. Accordingly, companies need to clearly understand the risk landscape in which they operate and the Board needs to agree what level and type of risk is acceptable.



## Corporate governance report continued

### Audit Committee Report

#### Message from the Chair



The Audit Committee has had a full agenda this year.

In addition to focusing on both financial and non-financial reporting for the annual and interim financial statements, the committee has overseen assurance on key regulatory submissions.

The committee has continued to monitor the company's culture through regular updates on the Speak Up service and Statement of Compliance, as well as progress against the obligations, commitments and undertakings of the company to its regulators.

Management presented updates on compliance for water quality, water resources and environmental performance.

**Malcolm Cooper**  
Chair of the Audit Committee

8 July 2024

## 4. Transparency and accountability continued

### Committee membership



**Malcolm Cooper**  
Chair

Attendance 4/4



**Will Price**  
Committee member

Attendance 2/3<sup>1</sup>



**Kerensa Jennings**  
Committee member

Attendance 4/4



**Neil Corrigan**  
Committee member

Attendance 1/2<sup>2</sup>

<sup>1</sup> Will price resigned from the committee in November 2023.

<sup>2</sup> Neil Corrigan was appointed to the committee on 29 November 2023.

#### Areas of focus this year:

- Annual and interim financial statements.
- Non-financial assurance.
- Progress on undertakings and commitments given to our regulators.
- Review of Licence of Appointment.
- Compliance and controls.
- Going Concern.

#### Priorities for 2024–25:

- IT controls.
- Compliance.

## Introduction

The Audit Committee focuses on the monitoring and review of the company's internal controls in respect of its financial and non-financial data, as well as the controls put in place to address risk within the business in areas such as legal and regulatory compliance and information governance and information security. The committee also oversees the relationship with the company's external auditor and oversees the work of the company's internal audit function. While the Board retains overall responsibility for risk, the Audit Committee reviews risk appetite and strategic risks, with the HSORC continues to have responsibility for the monitoring of operational risk.

A primary area of focus is the company's annual and interim financial statements, including reviewing, assessing and recommending to the Board related areas including any relevant judgments and accounting treatments, going concern and long-term viability statement and 'fair, balanced and understandable' assessments, as well as on reviewing and assessing the company's non-financial reports such as the Annual Performance Report.

Throughout 2023–24, the Committee received regular reports from the Head of Group Accounts, Group Treasurer, Head of Internal Audit and the company's external financial and non-financial assurers and auditors. The Chief Executive Officer, Chief Financial Officer, and the company's external financial partners are all regular attendees at meetings of the Audit Committee. The committee also has access, as appropriate, to external professional advisers.

The committee is comprised of a majority of independent non-executive directors. No executive directors or the Chair of the Board may be members, and at least one member of the committee must have recent and relevant financial experience, and at least one member must also have competence in accounting and/or auditing. The Chair of the Audit Committee is also a member of the Health and Safety and Operational Risk Committee.

## Work of the Audit Committee during the year

Throughout the year, the committee received regular updates on financial reporting, risk, internal audit and the company's regulatory framework.

During the year, the work of the Audit Committee focused on the following key areas:

- The company's annual and interim financial statements and going concern and viability statements
- Non-financial regulatory reporting and improvements in processes and controls, including oversight of external assurance
- Internal controls – including financial and IT
- Corporate governance matters
- Compliance with Licence Condition P
- Annual review of Licence
- Internal audit reports and plans
- Oversight of internal and external audit, including an assessment of the effectiveness of the external auditor
- Compliance with the company's legal and regulatory obligations in relation to financial and non-financial reporting
- Water and wastewater regulatory compliance
- Speak Up (whistleblowing)
- The undertakings given to Ofwat as part of the regulatory settlement
- The assurance for regulatory submissions
- The ongoing investigations by the Environment Agency and Ofwat and the associated accounting considerations
- The level of non-audit fees paid to the external audit firm.

## Corporate governance report continued

### 4. Transparency and accountability continued

#### Financial statements

The Audit Committee received and reviewed the financial statements, including the key areas of judgment and estimation uncertainty set out in note 2, and the external audit report from Deloitte regarding the year-end financial statements, considering any items of significant judgment that have been made and comments on the control environment. There were no new significant issues raised by Deloitte. The company continues to take steps to address the matters raised by Deloitte's audit and the committee will monitor progress.

##### Revenue

There were no changes to treatment of revenue recognition in the year, nor to the underlying system for estimating the measured income accrual.

##### How this issue was addressed

The Audit Committee reviewed the estimation made for unbilled revenue made at March 2024 and noted that there had been no changes to the overall approach from the previous year.

##### Impairment of trade receivables

The company's policy for providing for bad debt based on customer segments and the age of outstanding debt has not changed in the year and the methodology used last year was applied, on a consistent basis, to calculate the base underlying provision charge for the full-year accounts.

##### How this issue was addressed

Over the past two years, additional judgments have been applied to recognise the impact of the current economic conditions on the likely recoverability of the outstanding debt.

Over the course of the 2023–24 we have seen some evidence of the current economic pressures on customer payment behaviour. As a result, the underlying bad debt model, which is based on historic cash collection performance, is now incorporating an estimate for the some of the impact of these economic conditions.

The Audit Committee reviewed the overall provision, including the additional judgment made by management to retain £4.0 million of the provision for the economic conditions. This judgment recognised that the full impact of the economy would not yet be reflected in the underlying provision model.

##### Provisions and contingent liabilities

The investigation by the Environment Agency (EA) into wastewater sampling compliance and the separate industry-wide investigations by Ofwat and the EA wastewater treatment works are ongoing.

##### How this issue was addressed

The Audit Committee has considered the status of these investigations along with advice from internal and external legal advisers in order to assess whether it would be appropriate to make a provision or disclose the matters as a contingent liability. Given the status of the investigations, the committee concluded that it was appropriate to disclose them as a contingent liability, see note 33 to these accounts.

##### Cyber security incident

As disclosed on page 18, the company was subject to a cyber security incident.

##### How this issue was addressed

The Audit Committee discussed the incident, including the response and actions taken by the company, considering the implications for the controls environment and future remediation actions and the costs incurred.

The committee considered the status of this incident to assess whether it would be appropriate to make a provision or disclose it as a contingent liability. The committee concluded that it was appropriate to disclose them as a contingent liability, see note 33 to these accounts.

##### Going concern and viability statement

We have continued to use the period through to 2030 for the viability assessment.

##### How this issue was addressed

The committee reviewed the company's liquidity position for the going concern period and concluded that the company was a going concern. It also reviewed the viability assessment and agreed for this to be made for the period to 2030 for this year. Please see page 126 for our statement.

## Our Ofwat performance commitments

The company has an external non-financial assurer to independently assure its non-financial reporting to Ofwat and that there is a robust system of internal controls in place for non-financial regulatory reporting, such that information in the Annual Performance Report fairly represents the company's progress and delivery of its promises. The assurer attends meetings of the Audit Committee and reports formally the results of its assurance.

### Section 19 undertakings

As part of the regulatory settlement reached with Ofwat in 2019–20, the company agreed to certain undertakings to implement improvements in the business in areas such as culture and robustness of non-financial reporting, as well as to recompense current and former customers. The 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 from management about the progress against the agreed action plans and from the company's external assurers in respect of such progress.

### Internal controls

The committee monitors the internal financial controls systems of the company, including progress against the IT and general control deficiencies previously identified, along with other internal control and risk management systems and, accordingly, receives regular reports from both Internal Audit, external audit and any external assurers appointed by the company to review any particular areas of concern. Remediation of these deficiencies in internal control will be an area of key focus in next year.

The committee receives a regular report of any incidents of fraud or bribery, including the actions taken to investigate and respond to the incidents and information on potential incidents of wrongdoing under investigation.

The committee is provided with updates on matters identified via the company's Speak Up policy. There were no material incidents reported via Speak Up during the year.

The committee is also aware of the need to ensure that the group complies with sanctions

placed on individuals and organisations in Belarus and Russia following the invasion of Ukraine.

### Oversight of internal audit and external audit

The Audit Committee is responsible for overseeing both the work of the Internal Audit function and for the management of the relationship with the external auditor and external non-financial assurer. The committee reviews the performance of external auditors on an annual basis to ensure that they remain effective.

In accordance with best practice, the committee held discussions with both the internal and external auditors and the external non-financial assurers in the absence of management and the Audit Committee will continue this practice.

### Internal audit

The Head of Internal Audit and the team report on a day-to-day basis to management on the effectiveness of the company's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the company's assets and resources.

The committee received regular reports throughout the year from Internal Audit in respect of its work during the year in accordance with the internal audit plan agreed with the committee at the beginning of the year. The reports from Internal Audit are a material element of the assurance received by the committee on the company's controls. If changes are required to internal audit action dates for medium and high actions, the action owners are required to attend the committee and explain why such changes are required and to seek the committee's approval.

The committee reviews, at least annually, the level of resources and the budget of the Internal Audit function. The Head of Internal Audit is able to raise any issues with the committee or its Chair at any time during the year.

### Fair, balanced and understandable

At the request of the Board, the committee has considered whether, in its opinion, this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

## Corporate governance report continued



Read about how we manage risk on pages 112 to 125.

### 4. Transparency and accountability *continued*

#### Step 1 – Developing key themes

The initial themes and structure for the Annual Report are developed, taking into account feedback from Ofwat and other stakeholders as well as a ‘best practice’ review.

#### Step 2 – Drafting content

Subject matter experts are identified to provide the detailed information used to draft the content for each section of the Annual Report.

#### Step 3 – Review

The draft content is reviewed by the subject matter experts, the project team, legal team and members of the Executive.

#### Step 4 – Assessment

The content of the report is reviewed to determine which statements are ‘positive’ and which are ‘negative’. These are then extracted and provided to the Audit Committee organised by section and/or subject for it to review the key areas of the report for fairness, balance and understandability.

#### Step 5 – Decision

Based on the content provided to it, as well as their own reading of the draft Annual Report, the Audit Committee members make their decision whether or not to advise the Board that the Annual Report, taken as a whole, is fair, balanced and understandable.

#### Risk

During the year, the Audit Committee, alongside the Health, Safety and Operational Risk Committee, was responsible for overseeing and challenging the effectiveness of Southern Water’s approach to risk management. This included responsibility for monitoring the

effectiveness of the company’s systems of internal controls and for endorsing an internal audit plan that is informed by principal risk exposures, including overseeing targeted reviews of key risk and control areas. The Audit Committee is now responsible for monitoring and reviewing the company’s risk appetite and tolerance and for more ‘strategic’ risks.

The committee is also responsible for maintaining an assurance landscape that has integrity, independence and reliability.

#### External auditor

Deloitte LLP was appointed as the company’s external auditor for the financial year ending 31 March 2024. During the year the audit partner was Lucy Openshaw.

The Audit Committee reviews the external auditor’s effectiveness, seeking views from the committee and management, and would report to the Board any concerns over the continuation of the appointment.

The committee undertakes an annual review of the external auditor’s independence and objectivity within the context of the applicable regulatory requirements and professional standards. This includes an assessment of the impact of any non-audit work carried out by the audit firm on the auditor’s independence and objectivity. In the committee’s view, the external auditor met these criteria. The committee also monitored the ratio of audit fees to non-audit fees and approved non-audit services and fees paid to Deloitte during 2023–24.

Details of the amounts paid to Deloitte for these services are provided in note 6 to the financial statements.

In accordance with listed company practice, the external audit contract will be put to tender at least every 10 years. A tender process would also be initiated if there were any concerns about the quality of the audit or the independence and objectivity of the auditor. There are no contractual obligations that act to restrict the Board’s choice of external auditor, although the Board is mindful of non-audit services currently being undertaken by other potential external audit providers.



## Corporate governance report continued

### Health and Safety and Operational Risk Committee Report

#### Message from the Chair



The committee has continued to focus on the company's health and safety transformation plan, and the behavioural shift its delivery will have across the organisation.

In addition to regular updates on safety performance, including both leading and lagging indicators, a number of deep dives were presented including, security, toxic gas and impounding reservoirs.

The committee received updates on the company's enterprise risk management framework, risk profile and practices, including the principal risk position.

#### Mike Putnam

Chair of the Health and Safety and Operational Risk Committee

8 July 2024

## 4. Transparency and accountability continued

### Committee membership



**Mike Putnam**  
Chair

Attendance 4/4



**Mark Mathieson<sup>1</sup>**  
Committee member

Attendance 2/2



**Malcolm Cooper**  
Committee member

Attendance 4/4



**Phil Swift<sup>2</sup>**  
Committee member

Attendance 3/3

<sup>1</sup> Mark Mathieson resigned from the committee on 31 October 2023.

<sup>2</sup> Phil Swift joined the committee in September 2023.

#### Areas of focus this year:

- Delivery against the Health, Safety, Security and Wellbeing Transformation Plan
- Safety culture
- Operational safety risks
- Toxic gas risk
- Impounding reservoirs.

#### Priorities for 2024–25:

- Delivery against the Health, Safety, Security and Wellbeing Transformation Plan
- Wellbeing
- Security
- Safety risks.

## Introduction

The Health and Safety and Operational Risk Committee has responsibility for monitoring and advising on operational risks, reviewing and monitoring health, safety, security and wellbeing performance, and continue to provide appropriate advice and recommendations to the Board in this area.

### Health, safety, security and wellbeing

The committee welcomed the new Director of Health, Safety, Security and Wellbeing and the strengthening of the health and safety team.

Recognising the value of engaging with colleagues and visiting operational sites, the committee held meetings at Otterbourne water supply works and Budds Farm wastewater treatment works, which included a site tour. These visits afforded the committee the opportunity to better understand the local management of operational risks, together with adherence to health and safety procedures by both the company's workforce and supply partners.

The committee received an update on protective security and the company's regulatory obligations. Management presented the findings of a review of security and the programme structure to deliver the required actions. Management updated the committee on the result of an audit of the company's toxic gas installation, systems and procedures, together with the plan to address the audit findings.

The committee welcomed the commencement of the company's behavioural safety training, 'Stop, Think, Safe', a key pillar in the company's transformation plan, underpinned by the introduction of a point of risk assessment tool and safety observation reporting app.

## Risk

During the year the committee received reports from management on the company's risk profile, risks in respect of the Turnaround Plan and HILL (high impact, low likelihood) events and specific health and safety risks.

Operational risk deep dives on key areas were presented to the committee, including pollutions, toxic gas, impounding reservoirs and chemical supply risk.

The committee was updated on the risk framework and the process by which the company will monitor health and safety risks that remain under statutory obligations or could lead to catastrophic failure, including the identification of risk mitigating strategies to reduce the residual risk position.

The Chair of the Audit Committee is a member of the Health and Safety and Operational Risk Committee to ensure that there are no gaps in the remits of the two committees.



## Corporate governance report continued

### ESG Committee Report

#### Message from the Chair



The committee welcomed four new members in the year and agreed its priorities for the year, having considered the findings of an internal review.

A key area of focus of the ESG Committee this year has been oversight of the development of the company's net zero plans, which were approved by the Board in March 2024. The committee tested management's level of ambition in reducing emissions, recognising the reliance on grid decarbonisation to deliver targets.

The committee once again welcomed the Chair of the company's Independent Climate and Environment Group (ICEG) and heard about the company's response to the ICEG's Annual Report.

The committee received updates from management, including how the company supports vulnerable customers, both financially and non-financially.

The company engaged a new provider for its colleague engagement survey which provides insight at both company and local level. The committee received a demonstration of the Culture AMP tool, and was updated on the results of the survey together with insights.

The committee received an update on the Clean River and Seas Task Force, which is responsible for delivering pathfinder projects to reduce the company's use of storm overflows. Management is focused on both partnership working and seeking to reduce groundwater infiltration.

**Gillian Guy**  
Chair of the ESG Committee

8 July 2024

### 4. Transparency and accountability continued

#### Committee membership



**Gillian Guy**  
Chair

Attendance 4/4



**Kerensa Jennings**  
Committee member

Attendance 4/4



**Christèle Delbé**  
Committee member

Attendance 3/4



**Mark Mathieson<sup>1</sup>**  
Committee member

Attendance 1/2



**Phil Swift<sup>2</sup>**  
Committee member

Attendance 3/3



**Neil Corrigan<sup>3</sup>**  
Committee member

Attendance 2/2

<sup>1</sup> Mark Mathieson resigned from the committee on 31 October 2023.

<sup>2</sup> Phil Swift joined the committee in September 2023.

<sup>3</sup> Neil Corrigan joined the committee in November 2023.

#### Areas of focus this year:

- Net zero plans
- Vulnerable customers
- Feedback from Customer Challenge Groups
- Clean rivers and seas
- Equality, diversity and inclusion and colleague engagement.

#### Priorities for 2024–25:

- Culture
- Nature and biodiversity
- Equality, diversity and inclusion strategy
- Environmental water quality.

## Introduction

The ESG Committee has again received updates on a broad spectrum of ESG-related topics, challenging and supporting management on the development of the company's plans. The committee received updates on new or amended disclosure obligations, together with emerging potential disclosure obligations.

## Environment

The committee again heard directly from the Chair of the Independent Climate and Environment Group, who provided insight into stakeholder views and the importance of community engagement. The committee oversaw the development of the company's net zero plans. Read more about the company's approach to climate change on pages 68 to 84. The committee received an update on the company's plans and progress against ambitions, for biodiversity and nature, and to understand current risks and opportunities.

## Culture

Management presented a new people dashboard that will be shared with the Executive monthly, reporting on key metrics including detailed turnover data and equality, diversity and inclusion data collection. Management reported on the approach to obtaining feedback from colleagues through round-table sessions and Employee Voice, describing the culture of the organisation. The committee received an update on the results of the annual colleague engagement survey, which this year was delivered through Culture AMP. The participation level was positive, at 86%, with overall engagement and insights driving management's plans. Management updated on the Steps to Success (StS) sessions, with over 2,000 colleagues attending to learn more about the company's turnaround plans and their roles in delivery. Face-to-face Quarterly Business Reviews with all managers from across the company took place, which included tools and techniques to support colleague's wellbeing as well as performance updates.

## Customer

The committee continued to hear the views of customers including feedback on the company's 2025–30 business plan, on affordability of bills and the importance of the local environment, bathing waters and drinking water quality. The committee received an update from management on customer service performance, measured through C-MeX. Management presented an update on how the company identifies and supports vulnerable customers, which can be financial or non-financial and permanent or temporary.

# Our approach to governance

## Ofwat Principles

In 2019, Ofwat published its Board leadership, transparency and governance principles and, subsequently, in July 2019, amended the licences of water and wastewater companies to require such companies to meet the objectives set out in the Ofwat Principles.

The Ofwat Principles are a major update of the previous principles published in 2014 and include many of the principles and provisions of the Financial Reporting Council's (FRC) UK Corporate Governance Code. Accordingly, Southern Water seeks to apply both the Ofwat Principles and the relevant principles and provisions of the UK Corporate Governance Code in terms of its approach to corporate governance.

The Ofwat Principles are based around four objectives (set out below), each of which is supported by a number of provisions designed to assist companies in demonstrating that they are meeting the relevant objective.

### 1. Competence and independence

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

Objective/provision	Compliant	Page
Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions addressing stakeholder needs.	Yes	135–140, 163–165, 167–176, 179–180
i. Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.	Yes	132, 133, 135–140, 141, 149, 151–152, 153, 161–162, 163–165
ii. Independent non-executive directors are the largest single group on the board.	Yes	135–140, 141, 151–152
iii. The chair is independent of managers and investors on appointment and demonstrates objective judgment throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.	Yes	151
iv. There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.	Yes	161–162
v. There is a formal, rigorous and transparent procedure for new appointments, which is led by the Nomination Committee and supports the overarching objective.	Yes	163–164
vi. To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.	Yes	164–164
vii. There is a majority of independent members on the Audit, Nomination and Remuneration Committees and the Audit and Remuneration Committees are independently led.	Yes <sup>1</sup>	167, 181

<sup>1</sup> The membership of the Nomination Committee is: the chair, one independent non-executive director and one non-executive director. The chair, while not independent under the UK Corporate Governance Code is independent of management and the shareholders.

### 2. Purpose, values and culture

The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Objective/provision	Compliant	Page
The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.	Yes	154, 157–159
i. The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.	Yes	154
ii. The board makes sure that the company's strategy, values and culture are consistent with its purpose.	Yes	154, 157–159

## 2. Purpose, values and culture

The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Objective/provision	Compliant	Page
iii. The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.	Yes	157-159 167-171 173-174 175-176
iv. Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.	Yes	133, 135-140, 133, 144,157- 158, 160

## 3. Effectiveness

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

Objective/provision	Compliant	Page
The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.	Yes	133, 135-140, 133, 144,157- 158, 160
i. The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable), and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the company's strategy.	Yes	106-111, 144- 145
ii. Board committees, including but not limited to Audit, Remuneration and Nomination Committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.	Yes	146, 155
iv. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgment.	Yes	133, 144, 153, 164-165, 169

## 4. Transparency and accountability

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

Objective/provision	Compliant	Page
The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.	Yes	166 to 176
Regulated companies publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders:		
i. An explanation of group structure;	Yes	106-111
ii. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);	Yes	102, 144
iii. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	Yes	112-125
iv. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and	Yes	135-140, 149, 163, 167, 173, 175, 181
v. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance-related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	Yes	179-196

# Directors' Remuneration Report

## Remuneration Committee Report

### Chair's Annual Statement



I am pleased to present the Remuneration Committee's report for the year to 31 March 2024.

The purpose of the Remuneration Committee is to put in place the incentive and retention structures that allow Southern Water to drive performance delivery and improvement across a broad and balanced set of outcomes. These outcomes are shaped to deliver benefits for our customers, community, the environment and our shareholders, while encouraging our employees to align with the company's high ethical values.

The committee has now appointed Ellason LLP as its remuneration advisers. The committee follows good governance practice, as well as regulations imposed by law and by Ofwat. With the benefit of this external advice and internal expertise, the committee believes that it delivers fair and reasoned outcomes in accordance with its stated purpose.

#### Malcolm Cooper

Chair of the Remuneration Committee

8 July 2024

## Summary of the year

2023–24 has seen the CEO, Lawrence Gosden and CFO, Stuart Ledger, continuing to drive and deliver the ambitious turnaround plans.

The committee agreed challenging metrics for the 2023–24 year. These applied to everyone in the business, and were designed to incentivise better outcomes for customers, our communities, the environment and shareholders alike.

The targets had a common ESG thread and were compliant with the undertakings we have given to Ofwat in 2019. They are designed to produce an overall corporate outturn subject to certain adjustment factors noted below.

The committee has recognised that performance in the year saw significant advances with water quality measures improving, a reduction in overall pollution numbers and the number of customer complaints significantly falling.

It also made good progress on its Health, Safety, Security and Wellbeing Transformation Plan. Performance in other areas, including leakage, internal sewage flooding incidents, C-MeX and cash spend management did not meet targets.

## Remuneration outcomes for 2023–24

As in the previous year, the committee had applied a number of conditions which underpinned the principal targets. These are important factors which adjust the corporate outturn upwards or downwards for certain key matters.

As a committee, we believe this structure is sector leading and meets the demands of our customers and regulators. This year's poor serious pollutions performance saw the corporate outturn, applicable to all in the company, reduce by 10%, from 28% to 18%, a significant reduction. In the wettest year on record and with a serious cyber incident to deal with, the committee considered that the company made significant progress against its Turnaround Plan, including step changes in a number of key areas including overall pollutions and water quality.

Taking this performance in the round, the committee chose not to exercise its discretion to reduce further either the corporate outturn or the outcomes for the executive directors.

For the executive directors, taking account of their assessed personal performance against objectives, this equates to an annual bonus payment of 38.25% (Lawrence Gosden) and 34.5% (Stuart Ledger) of salary as at the end of the financial year; this bonus will not be paid for from customers' bills and will be borne by shareholders. Both Lawrence Gosden and Stuart Ledger declined to take a bonus in the prior year.

The annual pay review process is effective from April each year. The increase is a market indicated increase negotiated with the recognised union, UNISON, and applied to all eligible Southern Water employees, including the executive directors. In 2023–24 Lawrence declined his pay increase.

The detailed bonus outturn and how this translates to outcomes for the executive directors is set out in the detailed report.

### Forecast for the year 2024–25

In setting incentive arrangements for the coming year, the Remuneration Committee will continue to follow best practice and guidance. There is no plan for the 2024–25 Annual Bonus Scheme rules to change, and the targets will continue to incentivise performance against the Turnaround Plan, with the same market-leading adjustment factors. These include adjustments for serious pollutions for each quarter.

The Long-Term Incentive Plan, applicable to executive directors and other key executives, focuses on key outcomes to the end of the current asset management period. The committee regularly reviews performance against the targets and has noted that the financial targets for 2023–24 have not been met. Any payment under the LTIP scheme will be paid over two years, July 2025 and July 2026, providing an important retention element.

With our remuneration advisors and using external benchmarking, the Remuneration Committee is committed to reviewing the remuneration policy for the company, and base and variable pay arrangements for executive directors to ensure a competitive, motivating and retaining package as we move into the next investment period.

Overall, the committee believes that its approach to remuneration achieves its stated purpose. It has taken careful note of regulatory and public scrutiny and will continue to do so.

#### Malcolm Cooper

Chair of the Remuneration Committee

8 July 2024

# Directors' Remuneration Report continued

## Introduction

This report details the activities of the Remuneration Committee for the period to 31 March 2024. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company. It has been prepared in accordance with the Corporate Governance Code, the Ofwat Board, Leadership, Transparency and Governance Objectives and Principles, the guidance issued by Ofwat in Regulatory Accounting Guidance (RAG 3.14) and, where relevant for a non-listed company, has taken into account the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

## The Remuneration Committee of Southern Water

The Remuneration Committee has the responsibility for setting the remuneration policy and structure of the executive

directors and senior executives. It is also responsible for setting the remuneration of the company's Chair. The committee has defined terms of reference, which are published at [southernwater.co.uk/board-committee-terms-of-reference](https://southernwater.co.uk/board-committee-terms-of-reference). These have been reviewed and revised during the year.

We recognise that the independent non-executive directors have an important role to play in determining and challenging remuneration policy and practice. In order to reflect this, the independent non-executive directors are a majority on the committee.

Only committee members are entitled to attend meetings, with the Chief Executive Officer, Chief Financial Officer and Chief People Officer attending by invitation. The Company Secretary acts as secretary to the committee.

No attendee participates in discussions regarding their own remuneration.

## Committee membership during the period 1 April 2023 to 31 March 2024



**Malcolm Cooper**  
Chair

Attendance 4/4



**Keith Lough**  
Committee member

Attendance 2/2



**Will Price**  
Committee member

Attendance 4/4



**Christèle Delbé**  
Committee member

Attendance 2/2



**Mike Putnam**  
Committee member

Attendance 4/4

Note: Following Paul Sheffield's retirement from the Board and the committee, Mike Putnam was appointed to the committee on 1 April 2023. Malcolm Cooper attended the meeting held in April 2023 and was appointed as Chair of the committee on 1 May 2023, replacing Keith Lough, who stood down from the role. Christèle Delbé were appointed to the committee on 31 May 2023.

## Remuneration at a glance

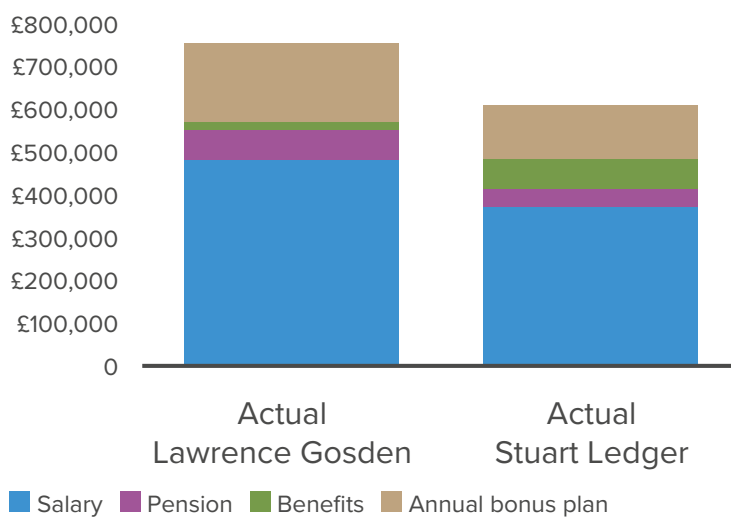
### Key objectives

Providing transparent alignment between performance-related pay and quality, customer and environmental outcomes

Governance, risk management and rigorous application

Applying stretching targets linked to customer and environmental outcomes

## Single total figure of remuneration for executive directors for year ended 31 March 2024



## Executive directors' remuneration policy

### Elements of executive directors' pay

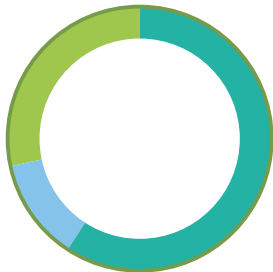
Element	Aspects
<b>Base salary</b>	Attracts and retains executives of the quality required to deliver our strategy.
<b>Annual Bonus Plan</b>	Drives and rewards performance against stretching financial, customer and operational KPIs, which are directly linked to business strategy.
<b>Pension</b>	Defined contribution scheme.
<b>Other benefits</b>	Provides market competitive benefits.



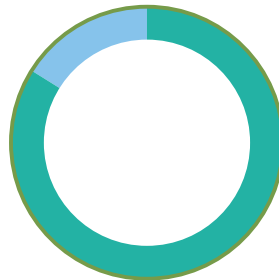
# Directors' Remuneration Report continued

Lawrence Gosden

2023-24



2022-23



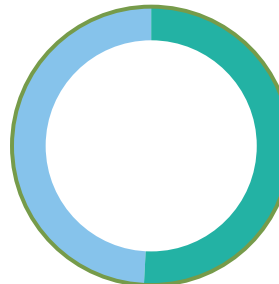
	2023-24	2022-23
<b>Fixed</b>	<b>76%</b>	100%
Base salary	<b>63%</b>	84%
Pension and other benefits	<b>13%</b>	16%
<b>Performance linked</b>	<b>24%</b>	0%
Annual bonus	<b>24%</b>	0%

Stuart Ledger

2023-24



2022-23



	2023-24	2022-23
<b>Fixed</b>	<b>79%</b>	100%
Base salary	<b>61%</b>	51%
Pension and other benefits	<b>18%</b>	49%
<b>Performance linked</b>	<b>21%</b>	0%
Annual bonus	<b>21%</b>	0%

- Base salary
- Pension and other benefits
- Annual bonus

## Remuneration policy applicable in year (unaudited)

### Purpose

This remuneration policy applies to all Southern Water employees. The Board of Directors has adopted the remuneration policy at the recommendation of the Remuneration Committee. This policy applies to remuneration earned up to and including 31 March 2025. This was reviewed during the reporting period and will be reviewed again during the current period.

### Providing transparent alignment between performance-related pay and quality customer outcomes

The policy reflects the Board's commitment to being open and transparent in respect of executive pay and to follow Ofwat and other relevant guidance. The Board has also committed during the year to ensuring that performance-related executive pay has a clear alignment to delivering stretching performance improvement, which is in the interests of customers as well as providing sustained and long-term value creation for shareholders and other stakeholders by:

- setting stretching performance targets that are based on the performance ambitions set out in our business plan
- ensuring that targets and metrics have a substantial and demonstrable link to stretching performance delivery and quality outcomes that align with the interests of customers and the environment
- transparently reporting how performance-related executive pay is linked to the underlying performance of the company
- embedding behavioural competence built around company values to underpin the cultural change and instil a way of working that will increase employee engagement and therefore productivity
- ensuring employees feel encouraged to create sustainable results and that a clear link exists between customers, shareholders and employees' interests
- ensuring that performance payments do not compromise employees' compliance with undertakings given to Ofwat in 2019
- aligning pay to the market-median position, recognising the need, from time to time, to implement specific arrangements for certain individuals
- ensuring employees are offered a competitive and market median-aligned remuneration package, which balances the fixed and variable remuneration components according to job role
- ensuring that Southern Water is able to attract, develop and retain high-performing and motivated employees in a competitive market.

The table on page 187 summarises the elements of our executive directors' remuneration package and our policy for each item.

### Governance, risk management and rigorous application

The Board applies sound and effective risk management principles to ensure that the policy is rigorously monitored and applied through:

- the application of good corporate governance by taking into account regulatory requirements and, among others, the UK Corporate Governance Code and any corporate governance principles issued by its regulator, Ofwat, from time to time
- a stringent governance structure for setting relevant and stretching goals, which are aligned to customer outcomes, and communicating these goals to employees
- clear alignment with our business strategy, company values, priorities and long-term goals
- the Remuneration Committee consists of three independent non-executive directors (one of whom is Chair) and one non-executive director. This avoids any conflicts of interest and aligns the principle of protection of customers, the environment and investors
- a commitment to the transparent reporting of executive pay within our Annual Report and Financial Statements, and any other channels as appropriate in accordance with legal and regulatory requirements, including the Ofwat Board leadership, transparency and governance principles

# Directors' Remuneration Report continued

- a commitment to transparently report any changes to the policy, including the underlying reasons, within the Annual Report and Financial Statements, and any other channels as appropriate
- an annual review of the constitution and terms of reference of the Remuneration Committee to maintain its operational effectiveness and publishing these on our website for transparency
- ensuring the ongoing effectiveness of the Board and its committees through regular external and independent evaluation.

## Applying stretching targets linked to customer outcomes

The committee, with the support of the Board, sets stretching bonus targets linked to outcomes for customers and the environment that require equivalent stretching performance. The Board is committed to setting more than 50% of bonus targets that are linked to customer outcomes, which have additional benefits to the environment. For 2023–24 these included five ODI performance commitment outcomes (pollution incidents, internal flooding incidents, leakage, the customer satisfaction (CSS) element of C-MeX and water quality compliance notice delivery).

Customers would also have benefited from performance against the financial metric, designed to drive financial efficiency.

The Health and Safety Transformation Programme, which is a key element of focus, was subject to stretching targets to ensure appropriate focus.

All of the targets were subject to overall adjustment factors to reflect the company's focus on pollutions. The committee considers these to be sector leading, and further align the targets to customer and environmental outcomes.

All metrics were used throughout the organisation so that all company employees are incentivised to achieve stretching levels of performance.

## Executive director remuneration components

Executive remuneration comprises both fixed and variable elements with the four remuneration components detailed as follows:

- Fixed remuneration (including fixed supplements)
- Performance-based remuneration (variable percentage of salary)
- Pension schemes, where applicable
- Other benefits in kind (e.g. car allowance, travel or accommodation and private medical cover).

The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, responsibility, job complexity and local market conditions and is benchmarked against industry peer groups.

The performance-based remuneration motivates and rewards those employees who significantly contribute to sustainable results, perform according to set expectations for the individual in question, strengthen long-term delivery of quality outcomes for customers and generate income and shareholder value.

The Board of Directors has determined a maximum percentage of performance-based remuneration relative to the fixed salary remuneration for executive directors. The table below shows the maximum limit on variable remuneration under the Annual Bonus Plan (excluding any pension allowance) for the CEO and CFO for 2023–24.

	CEO	CFO
Total range of variable remuneration	0% – 150%	0% – 150%

Performance-based remuneration under the Annual Bonus Plan is disbursed as a cash bonus, paid in the July following the end of the relevant financial year. The amounts payable in respect of 2023–24 are detailed in the following sections. Both the CEO and the CFO declined their annual bonuses in 2022–23.

Executive directors are covered by an insured four times salary 'death in service' lump sum benefit and a contribution to a personal pension arrangement. The CEO currently receives a 15% of base salary contribution rate and the CFO receives 11%. Each may choose to take this as a pay supplement, subject to the relevant tax and National Insurance deductions.

The policy is that remuneration should be market-competitive relative to other comparable companies, with a significant proportion being performance-related. The performance-related element is only paid out if stretching targets are achieved that benefit both customers and shareholders. In setting the remuneration policy for executive directors, the committee takes into account the remuneration practices found in other UK companies of a similar size or operating in the same sector. It also ensures that the remuneration arrangements for the executive directors are appropriate when compared with those for other senior executives and the wider workforce. Attracting and retaining first class leadership is vital to the long-term success of the company.

In particular, the committee is kept informed on a regular basis of the following, which it uses to set executive remuneration policy:

- The level of salary increase for the general employee population
- Benefit provision and any proposed changes
- Overall spend on management bonus
- The gender pay gap across the company.

An investor representative non-executive director sits on the committee and as such is involved in setting remuneration levels, monitoring the performance of the executive directors, agreeing payments and approving any changes to executive reward packages. This involvement ensures that shareholders play a key part in shaping remuneration policy and decisions. Along with the independent non-executive directors they ensure that the link between pay and performance is closely managed.

To ensure that our remuneration practices remain competitive, the committee periodically calls upon experienced specialist consultants.

# Directors' Remuneration Report continued

## Remuneration components

Element of remuneration	Purpose and link to strategy	Policy and approach	Maximum opportunity 2023–24
<b>Base salary</b>	Takes into account experience and personal contribution to our strategy and performance. Attracts and retains executives of the quality required to deliver our strategy.	Reviewed annually with changes effective from 1 April, if applicable. Consideration given to individual and company performance. General pay increases to all employees taken into consideration. Aim to pay within a mid-market range, but may pay higher salaries to attract and retain executives of the right calibre or for out-performance by the individual or company. Referenced against UK companies of a similar size, utility companies and other water companies.	Base salary increases are applied in line with the annual review.
<b>Annual Bonus Plan</b>	Drives and rewards performance against stretching financial, customer and operational KPIs, which are directly linked to business strategy.	Details of the operation of the plan are shown on page 190. Performance metrics and targets are established annually by the committee, making sure they are sufficiently stretching, while also recognising the nature and risk profile of the company. Differing percentages are allocated to each measure with a threshold resulting in an award of 25% for that measure. 100% is awarded for achieving the actual target, with stretch targets creating 120% for achieving outstanding performance, subject to the overall maximum opportunity of 150%. In addition to market leading adjustment factors for serious pollution incidents, the committee has discretion to amend or withdraw payments based on the consideration of other factors which could significantly affect business performance. Plan awards are disclosed on page 191.	150% of salary for the CEO and CFO.
<b>Long-term Incentive Plan</b>	Drives retention of the Executive Directors with a link to the delivery of the overall LTIP key performance indicators	Based on a two-year reference period of 2023–25, the scheme awards a bonus based on a percentage of base pay multiplied by the overall corporate outturn of LTIP Key Performance Indicators. The bonus is then paid in two equal payments across 2025 and 2026.	150% of salary for the CEO and CFO per annum, 2023 to 2025.
<b>Pension</b>	Defined contribution scheme removes the risk to the company associated with defined benefit pension plans.	A company contribution into a defined contribution scheme, and/or A cash allowance in lieu of pension.	CEO 15% of salary CFO 11% of salary.
<b>Other benefits</b>	Provides market competitive benefits.	May consist of: Car allowance Health cover Disturbance or relocation allowances Travel or accommodation allowances.	Based on individual circumstances.

## Notes to the policy table

### Directors' pay

Executive directors who served during the 2023–24 year are shown below:

Lawrence Gosden	Chief Executive Officer
Stuart Ledger	Chief Financial Officer

Details are given on page 189 of the amounts paid to them in the year ended 31 March 2024.

### Operation of the Annual Bonus Plan

Under the Annual Bonus Plan, participants have had the opportunity to earn an annual bonus based on both performance against targets pre-determined by the Board and on achievement of personal objectives. Any resulting award is paid out to participants in cash in July 2024.

## Measures used in the Annual Bonus Plan

During the year, the Remuneration Committee identified and operated performance measures that support customer and environmental performance as well as transforming our plan to keep our employees safe and healthy at work and also for delivering financial performance for the company, such as:

- pollution incidents,
- internal sewer flooding incidents,
- leakage,
- water quality compliance,
- customer satisfaction, as measured by our C-MeX performance,
- delivery against our Health and Safety Transformation Programme,
- delivery of certain financial performance measures,

with adjustment for factors including serious pollution performance and health and safety.

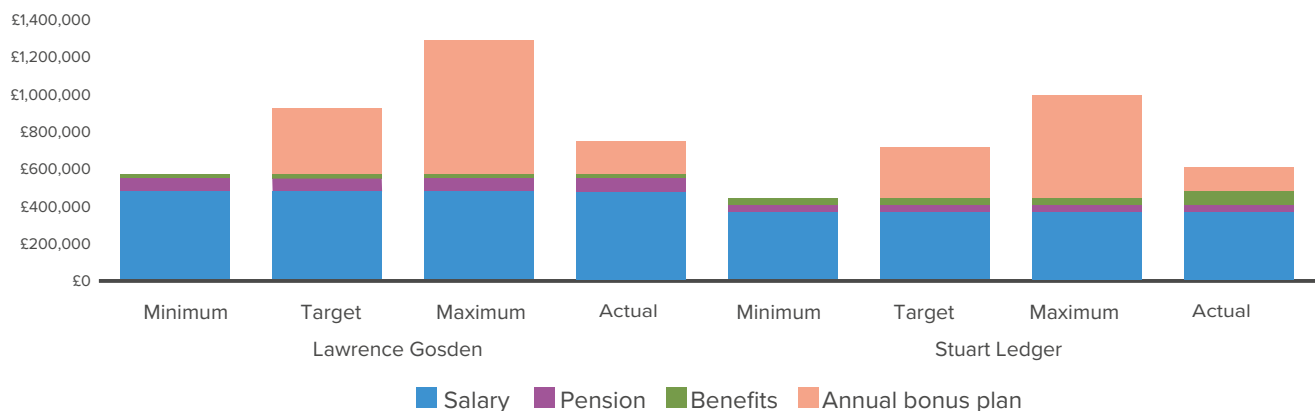
## Long-Term Incentive Plan

The current LTIP has been put in place for the executive directors and certain key executives. The scheme is intended to link company performance to a payment that is deferred to drive retention of the key executive members into future years. The Remuneration Committee assess the performance measures linked to the LTIP for delivery of targets across water quality and customer but with a Botex and Final Determination measure which differs from the Annual Bonus Plan. These targets include:

- EPA
- CRI
- C-MeX
- Botex measures
- PR24 Final Determination.

## Remuneration scenarios for 2023–24

The following chart sets out the remuneration scenarios for each of the executive directors for various levels of performance as well as the actual remuneration for 2023–24.



Notes: 'Target' performance is the level of performance required for the annual bonus plan to pay out at 50% of maximum.

## Notice periods

The table below sets out the contractual notice periods for the executive directors. If the notice period is worked, no termination payment is payable, otherwise a payment up to a maximum equivalent to the notice period of basic salary, pension and car allowance is payable.

	Notice period
Lawrence Gosden, CEO	12 months by either party
Stuart Ledger, CFO	12 months by either party

# Directors' Remuneration Report continued

## Annual remuneration report

### Single figure of remuneration for 2023–24 (audited)

Details of the remuneration received by the executive directors are shown below. The figures shown are the amounts paid or awarded for each of these financial years. Base salary is generally reviewed in April each year.

£'000		Base salary paid	Benefits	Annual Bonus Plan <sup>1</sup>	Incentive and Retention Plan withheld <sup>2</sup>	Total	Pension related benefit	Total including pension
Lawrence Gosden <sup>3</sup>	<b>2023–24</b>	<b>480.0</b>	<b>28.6</b>	<b>183.6</b>	–	<b>692.2</b>	<b>72.0</b>	<b>764.2</b>
	2022–23	360.0	13.7	–	–	373.7	54.0	427.7
Stuart Ledger <sup>4</sup>	<b>2023–24</b>	<b>371.0</b>	<b>70.2</b>	<b>128.0</b>	–	<b>569.2</b>	<b>40.8</b>	<b>610.0</b>
	2022–23	87.5	73.0	–	–	160.5	9.6	170.1
Ian McAulay <sup>5</sup>	<b>2023–24</b>	–	–	–	–	–	–	–
	2022–23	435.0	18.9	–	(474.3)	(20.4)	78.3	57.9
Sebastiaan Boelen <sup>6</sup>	<b>2023–24</b>	–	–	–	–	–	–	–
	2022–23	106.7	104.8	–	(229.4)	(17.9)	16.0	(1.9)
Nadim Ahmad <sup>7</sup>	<b>2023–24</b>	–	–	–	–	–	–	–
	2022–23	371.3	10.0	–	–	381.3	–	–

<sup>1</sup> Southern Water makes a performance related bonus based on the delivery of specific targets set out within the scheme. In line with the scheme, the Remuneration Committee assessed performance for the Annual Bonus Plan for 2022–23 and made an award of £97,638 to Lawrence Gosden and £19,307 to Stuart Ledger for those targets that were met. In recognition of environmental and customer expectations Lawrence Gosden and Stuart Ledger declined the awards made to them for 2022–23.

<sup>2</sup> Under the Incentive and Retention Plan, any amount earned was added to the bonus pool for the year and payments were then made out of the pool. As noted in the Annual Report last year, the Remuneration Committee exercised its discretion under the rules of the scheme to withhold 100% of payments to Ian McAulay and Sebastiaan Boelen for bonuses awarded in prior years under the scheme that otherwise would have been due to be paid in July 2023, as set out in the table. This scheme has now been closed.

<sup>3</sup> Salary, benefits, pension and bonus figures for Lawrence Gosden in 2022–23 reflect part-year earnings from 1 July 2022 when he was first appointed to the Board to 31 March 2023, Lawrence Gosden did not accept a bonus in respect of the period 2022–23. Benefits for 2023–24 include a car allowance and travel allowance.

<sup>4</sup> Salary, benefits, pension and bonus figures for Stuart Ledger in 2022–23 reflect part-year earnings from 3 January 2023 when he was first appointed to the Board. Stuart Ledger did not accept a bonus in respect of the period 2022–23. The benefits in 2022–23 include an amount of £65,446 as compensation for loss of vested LTIP benefit from his previous employer in respect of periods prior to 1 April 2022. A further equivalent payment of £39,989, the final such payment, is included in the benefit figure for 2023–24. Other benefits for this period include a car allowance and a travel allowance.

<sup>5</sup> Ian McAulay resigned as an executive director on 30 June 2022 but continued to receive salary and benefits up to the end of his required notice period being 31 March 2023.

<sup>6</sup> Sebastiaan Boelen resigned as an executive director on 31 July 2022. His benefits for 2022–23 are pro-rated to this date. Benefits include a payment of £100,000 agreed as compensation for extending his contract while a successor was appointed. Payments for loss of office are shown in the table below and include an amount of £159,833 for pay in lieu of notice.

<sup>7</sup> Nadim Ahmad served as an executive director for the period from 31 July 2022 to 3 January 2023 and his benefits for 2022–23 are pro-rated for this period. He was appointed on an interim basis.

£'000		Base salary paid	Benefits	Pay in lieu of notice	Total	Pension related benefit	Total including pension
Sebastiaan Boelen <sup>6</sup>	2022–23	–	43.9	159.8	203.7	24.0	227.7

## Notes to the single figure of remuneration (unaudited)

### Annual Bonus Plan

The performance measures agreed by the Committee for 2023–24 are:

- Pollution incidents
- Internal sewer flooding incidents
- Leakage
- C-MeX – measuring customer experience
- Water quality compliance – notice delivery
- Health, safety, security and wellbeing – ensuring our employees are kept safe and healthy at work
- Cash spend
- Role specific personal objectives.

The following adjustment factors apply:

Additional award/penalty for pollution incidents:

- For every quarter with two or more Category 2 pollution incidents a -2.5% Annual Bonus Plan penalty applies, with a maximum -10% penalty for the year

For every quarter with 1 or more Category 1 pollution incidents a -5% Annual Bonus Plan penalty applies, with a maximum -20% penalty for the year

- If there are no Category 1 or 2 incidents during the year, an extra +20% Annual Bonus Plan bonus applies.

If, at the financial year end, the 12-month rolling average Lost-Time Accident Frequency Rate is above 0.27 a 2.5% Annual Bonus Plan penalty applies. If it is above 0.35, the Annual Bonus Plan penalty increases to 5%. If it falls below 0.25, the company will make a charitable donation. Starting position at 1 April 2023 was 0.27.

If there is an employee or contractor fatality, the Remuneration Committee has discretion to reduce Annual Bonus Plan award to zero.

All targets are considered to be compliant with the company's section 19 Undertakings given to Ofwat in October 2019 and to drive positive compliance with environmental permits and performance more generally.

These KPIs apply to all employees throughout the company in relation to different bonus schemes.

The performance for 2023–24 was assessed by the committee in June 2024. Details of the maximum bonus achievable, targets and outturn percentage for each executive director are shown in the tables below.

<b>Annual Bonus Plan performance outturn</b>	<b>Maximum bonus achievable</b>	<b>Outturn %</b>	<b>Outturn as a % of salary</b>
CEO	150%	25.5%	38.25%
CFO	150%	23.0%	34.5%



# Directors' Remuneration Report continued

Annual Bonus Plan 2023–24		Threshold performance level (25%)	Target performance level (100%)	Stretch performance level (120%)	Performance <sup>1</sup>	Weighting	Outturn
Pollution	Performance	200	150	88	234	15.0%	0.0%
Internal Sewer	Performance	294	232	180	460	10.0%	0.0%
Leakage	Performance	102.3	98.6	95.4	107.5	10.0%	0.0%
C-MeX	Performance	70	73	76	63.6	10.0%	0.0%
Water Quality							
Notice Delivery	Performance	Satisfactory	Good	Excellent	Excellent	15.0%	18.0%
Health & Safety	Performance	Satisfactory	Good	Excellent	Good	10.0%	10.0%
Cash spend	Performance	£407m	£377m	£347m	£467m	30.0%	0.0%
<b>Total</b>						100.0%	<b>28.0%</b>
Adjustments <sup>2</sup>							-10.0%
<b>Total awarded<sup>3</sup></b>							<b>18.0%</b>

<sup>1</sup> Where the performance has been based on the latest forecast position available at the time, any subsequent changes to the final outcome position will be adjusted for in the following performance year and in accordance with the Annual Bonus Plan scheme rules.

<sup>2</sup> There was a negative adjustment of 10.0% in the outturn due to there being one quarter where there were four Category 1 serious pollution incidents and two quarters where there were two Category 2 serious pollution incidents.

<sup>3</sup> The bonus outturn for Executive Directors is also subject to adjustment with a range of -12.5% to +12.5% in respect of performance against personal objectives.

The threshold, target and stretch bonus percentages shown reflect the level of bonus award for achievement of the threshold, target and stretch performance levels for each metric. In the wettest year on record and with a serious cyber incident to deal with, the committee considered that the company made significant progress against its Turnaround Plan, including step changes in a number of key areas including overall pollutions and water quality. Taking this performance in the round, the committee chose not to exercise its discretion to reduce either the corporate outturn or the outcomes for the executive directors.

Both the CEO and the CFO declined to accept an annual bonus in respect of the 2022–23 financial year.

## Pension contributions

The pension contribution for the executive directors, for the period 2023–24 year, is set out in the table below:

Pension	Salary received (£'000)	Pension contribution as a % of base salary (%)	Cash allowance in lieu of pension (£'000)	Pension contribution to scheme (£'000)	Total Pension related benefit (£'000)
Lawrence Gosden	480.0	15	72.0	–	72.0
Stuart Ledger	371.0	11	40.8	–	40.8

Following the closure of the company's defined benefit pension scheme to future accrual and the introduction of a new defined contribution scheme for the company's workforce, the Remuneration Committee reviewed the pension contribution payable to the executives. In doing so, it also considered the expectation in Provision 38 of the UK Corporate Governance Code that the pension contributions payable to the executive directors are aligned to that of the workforce. Accordingly, it was agreed that from 1 April 2020, the employer pension contributions offering for new executive director appointments would be aligned to the 'all employee' rate of 11%. Lawrence Gosden's pension contribution is based on the previous executive level, which was applicable at the time of his recruitment into the business in a different role and is therefore treated as a continuous term and condition of employment.

## Non-executive director fees for the year (audited)

The Chair and the non-executive directors each receive a fee and do not participate in any performance-related incentive arrangements. Will Price, an investor-nominated non-executive director, does not receive any remuneration from the company.

The Board as a whole is responsible for setting the level of non-executive director fees and in doing so receives input from the Remuneration Committee.

Details of the emoluments received by the Chair and non-executive directors are shown below. There has been no change in the base fees in the year:

£'000	2023–24			2022–23		
	Fees	Other	Total	Fees	Other	Total
<b>Keith Lough</b> (Chair)	290.0	15.8	305.8	286.3	10.1	296.4
<b>Dame Gillian Guy DBE</b> (Senior independent non-executive director)	75.0	4.2	79.2	53.8	2.2	56.0
<b>Mike Putnam</b> (Independent non-executive director)	65.0	3.2	68.2	63.8	2.1	65.9
<b>Malcolm Cooper</b> (Independent non-executive director)	79.2	1.2	80.4	68.8	0.6	69.4
<b>Christèle Delbé</b> (Independent non-executive director) (Appointed 31 May 2023)	46.0	0.7	46.7	N/A	N/A	N/A
<b>Kerensa Jennings</b> (Independent non-executive director) (Appointed 31 May 2023)	46.0	1.0	47.0	N/A	N/A	N/A
<b>Steve Fraser</b> (Investor-nominated non-executive director) (from 1 May 2022)	55.0	1.5	56.5	49.6	3.8	53.4
<b>Phil Swift</b> (Investor-nominated non-executive director) (Appointed 31 May 2023)	46.0	2.6	48.6	N/A	N/A	N/A
<b>Neil Corrigan</b> (Investor-nominated non-executive director) (Appointed 29 November 2023)	18.6	0.8	19.4	N/A	N/A	N/A
<b>Will Price</b> (Investor-nominated non-executive director)	–	–	–	–	–	–
<b>Paul Sheffield</b> (Senior independent non-executive director) (Retired 31 March 2023)	N/A	N/A	N/A	73.8	2.1	75.9
<b>Rosemary Boot</b> (Independent non-executive director) (Retired 31 March 2023)	N/A	N/A	N/A	62.9	1.4	64.3
<b>Kevin McCullough</b> (Independent non-executive director) (Retired 31 July 2022)	N/A	N/A	N/A	22.1	0.3	22.4
<b>Mark Mathieson</b> (Investor-nominated non-executive director) (from 8 September 2021 to 31 October 2023)	–	–	–	–	–	–
<b>Martin Bradley</b> (Investor-nominated non-executive director) (from 8 September 2021 to 1 May 2022)	N/A	N/A	N/A	–	–	–

The base fees for the non-executive directors are £55,000.

The fees and responsibility supplements paid to the Chair and independent non-executive directors were last reviewed in May 2022.

The table below provides details of applicable responsibility payments for 2023–24.

# Directors' Remuneration Report continued

	Chair and date of appointment	Responsibility supplement	Comments on supplement
Audit Committee	Malcolm Cooper 23 December 2019	£15,000	
Health, Safety and Operational Risk Committee	Mike Putnam 1 July 2019	£10,000	
Remuneration Committee	Malcolm Cooper 1 May 2023	£10,000	
ESG Committee	Gillian Guy DBE 1 April 2023	£10,000	Introduced with effect from 1 May 2022
Senior independent non-executive director	Gillian Guy DBE 1 April 2023	£10,000	

The other amounts payable to the non-executive directors include taxable expenses incurred in connection with attendance at Board meetings and shareholder events.

None of the directors who held office during the financial year had any disclosable interests in the shares of Southern Water or the group; there are no share options in place and no payments were made to them by any other group companies.

## Gender pay (unaudited)

Creating an environment to enable a diverse and inclusive workforce will have a positive effect on our organisation and this is a key part of Southern Water's People Strategy.

This year our mean pay gap has further improved to a score of 0.07%, continuing the three-year trend and we have targets to see the female representation grow to 35% by 2030. This continues to be our ambition, which we aim to achieve by continuing our focus on recruitment and retention practices and providing everyone the best possible opportunity to learn and grow their careers with us.

We always have a mix of male and female apprentices and graduates bringing in fresh ideas to the business.

Our median pay gap is -7.18%, meaning that it is in favour of women. The gap is a percentage calculated by looking at the middle hourly rate for women and the middle hourly rate for men. The median gives a strong indicator of 'average' earnings, as it is not skewed by a few individuals earning at a high or low level (which can be true of the mean).

This year our mean pay gap has further improved to a score of 0.07%, continuing the three-year trend. The mean percentage gap is an average hourly pay for men compared to women at all levels. Our mean hourly pay gap has decreased by 2.5% percentage points to 0.07. The reason for this is the movement in the gender balance in our senior roles, which is a positive move.

For more information, see the report on our gender pay gap at [southernwater.co.uk/gender-pay-gap](https://southernwater.co.uk/gender-pay-gap).

## Creating a workplace where all of our people feel they belong

Equality, diversity, and inclusion (E, D&I) are not just ethical but business imperatives that are integral to our success. By fostering an inclusive and equitable workplace, we not only enhance our culture and colleague satisfaction but also improve our service delivery to our customer base. Our strategic approach will be dynamic and ensure that we build on current successes, address existing challenges, and remain agile in our efforts to promote E, D&I. This will involve active leadership commitment, strategic alignment with broader initiatives such as wellness and culture, encouraging and acting upon data provision, and a robust education programme that encourages continuous learning and improvement. Together, we will make Southern Water a model of diversity, equity, and inclusion, driving better outcomes for our colleagues, customers, and stakeholders. We are recognised for doing so with external benchmarks and awards – such as our current position of no. 29 in the Top 50 inclusive companies awards. This sees a year-on-year improvement in our position proving our efforts are impacting our business and we remain diligent in our efforts to improve the ranking even further.

## Executive pay gap reporting

From 2020 onwards, the Companies (Miscellaneous Reporting) Regulations 2018 require all publicly-listed companies with more than 250 UK employees to publish the ratio between their CEOs full time equivalent remuneration and that of employees at the 25th, 50th and 75th percentile when total remuneration is calculated and ranked from lowest to highest.

Although not a listed company, Southern Water has chosen to publish this information in line with our commitment to providing information about pay diversity and fairness within our organisation.

The regulations set out three options for calculating the pay ratio.

Option A – takes into account all forms of remuneration and payments (pension etc)

Option B – uses the gender pay calculation figures

Option C – uses some other method

Our ratio has been calculated using 'Option A' as this takes into account full remuneration and is therefore the most comprehensive comparison.

Year	Method	25th Percentile Ratio	50th Percentile Ratio	75th Percentile Ratio
<b>2023</b>	<b>A</b>	<b>22:6</b>	<b>17:9</b>	<b>14.1:1</b>
2022	A	23:1	18:1	14.1:1
2021	A	43.4:1	34.3:1	26.6:1

The pay ratio has reduced slightly on prior year. The calculation is based on total remuneration between April 2023 and March 2024. We believe this slight lower movement is because our current CEO has not received a pay increase since July 2022, He did receive the 2nd part of 2022 LTIP which was paid in October 2023.

An internal Remuneration Committee exists, made up predominantly of non-executive directors, which is responsible for setting and agreeing salary arrangements for the Executive Leadership Team and ensuring that arrangements for this group are in line with the strategic direction of the organisation and managed fairly in the context of the organisation.

Executive remuneration within Southern Water is in line with the structure of remuneration for the wider population. The main elements of remuneration are salary, bonus and pension contributions. Other taxable benefits are included i.e. health benefits and car benefits.

Salary is benchmarked with the external market for all roles, including members of the Executive. Salary increases in the Executive are made in line with the budget and principles applied in other areas of the organisation subject to approval by the Remuneration Committee.

# Directors' Remuneration Report continued

## Implementation of policy for 2024–25 (unaudited)

### Base salary

The base salaries for each executive director are as follows:

<u>Base salary</u>	<u>Base salary for 2023–24 (£'000)</u>	<u>Base salary increase (%)</u>	<u>Base salary from 1 April 2024 (£'000)</u>
Lawrence Gosden	480.0	4.3%	500.6
Stuart Ledger	371.0	4.3%	386.9

### Annual Bonus Plan and Long-Term Incentive Plan

The Annual Bonus Plan is based on performance conditions designed to focus the executive directors on the areas of key strategic importance for the company. As such, the performance conditions will be strongly aligned with delivering customer and environmental outcomes and associated appropriate behaviours, while ensuring that the company continues to strengthen its financial position in the interests of customers and stakeholders alike.

**We have committed to comply with Ofwat's code of practice for executive remuneration for 2020–25 and our Remuneration Policy sets out:**

- our policy to provide transparent alignment between executive performance-related pay and stretching outcomes for all our stakeholders and, substantially, for our customers
- our policy to apply stretching targets linked to customer outcomes
- our policy to apply rigorous application of incentive scheme rules and provide independent governance of remuneration decisions, while taking into consideration risk management principles
- our policy to defer an element of bonus so that performance can be measured over the medium to long term.

## Our performance measures for 2024–25 will focus on positive outcomes for our customers and other stakeholders

In determining the performance measures for 2024–25, the Remuneration Committee considered the expectation under the Ofwat Principles that the company's performance-related elements should be linked to stretching delivery for customers, as well as the steps needed to further embed the Ofwat code of practice for executive remuneration. It was agreed that the following measures will be used to assess our performance:

### Annual Bonus Plan objectives

- Five Ofwat PR19 ODI performance commitments (Pollution incidents; Internal sewer flooding incidents; Leakage; CSS score from C-MeX and Water quality compliance – notice delivery)
- Health, Safety, Security and Wellbeing Transformation Plan
- Cash spend.

### Scheme adjustment factors

Additional award/penalty for pollution incidents:

- For every quarter with two or more Category 2 pollution incidents a -2.5% ABP penalty applies, with a maximum -10% penalty for the year
- For every quarter with one or more Category 1 pollution incidents a -5% ABP penalty applies, with a maximum -20% penalty for the year
- If there are no Category 1 or 2 incidents during the year, 20% increase to the outturn applies.

If, at the financial year end, the 12-month rolling average Lost-Time Accident Frequency Rate is above 0.25, there is a 2.5% ABP penalty. If it is above 0.30, the ABP penalty increases to 5%. If it falls below 0.22, the company will make a charitable donation. Starting position at 1 April 2024 was 0.18.

If there is an employee or contractor fatality, the Remuneration Committee has discretion to reduce the ABP award to zero.

All targets are considered to be compliant with the company's section 19 Undertakings given to Ofwat in October 2019 and to drive positive compliance with environmental permits and performance more generally.

The above targets will apply to the whole company. Adjustments are reserved to the committee for executives within its remit relating to individual and financial performance.

### LTIP and objectives applicable from 1 April 2023 to 31 March 2025

The Long-Term Incentive Plan for executives within the committee's remit is a two-year plan, with KPIs aligned to the Turnaround Plan. The applicable objectives are focused as follows:

- EPA
- CRI
- C-MeX
- Financial
- PR24 Final Determination.

Awards, weightings, targets and adjustment factors along with actual performance, will be fully disclosed in the 2024–25 Remuneration Report.

# Directors' Report

for the year ended 31 March 2024



Read about sensitivities on page 203.

The directors of Southern Water Services Limited (registered no. 02366670) present their report and the audited financial statements for the year ended 31 March 2024.

## Principal activities

The principal activities of Southern Water Services Limited, herein after referred to as 'the company', also referred to as SWS, are the provision of water supply and wastewater services in the South East of England. The company is regulated by the Water Services Regulation Authority (Ofwat) and supplies water to over 2.7 million people and provides wastewater services to over 4.7 million people.

## Strategic Report

The information that fulfils the requirement of the Strategic Report can be found in our Annual Report on pages 12 to 129 including the Section 172 (1) Statement on pages 88 to 91.

## Future developments

The information regarding future developments of the company can be found in our Strategic Report on pages 12 to 129.

## Post balance sheet events

There were no significant events after the statement of financial position date.

## Results and dividends

The income statement on page 206 shows the company's results and loss for the year. Further details are also available in the Annual Report on pages 95 to 99.

No ordinary interim dividends were paid during the year (2023: £nil). No final dividend has been declared or paid for the year ended 31 March 2024.

## Directors and their interests

Directors during the year ended 31 March 2024 and up to the date of signing the financial statements, were as follows (details on pages 135 to 140):

### Keith Lough

Chair

### Lawrence Gosden

(Executive director – Chief Executive Officer)

### Stuart Ledger

(Executive director – Chief Financial Officer)

### Gillian Guy

(Senior independent non-executive director)

### Malcolm Cooper

(Independent non-executive director)

### Michael Putnam

(Independent non-executive director)

### Christèle Delbé

(Independent non-executive director)  
(Appointed 31 May 2023)

### Kerensa Jennings

(Independent non-executive director)  
(Appointed 31 May 2023)

### Stephen Fraser

(Investor-nominated non-executive director)

### Phil Swift

(Investor-nominated non-executive director)  
(Appointed 31 May 2023)

### Neil Corrigan

(Investor-nominated non-executive director)  
(Appointed 29 November 2023)

### Will Price

(Investor-nominated non-executive director)

### Mark Mathieson

(Investor-nominated non-executive director)  
(Resigned 31 October 2023)

None of the directors who held office during the financial year had any disclosable interests in the shares of the company or the group.

## Research and development

Improvement of existing services and processes, together with the identification and development of new technology and solutions, are important aspects of the company's strategy to enhance the quality of service to customers and improve ways of working. Research and development expenditure charged to the income statement for the year amounted to £0.9 million (2023: £0.6 million).

## Financial risk management

The Financial Risk Management Policy is included in the Strategic Report which can be found in the Annual Report on page 121.

## Corporate governance

A description of the company's corporate governance arrangements for the purposes of Part 8 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as introduced by regulation 14 of the Companies (Miscellaneous Reporting) Regulations 2018 can be found in the Annual Report on pages 130 to 196.

## Employees

The company recognises the importance of its employees and is committed to effective two-way communication and consultation.

The company has an established Employee Voice group to facilitate meaningful consultation between company management and employees through elected employee representatives. The group meets regularly at both a functional and company-wide level.

The company undertakes regular employee engagement surveys to help develop management action plans and provide insight into the views of employees. The company also conducts further surveys throughout the year on specific matters, the results of which are reported to management and/or the Board as appropriate.

The company recognises the rights of every employee to join a trade union and participate in its activities. Southern Water has a single union agreement with Unison.

General information is posted on the company intranet and regular team briefing sessions are also held. The information in these publications and briefings covers a wide range of subjects that affect the business, including progress on business and capital projects, the impact of regulatory issues and wider financial and economic issues.

The company's Executive directors and Executive Committee members as well as, occasionally, individual non-executive directors hold monthly 'Company Conversations', using video conferencing, to inform and engage with the company's employees about the company's priorities, purpose and values. These sessions afford employees an opportunity to put questions to the executive directors and senior leadership about anything regarding the business.

In line with the UK Corporate Governance Code, one of the company's independent non-executive directors has been given the remit of communicating the views of the company's workforce to the Board. This was Mark Mathieson until his resignation on 31 October 2023; he was succeeded by Neil Corrigan on his appointment.

Further details of the company's employees and the company's engagement activities, as well as how the directors have had regard to employee interests, can be found in the Strategic Report on pages 62 to 67.

**Equal opportunity:** The company's policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. It takes full account of the needs of people with disabilities and follows set policies and procedures to support reasonable adjustments.

**Health, safety, security and wellbeing:** The health, safety, security and wellbeing of our people is our priority and colleagues are encouraged to challenge anything they believe may be wrong or potentially dangerous. Empowerment forms a crucial part of our safety strategy as does making safety the first thing we consider when conducting any activity. Our June 2023 Policy Statement reaffirmed our position and provides clear direction from the CEO on how we approach health, safety, security and wellbeing within the business.



# Directors' Report continued

for the year ended 31 March 2024



Read about health and safety performance on page 62.

Our focus on prioritising safety is linked to the delivery of our Health and Safety Transformation Plan progress against which is discussed at monthly Safety Executive Committees and with members of the Executive at monthly programme boards. This seeks to deliver a step change in our approach by embedding cultural, behavioural, process and system improvements. We are on track to deliver in 2024 and regularly review our position, ambitions and initiatives through quarterly external audits.

We continue to ensure that every employee receives training, instruction and supervision to deliver their role, proportionate to the specific level of risk. These requirements are frequently reviewed with the delivery of accredited NEBOSH and IOSH Health and Safety training, and the development of modern site safety instructions and supply chain training courses are recent examples of this.

Our well-established forums, including Employee Voice and our Speak Up line, are used to share safety information and we distribute regular safety cascades and immediate safety alerts to ensure our colleagues are appraised of incidents and mitigations. In 2023 we have implemented an online Safety Reporting System that should make this passage of information even better.

The company provides an internal occupational health service for employees, including the provision of physiotherapy and support through the Employee Assistance line. In 2024, we are delivering a company-wide immersive training programme 'Stop Think Safe' to provide everyone with the tools and support to challenge unsafe situations.

**Disabled employees:** Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

**Speak Up:** Employees are actively encouraged to Speak Up if they see things that are not quite right. This helps us work better as a company and fosters a culture where we ensure that we are always doing the right thing for each other, our customers, the environment and other stakeholders.

## Engagement with customers, suppliers and others

The company recognises the importance of its suppliers to ensure the company's ability to continue to deliver an essential public service.

Further details of the company's engagement with its suppliers during the year can be found on page 65.

Due to the nature of its business and the regulatory framework in which the company operates, engagement with its customers is of key importance. The company undertakes extensive customer engagement activities throughout the year. Further details can be found on pages 34 to 43.

As a private limited company, Southern Water Services Limited is not required to hold an annual general meeting.

The company, its senior executives and Board regularly engage with the company's regulators, with local and national government as well as with relevant industry groups through meetings and other events.

The company's statement explaining how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, and which provides further detail in respect of how the directors have taken into account the interests of the company's employees, suppliers, customers and others during the year, can be found on pages 88 to 91.

## Environmental issues

The company is committed to meeting or improving upon legislative and regulatory environmental requirements and codes of practice and aims to contain the environmental impact of its activities to a practicable minimum.

The company is subject to ongoing investigations by the Environment Agency regarding wastewater performance and further details are disclosed in note 33 to the accounts.

The company's environmental performance for 2023–24 is reported on pages 52 to 61. The company recognises its responsibility to operate within a framework that supports sustainable development and has established, where possible, indicator targets which are measurable. Performance against these targets is monitored and reported regularly.

## Streamlined Energy and Carbon Report (SECR)

The Streamlined Energy and Carbon Report is included within the climate-related financial disclosures section of the Strategic Report on pages 68 to 91.

## Political donations

No political donations were made.

## Land and buildings

In the opinion of the directors, the market value of land is significantly more than its book value. However, it would not be practicable to quantify the difference precisely.

## Going concern

The directors believe, after due and careful enquiry, that it is appropriate to adopt the going concern basis in preparing the financial statements to 31 March 2024.

For the 12 months to 31 March 2024 the company incurred an operating loss of £72.8 million (2023: loss of £18.4 million).

As of 31 March 2024, it had cash on hand of £413.5 million (31 March 2023: £115.8 million) and undrawn bank facilities of £350.0 million (31 March 2023: £435.0 million). The company also has borrowings totalling £4,970.4 million (31 March 2023: £4,221.0 million), for which the earliest repayment is £350 million in March 2026. In the year to March 2024, borrowings attracted a total monthly cash interest charge of c. £12.5 million (31 March 2023: c.£7.2 million).

The borrowings are subject to financial ratio covenants measured against full year financial projections/actual performance for the year(s) ending March, (such reporting is updated semi-annually), as well as covenants relating to the credit rating of debt issued by the company and its subsidiaries. A breach of these covenants can result in either a trigger event or a default

event. Following publication of its compliance reporting in July 2023, where interest cover was reported below its trigger event threshold, in addition to a downgrade by Fitch Ratings at the same time, the company entered a trigger event.

A trigger event is a structural buffer intended to protect the company and its finance creditors from a default event. During this time, the company is prevented from making distributions, and is required to prepare a plan to recover from the trigger event. It does not enable creditors to enforce their security, and the business can continue in operation during a trigger event, and it is not considered to be a going concern event.

If a default event were to occur, the business would enter a 'standstill period'. All lenders' claims would be frozen, and they have the right to exercise their security of a charge over the share capital of the parent company of SWS (see how the company is financed on page 106).

Committed reserves of £190 million are available to finance the business during this period, but there would however be restrictions on the company's operations, including the cessation of capital investment expenditure.

In the annual report for the year ended 31 March 2023, and in the half-year results for the six months ended 30 September 2023, the company concluded that the going concern basis of accounting was appropriate, but that a material uncertainty existed with respect to going concern around the receipt of future additional funding (equity and debt) which, at the date of signing the respective financial statements, was not committed. It further concluded that liquidity headroom over the going concern period was limited, and that should total expenditure exceed the plan by more than 12%, the company may not have sufficient liquidity for the going concern period.

In August 2023, additional equity funding of £375 million was committed and paid by the majority shareholder, and between November 2023 and May 2024, additional debt funding of £1.2 billion was raised, with terms ranging from 18-19 years.

During the year to March 2024, total expenditure exceeded the plan by 13.9%

# Directors' Report continued

for the year ended 31 March 2024



Read more about operational performance on pages 34 to 67.

due to the effects of operational incidents, the acceleration of certain capital projects and operational activity to reduce the risk of pollutions, together with price pressures resulting from high inflation.

Following this financing activity, which has resulted in a stronger liquidity position in the annual report for the year ended 31 March 2024, the company has concluded that the going concern basis is appropriate.

In assessing the going concern position of the company, the directors considered the forecast cash flows over the 12 months to July 2025, and the capital structure of the company and financing needs for the period. The directors have considered a base case and various sensitivities in establishing the company's ability to meet its commitments over and above its obligations under the PR19 Final Determination, to March 2025, and its business plan for the period (AMP8) covered by the PR24 Final Determination from April 2025, which is consistent with that submitted to Ofwat on 28 February 2024.

## Base case – forecast cash flows

The company has a significant level of planned expenditure over at least the next 12 months to continue to enhance its assets and improve operational performance and begin work on delivering its plans for the next investment period. The company is also facing the continuing effect of recent high inflation, particularly on costs such as energy, chemicals, and materials. As a result, the company has forecast net cash outflows for every month throughout the going concern assessment period of 12 months to July 2025.

Forecast cash flows for the period to March 2025 are based on the company's latest approved business plans, which in turn are based on PR19 and further commitments made as part of the Turnaround Plan (see page 19). For the period after March 2025 (AMP8), the forecast cash flows are based on PR24 as submitted to Ofwat on 28 February 2024. The directors consider that the plan submitted to Ofwat is financeable.

In preparing the forecasts, management has considered:

- The company's business activities, together with the factors likely to affect its future development, performance, and position. In particular, the directors have considered the significant level of expenditure we have committed to in addition to that allowed at the PR19 price determination, and our plans for expenditure in AMP8, as submitted to Ofwat.
- The financial position of the company, its forecast monthly cash flows, liquidity position, covenants and borrowing facilities. In particular management has considered performance against plan in recent years, including the 2023–24 overspend, and has taken this into account in preparing the forecast for the year ending 31 March 2025, which it considers to be reasonable and achievable.
- The effects of the operational incidents in the period to 31 March 2024 (see page 95 for details of our operating cost performance in the period).
- The continuing effects of recent high levels of inflation on costs such as energy, chemicals, and materials.

- Investment needed to improve operational performance and reduce the impact on the environment from the treatment and processing of water and wastewater, and mitigate the effects of climate change.
- The company operates in an industry that is largely subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities.

### Base case – financing needs

In planning for the future financing needs of the company, the directors have also considered the following information:

- The committed revolving credit facility was increased from £330 million to £350 million on 31 October 2022 and renewed for a further five years. This facility was utilised during the period to 31 March 2024 and repaid before the period end but is not currently expected to be further utilised in the going concern period.
- Bonds totalling £1.1 billion were issued during the financial year, with another £150 million issued during May 2024.
- Borrowings are generally at fixed interest rates but include certain inflation-linked loans and derivatives. The inflation-linked instruments are subject to inflation risk which is expected to be offset by inflation movement of the RCV and revenues.
- Financing costs are forecast to increase in 2024–25 as the newer debt raised in the period attracts higher interest charges. Average monthly cash interest expense is forecast to be c.£13 million for across the going concern period (2023–24: £12.5 million).

The company expects to raise a total of c.£900 million of new debt during the forecast period ('the debt raise'), with cash assumed to be received during H1 2024–25 and Q1 2025–26. The directors anticipate receiving the debt, based on a history of successful fundraising in the past and following discussions with key lending banks, but this is not included in the base case because it is not yet committed, and its timing is uncertain. It is not required in the going concern period.

### Base case – covenant compliance

- The company's credit rating as at 31 March 2024 was Baa3/BBB/BBB as a result of pressure on financial ratios from the planned level of expenditure, plus operational performance challenges, which are being addressed by the company's Turnaround Plan.
- The adjusted interest cover ratio has negative headroom and is expected to continue to have negative headroom until at least March 2025. As a result of this and the initial downgrade from Fitch Ratings in July 2023, the company is in a trigger event and is expected to continue to be in a trigger event to at least March 2025.
- The company obtained a waiver from its lenders in August 2023, which allows full use of available borrowing facilities, plus the raising of new finance, during a trigger event related to either a credit rating downgrade or a breach of a financial ratio. This waiver is in place to 2035, and the company also increased the associated debt/RCV limit to 75% while in a trigger event.

There is positive financial headroom across all default debt covenant ratios for the going concern period in the base case, although there is limited financial headroom against the post maintenance interest cover ratio for 2024–25, and the debt/RCV ratio of 75%.

# Directors' Report continued

for the year ended 31 March 2024



Read about forecast cash flows on page 201.

## Sensitivities

- Liquidity:** Downside sensitivities to the cash flows to check whether the company can operate within its current facilities and covenants have identified that if total expenditure, over the going concern period, is 18% (c.£400 million) over plan, the company will not have sufficient liquidity for the going concern period. The company does not foresee total expenditure exceeding this, due to the detailed “bottom-up” forecasting process that has occurred. This provides additional rigour to spending plans, and takes into account the principal risks and uncertainties as set out on page 116 to 125 and previous performance (see page 34 to 67). We also note that management has oversight of the timing of spend commitments and the additional contingency included in the budget.
- Covenants:** The post maintenance interest cover ratio covenant would be breached if net cash flow from operating activities, less capital maintenance expenditure, were to exceed plan by £36 million (6.2% of forecast operating costs in the base case); the consequences of this would be a default event. The company does not foresee net cash flows exceeding this, due to the detailed “bottom-up” forecasting process, as described previously, which includes some contingency. Further, management has some ability to control cash flows by varying payment terms with suppliers over the short term, and rephasing capital maintenance spend.

Ofwat is due to report on the Draft Determination for PR24 on 11 July 2024. Should the determination be different to the plans initially submitted, the impact on cash flows in the going concern period is limited to April-July 2025, and the directors believe that such a variance, by its short-term horizon, would be limited in cashflow impact and so manageable within the existing liquidity headroom.

## Mitigations

The directors have the following actions available to them in order to manage cash flows during the going concern period, to avoid a covenant or liquidity breach:

- Rephasing capital spend within the relevant AMP.

- Rephasing other spending, in particular:
  - Capital maintenance spend.
  - Non-essential operating costs.
- Working with suppliers on payment terms.

In addition, the directors could seek to renegotiate the interest terms or use derivatives to vary the net interest payable amount, although their ability to do this is not completely within their control.

## Conclusion

Based on the above, the directors believe that the business has sufficient liquidity to meet its liabilities as they fall due for the going concern assessment period of 12 months to July 2025. For these reasons, the directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.

## Long-term viability statement

In accordance with Provision 31 of the UK Code and Ofwat's Information Notice IN 19/07, the Board has assessed the prospects of the company over a longer period than the 12 months required by the 'Going Concern' provision. Details of its assessment and the associated viability statement can be found on pages 126 to 129 of this report.

## Qualifying third party indemnity

Following shareholder approval, the company has also provided an indemnity for its directors and the Company Secretary, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006.

## Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial

statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

## Statement of disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware
2. they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

## Auditor

Deloitte LLP has indicated its willingness to continue in office and will be re-appointed for the year ending March 2025.

Approved by the Board of Directors and signed by order of the Board.

**Richard Manning**  
General Counsel and Company Secretary

8 July 2024

# Financial statements



# Income statement

For the year ended 31 March 2024

		As restated*	
	Note	2024 £m	2023 £m
<b>Continuing operations</b>			
Revenue	5	<b>859.4</b>	792.5
Amortisation of regulatory settlement	5	<b>27.1</b>	23.2
<b>Total revenue</b>		<b>886.5</b>	815.7
Other operating income	5	<b>1.8</b>	1.8
Operating costs			
– before charge for bad and doubtful debts, depreciation and amortisation		<b>(582.9)</b>	(476.8)
– charge for bad and doubtful debts		<b>(15.4)</b>	(12.0)
<b>Operating costs before depreciation and amortisation</b>		<b>(598.3)</b>	(488.8)
Depreciation and amortisation	6	<b>(362.8)</b>	(347.1)
<b>Total operating costs</b>		<b>(961.1)</b>	(835.9)
<b>Operating loss</b>	6	<b>(72.8)</b>	(18.4)
<b>Operating loss before regulatory settlement</b>		<b>(99.9)</b>	(41.6)
Amortisation of regulatory settlement		<b>27.1</b>	23.2
<b>Operating loss</b>		<b>(72.8)</b>	(18.4)
Other income	5	–	4.8
Profit on disposal of fixed assets	6	<b>0.5</b>	1.7
Finance income	5, 9	<b>4.1</b>	4.3
Finance costs	9	<b>(227.5)</b>	(282.9)
Fair value gains/(losses) on derivative financial instruments	9	<b>88.1</b>	659.1
Net finance (costs)/income	9	<b>(135.3)</b>	380.5
<b>(Loss)/profit before taxation</b>		<b>(207.6)</b>	368.6
Taxation	10	<b>(3.3)</b>	(166.6)
<b>(Loss)/profit for the financial year</b>		<b>(210.9)</b>	202.0

\* Please refer to note 1 for explanation regarding prior year changes.

The notes on pages 211 to 256 form part of these financial statements.



# Statement of other comprehensive income

For the year ended 31 March 2024

	Note	2024 £m	As restated* 2023 £m
<b>(Loss)/profit for the financial year</b>		<b>(210.9)</b>	202.0
<b>Other comprehensive (expense)/income:</b>			
<b>Items that cannot be reclassified to profit or loss:</b>			
Actuarial loss on pension scheme	24	<b>(1.6)</b>	(11.5)
Movement on deferred tax relating to retirement benefit obligations	23	<b>0.4</b>	2.2
<b>Total other comprehensive expense for the year, net of tax</b>		<b>(1.2)</b>	(9.3)
<b>Total comprehensive (expense)/income for the year attributable to the owner of the company</b>		<b>(212.1)</b>	192.7

\* Please refer to note 1 for explanation regarding prior year changes.

# Statement of financial position

as at 31 March 2024

		As restated*	
	Note	2024 £m	2023 £m
<b>Non-current assets</b>			
Intangible assets	12	98.0	110.0
Property, plant and equipment	13	7,570.0	7,092.8
Investments	14	0.2	0.2
Derivative financial instruments	22	104.8	83.9
Other non-current assets	15	10.0	10.9
		<b>7,783.0</b>	7,297.8
<b>Current assets</b>			
Inventories	16	13.5	10.4
Trade and other receivables	17	348.0	253.4
Investments	32	100.0	–
Cash and cash equivalents	32	413.5	115.8
		<b>875.0</b>	379.6
<b>Current liabilities</b>			
Trade and other payables	18	(549.8)	(477.6)
Borrowings	19, 20	(33.0)	(19.2)
Lease liabilities	21	(3.9)	(4.0)
Regulatory settlement liability	25	(28.5)	(27.4)
Provision for liabilities	26	(1.8)	(2.2)
		<b>(617.0)</b>	(530.4)
<b>Net current assets/(liabilities)</b>		<b>258.0</b>	(150.8)
<b>Total assets less current liabilities</b>		<b>8,041.0</b>	7,147.0
<b>Non-current liabilities</b>			
Borrowings	20	(4,903.3)	(4,165.3)
Lease liabilities	21	(30.2)	(32.5)
Derivative financial instruments	22	(1,673.6)	(1,655.3)
Deferred tax liabilities	23	(370.3)	(367.4)
Retirement benefit obligations	24	(78.0)	(73.0)
Regulatory settlement liability	25	–	(28.2)
Provision for liabilities	26	(3.1)	(3.3)
Other non-current liabilities	27	(43.7)	(40.3)
		<b>(7,102.2)</b>	(6,365.3)
<b>Net assets</b>		<b>938.8</b>	781.7
<b>Equity</b>			
Called up share capital	28	37.6	0.1
Share premium account	29	769.2	437.5
Non-distributable reserve	30	100.2	94.6
Retained earnings	31	31.8	249.5
<b>Total equity</b>		<b>938.8</b>	781.7

\* Please refer to note 1 for explanation regarding prior year changes.

The financial statements of Southern Water Services Limited (Registered no. 02366670) on pages 205 to 256 were approved by the Board and authorised for issue on 8 July 2024. They were signed on its behalf by:

**Stuart Ledger**

Chief Financial Officer

# Statement of changes in equity

For the year ended 31 March 2024

	Note	As restated*				Total £m
		Called up share capital (note 28) £m	Share premium account (note 29) £m	Non- distributable reserve (note 30) £m	Retained earnings (note 31) £m	
<b>Balance at 1 April 2022</b>		<b>0.1</b>	<b>437.5</b>	<b>85.1</b>	<b>66.3</b>	<b>589.0</b>
Profit for the financial year (restated)*		–	–	11.4	190.6	202.0
Other comprehensive (expense)/income for the year:						
Actuarial loss on pension scheme	24	–	–	–	(11.5)	(11.5)
Movement on deferred tax relating to retirement benefit obligations	23	–	–	–	2.2	2.2
<b>Total comprehensive income for the year (restated)*</b>		<b>–</b>	<b>–</b>	<b>11.4</b>	<b>181.3</b>	<b>192.7</b>
Reserves transfer**		–	–	(1.9)	1.9	–
Equity dividends paid	11	–	–	–	–	–
<b>Balance at 31 March 2023 (restated)*</b>		<b>0.1</b>	<b>437.5</b>	<b>94.6</b>	<b>249.5</b>	<b>781.7</b>
Profit/(loss) for the financial year		–	–	7.5	(218.4)	(210.9)
Other comprehensive (expense)/income for the year:						
Actuarial loss on pension scheme	24	–	–	–	(1.6)	(1.6)
Movement on deferred tax relating to retirement benefit obligations	23	–	–	–	0.4	0.4
<b>Total comprehensive loss for the year</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(219.6)</b>	<b>(212.1)</b>
Issue of shares		<b>37.5</b>	<b>331.7</b>	–	–	<b>369.2</b>
Reserves transfer**		–	–	(1.9)	1.9	–
Equity dividends paid	11	–	–	–	–	–
<b>Balance at 31 March 2024</b>		<b>37.6</b>	<b>769.2</b>	<b>100.2</b>	<b>31.8</b>	<b>938.8</b>

\* Please refer to note 1 for explanation regarding prior year changes.

\*\* The non-distributable reserve arose upon adoption of IFRS 15 and relates to deemed revenue on adoption of assets from customers and is being amortised to reserves in line with the depreciation of the related assets.

# Statement of cash flows

For the year ended 31 March 2024

	Note	2024 £m	2023 £m
Cash from operations	32	247.6	348.3
Tax paid		–	–
<b>Net cash from operating activities</b>		<b>247.6</b>	<b>348.3</b>
<b>Investing activities</b>			
Interest received		4.8	3.3
Purchase of property, plant and equipment		(715.4)	(635.1)
Purchase of intangible assets		(16.7)	(41.8)
Proceeds on disposal of property, plant and equipment		0.1	1.4
Acquisition of short-term investments		(146.7)	(90.0)
Maturity of short-term investments		46.7	375.0
Dividends received from subsidiary		–	4.8
Return of investment in subsidiary		–	29.2
Acquisition of shares in subsidiaries		–	(0.1)
<b>Net cash used in investing activities</b>		<b>(827.2)</b>	<b>(353.3)</b>
<b>Financing activities</b>			
Equity dividends paid		–	–
Interest paid		(240.7)	(176.8)
Net settlements on derivative financial instruments		85.6	87.2
Repayment of borrowings		(420.7)	(343.2)
Repayments of principal on leases		(4.1)	(4.2)
Proceeds of new loans		1,089.2	400.4
Issue costs of new loans		(1.2)	–
Proceeds from share issue		369.2	–
<b>Net cash generated from/(used in) financing activities</b>		<b>877.3</b>	<b>(36.6)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>297.7</b>	<b>(41.6)</b>
Cash and cash equivalents at beginning of the year		115.8	157.4
<b>Cash and cash equivalents at end of the year</b>	32	<b>413.5</b>	<b>115.8</b>

# Notes to the financial statements

For the year ended 31 March 2024

## 1 Material accounting policies

The material accounting policies, which have been applied consistently throughout the current and preceding year, are set out below.

### Basis of preparation

Southern Water Services Limited (SWS) is a company incorporated in the United Kingdom under the Companies Act 2006. The company is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on the inside front cover of this report. The nature of the company's operations and its principal activities are set out in the Strategic Report on page 12 to 129.

These financial statements have been prepared in accordance with FRS 101 incorporating the amendments to FRS 101 issued by the FRC in July 2015 and the amendments to company law made by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments and retirement benefit obligations) at fair value through profit and loss or other comprehensive income.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability, as if market participants would take those characteristics into account, when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except leasing transactions that are within the scope of IFRS 16 'Leases', and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 'Inventories' or value in use in IAS 36 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements contain information about SWS as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of the ultimate holding company, Greensands Holdings Limited. The group financial statements of Greensands Holdings Limited are available to the public and can be obtained at [southernwater.co.uk/about-us/investors](https://southernwater.co.uk/about-us/investors).

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to: standards not yet effective, financial instruments, fair value measurement, revenue from contracts with customers, leases, capital management, related party disclosures and impairment of assets. Where required, equivalent disclosures are given in the group financial statements of Greensands Holdings Limited.

The company has elected not to take advantage of the exemption regarding the requirements of IAS 7 'Statement of Cash Flows' in order to align with regulatory reporting requirements and provide additional transparency for users of the financial statements.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 1 Material accounting policies continued

### Separate line items on face of income statement

When assessing whether an event should be presented separately on the face of the income statement, management considers the nature, frequency, materiality and the facts and circumstances of each event. It considers whether there is any precedent, and ensures consistent treatment for both favourable and unfavourable transactions. The fine imposed by the Court in the prior year in relation to the Environment Agency prosecution is material due to size and incidents and has been separately disclosed.

### Adoption of new and revised accounting and financial reporting standards

There are no new major standards applicable for the year ended 31 March 2024. A number of amendments, however, are effective for periods beginning from 1 January 2023. These changes had no material impact on the company's financial statements.

### Prior year restatement

In the prior year, the company recognised a deferred tax charge of £83.7 million. Following review, it was identified that this should have included an adjustment for corporate interest restrictions of £82.9 million. As a result, the deferred tax charge for the year ended 31 March 2023 has been restated from £83.7 million to £166.6 million and the corresponding deferred tax liability has increased from £284.5 million to £367.4 million.

The table below shows the impact of these adjustments to the relevant line in the financial statements for the year ended 31 March 2023:

	31 March 2023 As reported £m	Restatement £m	31 March 2023 As restated £m
Deferred tax liabilities	(284.5)	(82.9)	(367.4)
		<b>(82.9)</b>	
Taxation	83.7	82.9	166.6
		<b>82.9</b>	

The restatement has no impact on the current tax charge or the corresponding current tax liability for either of the years ending 31 March 2023 or 31 March 2024.

### Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 12 to 129.

The directors have undertaken a detailed review of the company's liquidity requirements compared with the cash and facilities available, which includes cash on hand, cash on deposit and committed undrawn bank facilities totalling £835.5 million at 31 March 2024, the financial covenant position including projections based on future forecasts, the current credit ratings and financial risk.

When determining whether it is appropriate to adopt the going concern basis, the directors also consider whether there is a material uncertainty regarding whether the company has sufficient resources for its present requirements.

The company has a significant level of planned expenditure over the next 12 months to improve operational performance, the resilience of its assets, and reduce the impact on the environment from the treatment and processing of water and wastewater. The company is also facing the ongoing effect of recent high inflation, particularly on costs such as energy, chemicals, and materials.

## 1 Material accounting policies *continued*

On the basis of their assessment of the company's financial position, and the board approved latest cash flow forecast, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the approval of these financial statements. This assessment includes consideration of the forecast cash flows over the 12 months to July 2025, and the capital structure of the company and financing needs for the period. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements, further details can be found in the Directors' Report on pages 197 to 204.

### Segmental reporting

The company's revenue arises from the provision of services within the United Kingdom. It has a large and diverse customer base and is not reliant on any single customer.

The Southern Water Executive team is considered to be the company's chief operating decision maker. The Executive reviews all internal management information on a single segment basis and, accordingly, no segmental information is provided in this report.

### Revenue recognition

Revenue represents the income receivable (net of value added tax) in the ordinary course of business for goods and services provided. In respect of unbilled charges, revenue includes an estimate of the consumption between the date of the last meter reading and the period-end. The revenue accrual is estimated using a defined methodology based upon historical billing, consumption information and the applicable tariff.

Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration due.

The company recognises revenue when it transfers control over a product or service to a customer.

Revenue is recognised when the amount of revenue can be measured reliably, the performance obligation has been satisfied, and it is probable that the economic benefits associated with the transaction will flow to the company. Revenue is not recognised when it is considered probable that economic benefits will not be received. In these circumstances revenue is only recognised when collectability is reasonably certain. Payments received in advance of revenue recognition are recorded as deferred income.

### Water and wastewater services

The company supplies water and wastewater services to customers in Sussex, Kent, Hampshire and the Isle of Wight. The performance obligation is the supply of services over the contractual term and is considered to be satisfied as the customer consumes based on the volume of water supplied. This is the point at which revenue is recognised.

For provisioning purposes, revenues and outstanding arrears are segmented based on customer characteristics. Since the company is under a statutory obligation to provide water and wastewater services to its domestic properties, these services could be provided to customers who are unlikely to pay. Should a group of current customers attract a provision rate of 100%, i.e. assessed as not generating economic benefit, revenue would not be recognised. In 2023–24 no segment of customers met this criteria and so revenue relating to the provision of water and wastewater services has been recognised in full.

Unmetered income is based on either the rateable value of the property or on an assessed volume of water supplied. Metered income is based on actual or estimated water consumption. Customer rebates are shown as a reduction in revenue.

Water and wastewater services also include the treatment of cesspool and trade effluent waste as well as the provision of bulk water supplies to other water companies.

### Services to developers and third parties

Grants and contributions are also received from developers and third parties in relation to the provision of new infrastructure and/or new connections to the water and/or sewerage network. These grants and contributions received are treated as either revenue or deferred income in line with IFRS 15 as defined by the nature of the receipt. The significant components of grants and contributions, and their treatment, are as follows:

# Notes to the financial statements continued

For the year ended 31 March 2024

## 1 Material accounting policies continued

### New connections

The company considers that the developer requesting the new connection is the customer and that under IFRS 15, the performance obligation is satisfied at the point of provision of the new connection to the network, so fees received in respect of the connection are recognised at this point.

Income received in advance of the new connection being made is held on the statement of financial position as a receipt in advance.

### Infrastructure charges

Infrastructure charges are a developer's contribution to fund future general network reinforcement resulting from the incremental growth in the number of customers served. These charges must be paid by the developer at the point of connection and do not relate to any specific network reinforcement activity.

The company considers that the developer requesting the new connection associated with the infrastructure charge is the customer and that under IFRS 15, the performance obligation is satisfied at the point of provision of the new connection to the network, so fees received in respect of infrastructure charges are recognised at this point.

### Requisitions

The company receives contributions from developers towards requisitions of new water mains and public sewers.

The company has determined that the performance obligation is satisfied at the point of completion of the requisition works and connection of the water main or lateral drain. The contribution receivable is held on the statement of financial position as deferred revenue and subsequently recognised in full as revenue on completion of the requisition works.

### Diversions

The company receives contributions from third parties to divert existing water mains and public sewers.

The company considers the requesting party to be the customer in these contracts and the contribution received towards the cost of undertaking the diversion is held on the statement of financial position as deferred revenue and subsequently recognised as revenue on completion of the performance commitment in the contract, in this case on completion of the diversion of the water main or sewer.

### Fair value of assets adopted

Infrastructure assets, constructed by a developer, which are contributed to the company for £nil consideration, in exchange for relieving the developer of any future liability, are recognised at fair value of the asset upon adoption. The fair value is based on a valuation provided on the vesting certificate when the asset is transferred into the company's ownership. At the point of legal transfer of the asset, the company has concluded that the performance obligation to the developer, adopting the asset, has been satisfied and the fair value of the asset is recognised as a contribution through revenue at this point.

These contributions from the transfer of non-current assets from customers are recognised as revenue through non-distributable reserves and released to retained earnings over the life of the asset.

### Other contributions

Grants and contributions receivable in respect of other non-current assets where the performance commitment is also delivered over the life of the asset, are treated as deferred income and released to other operating income over the useful economic life of those fixed assets.

Grants and contributions which are given in compensation for expenses incurred with no future-related costs are recognised in revenue in the period that they become receivable.

### Provision for impairment of trade receivables

The provision for impairment of trade receivables is calculated by applying estimated recovery rates to various categories of trade receivables, reflecting past collections experience and expectations of future recovery of outstanding receivables at the date of the statement of financial position.

This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime expected credit loss.

The model considers current and forward-looking macroeconomic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.



## 1 Material accounting policies continued

### Taxation

Taxation in the income statement represents the sum of the tax currently payable and deferred tax.

Current taxation is based on the result for the year as adjusted for disallowable and non-taxable items and items of income or expense which are taxable or deductible in other years. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred taxation is net tax expected to be payable on temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on all temporary differences that have originated, but not reversed, by the end of the reporting period. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is regarded as probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

At the reporting date the company has unrecognised interest restricted under Corporate Interest Restriction legislation of £542.5 million (2023: £331.6 million) with potential deferred tax assets of £135.6 million (2023: £82.9 million). These assets have not been recognised in the statement of financial position as recovery of the asset in future periods is not probable and future forecasts projections are unable to confirm that these assets will be recovered in future years.

### Intangible assets

Intangible assets comprise:

- i. Assets in development, generally implementation of IT software.
- ii. Other assets – comprising software and development projects.

Intangible assets are measured at cost less subsequent amortisation and any impairment.

### Cost

Software acquired separately, or internally generated where a separate resource that is controlled by the company is created, are capitalised at cost.

Capitalised development costs are for plant installed on sites or work undertaken by suppliers to test new processes for performance data and scalability. The data is used to identify innovative and efficient future assets and processes to meet higher environmental or quality standards. Development costs can relate to projects or can be more general such as network modelling or catchment management. General development costs that are capitalised are amortised over five years. Where a development project concludes that there is insufficient chance of success of the related investment, it is amortised in full in the same year.

Costs in respect of development costs are capitalised as an intangible asset where the following criteria are met:

- It is technically feasible to create and make the asset available for use or sale;
- There are adequate resources available to complete the development and to use or sell the asset;
- There is the intention and ability to use or sell the asset;
- It is probable that the asset created will generate future economic benefits; and
- The development costs can be measured reliably.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Finite life intangible assets are reviewed for impairment where indicators of impairment exist.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 1 Material accounting policies continued

### Useful economic lives

Amortisation of intangible assets is calculated on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets in development are not amortised and are transferred to other intangible assets at the point at which they are operational.

Software is amortised over the length of the licence, generally three to five years.

Development costs relating to specific projects are amortised over the life of the related scheme.

### Property, plant and equipment

Property, plant and equipment comprises:

- i. Freehold land and buildings – comprising land and non-operational buildings.
- ii. Plant and machinery – comprising structures at sites used for water and wastewater treatment; pumping or storage, where not classed as infrastructure, along with associated fixed plant.
- iii. Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls.
- iv. Assets under construction - prior to completion/commissioning, all capital investment projects are classified as assets under construction.
- v. Other assets – comprising vehicles, computers, mobile plant and meters.

All property, plant and equipment is stated in the statement of financial position at cost or at deemed cost on transition to FRS 101, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The costs of repairs to the infrastructure network are recognised in the income statement as they arise.

Expenditure which results in replacement or renewal of infrastructure or enhancements to the operating capability of the infrastructure network is capitalised.

Items of property, plant and equipment that are transferred to the company from customers or developers are initially recognised at fair value in accordance with IFRS 15 'Revenue from Contracts with Customers'.

The corresponding credit is recorded as revenue through non-distributable reserves and released to retained earnings over the expected useful lives of the related assets.

Borrowing costs directly attributable to the construction of qualifying assets, that necessarily take a substantial period of time to get ready for their intended use, are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

## 1 Material accounting policies *continued*

Assets are depreciated on a straight-line basis over their estimated operating lives, which are principally as follows:

		Years
Land and buildings:	– Land <sup>1</sup>	Not depreciated
	– Buildings	10–60
Plant and machinery:	– Operational structures <sup>2</sup>	15–80
	– Fixed plant	10–40
Infrastructure assets:	– Water mains	100–120
	– Sewers	80–200
	– Reservoirs	200
	– Ancillary structures	10–70
Assets under construction <sup>1</sup> :		Not depreciated
Other:	– Vehicles, computers and mobile plant	3–10

<sup>1</sup> Freehold land is not depreciated, nor are assets in the course of construction until they are commissioned. Commissioning is deemed to occur when a new works is officially taken over from the contractor, following completion of performance and take-over tests.

<sup>2</sup> Operational structures are assets used for wastewater and water treatment purposes. These include water tanks and similar assets.

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

### Impairment of tangible and intangible assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Leases

The company adopted IFRS 16 'Leases' with effect from 1 April 2019.

#### The company as lessee

The company assesses whether a contract is, or contains, a lease, at inception of the contract. The company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (£5,000 or less). For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 1 Material accounting policies continued

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The company did not make any such adjustments during the year.

Right-of-use assets are presented separately from other assets in the notes to the financial statements and comprise the initial measurement of the corresponding lease, lease payments made at or before the commencement day and any direct initial costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Property, Plant and Equipment policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The company has used this practical expedient with respect to the maintenance element associated with vehicle leases.

### The company as lessor

The sale of income rights relating to aerial masts and sites owned by the company to third parties is treated as an operating lease. Income received from such sales is received entirely in advance and is therefore taken to deferred revenue and credited to the income statement over the life of the lease.

### Non-current asset investments

Investments held as non-current assets, including investments in subsidiaries, are stated at cost, less, where appropriate, provision for any impairment in value. The carrying values of non-current asset investments are reviewed for impairment in periods, if events or changes in circumstances indicate the carrying value may not be recoverable.

### Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits.

## 1 Material accounting policies continued

### Current asset investments

Current asset investments comprise cash on deposit with a maturity of more than three months from the date of acquisition.

### Inventories

Inventory is held for use in the production of water supply and treatment of wastewater. Raw materials and work in progress are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution.

### Deferred revenue

Deferred revenue includes monies received from customers where the related service has not yet been provided.

Amounts are deferred to the statement of financial position and released to the income statement in line with the period of the service provided.

### Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that the company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

An environmental provision is made for the costs relating to decommissioned or dormant assets which have been identified as having an environmental impact.

### Executory contracts

Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent. Provisions are not recognised for executory contracts unless they are onerous.

### Retirement benefits

SWS operated a defined benefit pension scheme which closed to future accrual on 31 March 2020, the assets of which are held separately from those of the company in independently administered funds. An independent actuary conducts a valuation of this pension scheme every three years.

The liability recognised in the statement of financial position in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the end of the period less the fair value of plan assets. The net interest on the scheme's net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of other comprehensive income.

The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 24.

Profit before taxation and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality and increases to pensions in payment and deferred pensions, and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Company contributions to the scheme are charged to the income statement in the period to which they relate. Differences between contributions charged and actually paid are shown as either accruals or prepayments in the statement of financial position.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 1 Material accounting policies continued

### Financial instruments

IFRS 9 contains requirements for 1) the classification and measurement of financial assets and financial liabilities 2) impairment for financial assets and 3) general hedge accounting.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires companies to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in the income statement.

### Financial assets

#### (i) Loans receivable

Loans receivable that have fixed or determinable payments that are not quoted in an active market are classified as 'held to collect'. Loans receivable are measured at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### (ii) Trade receivables and accrued income

Trade receivables and accrued income are classified as 'held to collect' and measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired, it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

The company applies an approach permitted by IFRS 9 for estimating expected credit losses on trade receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the company's historical experience of trade receivable write-offs, and forward-looking macroeconomic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

The provision for impairment of trade receivables is calculated by applying estimated recovery rates to various categories of debt, reflecting past collections experience and expectations of future recovery of outstanding receivables at the date of the statement of financial position.

This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime expected credit loss.

### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred or are expected to occur after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

## 1 Material accounting policies continued

### Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

### Financial liabilities

Fixed-rate interest-bearing borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Issue costs in relation to index-linked and variable rate bonds are separately disclosed within creditors.

The carrying value of index-linked debt instruments is adjusted for the annual movement in the retail price index. The change in value arising from indexation is charged or credited to the income statement in the year in which it arises.

Premiums and proceeds such as those from gilt-lock agreements received on issue of debt instruments are credited to the income statement over the term of the debt at a constant rate on the carrying amount.

### Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

### Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy and no speculative trading in financial instruments is undertaken. Further details of derivative financial instruments are disclosed in note 22.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the income statement immediately.

Certain derivative instruments, principally index-linked swaps, do not qualify for hedge accounting and, as such, the company does not currently apply hedge accounting.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

### Embedded derivatives

In accordance with IFRS 9, the company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit and loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 2 Critical accounting judgments and key sources of estimation uncertainty

In the application of the company's material accounting policies, which are described in note 1 above, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical accounting judgments

Critical judgments, apart from those involving estimations, that are applied in the preparation of the financial statements are discussed below:

#### Revenue recognition in relation to new connections, infrastructure charges, requisitions, diversions and adoptions

As described in note 1 'Material accounting policies', the company receives income from developers and third parties for new connections, infrastructure charges, requisitions, diversions and adoptions either in cash or, for adoptions, in the form of infrastructure assets.

In selecting its accounting policy for the recognition of revenue from these services, the company uses judgment to determine:

- the customer of each contract;
- the performance obligation; and
- whether the service is distinct from the ongoing provision of water and wastewater services.

The company considers that these services are contracts with the developer and not the future occupiers of the property and, as such, the developer is considered the customer for these services.

The promise to undertake the activity is separately identifiable from any other services that may be being provided to the developer as there is a separate application process and contract for each of these items and once they have been provided the obligation to the developer is complete. The performance obligation is therefore considered to be the completion of the new connection, requisition, diversion or adoption.

As the future network services are readily available to the occupiers of the property, without the need for them to have made the earlier connection-related transactions, the revenue for these services is deemed to be distinct from revenue from the ongoing provision of water and wastewater services and is therefore recognised on completion of the connection-related service.

The future provision of water services are separate contracts with the owner/occupiers of the property at a later date, and the income for these is recognised as that service is consumed.

During the period, the company recognised income from adoptions of infrastructure assets with a fair value of £7.5 million (2023: £11.4 million), new connections amounting to £5.5 million (2023: £4.5 million), infrastructure charges amounting to £8.2 million (2023: £4.4 million) and requisitions and diversions amounting to £6.7 million (2023: £1.2 million).

#### Amortisation of regulatory settlement

In 2018–19, an accrual of £135.5 million was recognised for rebates to be made to customers through bills, over the period from 2020 to 2025, as part of a regulatory settlement agreed with Ofwat following its investigation into wastewater treatment compliance.

There is no clear accounting standard guidance for the income statement treatment of this regulatory settlement. It was considered whether the settlement should be recognised as an expense; however, given that this is an agreed reduction in customer bills in the future, with a requirement to show this separately on invoicing as required by Ofwat, the most appropriate treatment was concluded to be to treat the invoice reductions as a reduction in revenue in 2018–19. These rebates are now being made and recorded through revenue, and the accrual made in 2018–19 is being unwound on the face of the income statement, also through revenue, in line with the annual profile of the rebates to be made, which is reassessed annually to provide for fluctuations in the future estimates of inflation. See note 25 for more detail.



## 2 Critical accounting judgments and key sources of estimation uncertainty continued

### Provisions and contingent liabilities

The company evaluates its exposures to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation. A provision is made when it is judged that it is probable that an obligation exists for which a reliable estimate can be made. Individual matters are considered carefully to assess the likelihood that a pending claim will succeed, or a liability will arise, and the point of recognition for the associated liability.

Matters that are judged to be either possible obligations or do not meet the recognition criteria for a provision are disclosed as contingent liabilities in note 33, unless the possibility of transferring economic benefits is remote.

For all the matters set out in note 33, management judges that it is either not possible to measure reliably the outflow of economic benefit or that settlement is not probable.

### Right to receive water from 1 April 2029 from Portsmouth Water

In February 2021, the company entered into a contractual arrangement with Portsmouth Water Limited (Portsmouth Water), under which Portsmouth Water will obtain planning permission, design, build, finance, and operate a reservoir in Havant (the Havant reservoir). Once the construction is complete, and Southern Water has laid a pipe, Portsmouth Water will supply, on the request of Southern Water Services Limited, up to 21 million litres of treated water per day from 1 April 2029. Following a detailed review of the complex contractual arrangement, and with a better understanding of the contractual terms of the agreement, which require both parties to complete certain activities to enable the water to be provided, the company has formed the judgment that this contract should be accounted for as an executory contract until such time that both parties have fulfilled their obligations and the right to water can be met. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The fixed contractual payments over the period from 2021 to 2100 total £658 million and the volumetric charge will be recognised as water is supplied, from 1 April 2029. An annual review of the performance obligations of both parties will be performed to assess whether the contract is an executory contract.

### Property, plant and equipment

The company recognises property, plant and equipment (PPE) on its water and wastewater infrastructure assets where such expenditure enhances a significant length of the network or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when assessing whether the length of network replaced enhances the network. In addition, management capitalises time and resources incurred by the company's support functions on capital programmes based on judgments made in respect of the proportion of capital work performed by these functions.

### Key sources of estimation uncertainty

The key assumptions about the future and other key sources of estimation uncertainty at the reporting period end that may have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

#### Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy. The value of derivatives is highly sensitive to assumptions of inflation and interest rates, and the following scenarios indicate the impact of a 1% movement in the respective rate structures on the fair value of the derivatives portfolio as at 31 March 2024. These values have been obtained by recalculating the entire portfolio value by shifting the interest rate curve and the inflation curve by +/-1%.

Event	+1%	-1%
	increase	increase
	£m	£m
Interest rates	300.0	(355.5)
Inflation rates	(912.1)	749.1

Multiple inflation-linked derivatives contain an inflation floor optionality. These floors take effect in the event of a deflation (e.g. less than 0% inflation) over periods specified on a derivative level.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 2 Critical accounting judgments and key sources of estimation uncertainty continued

### Provisions

Provisions determined may change in the future due to new developments and as additional information becomes available. Reflecting the inherent uncertainty in this evaluation process, actual costs may be different from the estimated provision. Details of provisions are disclosed in note 26 and the value provided at 31 March 2024 was £4.9 million (2023: £5.5 million) based on an agreed schedule of works required. The company estimates that actual costs could vary up to +/- 10% due to fluctuations in prices.

### Measured income accrual

The measured income accrual is an estimation of the amount of water and wastewater unbilled at the period end. The accrual is estimated using a defined methodology based upon historical billing and consumption information and the applicable tariff. The calculation is sensitive to estimated consumption for measured customers. Actual consumption may differ from the estimate made which could impact future operating results positively or negatively. Given the nature of the balance it is not practical to assess how this estimate will change in the next 12 months.

Sensitivity analysis shows that the measured accrual would vary by £2.3 million and £6.9 million if consumption estimates were between 1% and 3% above or below those predicted. The sensitivities of 1% and 3% illustrate the impact expected to be seen from a change in the level of consumption.

Measured accrual sensitivity analysis	31 March	Sensitivity			
	2024	1%	3%	-1%	-3%
Measured accrual balance (£m)	<b>251.8</b>	2.3	6.9	-2.3	-6.9

The value of household billings raised in the year ended 31 March 2024 for consumption in prior years was £216.2 million. The value of these billings was lower than the accrual made at 31 March 2023. The estimation difference was £7.4 million (3.3%) and this has been recognised in the current year's turnover.

### Impairment of trade receivables

The impairment of trade receivables at each reporting date is calculated by segmenting customer debt based on historic debt collection and payment performance, demographic information and the age of debt outstanding. In general, for each segment, forecast cash collection rates are estimated using this range of data and other macroeconomic assumptions, which then determines a corresponding provision percentage. This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime expected credit loss.

The model considers current and forward-looking macroeconomic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

In March 2023, an additional charge of £9.6 million was maintained to reflect the expected impact that the cost of living would have on the macro-economic environment. At March 2024, a provision of £4.0 million has been retained as macro-economic and survey data indicate that households will not fully recover until 2025. The remaining £5.6m was released as realised impact during the year.

The assessment of the future impact was based on the Ofwat Cost of living survey, last published in December 2023. The findings of the survey showed an increase in the proportion of customers expecting to struggle to pay household bills.

The value of the provision for doubtful debts as at 31 March 2024 was £247.7 million (2023: £260.1 million). The actual level of receivables collected may differ from the estimated levels of recovery, which could impact future operating results positively or negatively.

Sensitivity analysis shows that the impairment provision would vary by £2.5 million and £7.4 million if cash collections estimates were between 1% and 3% above or below those predicted.

## 2 Critical accounting judgments and key sources of estimation uncertainty continued

The sensitivities of 1% and 3% illustrate the impact expected to be seen from a change in the level of cash collection. The company's experience is that cash collection in general could vary by 3.5% from expectations.

Impairment provision sensitivity analysis	31 March	Sensitivity			
	2024	-1%	-3%	1%	3%
Impairment provision estimate (£m)	<b>247.7</b>	2.5	7.4	-2.5	-7.4

### Retirement benefit obligations

The company operates a defined benefit scheme as well as a defined contribution scheme. Under IAS 19 'Employee Benefits' the company has recognised an actuarial loss of £1.6 million (2023: loss of £11.5 million).

The pension cost and liabilities under IAS 19 are assessed in accordance with directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on the CMI 2022 model with a smoothing factor of 7.0 and a 1.25% p.a. allowance for future longevity improvement.

The major assumptions used to measure schemes' liabilities, along with sensitivities to changes in those assumptions and future funding obligations are set out in note 24 of the financial statements.

### Climate change

Climate change is one of our principal risks, and the company is continually developing its assessment of the impact this risk has on the assets and liabilities presented in the financial statements.

As set out in the Strategic Report, which includes the risk section on pages 112 to 125 and the protecting and improving the environment section on pages 50 to 61, the natural environment in which the company operates is constantly changing and this influences how water and wastewater services will be delivered in the future and our long-term strategy is focused on identifying, managing and mitigating climate-related risks.

In preparing the financial statements, the directors have considered the impact of climate change, in the context of the risks identified in the Strategic Report and the sustainability disclosures as referenced above. There has been no material impact identified on the financial reporting judgements and estimates. In particular, the directors considered the impact of climate change in the following areas:

- The carrying value and useful economic life of property, plant and equipment
- The value of inventory held
- Provisions and liabilities.

The estimated useful lives of property, plant and equipment and the depreciation charged are reviewed at the end of each reporting period, for assets impacted by climate change, environmental legislation or changes in operational strategy. This may result in the acceleration of depreciation for any assets deemed to have shorter useful economic lives than originally planned. No material changes to asset lives and depreciation were made in the current financial year. The company does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising.

The company is exposed to potential asset write-downs as a result of extreme weather events, most notably through flooding or subsidence. In these circumstances, any assets identified as having been damaged beyond repair would be fully written down. No such charges were required in the current year.

Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk. This planning process considers the scenarios as described in the climate-related financial disclosures in the Strategic Report. It is expected that any material impact identified through these processes would materialise over a longer period of time, rather than a single year, no impact from this was identified in the current year.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 3 Changes in significant accounting policies

There are no new major standards applicable for the year ended 31 March 2024. A number of amendments however are effective for periods beginning from 1 January 2023. These changes had no material impact on the company's accounting policies.

## 4 Segmental analysis

The directors believe that the whole of SWS's activities constitute a single class of business. The company's revenue is generated wholly from within the United Kingdom. The Southern Water Executive Committee is considered to be the company's chief operating decision maker. The Executive Committee reviews all internal management information on a single segment basis and, accordingly, no segmental information is provided in this report.

## 5 Income

An analysis of the company's income is as follows:

	2024	2023
	£m	£m
Water and sewerage services:		
Household – measured	539.3	492.7
Household – unmeasured	117.5	109.9
Non-household – measured	136.3	131.8
Non-household – unmeasured	4.3	4.3
<b>Total water and sewerage services</b>	<b>797.4</b>	<b>738.7</b>
Bulk supplies	6.4	6.2
Infrastructure charge receipts	8.2	4.4
Trade effluent	9.6	7.4
Cesspools	6.1	6.2
New connections	5.5	4.5
Adoptions (see note (a) below)	7.5	11.4
Other services	18.7	13.7
<b>Total revenue before amortisation of regulatory settlement</b>	<b>859.4</b>	<b>792.5</b>
Amortisation of regulatory settlement (see note (b) below)	27.1	23.2
<b>Total revenue</b>	<b>886.5</b>	<b>815.7</b>
Other operating income (see note (c) below)	1.8	1.8
Other income (see note (d) below)	–	4.8
Profit on disposal of fixed assets	0.5	1.7
Interest receivable (note 9)	4.1	4.3
<b>Total income</b>	<b>892.9</b>	<b>828.3</b>

(a) Revenue associated with the adoption of assets from customers is treated as non-distributable upon recognition, and amortised to retained earnings in line with the depreciation of the related assets.

(b) The company co-operated with Ofwat in relation to its investigation into the management, operation and performance of its wastewater treatment works.

To ensure that customers are not disadvantaged as a result of these matters, the company has agreed to make direct customer rebates totalling £135.5 million in forecast outturn prices (£122.9 million in 2017–18 prices) over the period 2020–25. This reflects the seriousness of the breaches identified in the investigation.

These rebates are now being made and recorded through the water and sewerage services revenue shown above. The provision for these rebates made in the financial statements for 2018–19 is also being released through revenue in line with the annual profile of the rebates to be made.

Amortisation of £27.4 million in the year ended 31 March 2024 is shown net of changes for future inflation estimates of £0.3 million.

## 5 Income *continued*

- (c) Other operating income in the current year relates to the release of deferred grants and contributions relating to non-current assets from the balance sheet, as amortised in line with the useful economic life of the related assets, and rents receivable.
- (d) Other income in the prior year related to distributions from Southern Water Services (Finance) Limited, as part of the activities associated with the removal of this company from the company's financing structure. (See note 14 for further detail).

## 6 Profit/(loss) for the year

	2024	2023
<b>Profit/(loss) for the year has been arrived at after charging/(crediting):</b>	<b>£m</b>	<b>£m</b>
Depreciation on:		
– Owned assets	<b>329.1</b>	323.1
– Leased assets	<b>5.1</b>	4.2
	<b>334.2</b>	327.3
Amortisation of intangible assets	<b>28.6</b>	19.8
Depreciation and amortisation	<b>362.8</b>	347.1
Profit on disposal of fixed assets	<b>(0.5)</b>	(1.7)
Research and development expenditure	<b>0.9</b>	0.6
Rentals under operating leases (see note (a) below):		
– Properties	<b>0.1</b>	0.1
– Vehicles	<b>5.5</b>	3.9
Employee costs (note 7)	<b>86.7</b>	83.0
Amortisation of grants and contributions (see note 27)	<b>(1.6)</b>	(1.7)
Fees payable to the company's auditor in respect of:		
– statutory audit of the company's financial statements	<b>0.6</b>	0.8
– other services pursuant to legislation (see note (b) below)	<b>0.1</b>	0.1
– all other services	<b>0.3</b>	0.2

(a) The company adopted IFRS 16 'Leases' with effect from 1 April 2019. Rentals under operating leases comprise payments on leases that have been assessed as short-term (12 months or less) agreements and leases of low value assets (£5,000 or less) (see note 1 'Material accounting policies' for more information on the company's approach to IFRS 16 'Leases').

(b) Other services pursuant to legislation and other non-audit services primarily relate to regulatory assurance fees.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 7 Employee information

	2024	2023
	£m	£m
<b>(a) Employee costs (including directors' emoluments):</b>		
Wages and salaries	127.5	120.1
Social security costs	14.2	13.8
Pension costs – Defined contribution	17.1	15.1
– Defined benefit	–	–
<b>Total employee costs</b>	<b>158.8</b>	149.0
Less: charged as capital expenditure	(72.1)	(66.0)
<b>Charged to the income statement</b>	<b>86.7</b>	83.0

Employee costs that are charged as capital expenditure are those directly related to the construction or acquisition of assets.

### (b) Average number of persons employed by activity

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2024	2023
	Number	Number
Operations	1,436	1,338
Customer services	45	45
Corporate centre	1,133	1,097
	<b>2,614</b>	2,480

## 8 Directors' emoluments

	2024	2023
	£'000	£'000
Aggregate emoluments (including benefits in kind)	2,126	1,966

No retirement benefits accrued to directors (2023: nil) under a Southern Water Services Limited defined benefit scheme.

No retirement benefits accrued to directors under a Southern Water Services Limited defined contribution scheme (2023: £8,000).

Further details can be found in the Directors' remuneration report on pages 179 to 196.

Details of emoluments and benefits for the highest paid director:

	2024	2023
	£'000	£'000
Highest paid director's aggregate emoluments and benefits	764	428

During the year, the company made contributions of £nil (2023: £nil) to a money purchase pension scheme in respect of the highest paid director's qualifying services.

## 9 Net finance income/(costs)

	2024 £m	2023 £m
<b>Finance income</b>		
Interest revenue from Southern Water Services Group Limited	–	–
Deposit income on short-term bank deposits	4.1	4.3
	<b>4.1</b>	4.3
<b>Finance costs</b>		
Interest payable on other loans	(29.1)	(4.6)
Interest paid on loans from subsidiary companies	(167.8)	(163.5)
Indexation of index-linked debt	(82.8)	(139.8)
Amortisation of issue costs	(1.5)	(1.5)
Amortisation of gilt lock proceeds	0.1	0.1
Amortisation of bond premium	0.7	0.7
Amortisation of bond discount	(0.1)	–
Interest on lease liabilities	(1.0)	(1.0)
Other finance expense (note 24)	(3.4)	(1.6)
Dividends on preference shares – see note (a) below	(4.5)	(4.6)
	<b>(289.4)</b>	(315.8)
Amounts capitalised on qualifying assets	61.9	32.9
	<b>(227.5)</b>	(282.9)
<b>Fair value losses on derivative financial instruments</b>		
Movements on derivative financial instruments (note 22)	88.1	659.1
<b>Net finance (costs)/income</b>	<b>(135.3)</b>	380.5

The interest revenue from Southern Water Services Group Limited relates to the long-term loan disclosed in note 15.

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 9.25% to expenditure on such assets (2023: 5.10%).

### Dividends on preference shares

Dividends due to Class B preference shareholders of £70 per share totalled £4.5 million (2023: £4.6 million). No amounts were paid during the year (2023: £0.1 million) with £4.5 million accrued at 31 March 2024 (2023: £4.5 million). The cumulative balance sheet liability for unpaid preference share dividends at 31 March 2024 was £9.0 million (2023: £4.5 million).

# Notes to the financial statements continued

For the year ended 31 March 2024

## 10 Taxation

	2024 £m	As restated* 2023 £m
<b>Current tax:</b>		
Current year	–	–
<b>Total current tax charge</b>	<b>–</b>	<b>–</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	3.2	165.6
Adjustment in respect of prior years	0.1	1.0
<b>Total deferred tax (credit)/charge</b>	<b>3.3</b>	<b>166.6</b>
<b>Total tax (credit)/charge</b>	<b>3.3</b>	<b>166.6</b>

\* Please refer to note 1 for explanation regarding prior year changes.

The tax assessed for the year is different to the standard rate of corporation tax in the UK due to the following factors:

	2024 £m	As restated* 2023 £m
<b>(Loss)/profit before tax</b>	<b>(207.6)</b>	368.6
Tax at the UK corporation tax rate of 25% (2023: 19%)	(51.9)	70.0
Permanent differences	55.1	64.2
Differences between current and deferred tax rates	–	31.4
Adjustment in respect of prior years:		
Current tax	–	–
Deferred tax	0.1	1.0
<b>Total tax charge/(credit) for year</b>	<b>3.3</b>	<b>166.6</b>

\* Please refer to note 1 for explanation regarding prior year changes.

Factors that may affect future tax charges:

The Spring Finance Bill 2023 confirmed that the main rate of corporation tax increased to 25% from 1 April 2023 (from 19%) and therefore all of our deferred assets and liabilities have been calculated at a rate of 25%.

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

In addition to the amount recognised in the income statement, the following amounts relating to tax have been recognised in the statement of other comprehensive income:

	2024 £m	2023 £m
<b>Deferred tax</b>		
Arising on income and expenses recognised in other comprehensive income:		
Tax credit relating to retirement benefit obligations	(0.4)	(2.2)
Deferred tax movement due to rate change	–	–
<b>Total deferred tax credit recognised in other comprehensive income</b>	<b>(0.4)</b>	<b>(2.2)</b>



## 11 Dividends

	2024 £m	2023 £m
<b>Dividends available for distribution to investors in the ultimate parent company:</b>		
Current year dividend	–	–
<b>Dividends not available for distribution to investors in the ultimate parent company:</b>		
Current year dividend (2023: £nil per share)	–	–

No dividend has been declared for the year ended 31 March 2024 (2023: £nil).

## 12 Intangible assets

	Externally generated		
	Assets in development £m	Other £m	Total £m
<b>Cost</b>			
At 1 April 2023	40.5	219.5	<b>260.0</b>
Additions	16.6	–	<b>16.6</b>
Transfers	(54.4)	54.4	–
Disposals	–	–	–
<b>At 31 March 2024</b>	<b>2.7</b>	<b>273.9</b>	<b>276.6</b>
<b>Amortisation</b>			
At 1 April 2023	–	150.0	<b>150.0</b>
Charge for the year	–	28.6	<b>28.6</b>
Disposals	–	–	–
<b>At 31 March 2024</b>	<b>–</b>	<b>178.6</b>	<b>178.6</b>
<b>Net book amount</b>			
<b>At 31 March 2024</b>	<b>2.7</b>	<b>95.3</b>	<b>98.0</b>
At 31 March 2023	40.5	69.5	110.0

Intangible assets, which generally relate to the implementation of computer software, are transferred from assets under development to other intangible assets at the point at which they are deemed operational.

Other intangible assets consists of IT software with a net book value of £94.8 million (2023: £68.7 million), and development projects with a net book value of £0.5 million (2023: £0.8 million).

The company does not currently have any internally generated intangible assets.

Included within additions above is £0.4 million (2023: £0.1 million) of interest that has been capitalised on qualifying assets in accordance with IAS 23 'Borrowing Costs'. The cumulative net book value of the borrowing costs capitalised amount to £2.4 million (2023: £3.2 million).

# Notes to the financial statements continued

For the year ended 31 March 2024

## 13 Property, plant and equipment

	Land & buildings £m	Plant & machinery £m	Infra-structure assets £m	Assets under construction £m	Other £m	Total £m
<b>Cost</b>						
At 1 April 2023	1,601.4	4,491.9	3,246.2	765.8	793.5	<b>10,898.8</b>
Additions	–	–	–	811.5	–	<b>811.5</b>
Transfers	12.0	510.0	144.5	(727.3)	60.8	–
Disposals	–	(20.8)	(0.5)	–	(14.8)	<b>(36.1)</b>
<b>At 31 March 2024</b>	<b>1,613.4</b>	<b>4,981.1</b>	<b>3,390.2</b>	<b>850.0</b>	<b>839.5</b>	<b>11,674.2</b>
<b>Depreciation</b>						
At 1 April 2023	929.0	1,990.1	280.0	–	606.9	<b>3,806.0</b>
Charge for the year	41.5	197.1	38.5	–	57.1	<b>334.2</b>
Disposals	–	(20.8)	(0.5)	–	(14.7)	<b>(36.0)</b>
<b>At 31 March 2024</b>	<b>970.5</b>	<b>2,166.4</b>	<b>318.0</b>	<b>–</b>	<b>649.3</b>	<b>4,104.2</b>
<b>Net book amount</b>						
<b>At 31 March 2024</b>	<b>642.9</b>	<b>2,814.7</b>	<b>3,072.2</b>	<b>850.0</b>	<b>190.2</b>	<b>7,570.0</b>
At 31 March 2023	672.4	2,501.8	2,966.2	765.8	186.6	7,092.8

Freehold land is stated at a cost of £51.7 million at 31 March 2024 and 31 March 2023 and is not depreciated.

The company's interests in land and buildings are almost entirely freehold.

Other property, plant and equipment consists of the following net book values for vehicles £7.3 million (2023: £10.0 million), and computer hardware and IT infrastructure with a net book value of £118.2 million (2023: £96.1 million), meters £11.8 million (2023: £21.1 million) and mobile plant £52.9 million (2023: £59.3 million).

Included within additions above is £61.4 million (2023: £32.8 million) of interest that has been capitalised on qualifying assets in accordance with IAS 23 'Borrowing Costs'. The cumulative net book value of the borrowing costs capitalised amount to £307.1 million (2023: £259.1 million). The company has elected to apply IAS 23 from 1 April 2003, as permitted by the standard.

### Leased assets

Right-of-use assets included in the table above are as follows:

	Land & buildings £m	Infra-structure assets £m	Other £m	Total £m
Net book amount at 31 March 2023	13.0	13.5	10.1	36.6
Remeasurement due to change in lease payments	1.7	–	(0.6)	1.1
Additions	–	–	1.1	1.1
Disposals	–	–	(0.1)	(0.1)
Depreciation charge for the year	(1.6)	(0.2)	(3.3)	(5.1)
<b>Net book amount at 31 March 2024</b>	<b>13.1</b>	<b>13.3</b>	<b>7.2</b>	<b>33.6</b>

## 14 Investments

	2024	2023
	£m	£m
<b>Shares in subsidiaries</b>		
At 1 April	0.2	29.2
Additions	–	0.2
Disposals	–	(29.2)
<b>At 31 March</b>	<b>0.2</b>	<b>0.2</b>

The company has the following direct investments in subsidiary undertakings at 31 March 2024:

	Registered office	Class of share capital	Activity
SW (Finance) I Plc	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
SW (Finance) II Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
Southern Water Executive Pension Scheme Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant
Southern Water Pension Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant

The directors are satisfied that the carrying value of investments is supported by the underlying assets and activities of the subsidiaries.

## 15 Other non-current assets

	2024	2023
	£m	£m
<b>Non-current receivables</b>		
Prepayments	10.0	10.9

Non-current prepayments includes a balance of £6.5 million (2023: £6.5 million) in relation to capacity charge payments made to Portsmouth Water Limited in respect of the Havant Thicket reservoir as described in note 1 'Material accounting policies', note 2 'Critical judgments' and note 34 'Financial commitments.'

## 16 Inventories

	2024	2023
	£m	£m
Raw materials	9.8	7.2
Work in progress	3.7	3.2
	<b>13.5</b>	<b>10.4</b>

# Notes to the financial statements continued

For the year ended 31 March 2024

## 17 Trade and other receivables

	2024	2023
	£m	£m
Trade receivables	347.8	347.1
Provision for impairment	(245.1)	(256.1)
Net trade receivables	102.7	91.0
Loan to subsidiary	102.5	30.1
Other amounts owed by group undertakings	12.1	9.4
VAT recoverable	20.2	20.9
Other amounts receivable	2.4	4.0
Net accrued income	92.2	76.2
Prepayments	15.9	21.8
	<b>348.0</b>	<b>253.4</b>

Trade receivables comprise balances from contracts with customers where the company has performed some or all of its contractual obligations.

Amounts owed by group undertakings are unsecured, interest-free and settled regularly. All entities are wholly owned within the group.

The directors consider that the carrying values of trade and other receivables are reasonable approximations of their fair values.

### Provision for impairment

Movements on the impairment provision were as follows:

	2024	2023
	£m	£m
At 1 April	(260.1)	(283.9)
Net impairment charge	(15.4)	(12.0)
Net amounts written back during the year	27.8	35.8
At 31 March	(247.7)	(260.1)

At each reporting date, the company evaluates the recoverability of trade receivables and records allowances for impairment of receivables based on experience.

The following table provides information regarding the ageing of receivables that are specifically provided for:

	2024	2023
	£m	£m
Current	–	–
1–2 years	–	–
2–3 years	–	–
3–4 years	–	0.1
More than 4 years	12.1	11.8
	<b>12.1</b>	<b>11.9</b>

A collective provision is recorded against assets which are past due but for which no specific provision has been made. This is calculated based on historical experience of levels of recovery.

## 17 Trade and other receivables *continued*

The aged analysis of receivables that were overdue at the reporting date but not individually provided for is as follows:

	2024	2023
	£m	£m
Current	83.1	79.9
1–2 years	42.6	45.5
2–3 years	37.3	34.7
3–4 years	28.3	32.4
More than 4 years	116.3	120.3
	<b>307.6</b>	312.8

The amounts above are reconciled to gross and net receivables in the tables below:

	Gross	Provision	Net
	£m	£m	£m
<b>At 31 March 2024</b>			
Accrued income – not due	94.8	(2.6)	92.2
<b>Trade receivables</b>			
Not due	28.1	–	28.1
Overdue and not specifically provided	307.6	(233.0)	74.6
Overdue and specifically provided	12.1	(12.1)	–
	<b>442.6</b>	<b>(247.7)</b>	<b>194.9</b>

	Gross	Provision	Net
	£m	£m	£m
<b>At 31 March 2023</b>			
Accrued income – not due	80.2	(4.0)	76.2
<b>Trade receivables</b>			
Not due	22.3	–	22.3
Overdue and not specifically provided	312.8	(244.2)	68.6
Overdue and specifically provided	11.9	(11.9)	–
	427.2	(260.1)	167.1

## 18 Trade and other payables

	2024	2023
	£m	£m
Trade payables	76.8	74.8
Amounts owed to group undertakings	75.4	43.6
Capital creditors and capital accruals	222.8	198.0
Taxation and social security	5.0	4.8
Accruals	124.5	107.1
Deferred revenue	45.3	49.3
	<b>549.8</b>	477.6

The directors consider that the carrying values of trade and other payables are not materially different from their fair values.

All amounts owed to group undertakings due within one year are unsecured, interest-free and repayable on demand. All entities are wholly owned within the group.

Included in deferred revenue above are contract liabilities from contracts with customers where some or all of the performance obligations of the company have not yet been fulfilled of £3.6 million (2023: £2.9 million).

# Notes to the financial statements continued

For the year ended 31 March 2024

## 19 Current borrowings

	Note	2024 £m	2023 £m
Reserve Facility Agreement – SONIA + margin		13.0	–
Unamortised debt issuance costs	20(iii)	(1.5)	(1.5)
Bond premium deferred		0.7	0.7
Bond discount deferred		(0.4)	–
Deferred gilt lock proceeds	20(iv)	0.1	0.1
Class A £60m – 0.000% index linked 2025	20(v)	12.7	12.1
Class A £40m – 0.000% index linked 2026	20(v)	8.4	7.8
<b>Current borrowings excluding lease liabilities</b>		<b>33.0</b>	19.2
Lease liabilities		3.9	4.0
<b>Total current borrowings including lease liabilities</b>		<b>36.9</b>	23.2

## 20 Total borrowings

	Note	2024 £m	2023 £m
Loans from subsidiaries:	20(i)		
Class A £350m – 6.192% fixed rate 2029	20(ii)	349.2	349.0
Class A £150m – 3.706% index linked 2034	20(ii)	315.0	288.9
Class A £35m – 3.706% index linked 2034	20(ii)	58.9	61.1
Class A £350m – 6.640% fixed rate 2026	20(ii)	349.6	349.4
Class A £150m – 3.816% index linked 2023	20(ii)	–	–
Class A £150m – 5.000% fixed rate 2041	20(ii)	147.4	147.4
Class A £200m – 4.500% fixed rate 2052	20(ii)	197.4	197.4
Class A £300m – 5.125% fixed rate 2056	20(ii)	293.0	292.9
Class A £375m – 2.375% fixed rate 2028	20(ii)	372.1	371.5
Class A £450m – 3.000% fixed rate 2037	20(ii)	444.5	444.2
Class A £300m – 1.625% fixed rate 2027	20(ii)	297.2	296.3
Class A £450m – 7.375% fixed rate 2041	20(ii)	444.7	–
Class A £72m – 3.315% index linked 2043	20(ii)	72.5	–
Class A £20m – 4.123% index linked 2043	20(ii)	20.1	–
Class A £550m – 7.000% fixed rate 2040	20(ii)	544.1	–
Class A £175m – 2.780% fixed rate 2031	20(ii)	174.4	174.3
Class A £75m – 2.960% fixed rate 2036	20(ii)	74.7	74.6
Artesian £165m – 4.076% index linked 2033	20(ii)	346.5	317.9
Artesian £156.5m – 3.635% index linked 2032	20(ii)	320.7	294.2
<b>Total Class A debt from subsidiaries</b>		<b>4,822.0</b>	3,659.1
Unamortised debt issuance costs	20(iii)	(5.6)	(6.9)
Bond premium deferred		5.6	6.2
Bond discount deferred		(7.1)	–
Deferred gilt lock proceeds	20(iv)	4.1	4.3
<b>Total loans and other borrowings from subsidiaries</b>		<b>4,819.0</b>	3,662.7
Class A £60m – 0.000% index linked 2025	20(vi)	18.5	29.6
Class A £40m – 0.000% index linked 2026	20(vi)	21.1	27.5
Class B preference shares	20(vii)	64.7	64.7
Reserve Facility Agreement – SONIA + margin		13.0	–
Term Loan Facility Agreement – SONIA + margin	20 (viii)	–	400.0
Lease liabilities	21	34.1	36.5
<b>Total borrowings</b>		<b>4,970.4</b>	4,221.0
<b>Included in:</b>			
<b>Current liabilities</b>			
Borrowings	19	33.0	19.2
Lease liabilities	21	3.9	4.0
		<b>36.9</b>	23.2
<b>Non-current liabilities</b>			
Borrowings		4,903.3	4,165.3
Lease liabilities	21	30.2	32.5
		<b>4,933.5</b>	4,197.8

These loans (excluding the preference shares) are guaranteed and secured pursuant to a guarantee and security agreement (the Security Agreement). The agreement is over the entire property, assets, rights and undertakings of each of SWS, SW (Finance) I Plc, SW (Finance) II Limited, SWS Holdings Limited and SWS Group Holdings Limited. In the case of SWS, this is to the extent permitted by the Water Industry Act 1991 and Licence.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 20 Total borrowings continued

Notes in respect of the specific instruments above:

- (i) Under the loan agreements between SWS and SW (Finance) I Plc and SW (Finance) II Limited, SWS was advanced an amount equal to each bond or other debt raised at the same interest rate plus an annual fee of £10,000 and £5,000 to each lender respectively.
- (ii) Fixed rate borrowings are recognised net of issue costs and discounts on issue and are carried at amortised cost using the effective interest rate method.  
  
The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £82.8 million (2023: £139.8 million) has been taken to the income statement as part of finance costs.
- (iii) Unamortised debt issuance costs represent issue fees paid that are not otherwise accounted for within the amortised cost of specific loans. Where these costs are attributable to a specific instrument they are being amortised over the life of that instrument. The remaining costs are being amortised over the weighted average life of the loans advanced at the time the costs were incurred. As at 31 March 2024, unamortised debt issuance costs amounted to £5.6 million of which £1.5 million represents the short-term amount which is disclosed separately in note 19.
- (iv) Prior to the issue of the Class A £300 million bond in the year to 31 March 2008, SWSF entered into a gilt lock agreement, resulting in the receipt of £6.3 million, which was advanced to SWS along with the proceeds of the bond issue. The proceeds have been deferred in the financial statements of SWS and are being released to the income statement over the life of the loan.
- (v) The Class A £60 million loan is index linked with an interest rate of 0.00% until August 2025.  
  
The Class A £40 million loan is index linked with an interest rate of 0.00% until May 2026.  
  
Amounts for scheduled repayments due in the year to 31 March 2025 have been shown as current borrowings in the year to 31 March 2024 (note 19).
- (vi) The Class B preference shares are redeemable at the option of SWS at any time. At the date of signing these accounts, no plans have been made to redeem these shares.  
  
The shares, which do not carry voting rights, were issued on 23 July 2003, and are redeemable at their nominal value plus the share premium paid on 31 March 2038 or at the company's option any time earlier. The shares were issued at £1,000 per share. Shareholders are entitled to receive dividends at £70 per share.  
  
These dividends are payable on 31 March and 30 September each year.  
  
No dividends were paid to the shareholders in the year and at 31 March 2024 the cumulative accrual for unpaid dividends due was £9.0 million (2023: £4.5 million).
- (vii) The Term Loan Facility of £400.0 million was repaid on 13 December 2023.



## 20 Total borrowings continued

	2024	2023
	£m	£m
<b>The maturity profile of borrowings disclosed within this note is given below:</b>		
<b>Borrowings excluding leases:</b>		
Between one and two years	362.7	419.2
Between two and five years	1,019.5	660.7
After five years	3,521.1	3,085.4
	<b>4,903.3</b>	4,165.3
On demand or within one year	33.0	19.2
	<b>4,936.3</b>	4,184.5
<b>Leases:</b>		
Between one and two years	3.6	3.7
Between two and five years	7.3	8.2
After five years	19.3	20.6
	<b>30.2</b>	32.5
On demand or within one year	3.9	4.0
	<b>34.1</b>	36.5
<b>Borrowings including leases:</b>		
Between one and two years	366.3	422.9
Between two and five years	1,026.8	668.9
After five years	3,540.4	3,106.0
	<b>4,933.5</b>	4,197.8
On demand or within one year	36.9	23.2
	<b>4,970.4</b>	4,221.0

The company leases various offices and vehicles and has a lease on its outfall pipes.

Vehicle leases have terms of between four and five years. Leases on office buildings have terms of between 15 and 99 years from commencement date. The outfall lease had an initial term of 99 years and commenced on 1 April 1997.

Obligations relating to vehicle leases include some commercial vehicle leases with optional residual value balloon payments due at the end of the lease period, where the minimum lease payments (including finance charges) have been prepaid at the start of the lease. If the company opts not to pay the balloon payment, it must return the vehicle to the lessor.

All lease obligations are denominated in sterling.

The fair value of the company's lease obligations is approximately equal to their carrying amount.

Interest rates are fixed at the contract date. All leases (except outfalls (see note 21)) are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The company's lease obligations are secured by the lessors' rights over the leased assets disclosed in note 13.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 21 Leases

This note provides information for leases where the company is a lessee.

### (i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2024	2023
	£m	£m
<b>Right-of-use assets within property, plant and equipment:</b>		
Buildings	13.1	13.0
Infrastructure	13.3	13.5
Other	7.2	10.1
	<b>33.6</b>	36.6
<b>Lease liabilities</b>		
Current	3.9	4.0
Non-current	30.2	32.5
	<b>34.1</b>	36.5

Additions to right-of-use assets during the financial year to 31 March 2024 were £2.1 million (2023: £4.6 million).

### (ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	31 March 2024	31 March 2023
	£m	£m
<b>Depreciation charge of right-of-use assets</b>		
Buildings and infrastructure	(1.8)	(1.9)
Other	(3.3)	(2.3)
	<b>(5.1)</b>	(4.2)
Interest expense (included in finance costs)	(1.0)	(1.0)
Expense relating to short-term leases (included in operating costs)	(5.6)	(4.0)

### (iii) Amounts recognised in the statement of cash flows

	31 March 2024	31 March 2023
	£m	£m
Repayments of principal	4.1	4.2
Interest element included in interest paid	1.0	1.0
<b>Total cash outflow for leases</b>	<b>5.1</b>	5.2

## 21 Leases continued

### (iv) The company's leasing activities and how these are accounted for

The company leases various offices and vehicles.

Rental contracts are typically made for fixed periods, but may have extension options.

Contracts may contain both lease and non-lease components. For leases of vehicles for which the company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease payments included in the measurement of the lease liability comprise (where applicable):

- fixed lease payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The company has a lease on its outfall pipes which contains variable lease payments. These payments will increase by RPI every 10 years. The next review date is on 1 April 2032 and the lease expires on 31 March 2096.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise assets less than £5,000.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 22 Derivative financial instruments

Categories of financial instruments at fair value

	2024	2023
	£m	£m
<b>Derivative assets carried at fair value through profit or loss (FVTPL):</b>		
Inflation swaps – not hedge accounted	104.8	83.9
<b>Total derivative financial assets</b>	<b>104.8</b>	83.9
<b>Derivative liabilities carried at fair value through profit or loss (FVTPL):</b>		
Inflation swaps – not hedge accounted	(1,673.6)	(1,655.3)
<b>Total derivative financial liabilities</b>	<b>(1,673.6)</b>	(1,655.3)

There are no liabilities offset against assets and no assets offset against liabilities where there is no legal right to do so.

	2024	2023
	£m	£m
<b>Changes in value of financial instruments at fair value</b>		
Movements on derivative financial assets at FVTPL	20.9	38.3
Movements on derivative financial liabilities at FVTPL	(18.3)	533.6
<b>Total movements on derivative financial instruments at FVTPL</b>	<b>2.5</b>	571.9
Realised movements on derivative financial liabilities in the period	85.6	87.2
<b>Total movements on derivative financial instruments</b>	<b>88.1</b>	659.1

The regulatory framework, under which revenues and the Regulatory Capital Value (RCV) are indexed, exposes the company to CPIH inflation risk. The company enters into RPI inflation-linked derivative financial instruments to manage its exposure to that risk.

Under inflation swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate inflation risk on issued fixed rate debt held.

## 22 Derivative financial instruments *continued*

The nominal value of the interest rate swaps held at 31 March 2024 are shown in the table below:

Counterparty	Notional £m	Start date	Maturing in	Mandatory break
Lloyds Bank	99.3	2016	2037	–
ING Bank	77.8	2016	2037	–
SMBC Nikko	75.0	2016	2037	–
UBS	75.0	2016	2037	–
Bank of America	50.0	2016	2037	–
National Australia Bank	44.1	2016	2037	–
Banco Santander	20.0	2016	2037	–
JP Morgan	50.0	2017	2056	2029
National Australia Bank	92.1	2017	2039	2025
Banco Santander	13.2	2017	2039	2025
SMBC Nikko	70.2	2017	2039	2025
Lloyds Bank	150.0	2016	2041	–
Alum Bay & NatWest SPV*	89.4	2016	2041	–
Lloyds Bank	50.0	2016	2031	–
NatWest SPV*	9.5	2016	2031	–
BNP Paribas	200.0	2016	2051	–
Alum Bay & NatWest SPV*	185.4	2016	2051	–
Morgan Stanley	250.0	2015	2055	–
Morgan Stanley ILCA	250.0	2015	2055	2028
Alum Bay & NatWest SPV*	206.0	2015	2055	–
Bank of America	150.0	2041	2046	–
Alum Bay & NatWest SPV*	31.9	2041	2046	–
Bank of America	50.0	2031	2046	–
Alum Bay & NatWest SPV*	37.7	2031	2046	–
JP Morgan	441.2	2037	2046	–
Alum Bay & NatWest SPV*	185.1	2037	2046	–
Lloyds Bank	100.0	2023	2028	–
SMBC Nikko	300.0	2023	2028	–
BNP Paribas**	400.0	2023	2030	–
Bank of America**	150.0	2023	2030	–
Bank of America**	100.0	2023	2030	–

\* Series of future inflation payments have been stripped from the bank swaps with the result that nominal to real cash flows occur between company and bank, and the residual inflation cash flows are paid to the SPV. Investors into the SPV are established pension and insurance companies.

\*\* During the year, the company entered into a number of RPI to CPI wedge trades with a total notional value of £650 million to better align inflation exposure across cashflows and RCV which is now predominantly linked to CPIH. In the absence of a CPIH swap market CPI inflation swaps are the closest match.

None of the interest rate swaps are due to be repaid in the next 12 months.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 23 Deferred tax liabilities

Deferred tax is provided as follows:

	Accelerated tax depreciation £m	Revaluation of financial instruments £m	Retirement benefit obligations £m	Other - timing differences* £m	Total £m
At 1 April 2022	733.7	(500.0)	(25.0)	(5.7)	203.0
(Credit)/charge to income statement (as reported)	(11.8)	91.4	1.7	1.4	82.7
Restatement	–	120.0	–	(37.1)	82.9
(Credit)/charge to income statement (as restated)**	(11.8)	211.4	1.7	(35.7)	165.6
Prior year adjustment:					
– Charge/(credit) to income statement	7.2	–	–	(6.2)	1.0
Credit to other comprehensive income	–	–	(2.2)	–	(2.2)
At 1 April 2023 (as restated)**	<b>729.1</b>	<b>(288.6)</b>	<b>(25.5)</b>	<b>(47.6)</b>	<b>367.4</b>
(Credit)/charge to income statement	(29.7)	29.7	2.8	0.4	3.2
Prior year adjustment:					
– Charge/(credit) to income statement	3.5	–	–	(3.4)	0.1
Credit to other comprehensive income	–	–	(0.4)	–	(0.4)
<b>At 31 March 2024</b>	<b>702.9</b>	<b>(258.9)</b>	<b>(23.1)</b>	<b>(50.6)</b>	<b>370.3</b>

\* Other timing differences include claims as a result of available super deductions plus other small, short-term differences relating to provisions and deferred income.

\*\* Please refer to note 1 for explanation regarding prior year changes.

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	As restated*	
	2024	2023
	£m	£m
Deferred tax liabilities	<b>702.9</b>	729.1
Deferred tax assets	<b>(332.6)</b>	(361.7)
	<b>370.3</b>	367.4

## 24 Retirement benefit obligations

The deficit associated with retirement benefit obligations has increased to £78.0 million (2023: £73.0 million). The increase in the deficit over the year is principally due to lower than assumed returns on scheme assets, in part due to the negative impact on the LDI funds of increasing yields, resulting in a lower value of the scheme assets, and higher than expected inflation over the year and an increase in expected future inflation. This has been offset to a lesser extent by the increase in AA corporate bond yields, which leads to a higher discount rate and therefore a lower value of liabilities, and the updated mortality assumptions, which result in lower future life expectancy compared to the previous disclosures.

### Pension schemes operated

- The company principally operates one defined benefit pension scheme (final salary) and one defined contribution scheme, details of which are shown below:

Southern Water Pension Scheme (SWPS), a funded defined benefit scheme, was closed to new members on 31 December 1998, re-opened in July 2003 and closed once more to new entrants on 1 April 2005. This scheme has one professional Trustee. The Southern Water Services Executive Pension Scheme (SWEPS) was also closed to new entrants and merged with the SWPS on 1 April 2005.

The scheme closed to accrual with effect from 31 March 2020.

## 24 Retirement benefit obligations *continued*

The Trustee is responsible for administering the fund which is held separately from the company. Legal and General and BlackRock are unit registrars for Southern Water Pension Scheme unit holdings, and appoint custodians at individual pooled fund level (not client holding level). The directors of SWS are responsible for setting the accounting assumptions for the fund for inclusion in these financial statements.

As part of the company's interactions with both the Trustee and, when required, The Pensions Regulator, the company looks to agree a long-term funding and risk management strategy for the pension liability. Following on from regular dialogue with the Trustee, and discussions and correspondence with The Pensions Regulator regarding the deficit, the Board agreed a long-term funding solution for the scheme in 2018.

The main risks of the scheme are as follows:

(a) Asset volatility:

For the purpose of setting the contribution requirements, the calculation uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio – whereas under FRS 101, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a significant proportion of their assets in growth assets. The returns on these assets may be volatile and are not correlated to the value placed on the liabilities. This means that the deficit may be volatile in the shorter term, which may result in an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the statement of financial position.

However, the company believes that return-seeking assets offer an appropriate level of return over the long term for the level of risk that is taken. Furthermore, the scheme's other assets are well-diversified by investing in a range of asset classes, including liability driven investments, government bonds and corporate bonds.

(b) Changes in bond yields:

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the company's contribution requirements. However, in this scenario the scheme's investment in corporate and government bonds is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

(c) Life expectancy:

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the scheme's liabilities. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The scheme does not contain a hedge against increases in future life expectancy.

(d) Inflation risk:

The majority of the scheme's benefit obligations are linked to inflation and higher outturn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the scheme's assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature e.g. corporate bonds and government bonds, or have an indirect link to inflation, e.g. equities.

2. A second company stakeholder scheme, which is a defined contribution scheme, is available to all employees.

Contributions made to the defined contribution scheme for the year ended 31 March 2024 amounted to £17.0 million (2023: £13.9 million). At the balance sheet date, £1.5 million of contributions were outstanding for payment and were paid on 5 April 2024 (2023: £1.3 million).

Members of all schemes receive an annual statement of their accrued benefits.

The latest actuarial valuation of the SWPS was carried out as at 31 March 2022 using the projected unit method. For closed schemes under this method, the current service cost will increase as the members of the schemes approach retirement.

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments, and the level of inflation, which drives pension increases in the SWPS.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 24 Retirement benefit obligations continued

The principal assumptions in the valuation were as follows:

	<b>2022 SWPS</b>
	% per annum
Discount rate	Fixed interest gilts curve + 65 bps
Pension increases on the excess over guaranteed minimum pensions (where capped at 5% per annum)	In line with RPI assumption (uncapped), with an allowance for the impact of the floor calculated using the Black formula and assuming an inflation volatility of 2% per annum

The assets of the scheme had a market value of £779.8 million at 31 March 2022. This was sufficient to cover 78.9% of the scheme's benefits. The weighted average duration of the scheme liabilities is 13 years.

As there were insufficient assets to cover the scheme liabilities at the valuation date, the Trustee and the company are required to agree a recovery plan. The Trustee and company have agreed that this shortfall should be removed by the payment of a series of deficit contributions. The timing and quantum of future contributions in relation to the deficit were agreed with the Trustee and Pensions Regulator, and updated on 14 March 2023.

The first payment was made in November 2018 and payments up to 1 April 2021 totalled £69.1 million. On 31 March 2022 the company made an additional one-off lump sum deficit contribution of £59.6 million into the Southern Water Pension Scheme covering the 1 April 2022 contribution under the previous Schedule of Contributions of £20.6 million plus a further prepayment of £39.0 million in relation to deficit contributions due in future years under a) and b) below.

Updated future deficit contributions have been agreed as follows:

- (a) From 2023 to 2029 (annual contributions): £21.0 million per annum increased to the relevant payment year in line with the actual increase in RPI between December 2022 and the December immediately prior to the relevant payment year.
- (b) Plus, an additional £500,000 per annum from 2023 to 2028 (inclusive), which, together with the equivalent amounts paid since 2018, is recognised as an advance on part of the deficit contribution due in 2029. Accordingly, the deficit contribution payable in 2029 will be reduced by £5.5 million from the amount otherwise calculated under a) above.

The base deficit contributions (before adjustment for RPI) outlined in a) and b) above, and offset where relevant by the £39.0 million prepayment also described above, are payable by 1 April of the relevant year and total £105.3 million.

If the assumptions documented in the Scheme's Statement of Funding Principles dated 14 March 2023 are borne out in practice, the deficit will be removed by 1 April 2029.

### IAS 19 – assumptions, asset, liability and reserves disclosures

The company has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the scheme for funding purposes and those adopted by the company to measure the scheme's liabilities in the financial statements, as well as adjusting for benefit accrual and benefits paid by the scheme.



## 24 Retirement benefit obligations *continued*

The major assumptions used by the actuary are set out in the table below:

	2024 % per annum	2023 % per annum
Price inflation (RPI)	3.30	3.25
Price inflation (CPI)		
– RPI less 1% per annum up to 2030	2.30	2.25
– Equal to RPI after 2030	3.30	3.25
Rate of increase of pensions in payment:		
– MIS* members only***	2.30 <sup>#</sup>	2.25 <sup>#</sup>
– Old section** members only***	3.30	3.25
– New section and ex FSLP (RPI max 5%)***	3.10	3.15
– Post-5 April 1988 GMP (CPI max 3%)***	1.90 <sup>#</sup>	2.00 <sup>#</sup>
– All sections post-31 March 2013 service (RPI max 2.5%)***	2.05	2.20
Rate of increase for deferred pensions:		
– MIS* members only***	2.30 <sup>#</sup>	2.25 <sup>#</sup>
– Old section** members only***	3.30	3.25
– New section and ex FSLP (RPI max 5%)***	3.30	3.25 <sup>#</sup>
– Post-5 April 1988 GMP (CPI max 3%)***	2.00	2.00
– All sections post-31 March 2013 service (RPI max 2.5%)***	2.50	2.50 <sup>#</sup>
Discount rate	4.75	4.65

\* MIS refers to the Southern Water Mirror Image Pension Scheme. Pensions in payment and deferment for this section will be indexed in line with the Consumer Price Index.

\*\* For this section the Trustee will endeavour to meet any indexation of excess pension above the 5% per annum cap on increases that apply to other sections of the scheme.

\*\*\* Pension increase assumptions allow for caps and floors, where appropriate, based on a statistical model (the Black Scholes model).

<sup>#</sup> Rates shown apply up to 2030. Assumed equal to RPI post 2030.

<sup>#</sup> Prior year has been restated.

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The base mortality tables are unchanged from 2023 and reflect the best estimate basis from the Trustees' 2022 Actuarial Funding Valuation. Improvement rates have been updated to use the latest available Continuous Mortality Investigation (CMI) model (CMI 2022) at the time of calculation, using the same smoothing factor of 7.0 and long-term improvement rate of 1.25% as used in 2023.

	2024 Years	2023 Years
<b>Assumed future life expectancy at age 65</b>		
Currently aged 45:		
Male	23.4	23.9
Female	25.6	26.1
Currently aged 65:		
Male	22.1	22.6
Female	24.2	24.7

# Notes to the financial statements continued

For the year ended 31 March 2024

## 24 Retirement benefit obligations continued

The assets and liabilities in the scheme and the expected rates of return at 31 March 2024 and 31 March 2023 were:

	Value at 2024 £m	Value at 2023 £m
Equities	71.3	79.7
Government bonds	218.4	203.8
Non-government bonds	260.9	260.7
Cash	43.7	68.6
<b>Total market value of plan assets</b>	<b>594.3</b>	612.8
Total value of plan liabilities	(672.3)	(685.8)
<b>Accrued deficit in the plan</b>	<b>(78.0)</b>	(73.0)
Related deferred tax asset	14.8	13.9
<b>Net retirement benefit obligations</b>	<b>(63.2)</b>	(59.1)

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price. The equity holding quoted includes a number of small holdings in other return-seeking assets (such as hedge funds, DGF, etc). The government bond and cash allocation set out above includes £250.7 million held in a liability-driven-investment (LDI) portfolio to mitigate interest rate risks arising from the liabilities.

	2024 £m	2023 £m
<b>Reconciliation of the present value of the scheme liabilities</b>		
At 1 April	685.8	839.3
Past service cost	–	–
Interest expense	31.1	22.5
Experience loss on liabilities	11.8	108.3
Actuarial gain on liabilities:		
– due to changes in demographic assumptions	(13.5)	(6.5)
– due to changes in financial assumptions	(7.3)	(233.9)
Benefits paid	(35.6)	(43.9)
<b>Scheme liabilities at 31 March</b>	<b>672.3</b>	685.8

### Sensitivity analysis of the scheme liabilities

The sensitivity of the present value of the scheme liabilities to changes in the major assumptions used is set out below:

	Change in assumption	Impact on scheme liabilities £m
Discount rate	+0.1% p.a.	(8.2)
	–0.1% p.a.	8.3
Price inflation (RPI measure)*	+0.1% p.a.	6.3
	–0.1% p.a.	(6.3)
Mortality	+1 year	24.0
	–1 year	(23.2)

\* These movements have been calculated assuming that changes in the inflation assumption affect all inflation-linked assumptions.

The above sensitivity analysis illustrates the impact expected to be seen from reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

## 24 Retirement benefit obligations continued

	2024	2023
	£m	£m
<b>Reconciliation of the value of the scheme assets</b>		
At 1 April	612.8	779.4
Interest income	27.7	20.9
Return on assets less than discount rate	(10.6)	(143.6)
Employer contributions	–	–
Benefits paid	(35.6)	(43.9)
<b>Bid value of scheme assets at 31 March</b>	<b>594.3</b>	<b>612.8</b>

The net return on scheme assets was a gain of £17.1 million (2023: loss of £122.7 million).

	2024	2023
	£m	£m
<b>Total cost recognised as an expense</b>		
Past service cost	–	–
Net interest cost	3.4	1.6
<b>Total income statement expense before deduction for tax</b>	<b>3.4</b>	<b>1.6</b>

	2024	2023
	£m	£m
<b>Analysis of the amounts recognised in other comprehensive income</b>		
Loss due to liability experience	11.8	108.3
Gain due to changes in demographic assumptions	(13.5)	(6.5)
Gain due to changes in financial assumptions	(7.3)	(233.9)
Return on plan assets greater than discount rate	10.6	143.6
<b>Total loss recognised in OCI before adjustment for tax</b>	<b>1.6</b>	<b>11.5</b>

The cumulative amount of actuarial losses recognised in other comprehensive income is £269.2 million (2023: £267.6 million).

	2024	2023
	£m	£m
<b>Analysis of the movement in the scheme deficit during the year</b>		
Deficit in the scheme at 1 April	(73.0)	(59.9)
Employer's contributions	–	–
Employer's past service cost	–	–
Financing charge	(3.4)	(1.6)
Actuarial loss	(1.6)	(11.5)
<b>Deficit in the scheme at end of year</b>	<b>(78.0)</b>	<b>(73.0)</b>

# Notes to the financial statements continued

For the year ended 31 March 2024

## 25 Regulatory settlement liability

	2024	2023
	£m	£m
At 1 April	55.6	78.8
Settlements in year	(27.4)	(25.0)
Reassessment of provision for changes in future inflation estimates	0.3	1.8
<b>At 31 March</b>	<b>28.5</b>	55.6

	2024	2023
	£m	£m
<b>Included in:</b>		
Current liabilities	28.5	27.4
Non-current liabilities	–	28.2
	<b>28.5</b>	55.6

In 2018–19 Ofwat concluded its investigation in relation to the management, operation and performance of the company's wastewater treatment works. That investigation resulted in Ofwat taking enforcement action. Ofwat issued Southern Water with a financial penalty amounting to £3.0 million as published on its website. To ensure that customers are not disadvantaged as a result of these matters, the company agreed to make direct customer rebates totalling £122.9 million in 2017–18 prices over the period 2020–25, reflecting the seriousness of the breaches identified in the investigation. These amounts have been provided for in the financial statements at outturn prices and are reassessed each year to account for the impact of inflation. After reassessment at 31 March 2024, the profile for release of the provision is as follows:

Year ending:	2020–21	2021–22	2022–23	2023–24	2024–25	Total
AMP6 Bill Rebate (2017–18 CPI real)	33.54	22.33	22.33	22.33	22.33	122.86
Inflation	2.21	1.60	2.70	5.05	6.19	17.75
Provision (nominal)	35.75	23.93	25.03	27.38	28.52	140.61

The company has given a number of formal undertakings to Ofwat in relation to the numerous measures that have been put in place and are being put in place to ensure that the issues identified in the investigation have ceased and cannot be repeated.

## 26 Provisions for liabilities

	Environmental obligations	Other	Total
	£m	£m	£m
Balance 1 April 2022	6.5	–	6.5
Utilised in year	(1.3)	–	(1.3)
Increase in year	0.3	–	0.3
Balance 1 April 2023	5.5	–	5.5
Utilised in year	(0.6)	–	(0.6)
<b>Balance at 31 March 2024</b>	<b>4.9</b>	<b>–</b>	<b>4.9</b>

	2024	2023
	£m	£m
<b>Included in:</b>		
Current liabilities	1.8	2.2
Non-current liabilities	3.1	3.3
	<b>4.9</b>	5.5

The environmental provision relates to management's best estimate for the decommissioning of abandoned sites and environmental commitments made for ecology work following the South Hampshire abstraction inquiry for the period up to 2030. No reimbursement is expected.

## 26 Provisions for liabilities *continued*

### Environment Agency

The company is working proactively with the Environment Agency to resolve its investigation into sampling compliance and reporting issues for the period 2013 to 2017 (inclusive). The Board has concluded that it is not yet possible to make a reliable estimate of the financial obligation that will arise from this separate investigation and no provision has been made. Further details are provided in note 33 Contingent liabilities, to these accounts.

## 27 Other non-current liabilities

	Grants & contributions £m	Deferred revenue £m	Total £m
Balance at 1 April 2023	28.3	12.0	40.3
Increase in year	5.4	–	5.4
Released to income statement	(1.6)	(0.4)	(2.0)
<b>Balance at 31 March 2024</b>	<b>32.1</b>	<b>11.6</b>	<b>43.7</b>

Grants and contributions relate to property, plant and equipment.

Deferred revenue of £11.6 million (2023: £12.0 million) relates to the proceeds from the sale of income rights relating to aerial masts and sites owned by SWS. The income will be credited to the income statement evenly over the life of the lease.

## 28 Called up share capital

	2024 £'000	2023 £'000
<b>Equity shares</b>		
Authorised: 46,050,000 ordinary shares of £1 each	46,050	46,050
Allotted and fully paid: Ordinary shares of £1 each		
At 1 April	112	112
Issued for cash	37,500	–
At 31 March	37,612	112
	2024 £'000	2023 £'000
<b>Non-equity shares</b>		
Issued: preference shares		
64,665 (2023: 64,665) Class B shares of £1 each	65	65

On 19 October 2023, 37,500,000 ordinary shares with an aggregate nominal value of £37.5 million were issued at £10 each to SWS Holdings Limited. The premium arising on issue amounted to £337.5 million and is shown net of costs of issue of £5.8 million in note 29.

The redeemable preference shares are presented as a liability (see note 20) at an amount of £64.7 million (2023: £64.7 million), including share premium of £64.6 million (2023: £64.6 million), and accordingly, are excluded from called up share capital in the balance sheet. The total statutory company share premium of £833.8 million (2023: £502.1 million) includes ordinary share premium of £769.2 million (2023: £437.5 million).

# Notes to the financial statements continued

For the year ended 31 March 2024

## 29 Share premium account

	2024 £m	2023 £m
<b>Equity share premium</b>		
At 1 April	437.5	437.5
Issued for cash	331.7	–
<b>Balance at 31 March</b>	<b>769.2</b>	437.5

On 19 October 2023, 37,500,000 ordinary shares with an aggregate nominal value of £37.5 million were issued at £10 each to SWS Holdings Limited. The premium arising on issue amounted to £337.5 million and is shown net of costs of issue of £5.8 million.

## 30 Non-distributable reserve

	£m
Balance at 1 April 2022	85.1
Profit for the financial year	11.4
Transfer to retained earnings	(1.9)
Balance at 1 April 2023	94.6
Profit for the financial year	7.5
Transfer to retained earnings	(1.9)
<b>Balance at 31 March 2024</b>	<b>100.2</b>

Non-distributable reserves comprise the value of sewer adoptions previously recognised at fair value, deferred and amortised to the income statement over the life of the related assets. Under IFRS 15, the company recognises the fair value upon adoption, i.e. the point at which control of the asset is obtained, through profit and loss to non-distributable reserves. This reserve is released to retained earnings in line with the amortisation of the related assets.

## 31 Retained earnings

	£m
Balance at 1 April 2022	66.3
Equity dividends paid	–
Profit for the financial year (restated)*	190.6
Other comprehensive loss for the year	(9.3)
Transfer from non-distributable reserve	1.9
Balance at 1 April 2023 (restated)*	249.5
Equity dividends paid	–
Loss for the financial year	(218.4)
Other comprehensive loss for the year	(1.2)
Transfer from non-distributable reserve	1.9
<b>Balance at 31 March 2024</b>	<b>31.8</b>

\* Please refer to note 1 for explanation regarding prior year changes.

## 32 Notes to the statement of cash flows

	2024 £m	2023 £m
Operating loss	(72.8)	(18.4)
Adjustments for:		
Fair value of sewer adoptions	(7.5)	(11.4)
Depreciation of property, plant and equipment	334.2	327.3
Amortisation of intangible assets	28.6	19.8
Difference between pension charge and cash contributions	–	–
Receipt of grants and contributions	5.4	3.1
Amortisation of grants and contributions	(1.6)	(1.7)
<b>Operating cash flows before movements in working capital</b>	<b>286.3</b>	<b>318.7</b>
Increase in inventories	(3.2)	(0.3)
Increase in receivables	(23.1)	(20.1)
Increase in payables	15.3	74.1
Decrease in regulatory settlement liability	(27.1)	(23.2)
Decrease in provisions	(0.6)	(0.9)
Cash from operations	247.6	348.3
Tax paid	–	–
<b>Net cash from operating activities</b>	<b>247.6</b>	<b>348.3</b>

	2024 £m	2023 £m
<b>Cash and cash equivalents</b>	<b>413.5</b>	<b>115.8</b>

Cash and cash equivalents (which are presented as a single class of assets on the face of the Statement of Financial Position) comprise cash and short-term bank deposits. The carrying amount of these assets is equal to their fair value.

The table below details changes in liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

	At 1 April 2023 £m	Cash flow changes £m	Fair value adjustments £m	Net new/ disposed leases £m	Other non-cash changes £m	At 31 March 2024 £m
<b>Analysis of net debt (including changes in liabilities from financing activities)</b>	<b>115.8</b>	<b>297.7</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>413.5</b>
Net liabilities from financing activities:						
Term facilities/index-linked loans (note 20)	(457.1)	407.7	(3.2)	–	–	(52.6)
Loans from subsidiary (note 20)	(3,662.7)	(1,076.1)	(82.2)	–	2.0	(4,819.0)
Lease liabilities (note 20, 21)	(36.5)	4.1	(1.1)	(0.6)	–	(34.1)
Redeemable preference shares (note 20)	(64.7)	–	–	–	–	(64.7)
Net interest rate swaps (note 22)	(1,571.4)	(85.6)	88.2	–	–	(1,568.8)
Total liabilities from financing activities	(5,792.4)	(749.9)	1.7	(0.6)	2.0	(6,539.2)
Net debt	(5,676.6)	(452.2)	1.7	(0.6)	2.0	(6,125.7)

Other non-cash changes to loans from subsidiary of £2.0 million relate to issue cost accruals of £2.7 million less £0.7 million of amortisation of loan issue costs, bond premium, and gilt-lock proceeds.

# Notes to the financial statements continued

For the year ended 31 March 2024

## 32 Notes to the statement of cash flows continued

	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total
	£m	£m	£m	£m	£m
<b>Balances at 31 March 2024 comprise:</b>					
Cash and cash equivalents	–	413.5	–	–	<b>413.5</b>
Derivative financial instruments	104.8	–	–	(1,673.6)	<b>(1,568.8)</b>
Unamortised debt issuance costs	–	–	1.5	4.1	<b>5.6</b>
Gilt-lock proceeds	–	–	(0.1)	(4.0)	<b>(4.1)</b>
Borrowings due within one year	–	–	(34.4)	–	<b>(34.4)</b>
Borrowings due after one year	–	–	–	(4,903.4)	<b>(4,903.4)</b>
Leases	–	–	(3.9)	(30.2)	<b>(34.1)</b>
<b>Net debt</b>	<b>104.8</b>	<b>413.5</b>	<b>(36.9)</b>	<b>(6,607.1)</b>	<b>(6,125.7)</b>

Borrowings due within one year relate to amounts that are repayable on demand or within 12 months of the balance sheet date (see note 20).

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, and excludes cash on deposit with a maturity of more than three months from the date of acquisition which are shown as current asset investments in the statement of financial position.

## 33 Contingent liabilities

There are currently two significant ongoing investigations being conducted by the Environment Agency (EA) of which one is also being considered by Ofwat.

As has been reported previously, we continue to assist the EA in its investigation into legacy issues relating to wastewater sampling compliance for the period 2013 to 2017. This investigation is ongoing and there have not been any significant developments during the year. We do not know when the investigation stage will be concluded, and we do not know if or when any charges against the company are likely, nor how many charges may be brought, nor how any specific charges might be framed. As the investigation is ongoing, and as the EA has not stated what its intentions are so far as the next steps in the investigation are concerned, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this investigation, nor its timing (which could be several months or years), but will keep the situation under review.

In November 2021 the Environment Agency and Ofwat launched an investigation into sewage treatment works belonging to all water and wastewater companies in England and Wales. As we reported in our Annual Report at 31 March 2023, Ofwat has opened enforcement cases into six water companies (not Southern Water). However, all water and wastewater companies in England and Wales remain subject to their ongoing investigation as they continue to review the information they have gathered. As the investigations are ongoing, and as neither the EA nor Ofwat have stated what their intentions are so far as the next steps in the investigations are concerned, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from these investigations, or its timing (which could be several months or years), but will keep the situation under review.

The Board monitors and supports the work of the Risk and Compliance teams, which continues to deliver a programme of improvements to the company's non-financial regulatory reporting including the collection, verification, reporting and assurance of data.

In December 2023, Southern Water Services experienced a criminal cyber-attack. The incident involved the theft of data from the company's IT systems, including personal data of a small proportion of Southern Water's customers and personal data relating to current and former employees.

The quantum and value of any claims or penalties that may arise because of this cyber incident remains uncertain. The Board has therefore concluded that it is not yet possible to make a reliable estimate for any financial obligation that may arise, nor for the timing of any outflow. As a result, no provision has been made in the financial statements to 31 March 2024.



### 33 Contingent liabilities *continued*

Companies of the size and scale of Southern Water Services Limited are sometimes subject to civil claims, disputes and potential litigation. The directors consider that, where a liability is probable, and where it is possible to be estimated reasonably, an appropriate position has been taken in reflecting such items in these financial statements.

There is an ongoing claim in respect of property search income going back 6 years. A number of property search companies claim the return of amounts paid in respect of CON29DW water and drainage search reports, which they allege should have been provided to them either free of charge or for a nominal fee in accordance with the Environmental Information Regulations. It is a highly complex group action against multiple defendants across the sector, with many legal, factual, and evidential issues to be resolved. It is proceeding in phases, with the stage 1 trial held in late 2023 and it is not anticipated to be concluded for several years. The Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this claim, or its timing, but will keep the situation under review.

Contractors submit claims to the company for the estimated final cost of their works. These claims are reviewed to assess where the liability for the costs rests and the amount that will actually be settled. The expected amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and Southern Water Services Limited's valuation.

The company had no contingent liabilities for capital claims at the period end (2023: £nil).

### 34 Financial commitments

(a) Capital commitments are as follows:

	2024 £m	2023 £m
Contracted for but not provided for in respect of contracts placed in respect of property, plant and equipment	1,089.7	682.5
Contracted for but not provided for in respect of contracts placed in respect of intangible assets	8.9	18.4
Right to receive water from Portsmouth Water Limited <sup>1</sup>	658.0	658.0 <sup>2</sup>

<sup>1</sup> In February 2021, the company entered into a contractual arrangement with Portsmouth Water Limited ("Portsmouth Water"), under which after constructing the reservoir, and Southern Water have laid a pipe, Portsmouth Water will supply Southern Water with 21 million litres of water a day from 1 April 2029 as part of the development of the Havant Thicket Reservoir in Portsmouth Water's supply area. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The present value of the fixed contractual payments, which total £658 million over the period to 2100, using a discount rate of 4.98%, being the nominal return on capital allowed per the PR19 final determination, is £144.2 million at 31 March 2024 (2023: £137.3 million). The volumetric charge will be recognised as water is supplied, from 1 April 2029.

<sup>2</sup> The amount disclosed in the equivalent table in the annual financial statements at 31 March 2023 was inadvertently disclosed as £700.9 million and has been amended in the above table to show the correct figure of £658.0 million.

(c) The company as lessee

	2024 £m	2023 £m
Lease payments under operating leases recognised as an expense in the year	5.6	4.0

As at 31 March 2024 and 2023, the company had no outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of vehicles and land and buildings.

Operating leases are charged to the income statement over the lease term and comprise short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (£5,000 or less).

# Notes to the financial statements continued

For the year ended 31 March 2024

## 35 Related party transactions and ultimate controlling party

The immediate parent undertaking is SWS Holdings Limited.

The ultimate parent company and ultimate controlling party is Greensands Holdings Limited (GHL), a company incorporated in Jersey, which is the parent undertaking and controlling party of the smallest, largest and only group to consolidate these financial statements. Copies of the consolidated financial statements may be obtained from the registered office of GHL at Southern House, Yeoman Road, Worthing, BN13 3NX, or from the Southern Water website.

MSCIF Wight Bidco Limited, as the major shareholder in GHL, is considered to be a related party of the company as they have the ability to influence the financial and operating policies of both the company and the group. Other related parties comprise key management personnel.

The company has taken advantage of the exemption under FRS 101 'Reduced Disclosure Framework' in not disclosing details of transactions with other companies which are 100% wholly owned. Equivalent disclosures are given in the group financial statements of GHL.

## 36 Post balance sheet events

There were no significant events after the statement of financial position date.

# Independent Auditor's Report

## to the members of Southern Water Services Limited

### Report on the audit of the financial statements

#### 1. Opinion

In our opinion the financial statements of Southern Water Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the material accounting policy information; and
- the related notes 1 to 36.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### 3. Summary of our audit approach

##### Key audit matters

The key audit matters that we identified in the current year were:

- Going concern;
- Valuation of expected credit loss provision for bad and doubtful debts;
- Classification of capital programme expenditure and valuation of capitalised overheads; and
- Valuation of derivative financial instruments.

Within this report, key audit matters are identified as follows:

- ! Newly identified
- ⬆ Increased level of risk
- ↔ Similar level of risk
- ⬇ Decreased level of risk

##### Materiality

The materiality that we used in the current year was £11.0 million, which was determined based on 3.7% of Earnings before interest, tax, depreciation and amortisation ('EBITDA').

# Independent Auditor's Report continued

to the members of Southern Water Services Limited

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**Significant changes in our approach**

The following significant changes have been made to our approach in FY24 based on risk assessment:

- Valuation of unbilled water accrual is no longer considered to be a key audit matter due to there being no history of material errors within the balance based on our testing in previous periods, the automated and formulaic nature of the consumption assumption, and the nature of the control environment around the associated account balances;
  - We revised our risk assessment in the current year to increase the risk associated with the classification of capital programme expenditure and valuation of capitalised overheads which was a key audit matter in the prior period. We identified the potential risk of fraud relating to the opportunity for the company to capitalise operating expenditure to manipulate financial information in the current year; and
  - We have identified going concern as a key audit matter in the current year as a result of the assessment of compliance with financial covenants, where there is judgement involved in forecasting net cash flows used to determine the post maintenance interest cover ratio for FY25, which has limited headroom to Default. The material uncertainty reported at FY23 and HY24 due to uncertainties relating to equity and debt financing has been resolved following the equity raise of £375m and £1.1 billion additional debt received in FY24.
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## 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.4.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Valuation of expected credit loss provision for bad and doubtful debts

#### Key audit matter description

The company has a significant domestic customer base and due to regulation, it is not allowed to interrupt water supply, including in the event of non-payment. A proportion of the company's customers do not or cannot pay their bills, which results in the need for a provision to be made for non-payment of the customer receivables balance. The bad debt provision is an area of judgement and is based on assumptions made regarding the forecast collectability of debts across both invoiced amounts and accrued revenues. Due to the high degree of estimation uncertainty associated with the recoverability of the customer debt we consider the valuation of expected credit loss provision to be a key audit matter.

At 31 March 2024, the company held a bad debt provision of £247.7 million (2023: £260.1 million) and recognised a further bad debt charge during the year of £15.4 million (2023: £12.0 million). Management estimates the provision based on macroeconomic data and historic collection performance data, which is considered to be representative of collection risk on the whole population of household debtors with adjustments made for actual current cash collection. Also included within the provision is an "affordability overlay" of £4.0 million (2023: £9.6 million) to take account of the impact of additional external economic factors on customers' ability to pay which is not reflected in the historic data used to determine the value of the overall credit loss provision.

The bad debt provision represents 63.5%, (62.5% excluding the affordability overlay), of the gross receivables amount (2023: 71.0%, or 68.4% excluding the affordability overlay).

We focused our work on the estimation of the bad debt provision on the following areas:

- The accuracy of customer data included within the aged debt report, specifically whether customer data has been correctly classified based on the age of debt; and
- The reasonableness of the cash collection assumptions made by management.

We have identified a potential risk of fraud in relation to this audit matter due to the level of estimation uncertainty and its influence on key metrics which management utilise to monitor and report business performance. The procedures responsive to the potential risk of fraud are included in next section below.

Further details are included within the Audit Committee report on page 169, the critical accounting estimates and judgements note (note 2) and in note 17 to the financial statements.

# Independent Auditor's Report continued

to the members of Southern Water Services Limited

## 5.1. Valuation of expected credit loss provision for bad and doubtful debts

### How the scope of our audit responded to the key audit matter

We have:

- obtained an understanding of the relevant controls around the determination of the bad debt provision, including over the supporting data and assumptions;
- utilised data analytics to recalculate, using the data inputs, the provision computed by the provisioning model;
- tested the completeness and accuracy of the data used in the provisioning model;
- evaluated the completeness and valuation of the provision balance through assessing the reasonableness of the provisioning rates using historical trends and checking for consistency with FY23;
- evaluated the completeness of the provision by testing cash received in the current year against the billing and budgets;
- assessed if the debtors have been allocated to correct ageing bucket;
- tested a sample of cash collections to third party evidence;
- challenged management on the basis of the affordability overlay adjustment and tested data sources used for its calculation, particularly considering correlation between macroeconomic factors with historic bad debt trends and cash collection trends in the current and comparative periods;
- evaluated the reasonableness of economic data (both forecast and historical), including cash collection assumptions used within the calculation, and performed a sensitivity analysis;
- performed stand back assessment to ensure that all the evidence supporting and contradicting management's position are considered;
- assessed the overall bad debt provision and overlay adjustment by benchmarking against peer companies and reviewing post year end cash collection performance; and
- assessed the disclosures provided regarding the key sources of estimation uncertainty, and sensitivities disclosed.

### Key observations

We are satisfied that the company's methodology for assessing the expected credit losses of trade receivables and related disclosures are reasonable and appropriate in accordance with IFRS 9: Financial Instruments.

## 5.2. Classification of capital programme expenditure and valuation of capitalised overheads

### Key audit matter description

The company has a substantial capital programme which was agreed with the regulator ('Ofwat') and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure renewal and replacement. The company is in the fourth year of AMP7 agreed with Ofwat, with property, plant and equipment additions, of £811.5 million (2023: £707.0 million) in the year, which includes £74.2 million (2023: £77.9 million) of capitalised overheads.

Expenditure incurred to increase the capacity or enhance the network is treated as capital expenditure ("capex"). Expenditure incurred in maintaining the operating capability of the network is expensed in the year in which it is incurred ("opex"). Some capital projects can contain a combination of enhancement and maintenance activity which are not distinct, and hence the allocation of costs between capital and operating expenditure is inherently judgemental. This has resulted in identification of a potential risk of fraud and a key audit matter focussed on the following:

- judgement in determining whether expenditure is capital or operational; and
- estimation in determining the value of overheads that is directly attributable to relevant capital projects.

The procedures responsive to the potential risk of fraud are included in next section below.

Further details are included within the Audit Committee report on page 167, the critical accounting estimates and judgements (note 2) and in note 13 to the financial statements.

### How the scope of our audit responded to the key audit matter

We have:

- obtained an understanding of the relevant controls around the valuation of capitalised overheads and capitalisation of enhancement expenditure;
- tested a sample of additions by reviewing the capital projects, inspecting supporting documents and making direct inquiries of project managers to assess whether these are classified in accordance with the nature of the cost, the company's policies and in accordance with IAS 16 Property, Plant and Equipment ("IAS 16");
- tested the accuracy of a sample of overhead costs by inspecting underlying supporting documentation;
- assessed the appropriateness of classification of costs and obtained an understanding of material variances in gross costs from prior year;
- evaluated the appropriateness of the company's capitalisation policies and its approach to determining which costs should be capitalised, and tested whether these policies are being followed, making direct enquiries of project managers, inspecting invoices;
- evaluated the estimates used in determining what cost is directly attributable to the construction of an asset and assessed the consistency of application of the method of estimation with prior year; and
- assessed the appropriateness of the disclosures in accordance with the requirements of IAS 16.

### Key observations

We consider that the classification of asset spend between capital and operational cost and estimation around the value of overheads capitalised is appropriate.

# Independent Auditor's Report continued

to the members of Southern Water Services Limited

## 5.3. Valuation of derivative financial instruments

### Key audit matter description

The company has both fixed interest rate and floating interest rate debt and the overarching aim of the inflation-linked derivative financial instruments (interest rate swaps) is to manage its exposure to inflation risk. During the year, the company also restructured a number of retail price index (RPI) to consumer price index (CPI) wedge trades with a total notional value of £650 million to better align inflation exposure across cash flows and RCV which is now predominantly linked to consumer price index (CPIH). Due to the significance of the balance and material fluctuations in current year resulting from the external market factors, we consider the valuation of financial instruments to be a key audit matter.

The company measures the derivative financial instruments at fair value through profit and loss, and the fair value is determined based on quoted prices adjusted for credit risk. Credit risk is computed in line with market practice.

The fair value of the derivative liabilities was £1,673.6 million (2023: £1,655.3 million) and the fair value of the derivative asset was £104.8 million (2023: £83.9 million).

We have identified a potential risk for material misstatement in the valuation of the financial instruments as the valuation requires management's judgement.

Valuation of derivative financial instruments is assessed as an area involving key sources of estimation uncertainty by management and is disclosed as such in note 2 to the financial statements. Further details are included in note 22 to the financial statements.

### How the scope of our audit responded to the key audit matter

We have:

- obtained an understanding, of the relevant controls around valuation of financial instruments;
- involved internal financial instruments specialists to recalculate the risk-free valuation of the derivative financial instruments;
- challenged the credit risk adjustment through determining an independent range for the credit risk adjustment and assessing whether company's adjustment is within a reasonable range;
- evaluated the new debt agreements for existence of embedded derivatives which are not closely related and challenged management's assessment of whether there are any embedded derivatives;
- evaluated the data, assumptions and methodology used by management in respect of derivatives restructured during the year. We also independently performed valuations of the restructured derivatives using applicable assumptions and data; and
- assessed the appropriateness of the disclosures in accordance with the requirements of IFRS 9: Financial Instruments, IFRS 17: Financial Instruments: Disclosures and IFRS 13: Fair Value Measurement.

### Key observations

We are satisfied that company's valuation of derivative financial instruments is appropriate.



## 5.4. Going concern

### Key audit matter description

Management has prepared a cash flow forecast to support the going concern assessment, based on the latest board approved budget for the year ending March 2025, which is consistent with PR19 and further commitments made as part of the turnaround plan, taking into account recent operating performance and future debt maturity. For the period beyond March 2025, the model is consistent with the business plan submitted to Ofwat as PR24.

As set out on pages 200 to 203, management believes that, following receipt of £375m in equity from the majority shareholder, and raising £1.1 billion in additional debt, previous material uncertainties are resolved and has prepared the financial statements on a going concern basis.

At the year end, the company had cash on hand of £413.5m and undrawn facilities of £350m. The company also had borrowings totalling £4.97bn, for which the earliest repayment of principal is £350m in March 2026. Borrowings are subject to covenants as set out in the disclosure on page 200.

As set out in management's disclosure, while there is positive financial headroom in the liquidity forecasts and all Default debt covenant ratios for the going concern period in the base case, there is limited financial headroom against the post maintenance interest cover ratio ('PMICR') for 2024–25. We consider this to be a key audit matter due to the following key judgements in forecasting covenant compliance:

- forecasting net operating cash flows over the 12 months to March 2025; and
- the extent to which management could manage the timing of some cash flows in order to maintain compliance with the covenant.

The going concern statement is disclosed in the Director's report on page 200, Note 1 of the material accounting policies in the financial statements, and in the report of the Audit Committee on page 169.

# Independent Auditor's Report continued

to the members of Southern Water Services Limited

## 5.4. Going concern

### How the scope of our audit responded to the key audit matter

We have:

- obtained an understanding of relevant controls related to the directors' assessment of going concern;
- obtained third party bank confirmations for the group's bank accounts, which confirmed cash balances and borrowings, inspected facility agreements and compared to the facilities assumed in the forecasts;
- obtained the directors' going concern assessment, including cashflow forecast, liquidity requirements and forecast covenant calculations for the going concern period and have performed integrity checks including testing the mathematical accuracy;
- assessed the forecasts used for the going concern assessment period for reasonableness and reconciled the data with information from other areas of the audit. We have evaluated the appropriateness of key revenue and expenditure assumptions in the forecasts, considering consistency with the PR19 price determination, PR24 submissions to Ofwat, and other commitments made by directors, and considered the historical accuracy of forecasting and the extent to which it has been taken into account in the forecasts;
- recalculated debt covenants and assessed compliance over the forecast period, including consideration of the most recent available credit ratings of the company to determine the impact this has on covenant compliance;
- evaluated and challenged management's stress test modelling to understand the impact on the company's liquidity and covenant ratios;
- assessed the reasonableness of mitigating actions, including the ability to defer cash flows, and the extent to which they are within the control of management;
- worked with our debt advisory specialists and reviewed third-party legal expert advice obtained by management to evaluate the company's judgement with respect of the treatment of certain forecast cash flows in the covenant compliance calculation; and
- assessed the appropriateness of the disclosures within the financial statements.

### Key observations

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

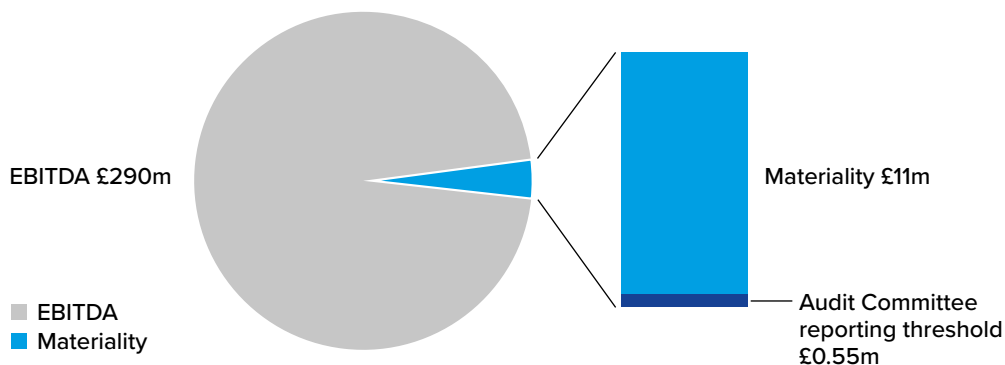
## 6. Our application of materiality

### 6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£11.0 million (2023: £12.0 million)
<b>Basis for determining materiality</b>	3.7% of EBITDA (2023: 3.6% of EBITDA)
<b>Rationale for the benchmark applied</b>	EBITDA is used as a basis for determining materiality as this excludes the volatility of a significant one-off item and focuses on underlying operational performance.



## 6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality for the 2024 audit (2023: 60%). In determining performance materiality, we considered the following factors: the impact of our ability to rely on general IT controls, history of prior year errors, management's willingness to make process improvements as well as to correct errors identified.

## 6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.56m (2019: £0.64m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

# 7. An overview of the scope of our audit

## 7.1 Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

## 7.2. Our consideration of the control environment

The company uses SAP, a financial accounting software platform. With the involvement of our Information Technology specialists, we obtained an understanding of relevant General Information Technology Controls ('GITCs') within the company's financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

Additionally, we have obtained an understanding of manual key controls relevant to the audit as documented in the key audit matters section 5 above. Our audit for the period identified a number of control deficiencies, including access controls, precision of management review controls and controls around posting of manual journals. As described in the Corporate Governance section on page 170, the Board has commenced a review of the company's internal controls and asked management to remediate the deficiencies.

As a result of the deficiencies in IT controls and the business process controls summarised above, we extended the scope of our substantive audit procedures in response to the identified deficiencies and performed our audit placing no reliance on controls.

# Independent Auditor's Report continued

## to the members of Southern Water Services Limited

### 7.3. Our consideration of climate-related risks

Management prepared a climate change business risk assessment demonstrating that the company is exposed to the climate change in various areas including business disruption, brand and reputation and legal and regulatory. We reviewed management's climate change risk assessment and evaluated the completeness of the identified risks and impact on the financial statements, including relevant disclosures – see note 2 of the financial statements. We also considered climate change within our audit risk assessment process in conjunction with our assessment of the balances and did not identify any additional risks of material misstatement.

As part of our procedures, we obtained an understanding of the processes and controls around the climate change related risks identified and additionally with the involvement of our Environmental, Social and Governance ("ESG") specialists, we evaluated financial statements disclosures and annual report's front half disclosures, including TCFD and CFD disclosures, to assess whether climate change assumptions underpinning specific account balances were appropriately disclosed, considered whether disclosures in the strategic report are materially consistent with the financial statements and our knowledge obtained in the audit.

### 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in relation to valuation of expected credit loss provision for bad and doubtful debts and classification of capital programme expenditure and valuation of capitalised overheads. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence conditions imposed by The Water Services Regulation Authority (Ofwat).

# Independent Auditor's Report continued

## to the members of Southern Water Services Limited

### 11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of expected credit loss provision for bad and doubtful debts and classification of capital programme expenditure and valuation of capitalised overheads as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee, in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, the audit committee, reviewing internal audit reports and reviewing correspondence with Ofwat, HMRC and other regulatory authorities, including the Drinking Water Inspectorate (DWI) and the Environmental Agency (EA); and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

### Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

## 14. Matters on which we are required to report by exception

### 14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

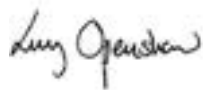
### 14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

## 15. Use of our report

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.



**Lucy Openshaw FCA (Senior statutory auditor)**

For and on behalf of Deloitte LLP

Statutory Auditor  
London, United Kingdom

10 July 2024



The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.



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