

## At a glance

### Performance

#### Leakage target met

**24.9**  
Megalitres/day

Target limit: 24.9

#### Greenhouse gas emissions

**40**  
kgCO<sub>2</sub>e/Megalitre

Target limit: 55

### Financial

#### Capital investment

**£26.5m**

2020: £35.6m

#### Dividend paid

**£4.9m**

2020: £6.7m

#### Customers on our Water Support Scheme

**20,274**

Target: 12,960

#### Burst mains

**229**

Target limit: 234

#### Revenue

**£65.8m**

2020: £69.8m

#### Profit before tax

**£3.9m**

2020: £10.7m

### Highlights

- In response to COVID-19 we have continued to put the health and wellbeing of our employees and customers first, while striving to do the right thing and continue to supply high-quality water all day, every day
- Our continued focus on vulnerable customers means we are now helping more people in more ways than ever before, and have launched our 'Here For You' campaign to raise awareness of our financial support schemes and priority services
- We have demonstrated our commitment to supporting many good causes in the areas we serve, including the Surrey Coronavirus Response Fund
- The resilience of our resources and network have coped with increased demand throughout the year, especially during hot spells
- We have achieved The Wildlife Trusts' Biodiversity Benchmark for enhancing and protecting the biodiversity at our Elmer Water Treatment Works and are the only water company to currently hold the award
- Our customer transformation programme has continued with the development of a new billing and customer relationship management system, due to launch in 2021
- We are working to become the first water company with a fully smart network of pipes and sensors, which help detect leakage in near real-time
- We have opened a brand new education centre at our Bough Beech Treatment Works, so we can continue inspiring future generations for many years to come
- We have welcomed two new members to our executive leadership team - Kate Thornton as Chief Customer Officer and John Gilbert as Chief Information Officer

## Chairman's foreword

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**Jeremy Pelczer**  
Chairman

The last year has been a challenging time for all of us and life has been far from normal. It has reinforced the critical role we play in society and the commitment we have to the communities we serve, while also highlighting some important challenges that we need to address, both as a company and an industry.

Our priority throughout the pandemic has been to keep treating and distributing millions of litres of high-quality water every single day, whilst also focusing on the health and safety of our customers and employees. Our employees have adapted to these difficult times and new working arrangements, rising to the challenge and continuing to provide an essential service. However, their response has gone far beyond delivering the basics. There has been a huge effort to find the people who need extra support. We are helping more than 20,000 households to pay their water bill and have given over 10,000 customers a break from making payments to help them through these difficult times. We've also been contributing to local efforts to tackle COVID-19, working within our communities, to help wherever we can.

Water use has changed significantly in the last year. Despite many businesses being closed, we have been distributing on average around 16 million extra litres every day with more people at home and in their gardens. This shift is unsurprising but has significant implications, particularly if more home working continues beyond the pandemic. We, like all water companies, have committed to challenging targets to reduce household water use so that more water is left in the environment and thereby allow our rivers to be healthy and where wildlife can thrive. What we are seeing is very different to what we initially projected and makes meeting our target much more challenging.

Collective action is needed by the industry, Government and regulators

to address this and ensure that we continue to drive for more efficient use of water over the long term while agreeing how we manage the impact it has on our five-year 2020 to 2025 Business Plan agreed with our regulator.

Minimising the water lost from our network and our customers' pipes clearly reduces our impact on the environment, too, so I am pleased that we have again stayed at or below the maximum allowed level of leakage, as set by our regulator. Not only that, but our investment in innovative technology and improved data gathering, including working with several specialist partners, means we are now better placed to sustainably reduce leakage for the long term.

Another key investment this year has been in a new billing system, Aptumo, which will be brand new to the UK water industry. It is a key enabler to improving the service we offer to our customers. The Board is looking forward to seeing the benefits reflected in our performance and we remain committed to ensuring our customers are at the heart of the investment decisions we make.

As a Board we acted decisively in the early stages of the pandemic to increase our financial resilience by extending our credit facilities so that we can manage further financial shocks, should they occur. We consider this a sensible move in order to manage financial pressures in the future. We also need to better understand the longer-term financial effects on our customers as the country works to recover and rebuild the economy.



**Our employees have adapted to these difficult times, rising to the challenge and continuing to provide an essential service.**



While 85% of our water comes from underground sources, 15% comes from Bough Beech Reservoir in Edenbridge, Kent.

Despite the pandemic we have progressed our work to enhance our Board leadership and governance agenda. We are continuing to develop our enhanced social purpose so that it represents all aspects of what we do and is relevant to where we operate and the people we serve. Everything we do must contribute to delivering this social purpose and be measurable and owned by the Board. CEO Ian Cain and his executive leadership team are making a great contribution to this important work and I welcome their expertise, ideas and commitment. We are building on our firm foundations as a community-focused local company and reinforcing our long-standing commitment to deliver public value.

Linked to this is our ambition to enhance the way in which we report our environmental, social and governance (ESG) performance. At a personal level, ensuring the ESG agenda is embedded in the business ready for the Company to build upon and put at the heart of its future plans is a priority for me in the coming year.

We are taking important steps to put this agenda at the heart of our decision-making, supported by our Environmental and Customer Scrutiny Panels, who are providing constructive challenge and a wealth

of knowledge and expertise. I am delighted to welcome Steve Crabb as the new Chair of our Customer Scrutiny Panel and look forward to working with him and the rest of the panel as we continue to drive forward our plans to improve the experience we provide to our customers, an area which has seen real progress over the last year. I would like to place on record my thanks to the previous Customer Scrutiny Panel Chair, Graham Hanson, for all his constructive and professional challenge to the Company as we continue to enhance our customer engagement.

I am pleased a succession plan has been implemented for a new Chair of the Company, given that my third and final term will end in March 2022. The Board has determined Dave Shemmans, one of our current non-executive directors, will be the new Chair of the Company with effect from 1 April 2022. I am delighted Dave's significant knowledge and experience of the Company and sector will continue to benefit the Board, our employees and customers. He will be an outstanding Chair.

There is no doubt that the last price review exposed conflicting views associated with how the water industry is run and financed and there is a great deal to reflect upon

following the Competition and Markets Authority's ruling on the four companies that appealed their Final Determinations. Both companies and regulators must consider this so that the next price review strikes the right balance between risk and reward, and between affordable bills and the required investments to ensure a resilient infrastructure.

My objective for the coming year, as we recover from the pandemic, is that we maintain the best of what has helped us deliver our essential service through this difficult period, re-double our focus on those areas which have been most impacted and do more, where we can, to make the greatest contribution to society. We have a great deal to be proud of as a company and as ever my sincere thanks go to all our staff and supply chain partners who have been committed to ensuring that, with many worries for our customers over the last year, their water supply has not been one of them.

Jeremy Pelczer  
Chairman

2 July 2021

## Chief Executive Officer's statement

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**Ian Cain**  
Chief Executive Officer

### Q&A with **Ian Cain**

Ian joined SES Water in February 2020 and we hear about his first year in the job, the response to the pandemic and his priorities for the future.

#### **Looking back over your first 12 months as CEO, what have been the Company's biggest achievements during a particularly challenging year?**

The last year has been like no other. For me it has highlighted the unwavering commitment that all our staff have to our customers. SES Water has a long history and deep roots in the community, and our response to the pandemic has made them even stronger. We've played an active part in the local response through donations to the Surrey Coronavirus Response Fund, helping to set up the new NHS Headley Court Hospital and through our work with local foodbanks and other worthy causes. This is in addition to the extra support we have put in place for our customers and employees during this difficult period.

At the same time, we've made good progress against some very challenging targets set in our Business Plan. We have stayed at or below the maximum allowed level of leakage and we continue to have one of the lowest leakage levels in the country. The number of burst water mains is also within our target, meaning we are providing a more resilient supply for our customers. We are benefitting from our investment in intelligent networks which is helping us to take a more accurate data-led approach to finding and fixing leaks rather than using more traditional methods. This is industry leading work and will deliver real benefits to customers and transform how we operate and invest in our network, so it is more efficient and reliable.

We've also made some real improvements to our customer service which can be seen through the increase in our C-MeX score, which is one of the ways in which water companies' service is measured across the industry. Again, we've taken a data-led approach to understand the root cause of problems and are collaborating across the business to solve them - with everyone across SES Water determined to keep improving and committed to delivering great service.

#### **What has the Company done to support its customers and employees through the pandemic?**

We acted very quickly to make sure our people were physically safe by stopping all non-essential activity and travel and enabling people to work from home. Over time we've moderated our approach as we've learned more and provided equipment so people can work safely while abiding by the Government's guidelines. The longer-term issue is the impact on people's wellbeing. Lack of contact and interaction with colleagues can be isolating and we have been making sure people feel connected and are supported. We've increased the number of Mental Health First Aiders who run virtual coffee and chat sessions as well as one-to-one support and we have also provided our employees with free access to the Headspace app, a mindfulness tool, which has been really popular.



**I have listened to calls with customers myself and you can hear the relief and gratitude when we are able to take one of their many worries away.**



We know different people will deal with this situation in different ways, but we have a responsibility to all our employees and are enhancing our long-term wellbeing strategy so good mental health is supported alongside good physical health and safety, well beyond the pandemic.

Likewise, we know that our customers have been impacted in many different ways. We're helping more people than ever to pay their water bill and providing payment holidays to more than 10,000 people struggling financially. We've also been proactively reaching out to find those who have other challenges, perhaps linked to their age or health, so we can provide them with extra tailored support as and when they need it – both now and in the future. The response to this has been fantastic with many customers telling us that we have been the only service provider to get in touch personally – I have listened to calls with customers myself and you can hear the relief and gratitude when we are able to take one of their many worries away.

### **How have you performed against your Business Plan targets in this first year of the period? Are there any that have been particularly impacted by the pandemic and what are you doing to address them?**

The first year of our 2020 to 2025 Business Plan was always going to be a challenging one, even without the pandemic. We have worked hard to make progress against our targets, particularly those associated with providing additional support to customers and it's great to see that our customers feel that what we offer is really helping them, particularly during these difficult times.

Our environmental performance is also strong. We have continued to achieve our target for greenhouse gas emissions but, unfortunately, we have missed our target for water supply interruptions, which is unusual, due to a single large water main burst last summer, which impacted customers for more than three hours. Likewise, despite continuing to supply some of the highest-quality water in the country, we have fallen short of our challenging targets for water quality, as well as taste, smell and appearance concerns. This is obviously disappointing but for both areas we know we are still among the top performers in the industry.

The target that has been hardest hit by the pandemic is our commitment to reduce household consumption. We, along with the entire sector, have seen water use at home rise considerably as a result of the lockdowns. This is inevitable and understandable with more people staying at home and children unable to go to school. However, if the shift to home working continues beyond the pandemic – reducing water use by businesses but increasing use at home – it will make achieving our target very difficult over the coming four years. We're working closely with colleagues in the industry and our regulators to understand the impact of this unprecedented situation and what it means in the long term.

We also believe that measuring household consumption in isolation does not provide a representative picture of how efficiently water is being used. The industry has been lobbying strongly to encourage the Government to include a target within the pending Environment Bill that considers wider water use by homes, businesses and what is lost through leakage – so that everyone recognises the part they have to play in protecting this precious resource and can take appropriate action.

**Supporting our community – we connected the water supply at NHS Headley Court Hospital Surrey and our 'SES Army' of volunteers helped construct over 200 patient beds to provide much needed extra capacity.**



## Chief Executive Officer's statement

Continued



### **There has been lots of focus on the water sector's role in delivering environmental improvements. What part will SES Water play in this?**

Protecting and enhancing the environment is a pledge within our Business Plan and a long-term necessity because we are reliant on the chalk aquifer beneath the North Downs and a number of local rivers for the water we supply. We are working with our neighbouring water companies to understand how we can use these chalk sources more sustainably and to identify alternative sources where needed so we have resilient water supplies for the future.

However, our role extends far beyond our obligation to produce clean and plentiful water while minimising environmental impact. There is a huge opportunity to create more public value by looking at how we interact with the environment around us and where our contribution can deliver

wider benefits. We've done some great work this year becoming the only water company to currently hold The Wildlife Trusts' Biodiversity Benchmark (at our Elmer Treatment Works), demonstrating our commitment to making our sites more attractive to plants and animals and the ability for operational activity to work alongside biodiversity.

As well as continuing with our trial of electric fleet vehicles, we have taken another step forward with our company car scheme which now sees all qualifying employees provided with electric vehicles or plug-in hybrids when they either join the scheme for the first time or when their vehicle is replaced. Employees are also being provided with home-charging facilities and all of our manned treatment works and Redhill head office now have charging points in place.

**Stepping up to the challenge - our frontline teams have worked tirelessly to maintain our customers' supply of water, often in demanding environments.**



Helping to guide our long-term environmental strategy is our Environmental Scrutiny Panel (ESP) which we formed in April last year and is a group of experienced and passionate environmental champions who want to see us put environmental sustainability at the heart of our decision-making. They are working with us in a unique way – providing insight and guidance alongside independent challenge and scrutiny. Their contribution to date has been extremely valuable and I look forward to working closely with them as our plans progress. You can read more from the Chair Alison Thompson on page 46.

### **You have recently added new members to your executive leadership team – how will their experience help to achieve the Company's goals?**

I have introduced two new senior roles this year – Kate Thornton who joined us as Chief Customer Officer with experience in airlines and health insurance, and John Gilbert who previously worked at National Grid and is our Chief Information Officer. They have improved the strength and breadth of the leadership team, providing more knowledge, experience, leadership capability and strategic awareness.

An essential service – as key workers our role to maintain a reliable supply of the highest-quality water to our customers has never been more important than over the last year.



In the short-term this is enabling us to focus on how we deliver our five-year operational and financial Business Plan in the most efficient and effective way possible and prioritising what we do with the funding we have. They are also key to developing our long-term vision and building a bridge to the next Business Plan and beyond. Our future plans need to be set in a long-term context, so we address the challenges we face and make the most of the opportunities that arise.

The pandemic has sharpened our focus on the need to improve our digital infrastructure. John brings a huge amount of IT experience and capability so that we can simplify our systems and enhance our digital offering so that we deliver a seamless service – making the most of new technology. His immediate focus has also been on improving our approach to data gathering and storage so we can make much more informed business decisions based on real insight. Kate's experience of working in customer-facing, commercial markets where people have choice will help us understand how customers think and feel, and improve how we engage with them, so we deliver a great experience every time. What is critical is that as a senior team we enable the whole organisation to make this happen, so strong leadership and communication are essential.

### **After a year in the job, what is your assessment of the culture within the Company? Are there any aspects that you think need to change?**

SES Water has a strong history and heritage. It has a positive culture and one where people care deeply about providing customers with a great service – our people's response to the pandemic has really shown this at its best. It is also very evident that people take care of each other, which is incredibly important. I want to build on that so that when we talk about a culture focused on customers, we understand what that means and are being more progressive in our approach. Everyone needs to understand their role in supporting and serving each individual customer. Furthermore, we need to demonstrate we are a high-performing organisation

and modernise ourselves, so we work smarter and always strive to do better.

### **What are your key priorities for the year ahead?**

Firstly, to make sure that we are clear on how we will deliver our Business Plan commitments for the remaining four years of the period, including those that have been challenged by the pandemic.

In parallel, we will be developing a long-term strategy that is led by our renewed purpose so that it informs our next Business Plan for 2025 and beyond. We need to do things now that will support that plan and delivery of our long-term vision.

We are also going to do more to develop our people and continue to support them through and out of the pandemic while continuing to transform the service we deliver to our customers. We will also continue our intelligence-led approach to managing our assets and work collaboratively within the business and outside to drive innovation that will improve our service.

Finally, we are going to identify where we can deliver wider benefits that our local communities want and value, so we continue to play an active role in improving the lives of the people we are privileged to serve.

**Ian Cain**  
Chief Executive Officer

2 July 2021

## Our business at a glance

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# Understanding SES Water

### Our vision

To be an outstanding water company that delivers service excellence.

### Our purpose

To supply our customers with the highest-quality water all day, every day, in a reliable and safe way, and to do so in a manner that reflects our long-term commitment to serve our local community and environment.

 [Read more on page 34](#)

### What we do

We supply around 160 million litres of clean water every day to more than 735,000 people in parts of Surrey, Kent, West Sussex and South London.

### Our business in numbers:



Water coming  
from underground  
sources

Water from  
our reservoir

15%



Number of  
employees

351

85%



Percentage  
of our pipe  
network that  
is 'smart'

83%



Customers with  
a water meter

62%



Water  
treatment works

8



Litres of water  
supplied daily on average

160m



## Our values

Our values define who we are, guide our behaviours and underpin everything we do.



### Service

We put our customers first and take pride in our service delivery.



### Integrity

We are accountable, ethical and trustworthy.



### Commitment

We are passionate about our work, act responsibly and care about quality.



### Collaboration

We are respectful, welcome diversity and support each other to achieve our goals.



### Innovation

We seek to improve our business, to be forward thinking and to embrace change.

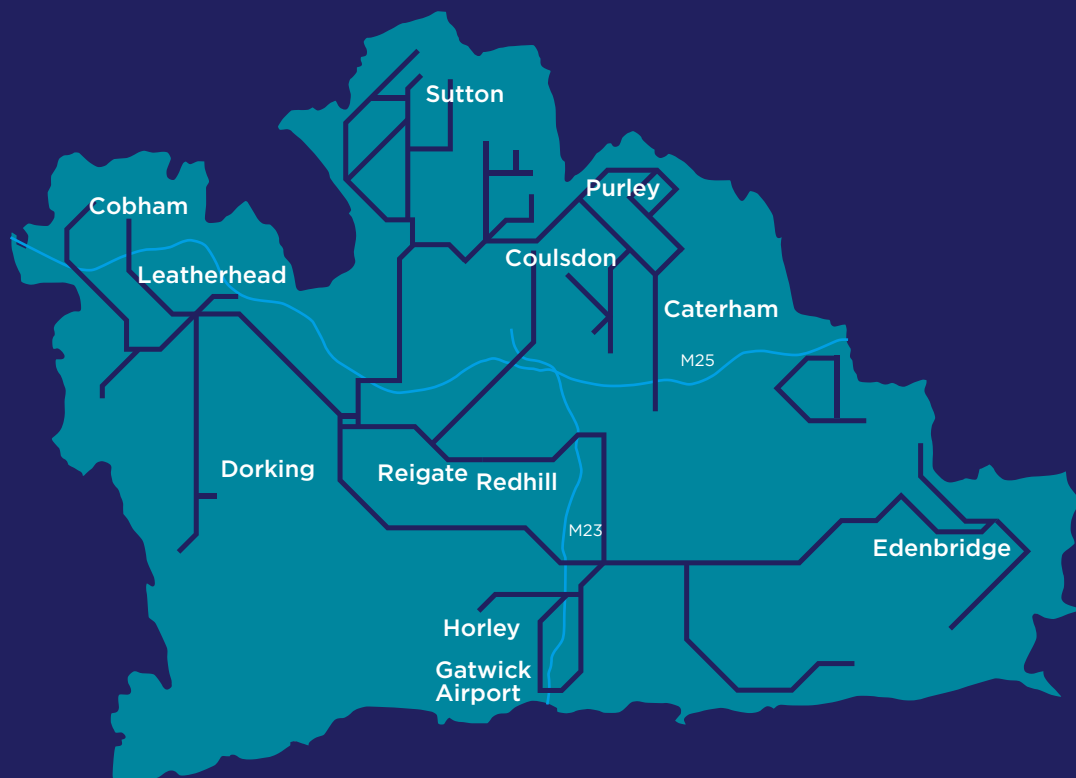


### Compassion

We care about the effects of our actions and make a positive impact on the community.

## Where we operate

Our supply area is 322 square miles extending from Morden and South Croydon in the north to Gatwick Airport in the south and from Cobham, Leatherhead and Dorking in the west to Edenbridge in the east.



## Business overview

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# Our structure

Our structure allows us to focus on our core function of supplying a reliable supply of high-quality water while ensuring that we provide excellent service to our customers, have the key support teams in place and an independent focus on compliance.



### Customer experience

**Kate Thornton**  
Chief Customer Officer

Responsible for overall customer experience, communications and community engagement

#### Key functions

Billing, account management, complaints resolution, supporting vulnerable customers, communications and our education programme



### Wholesale services

**Tom Kelly**  
Wholesale Director

Responsible for the delivery of water from source to tap – including maintaining a sufficient water supply and improving efficiency

#### Key functions

Water resources planning and management, water treatment and distribution, capital investment programme and the service provided to business retailers and developers



### Quality and compliance

**Nicola Houlahan**  
Quality and Compliance Director

Responsible for water quality, the externally accredited quality and environment systems, and providing independent internal assurance and compliance

#### Key functions

Water quality, health and safety, quality assurance, environmental regulations, risk management and compliance



### Finance, regulation and corporate services

**Paul Kerr**  
Chief Financial Officer

Responsible for finance, corporate services and governance, and ensuring adherence with statutory and regulatory requirements

#### Key functions

Finance, economic regulation, procurement, administration, property and facilities



### Information Technology

**John Gilbert**  
Chief Information Officer

Responsible for the management, implementation and usability of technology and data

#### Key functions

Digital strategy, IT infrastructure and support, cyber security and data management



### HR and Learning and development

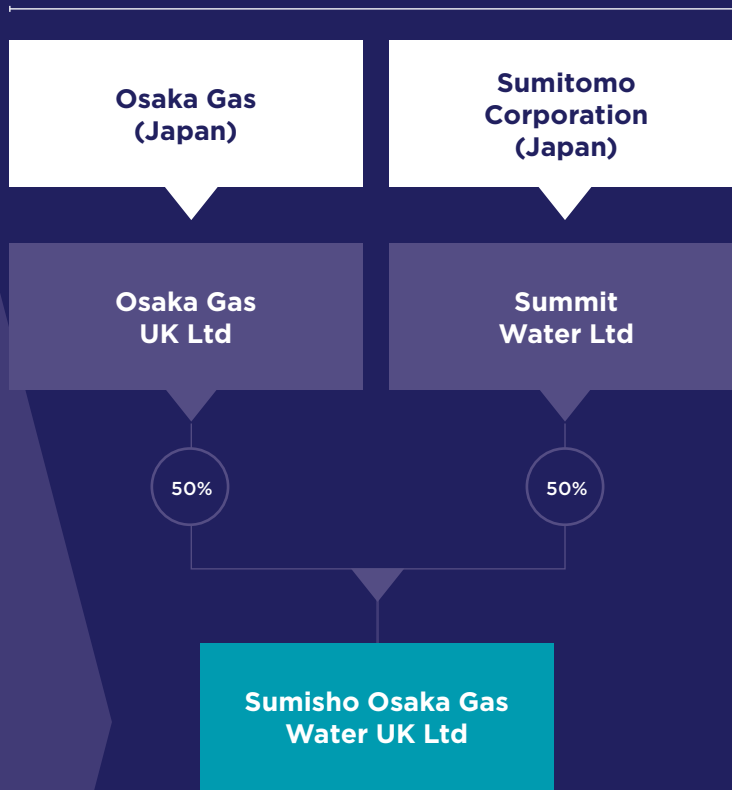
**Sarah Brown**  
Head of People

Responsible for the overall provision of human resources services, policies and procedures

#### Key functions

Payroll and benefits, learning and development, employee relations, recruitment and retention, and employee wellbeing

We are jointly owned by the major Japanese businesses Sumitomo Corporation and Osaka Gas. Each has a 50% stake in the UK-based holding company Sumisho Osaka Gas Water UK Ltd.



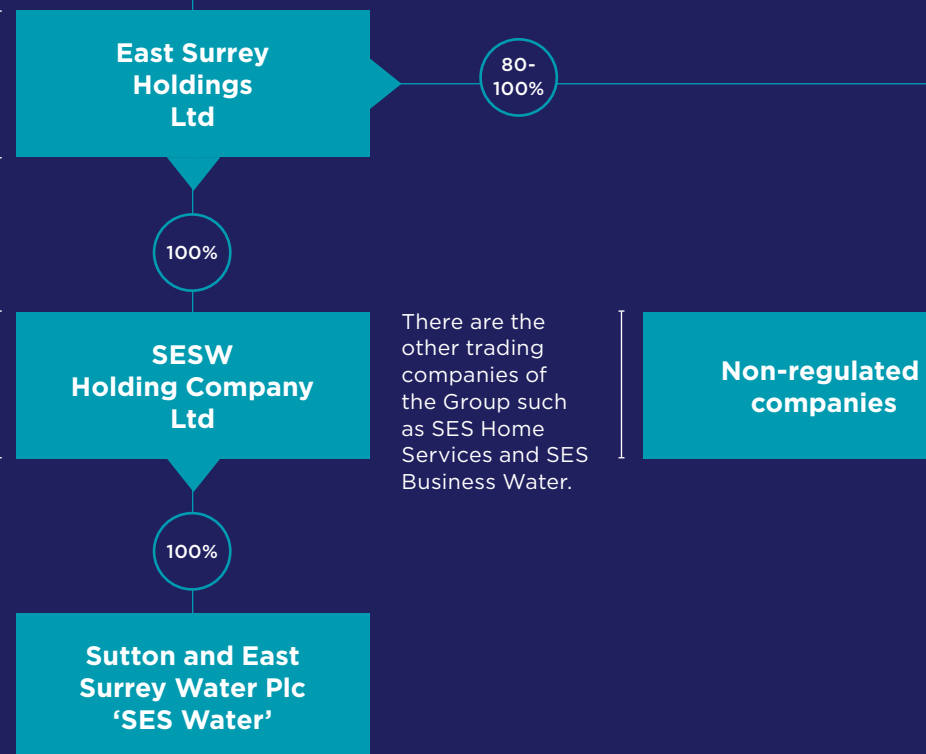
Except where indicated with (Japan), all companies within this structure are subject to UK corporation tax. This has been the case since 2013 and we have not operated any complex off-shore financing arrangements at any time during this period.

**Private ownership**

Investing in water services is key to ensuring resilient supplies for customers, both now and in the future and, since privatisation in 1989, over £150 billion has been invested across the industry.

We have responsible shareholders who put the interests of our customers first, allowing more money to be reinvested in improving our services or kept in reserve. Like any investors they expect a return on the equity they put in and over time they have taken a fair level of dividend, below Ofwat’s allowed level of return. Dividend levels are agreed each year by the Board and take into account how well we are performing against a range of targets, both financial and the commitments we have made to our customers. You can read more about our dividend policy and how payment decisions are made on page 103.

Holding companies are recognised legal entities and bring together the investment made by shareholders to own and control their interests in other companies.



Our immediate parent company is SESW Holding Company Limited, established at the time that the Company’s £100 million index-linked bond was issued in March 2001 to protect the interests of bond holders by exercising control over distributions.

There are the other trading companies of the Group such as SES Home Services and SES Business Water.

**Non-regulated companies**

## Business model

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# Creating long-term value

## Our vision

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### Our vision is to be an outstanding water company that delivers service excellence.

We take pride in being a local company with a long heritage and our customers have told us they value their water being supplied by a small company whose employees have comprehensive knowledge of our supply area. To do this our business model is reliant on a number of key resources and relationships that enable us to meet our obligations.



We are committed to protecting the natural environment, for the benefit of local people and wildlife.



Our Investors In People (IIP) Silver award is a significant achievement which recognises the enduring effort that goes into making SES Water a better place to work.



We want the most satisfied customers in the country and our membership will help us get there.

## Inputs

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### Water resources

Managing our water resources through our forward-looking, 60-year Water Resources Management Plan (WRMP) and protecting and enhancing the environment.

### Employees

Developing and motivating our 351 employees, incentivising them to deliver a high-quality customer experience at every touchpoint with consumers of our services.

### Customer engagement

Engaging customers with the role we all play in valuing water, encouraging behaviour change to protect resources and sharing ownership for how water is used, viewed and valued.

### Suppliers

Building a strong relationship with those companies who work on our behalf and are key to the successful operation of our business.

### Physical assets

Efficient maintenance of our sites, equipment and networks, significant capital investment to construct new assets and innovation to inform future development.

### Financing

Maintaining a robust capital structure, long-term cost-effective debt, shareholder support and an investment grade credit rating.

**Playing our part in achieving the industry's Public Interest Commitments:**

Triple the rate of sector-wide leakage reduction by 2030

Achieve net zero carbon emissions for the sector by 2030





### Water is collected

Groundwater sources provide 85% of our water with 15% coming from our river-fed reservoir.



### Water is cleaned

Our eight water treatment works clean raw water to the highest standards, making it safe to drink.



### Maintenance and development

We constantly monitor our water treatment and storage sites and network, conducting maintenance and developing new infrastructure where necessary.



### Customer service

We support our customers with all aspects of their water service.



### Clean water is put into supply

Our 3,500+ kilometre network of pipes and 24 pumping stations deliver a continuous supply of clean water to our customers.

### Customers rely on our water

People need a reliable supply of safe, clean drinking water to their homes and businesses for their vital everyday needs. On average we supply 160 million litres every single day.



### Water is tested

Each year we carry out 130,000 tests on around 13,000 samples at every point from source to tap.



## Outcomes

The value we share between our stakeholders:

### Customers

We are delivering our customers' priorities through our Business Plan pledges, including providing a reliable and resilient service, supporting our vulnerable customers and making sure our bills are fair and affordable.

### Employees

We invest in our people through new training and development opportunities, fair pay and recognition of good performance, and programmes to attract and retain high-quality employees.

### Communities

We have provided grants to local causes through our community fund as well as opening a new education centre to deliver an industry leading education programme for more schools, young people, businesses and community groups.

### Regulators

We have regular consultation and engagement with our regulators, including Ofwat, the Drinking Water Inspectorate and the Environment Agency, to balance and deliver their expectations.

### Local authorities

We are planning ahead for a 50% growth in the number of people living in our area by 2080 and working with others to limit the disruption of our essential work in local areas.

Make bills affordable as a minimum for all households with water and sewerage bills no more than 5% of their disposable income by 2030 and develop a strategy to end water poverty

Across the country, prevent the equivalent of four billion plastic bottles ending up as waste by 2030

Be the first sector to achieve 100% commitment to the Social Mobility Pledge – a coalition of 550 businesses globally putting social mobility at the heart of their purpose

## Our performance

### How we are performing

#### These are our performance commitments

In our Business Plan for 2020 to 2025 we have made a number of promises to our customers focused around five pledges which they told us were most important to them. Each year we report on our progress and these tables summarise our performance against each target.

#### Rating and descriptions

● On target ● Off target

2020 performance = calendar year  
2020/21 performance = financial year

\* The Abstraction Incentive Mechanism (AIM) means that we will reduce abstraction of water from environmentally sensitive sites when flows or levels are low but this has not been necessary this year.

<sup>1</sup> The Compliance Risk Index for SES Water will be published in the Drinking Water Inspectorate's Chief Inspector's Report - Drinking Water 2020 - which is due to be published in July 2021.



#### PLEDGE 1

We will provide you with high-quality water all day, every day

● **Water quality - DWI Compliance Risk Index (CRI)**  
score

2020 performance	target/ target limit
>2 <sup>1</sup>	0.00

● **Supply interruptions**  
hours/minutes/seconds/property/  
year

2020/21 performance	target/ target limit
00:06:56	00:06:30

● **Mains repairs**  
number/1,000 kilometres

2020/21 performance	target/ target limit
64.7	66.5

● **Taste, odour and discolouration contacts**  
number per 1000 customers

2020 performance	target/ target limit
0.56	0.51

● **Water softening**  
number of periods exceeding  
calcium target

2020 performance	target/ target limit
6.3	0.0



#### PLEDGE 2

We will provide your service at a fair price and offer help when you need it

● **Supporting customers in financial hardship**  
number

2020/21 performance	target/ target limit
20,274	12,960

● **Void properties**  
%

2020/21 performance	target/ target limit
4.42	2.80

● **Customers on our Priority Services Scheme**  
%

2020/21 performance	target/ target limit
4.5	3.5

● **Vulnerable support scheme awareness**  
%

2020/21 performance	target/ target limit
36.5	56.7

● **Vulnerable support scheme helpfulness**  
%

2020/21 performance	target/ target limit
95.0	80.0

● **Proportion of customers who believe their bill is not good value**  
% dissatisfied

2020/21 performance	target/ target limit
7	9



**PLEDGE 3**

**We will provide you with a service that is fit now and for the future**

● **Leakage reduction**  
%

2020/21 performance	target/ target limit
1.2	1.2

● **Unplanned outages at treatment works**  
%

2020/21 performance	target/ target limit
0.95	2.34

● **Risk of supply failures**  
% of properties connected to more than one treatment works

2020/21 performance	target/ target limit
56	65

● **Risk of severe restrictions in a drought**  
% customers

2020/21 performance	target/ target limit
0.0	0.0



**PLEDGE 4**

**We will provide excellent service, whenever and however you need it**

● **C-MeX (industry measure of customer satisfaction)**  
score

2020/21 performance	target/ target limit
78.97	Upper quartile

● **D-MeX (industry measure of developer satisfaction)**  
score

2020/21 performance	target/ target limit
60.20	Upper quartile

● **First contact resolution**  
%

2020/21 performance	target/ target limit
83.9	80.0



**PLEDGE 5**

**We will support a thriving environment we can all rely upon**

● **Consumption reduction**  
%

2020/21 performance	target/ target limit
(3.7)	1.0

● **Greenhouse gas emissions**  
kgCO<sub>2</sub>e/megalitre

2020/21 performance	target/ target limit
40	55

● **River-based improvement - delivery of Water Industry National Environment Programme (WINEP)** number of schemes

2020/21 performance	target/ target limit
0	0

● **Pollution incidents**  
number of category one and two incidents

2020 performance	target/ target limit
0	0

● **Abstraction incentive mechanism\***  
average megalitres reduction

2020/21 performance	target/ target limit
Not triggered	-7

● **Land-based improvement - biodiversity**  
number of sites awarded benchmark

2020/21 performance	target/ target limit
1	1

● **Deliver WINEP requirements**  
delivered

2020/21 performance	target/ target limit
Met	Met



## OUR PLEDGE:

# We'll provide you with high-quality water all day, every day

## Our pledge in action

Nothing is more important to us than striving to keep our customers supplied with safe, clean water, especially during a global pandemic.

Keeping our customers informed while we undertake essential mains replacement work to support the development in Redhill.



## Highlights

- We met our bursts target again this year which reflects the general good health of our network and the work that goes into maintaining it
- We continue to have upper quartile industry performance for minimising the number of customers contacting us about the taste, smell or appearance of their water
- Despite reduced activity during lockdowns, we have still replaced over eight kilometres of aging water mains in the past year
- We have made significant investment in upgrading the water softening capability at our Elmer Treatment Works
- We have invested in an important mains replacement programme in Redhill, laying more than 1.5 kilometres of new main to support the significant building development in the town
- We successfully prosecuted a company for illegally taking water from our pipe network and we gave the fine and legal costs back to the local community who were impacted with cloudy water as a result





Network Maintenance Operative Matt Earle working hard to repair our network in difficult conditions.

# 401

401 customers contacted us in 2020 about the appearance, taste or smell of their water – that's just 0.1% of the properties we supply



I've lived in eight boroughs across the capital over the past 20 years and without doubt my supply from SES Water is the best in London.

**A customer, posting on our online community**



## OUR PLEDGE:

# We'll provide your service at a fair price and offer help when you need it

## Our pledge in action

This year we have been able to support our customers to pay their bill and extended our financial support options when they have needed it the most.

Providing the help and support for our customers whenever they need it.



## Highlights

- Our average household bill for 2020/21 equated to around 50 pence a day and over the next four years we are lowering our bills
- We launched our 'Here For You' campaign to raise awareness of our collection of financial support schemes and priority services
- In response to COVID-19 we launched 'Breathing Space', a payment pause scheme for customers facing life changes that have affected their income and who need time to adjust
- More than 12,000 of our customers are registered on our Priority Services Register, which provides extra support to customers who have health, access or communication needs
- Over 90% of our customers think the extra services we offer are helpful





Customer Liaison Officer Janet Riley working from home to support our customers - with a little help from her dog, Ted!

# 50%

Over 20,000 customers are benefitting from our Water Support Scheme, which provides a 50% bill discount to those that need it most



The customer service agent I spoke to this morning was very kind and very understanding of my circumstances.

**Mrs Padgham from Caterham**



## OUR PLEDGE:

# We'll provide you with a service that is fit now and for the future

## Our pledge in action

We target our investment in our infrastructure every year where it is needed most and are using innovative technology to provide a better service to our customers.

Civil Engineer Chris Karunanithi has supported the work at Elmer Treatment Works to ensure the site is able to meet the supply needs of a growing population for many years to come.



## Highlights

- We completed the upgrade of our Elmer Treatment Works - investment that will improve the site's efficiency and maintain the quality of water for our customers now and for many years to come
- We have stayed at or below the maximum allowed level of leakage every year since the target was first set over 20 years ago and have invested in innovative technology to become the first water company with a totally 'smart' network to detect and fix leaks quicker
- No restrictions on water use were necessary in the past year
- We have published a consultation on our Drought Plan, linked to our Water Resources Management Plan, which sets out how we will still supply water to our customers in the driest conditions





Civil Engineer Gary Taylor overseeing the significant investment made in upgrading our Elmer Treatment Works.

# 56%

Over half our customers can be supplied by more than one treatment works if needed which means we're providing a more resilient service to them. We plan to ensure all our customers can be supplied by more than one treatment works by 2025



Your customer service has been very helpful and you sent someone out to solve my issues quickly. Brilliant service, thank you very much.

**Mr Bishop from Reigate**





## OUR PLEDGE:

# We'll provide excellent service, whenever and however you need it

## Our pledge in action

We want the most satisfied customers in the country and to get there we are fundamentally changing a lot of what we do and significantly investing in our people and the systems they use.

Network Inspector Charlie Kennett taking emergency precautions while attending a customer's home during the pandemic.



## Highlights

- We're on course to launch a new billing system this year, which will greatly improve the service we can offer by processing customer contacts and enquiries faster than we have before
- Despite the majority of our call handlers working from home over the past year, we have still been able to resolve over 80% of customer issues at the first contact
- We have continued to recruit and build a team of customer experience specialists, including our new Chief Customer Officer, Kate Thornton
- In the past year we have made steady progress up the C-MeX industry league table and are the most improved company for customer satisfaction
- We have continued to evolve our 'Voice of the customer' programme to give us much better insight into what our customers think, which helps us make more informed decisions
- We have strengthened our fleet of repair and maintenance vehicles with four new vans that will help us permanently repair roads much more quickly following our work



Network Fitter Jason Lester gearing up for a busy shift in one of our new repair and maintenance vehicles.

# 284,262

We handled many more enquiries from our customers this year as we supported them through the pandemic



I rang this morning to discuss closing my account, your colleague was incredibly helpful and polite, it was a really quick service which put my mind at ease.

**Mr Fletcher from Carshalton**





## OUR PLEDGE:

# We'll support a thriving environment we can all rely upon

## Our pledge in action

We are committed to reducing the impact of our operations by achieving net zero carbon emissions by 2030 and continuing to implement more sustainable ways of pumping, treating and distributing millions of litres of water every single day.

Energy and Carbon Manager Henrietta Stock has made sure we are the first water company in the UK to have electric vehicle charging points at all our sites.



## Highlights

- We became the only water company to currently hold The Wildlife Trusts' Biodiversity Benchmark for making our Elmer Treatment Works more attractive to plants and animals, with two more sites expected to follow by 2025
- We opened 'Flow Zone', our brand new, state-of-the-art education centre at Bough Beech Reservoir which will help us continue delivering our very successful education programme that started more than 20 years ago
- We have expanded our fleet of electric vehicles and our new company car scheme policy means all qualifying employees are provided with either electric vehicles or plug-in hybrids
- We were the first water company to offer virtual home water efficiency checks to help our customers save water, with our partners Save Water Save Money
- We formed our new independent Environmental Scrutiny Panel this year



Teaching good habits from an early age – we give reusable water bottles to children to cut down on single-use plastic.

# 266,045

We only use electricity from renewable sources and this year we have generated 266,045 kWh of our own solar energy at our sites



Just wanted to say a huge thank you for a great school trip recently. This morning I taught my first geography lesson since the Bough Beech visit and the children's recall of knowledge about the water cycle was amazing, which shows the way you teach it really sinks in.

**A teacher from a local school**



## Our performance

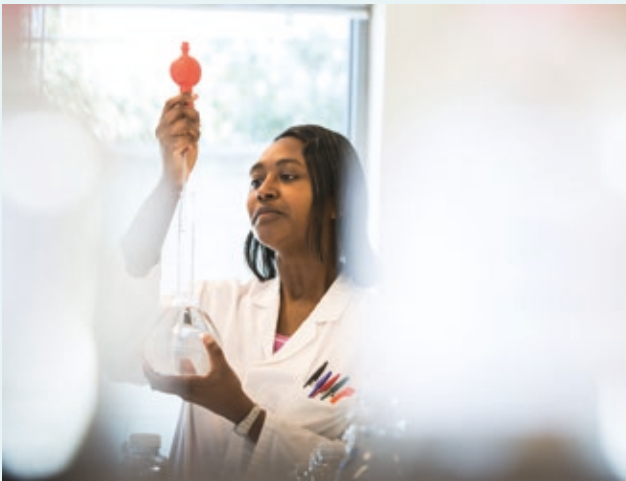
Delivering our customer and environmental commitments in the first year of our ambitious Business Plan for 2020 to 2025.

Water plays a role in all our lives and our customers rightly expect their supply to be clean and plentiful – even in the most testing of circumstances – and responding to a global pandemic has certainly tested us this year. This can be seen in our performance against some of our challenging targets, but at the same time we have remained focused on delivering what matters most to our customers.

That is the aim of our Business Plan, having conducted the most extensive customer engagement programme we have ever undertaken.

We listened to what they said and this led to us making five pledges that will not only improve the service we deliver but also enhance the environment and ensure we are playing our part in making it better.

## Our pledges



**All drinking water in the UK has to comply with stringent standards and we take samples at every point from source to tap.**



### High-quality water all day, every day

We pride ourselves on producing some of the highest-quality water in the country and for all water companies this is measured against the Drinking Water Inspectorate's (DWI) Compliance Risk Index (CRI). Our sampling programme normally includes going into customer properties to test taps but this was not possible during the lockdown restrictions, so instead we took samples from the homes of our employees living in our supply area, as well as our head office in Redhill. The CRI for the Company will be published in the Chief Inspector's Report in July 2021. During 2020 there were seven sample failures, which included one exceedance of the standard for benzo(a)pyrene at a commercial property. Investigations into each failure confirmed there was no concern regarding the quality of the wider

network and remedial action resolved the local concern.

We have a challenging target to minimise the number of customers that need to contact us about the taste, smell or appearance of their water. In 2020 we received 401 contacts which is above our target limit of 366 so we will receive a financial penalty from Ofwat. Whilst any penalty from our regulator is disappointing, this continues to be industry leading performance of which we are proud as it demonstrates the teamwork involved to deliver a product that our customers are so satisfied with.

Illegal usage of hydrants can compromise water quality for paying customers and this year we have continued to pursue companies who do this – we believe it accounts for 20% of contacts from our customers.

In October, we successfully prosecuted a company for taking water from a fire hydrant using an unauthorised standpipe and we gave the fine it incurred and legal costs back to the local community who were impacted with cloudy water as a result.

Some planned interruptions to supply are unavoidable as we work to improve the long-term resilience of our pipe network but our performance this year largely reflects one significant burst last summer where our customers were without water for longer than three hours. Historically we perform very strongly in this area, amongst the best in the industry, so it's disappointing to miss the target this year. Our teams worked very hard to minimise the impact and we received positive feedback from customers about our response. While we aim to not have any burst mains, they do occur; however, the low number reflects the general good health of our network and the work that goes into maintaining it.

Around 85% of the water we supply comes from underground and we are unique in the industry in having a legal obligation to soften the groundwater we treat and a performance commitment on the amount of hardness in the water we distribute. To do this we make significant capital investment, which this year includes an upgrade to the softening capability at our Elmer Treatment Works. We will always reduce or stop softening if it poses a risk to the quality of the water to ensure we meet the strict requirements of the Water Industry Act. Operational outages as well as site upgrades affect our softening capability and this is reflected in our performance against this target.



### Fair prices and help when you need it

Most customers do not normally struggle to pay their bill but understandably this year we have seen a rise in the number of people with money worries due to their personal circumstances changing. Back in March 2020 we worked very quickly to introduce a payment holiday within five days of the first lockdown starting, and we provided more financial assistance per 10,000 customers than any other water company. This has now progressed into a new, permanent support option called 'Breathing Space', where customers can pause their bill payments while they get back on their feet.

We had a target this year for 12,000 customers to be benefitting from our Water Support Scheme, which provides a 50% bill reduction to eligible people. At the end of March 20,274 people were on this tariff, which means we are already surpassing the target we set ourselves for year three of this five-year Business Plan period. We will continue to welcome more customers onto the scheme who need it and also continue to raise awareness of the support on offer as we are currently not meeting the target for this commitment.

With just 7% of customers questioned feeling their water bill is not good value for money, this is within the target limit of 9%. Our average household bill for 2020/21 equated to around 50 pence a day, with money from bills playing a crucial part in funding our ongoing investment programme.

Our Priority Services Register provides extra support to customers who have health, access or communication needs and helps us tailor the help we can offer. 4.5% of our customers are on this register, higher than the target of 3.5%, and over 90% of people think the extra services offered are helpful, which is great news.

We have a target to reduce the number of 'void' properties in our supply area, which means they are connected to our network but not charged for any water. Although the number of properties is reducing, we have more to do to meet our target and this year we have incurred a financial penalty as a result.



### A service that is fit now and for the future

Since 2010 we have been progressing with a resilience programme to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of our area, which was previously completely reliant on groundwater supplies. This means that by 2025 every property can be supplied by more than one treatment works if needed, such as during periods of low rainfall or operational outages. Unfortunately last summer we were unable to progress with laying a strategic trunk main in Purley, which was a key part of the programme, but this work is now being re-planned and we are confident that we will be able to join up our network over the next three years and be the first water company to achieve this.

There have been no restrictions on the use of water this year. Like other water companies, we depend on winter rainfall for the water we supply to our customers as underground aquifers – rocks which act like a giant sponge – only usually fill up between October and March when there is less plant growth and evaporation. During this recharge period we saw well above average rainfall which meant our underground resources filled up and we were in a good position to meet the demands of the spring.

Managing leakage is one of our customers' top priorities and a key focus for us too - we have one of the lowest levels in the industry. In fact, we have stayed at or below the maximum allowed level of leakage every year since the target was first set over 20

years ago, which is particularly pleasing given the increase in leaks due to the challenging winter weather conditions. This was only made possible through a concerted team effort to drive down the backlog of jobs and respond to the increase in leaks reported. We are committed to significantly and sustainably reducing leakage levels for the long term, aiming to more than halve the water lost from our network and our customers' pipes by 2050. That's why we are investing in innovative technology and real-time data solutions with key partners such as Vodafone and Royal HaskoningDHV, to be the first water company with a totally 'smart' network.

## Our performance

Continued



### Excellent service, whenever and however you need it

Regardless of the reason for our customers needing to contact us and the method they use, we aim to provide an excellent, tailored resolution every single time. For the first time this year, we have a target to reduce the number of times customers have to contact us about the same issue, with 80% of contacts being resolved first time. Over the last year many more customers have needed our help, with things like home moves due to the stamp duty holiday and financial support following furlough, and we have been able to resolve 84% of these at the first contact. This is particularly pleasing given that there was the added complication of the majority of our call handlers working from home during lockdowns to keep them safe, which inevitably made meeting this target more challenging.

C-MeX is the industry metric for measuring customer satisfaction and experience across all companies and is based on two surveys – one based on customers' experiences when they have had to contact us and the other which scores us based on their perception of the Company. While we did not meet our target of our score being in the top quartile of the industry, the year has seen sustained progress with quarter-on-quarter improvements, demonstrating that the investment we are making in the service we provide to our customers is working. We are also the most improved company in the league table for satisfaction; however, we acknowledge we must improve even further to reach a consistent upper quartile position, which is our goal. Our people are passionate about what they do and many are involved in programmes of work that we know will make a difference, such as

improved complaints handling, listening to and acting on customer feedback and reducing bill shock.

Investing in our digital contact capability is key to transforming our service to customers and this year we will launch a new billing system. This innovation is the biggest change we have made to this key area of our business in over 20 years but it's a very important one in enabling us to manage contact with our customers in a much more efficient and effective way.

The service we provide to developers is also measured through the D-MeX industry metric and we have not met our target in this area. We are taking action to respond more quickly to their applications, keep them updated on progress and better tailor our service to meet their individual needs, and we are confident in the progress we are already making in doing this.



Staying safe – taking extra precautions to make sure we could still help customers with water supply emergencies in their homes during lockdowns.



On the right road – as well as displaying an important message about saving water, our new grab lorry is packed with environmentally friendly features including conforming to the latest exhaust emission standards.



### Support a thriving environment we can all rely upon

We're committed to reducing the impact of our essential service on the environment, while making a positive contribution to its quality. This year we were the first water company to achieve The Wildlife Trusts' Biodiversity Benchmark for making our land at Elmer Treatment Works more attractive to a variety of plants and wildlife. Covering over ten hectares, the accreditation process identified six significant habitats all found to be supporting species such as butterflies, dormice, badgers, lizards and slow worms.

Pumping, treating and distributing millions of litres of water every single day is incredibly energy intensive so we are doing more to limit the emissions we create. In addition to only purchasing electricity that has been generated from renewable sources, in the past year we have added to our fleet of electric vehicles

and our new company car scheme policy means all qualifying employees are now provided with either electric vehicles or plug-in hybrids. Both of these initiatives are contributing towards our ambition of achieving net zero carbon by 2030 in the most affordable and resilient way. We are consulting with our customers on our routemap to get there and our Environmental Scrutiny Panel is providing an independent voice on our plans.

We operate in a region which is classified as being in serious 'water stress' due to the growing population and limited resources, which is why we have a target to reduce the amount of water per person we need to take from the environment. The hot summer as well as many more people being at home this year has seen household demand soar and we have therefore not met our target. Water meters are one of the most effective ways of bringing down

consumption, but our installation programme slowed down significantly during the three lockdowns when we were only carrying out emergency activity in people's homes. However, we remained committed to helping our customers use less water and we were the first water company to offer virtual home water efficiency checks with our partners Save Water Save Money. We have started a programme to install meters for all our customers without one by 2025 and also plan to provide as many of them with smart meters as possible over the next few years.

There have been no category one or two incidents of pollution this year, as measured by the Environment Agency. There have been some less significant incidents, primarily caused by burst mains, but we are the only water-only company to have put forward a target in this area, another notable indicator of the importance we place on protecting and enhancing the environment.



## Our performance

Continued

### Our people

Pivotal to everything we do is our skilled workforce, many of whom have faced challenges of their own this year. Whatever their role, they are dedicated to providing our customers with great service and have shown determination, commitment and flexibility during an unprecedented time.

The physical health and safety as well as the mental wellbeing of our employees will always be our top priority and never more so than over the last year. Representatives from the Health and Safety Executive visited us this year to see our COVID-19 safety measures for themselves and were very satisfied with what they found.

Despite endeavouring for no safety-related incidents to occur, disappointingly there have been six lost-time accidents this year with two of those resulting in the employees needing extended time off work, so

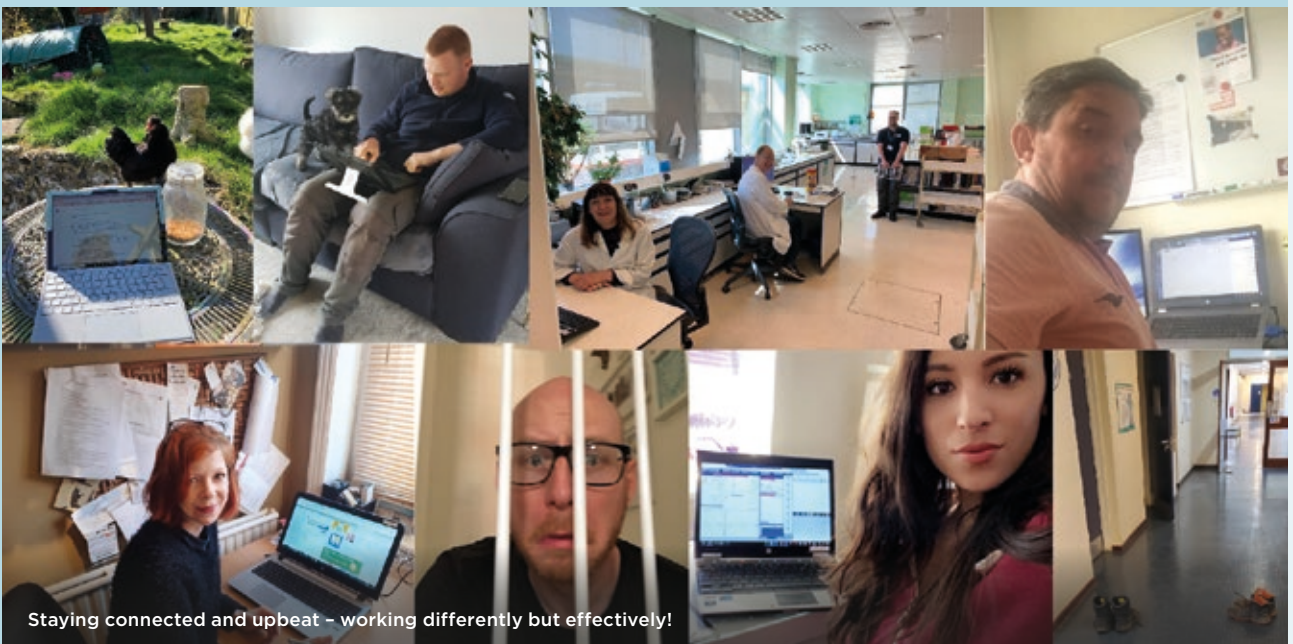


Check it, don't regret it – with their 'stop card', our employees have the authority from CEO Ian Cain to stop work if they think the safety of our people or the public is compromised.



**I've felt very supported at work while also managing some difficult personal situations too. Working at home has its benefits but I've also missed the spontaneity of seeing people in the office and those 'watercooler' moments!**

**Kevin Shilling, Procurement Manager**



Staying connected and upbeat – working differently but effectively!





were reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR). As ever, all incidents are thoroughly investigated and remedial actions are taken so we learn all we can, in discussion with our Health, Safety and Wellbeing Committee.

Our team of trained Mental Health First Aiders have gone above and beyond this year to support their colleagues – from being on the end of the phone to just chatting over a cup of coffee, they've been the first point of contact for people needing some extra support and guidance. We have also recognised the toll this difficult time has taken by offering free access to the Headspace app for all our people so they can benefit from some mindful meditation and get some perspective back.

As a respected and responsible local company, through our Investors in People accreditation, we will continue to help our employees be the best they can be and, as we return to more normality, we'll ensure we create a working environment where people thrive and do a great job.



After being furloughed in my previous job and in lockdown for most of it, the opportunity to have a virtual catch up with colleagues on a Friday afternoon has been priceless. Chatting about anything without

judgement. It's very strange joining a new company remotely but I feel I am meeting people, talking and looking at the positives in life even though I might have had a bit of a low week. The Steps Challenge in March got me off the settee. I donned my Tomtom watch and it made me walk my target which was five miles a day!

**Joanna Hinchliffe**  
Learning and  
Development Manager



Following the bereavement of both my parents, brother and sister in a two-year period, I believe these darker life experiences and my enjoyment of working with people has assisted me to support others as a Mental Health First Aider even if it is just for them to grab a coffee (or a beer!) and know they have support and someone who will listen.

**Ian Adams**  
Head of Network



I've always enjoyed talking to people and finding out their life story. If someone sharing their thoughts and feelings helps them feel heard and understood, then I am more than willing to listen to anyone during a difficult time. There is much to be said for small talk with a little banter thrown in – it's the most underrated conversation as it shows you genuinely care when you ask how someone is.

**Sharon Flores**  
Senior Learning and  
Development Advisor

## Working in the public interest

### Delivering more value for the public

We are proud to have played an important part in people's daily lives for well over 150 years – but we don't just supply water.

We take an active part in improving the areas we are privileged to serve, including playing a full role in tackling wider social and environmental challenges.

### Industry reflection

Last year Ofwat published a discussion paper providing its latest thinking on public value, following a range of conversations with water companies, and insights from annual reports and wider engagement with stakeholders.

Ofwat supports the work already being done across the industry to create greater public value and its strategy sets out that water companies will need to be run with a clear purpose, adding wider public value for customers and communities, as well as for shareholders. It is also keen that culture within water companies ensures every part of the business and every business decision is seen as an opportunity to add value to society.

The industry wants to do more to meet the high expectations which rightly come with running a vital public service for the public good. This is why we are all working collaboratively to achieve the industry Public Interest Commitments which includes five challenging goals to:

- Triple the rate of sector-wide leakage reduction by 2030
- Make bills affordable as a minimum for all households with water and sewerage bills no more than 5% of their disposable income by 2030 and develop a strategy to end water poverty
- Achieve net zero carbon emissions for the sector by 2030
- Prevent the equivalent of 4 billion plastic bottles ending up as waste by 2030
- Be the first sector to achieve 100% commitment to the Social Mobility Pledge

## Defining our purpose



**Kate Thornton**  
Chief Customer Officer

**Kate Thornton was appointed as our Chief Customer Officer in October last year and has been leading the development of our enhanced social purpose to help drive real change in the communities in which we operate.**

### In your view, why is it important the Company develops its purpose?

SES Water, and the organisations from which it springs, have been providing a vital service to our local community ever since water was first piped to people's homes in the 1800s and we're all really proud of the work we do. However, it's important we continue to evolve to meet the changing needs of our customers, communities and environment, and never has the topic of purpose been more relevant than today, as society looks to 'build back better' in the wake of the COVID-19 pandemic.

As a public utility, it's particularly important we show leadership as a purposeful company and so we've embarked on a journey with our employees, our customers, our community partners and wider stakeholders to recreate our purpose for today and tomorrow. This work is about much more than creating a story or a marketing strapline. It's about committing to an idea that will drive real change and deliver value for our business, our customers and the world around us.

### Can you give a brief overview of the work undertaken so far to develop our purpose?

The approach we're taking centres on co-creation and genuine engagement. In addition to expert interviews and desk research, we've run a series of workshops with a cross section of employees, customers, community-based organisations and charities, our Board and members of our Customer and Environmental Scrutiny Panels to build and refine our thinking.

It's important to us to gather the input of customers and citizens in the widest sense, including younger people who will be tomorrow's bill payers, as our purpose will drive thinking and action over the long term. And it's just as critical that teams from across our business are involved in the process so it feels authentic and can be owned by all of our organisation long into the future.

### What would you like the Company's refreshed purpose to convey to customers?

We'll know we've been successful if our customers recognise our purpose is genuinely addressing issues that matter to them, and believe that we are taking real action to make a positive difference and make the world we all share a better place. We hope they'll be as enthusiastic about it as we are, and maybe even want to collaborate with us on initiatives related to our purpose, because partnerships are one of the most important ways we can bring our purpose to life.

## Doing more for our communities

In the past year we have awarded more than £27,000 to six local organisations through our charitable giving fund with the Community Foundation for Surrey, which is expected to have benefitted more than 800 people. The partnership forms part of our commitment to supporting worthy causes in the community and giving something back to those groups providing vital services for local people and disadvantaged individuals.

Separate to our community fund we donated more than £9,000 received in fines and legal costs after successfully prosecuting a company for illegally taking water from a fire hydrant. The monies were donated to the Wallington Community Wellbeing Charity so that local people affected by the offence will enjoy some benefit.



**We are enormously grateful to SES Water for this generous donation. As a small, local charity, every penny will be used to help relieve loneliness and isolation in older people and those with disabilities in our area. With the current COVID-19 restrictions, people are far more isolated than ever before and this is affecting their mental health and wellbeing so this gesture is very welcome. Thank you, SES!**

**Christine Lindsay**, Wallington Community Wellbeing Charity



**Thanks to SES Water for donating two brand new Chromebooks to help Transform clients. Due to COVID-19 one of our clients had lost her job, and without a phone or laptop, was finding it difficult to look for work. Her search for employment can now continue.**

**David Annand**, Transform Housing & Support



**We have some new additions to The Food Club! We now have some aprons for our volunteers and a contactless card machine. Thank you to SES Water for donating towards The Food Club. A contactless machine means people don't have to risk using cash or spend time searching for the coppers!**

**Alice Oswald**, Merstham Community Facility Trust



## You're never too young to learn about water

As part of our education programme we produced 'Every Drop Counts', a hand illustrated children's story book, and donated more than 600 copies to several foodbanks, charities and children's centres across our supply area.

The book is aimed at a pre-school audience and explains the journey of 'Drop' the water droplet as she flows through the water cycle. The book also contains simple water saving messages to help younger children learn about the importance of using water more carefully.

For World Book Day we turned the book into an online animation, narrated by our customer Louise Redknapp, so even more people can enjoy the story and learn about the water cycle.



**This is such a cute story and one which has helped bring a smile to the faces of my children during what has been a tough year for us as a family. Every time I've come home after work this week my daughter asks me to read the book to her, she really loves it. Thank you, SES Water.**





## Working in the public interest

Continued

# A spotlight on...

## Inspiring everyone to value our most precious resource

Last year we opened 'Flow Zone', our brand new, state-of-the-art education centre at Bough Beech Reservoir and Water Treatment Works, near Edenbridge in Kent.

A sensory experience involving light and sound, the new centre provides a number of interactive activities and experiences for students and adults to immerse themselves in learning about the water cycle, water usage and the importance of saving water.

The centre is a key part of our community engagement, and will allow us to continue inspiring future generations with our established education programme, which has been running for more than 20 years.

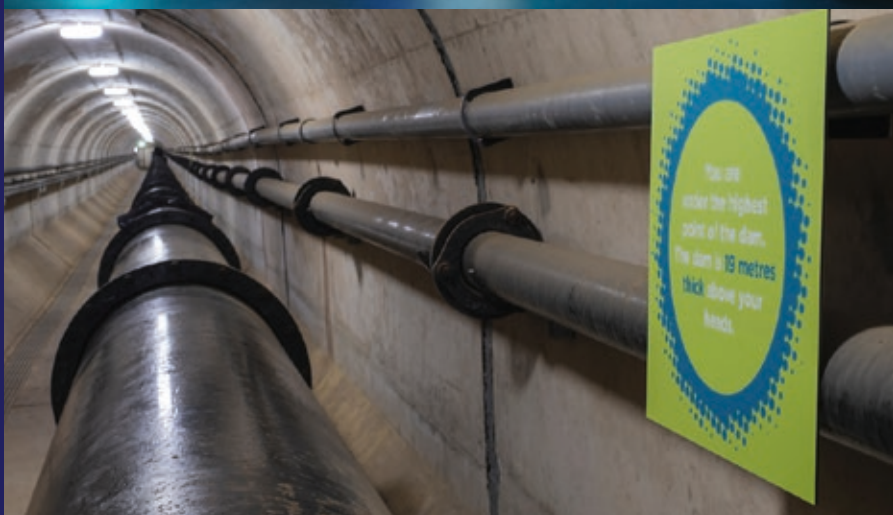
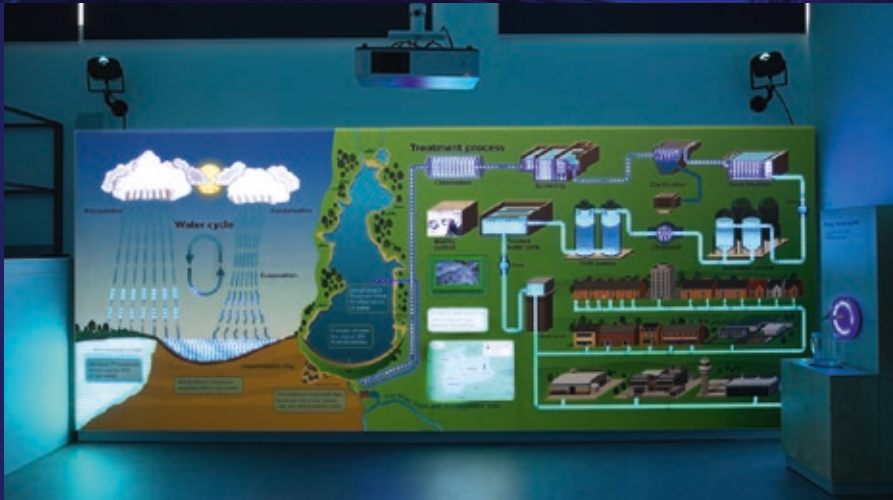
While the pandemic meant we were not able to host visits for most of the last year, we are very pleased to now be welcoming back groups to the centre, and seeing the success of such an important investment.







We have been visiting Bough Beech for many years. Not only do the children find it fascinating to see the water treatment process and the equipment that is used, us teachers also take away lots from the visit too! We were all surprised to learn about how much water we waste each day in this country. It was a real eye-opener and something that will definitely influence my approach to saving water in the future.



## Market review

# A key sector at the heart of society

The last year has been dominated by COVID-19 and the water industry has felt its impact in many ways. Playing an active part in the response to the pandemic and contributing to the recovery has become a priority for all water companies, resulting in both short and long-term actions to support customers, employees and wider society.

### Market driver

### What's happened?

## Supporting the COVID-19 recovery



**The COVID-19 crisis presents water companies with a golden opportunity to build stronger relationships with their customers and be seen as a source of invaluable support.**

**Emma Clancy, CEO, CCW**

The pandemic has affected the water industry's day-to-day operations. Water company employees were categorised as key workers early in the pandemic; however, social distancing measures and multiple lockdowns have made the delivery of some aspects of our work more challenging. The increase in people working from home, not going on holiday and school closures has meant that household customers have been using significantly more water but demand from non-household customers has fallen significantly. Ofwat commissioned a report by Frontier Economics to look at the impact of COVID-19 on the sector and is considering how the performance commitments most affected, particularly the targets for reducing household consumption, will be addressed if companies are unable to achieve their Business Plan targets.

There has been an increase in customers struggling to pay their water bills and the collection of charges from business retailers has also been affected. CCW has undertaken an affordability review to look at the financial support measures currently on offer to customers and to identify opportunities to improve what is available, particularly in light of the pandemic. Retailers are offering a COVID-19 repayment scheme to eligible business customers.

## Delivering transformational innovation



**The introduction of innovation funding and an innovation competition will act as a catalyst for change, encouraging new ideas and approaches to help address current challenges.**

**John Russell, Senior Director, Ofwat**

Ofwat established its £200 million innovation fund to grow the sector's capacity to innovate and meet the future needs of customers, society and the environment. It ran the first round of the Innovation in Water Challenge, an opportunity to receive up to £250,000 in funding.

The water industry produced its first Innovation Strategy, focused on delivering collaborative, transformational innovation across the sector.

There has remained a firm focus on the environment with the industry committed to helping address the climate emergency and being central to the delivery of the Government's ambitious environmental agenda. Providing sustainable and resilient water supplies within the context of a changing climate and growing population, while also keeping bills affordable, is a significant challenge and one that is being addressed collaboratively by the industry and

its regulators. Water UK has consulted on a new strategy for the sector that brings increased environmental ambition together with a range of other challenges and opportunities. We will play an active role in shaping this over the coming months.

The Competition and Markets Authority (CMA) has spent the majority of the year determining the price reviews of Bristol Water, Anglian Water, Yorkshire Water and

Northumbrian Water. It has set a higher rate of return for investors and all four companies have been awarded additional funding to deliver service improvements resulting in customer bills falling by an average of £34 per year over the period – a smaller reduction than that proposed by Ofwat in the Final Determinations. Meanwhile, Ofwat has turned its focus to the next price review in PR24, using learnings from both PR14 and PR19 to help inform the process.

## What have we done?

We have continued to work as part of an industry-wide group, co-ordinated by Water UK, to respond to the pandemic.

We have provided our employees with the protective equipment and safety procedures needed to maintain as much of our operation as possible, although some non-emergency activity in customers' homes was stopped during the lockdowns. The majority of office staff have worked from home and there has been restricted access to key sites. We had a successful visit from the Health and Safety Executive to inspect the measures we have put in place. We have also increased the mental health and wellbeing support available to our people.

We fully participated in Ofwat's support package for the business retail market, which included financial support for our business retailers in the form of a deferred payment scheme for their wholesale water charges.

More than 10,000 customers took a three-month bill payment holiday and over 20,000 are on our Water Support Scheme, receiving a discounted tariff. We have provided evidence to CCW's affordability review and are working with them and Ofwat on their 'Listen, Share, Care' campaign to understand customers' experiences of the pandemic.

We've contributed to the community effort in lots of ways, including by helping to set up the new NHS Headley Court Hospital and through donations to the Surrey Coronavirus Response Fund.

We submitted two lead entries to the Innovation in Water Challenge and also collaborated on five applications by other water companies. While we were unfortunately unsuccessful on our two lead entries, we are pleased to be partnering with South East Water and other companies to deliver the successful CatchmentLIFE application, which will build bespoke software that volunteers and experts can use, showing the impacts of habitat degradation on wildlife and ecological communities.

We led the water industry's programme of research into leakage reduction being delivered by UK Water Industry Research (UKWIR), which brings together water companies, academics and the supply chain. This included the development of a leakage 'heatmap' which collated all the research and innovation currently being carried out by water companies to help support greater collaboration across the sector.

Our partnership with Vodafone, Technog and Royal HaskoningDHV to roll out a completely smart pipe network was shortlisted in the annual Water Industry Awards.

We supported the development of the water industry's first Innovation Strategy which includes plans for a virtual Centre of Excellence to support sector-wide innovation.

In summary, for us to deliver more of what matters most to our customers, improve the environment we depend upon, address future challenges, and become more effective and efficient, we need to innovate.

## Market review

Continued

### Market driver

### What's happened?

## Protecting and improving the environment



**The Environment Bill will facilitate more responsible management of water, so that we have secure, safe, abundant water for the future, supporting a more resilient environment. We know that nature needs our help to recover.**

**George Eustace, Secretary of State for Environment, Food and Rural Affairs**

The Government's Environment Bill, which will deliver the aspirations of its 25-year Environment Plan and its ambition to leave the environment in better shape than it found it, has continued its journey through Parliament, although it has been delayed as a result of the pandemic. The water industry has continued to lobby to enhance national standards for water efficiency – including a mandatory water labelling scheme for water-using appliances. Defra is considering the inclusion of a water-related target within the bill.

A second chalk streams summit was held that brought together Government, regulators, water companies and environmental groups, and a national chalk streams management and restoration strategy is being developed. An All Party Parliamentary Group on chalk streams has also been established.

Water UK has developed a routemap so the industry can deliver its commitment of a net-zero carbon emissions water supply by 2030.

## Setting the path for the price review and public value



**We need to adapt our framework so we can best meet the needs of customers, the environment and wider society.**

**PR24 and beyond: Future challenges and opportunities for the water sector, Ofwat**

Ofwat began a programme of work around the future of water regulation and the design of future price reviews. This included a call for input from companies on previous price reviews and upcoming challenges, together with the launch of a 'Future Ideas Lab' to enable stakeholders to collaborate in the process. It has produced its lessons learned from PR19 and published its early thoughts on the role of customer engagement in future price reviews. CCW has also produced a review of customer engagement during the last price review and a framework for future water company research.

Ofwat has also considered the role regulation might play in the delivery of greater public value and how this can be monitored and measured.

The CMA published its redetermination of the business plans of the four companies who appealed against Ofwat's Final Determination.



## What have we done?

We formed our Environmental Scrutiny Panel to advise, scrutinise and challenge the development of our environmental vision and how we implement it across the Company.

We became the only water company to currently hold The Wildlife Trusts' Biodiversity Benchmark at our Elmer Treatment Works, with work continuing to achieve the accreditation at two other operational sites by 2025.

We appealed to Government to set a water-related target that considers overall water use, not just that used by domestic consumers, to encourage all sectors to become more water efficient.

We're working as part of Water Resources South East (WRSE), which represents an alliance of six water companies that cover the South East region of England, on the development of a regional plan to secure resilient water supplies for the future that addresses the impact of climate change and delivers long-term environmental improvement, including the reduction of damaging abstractions from sensitive chalk streams.

We opened our brand new education centre at Bough Beech Reservoir in October 2020 and welcomed our first visitors. The pandemic curtailed face-to-face activity over the winter, but instead we provided virtual lessons to schools and produced a book for children about the water cycle and the importance of reducing water use which was distributed to local charities and community groups to give to vulnerable local children.

We have been contributing to Ofwat's work through the submission of responses to its customer engagement and public value discussion papers, as well as attending virtual workshops. We also carried out an assessment of PR14 and whether it achieved its objectives, resulted in unintended effects, was still valid for future price reviews and could be made more effective, which was submitted to Ofwat as part of its evaluation work.

Some of our senior executives met with Ofwat to discuss the concept of public value, what we are already achieving beyond our core role and the journey we are on to become a more purposeful company.

## Sustainability

# Our approach to the environment and climate change

We have a long tradition of delivering for our customers, contributing to the communities we serve and working to improve the environment. Our work and decision-making are underpinned by strong governance and transparency which is essential for a company that provides a vital public service.

However, we recognise that the expectations of customers, stakeholders and investors are changing and that we need to put these elements – environment, social and governance – at the heart of how we do business to ensure we remain a sustainable and resilient company in every sense.

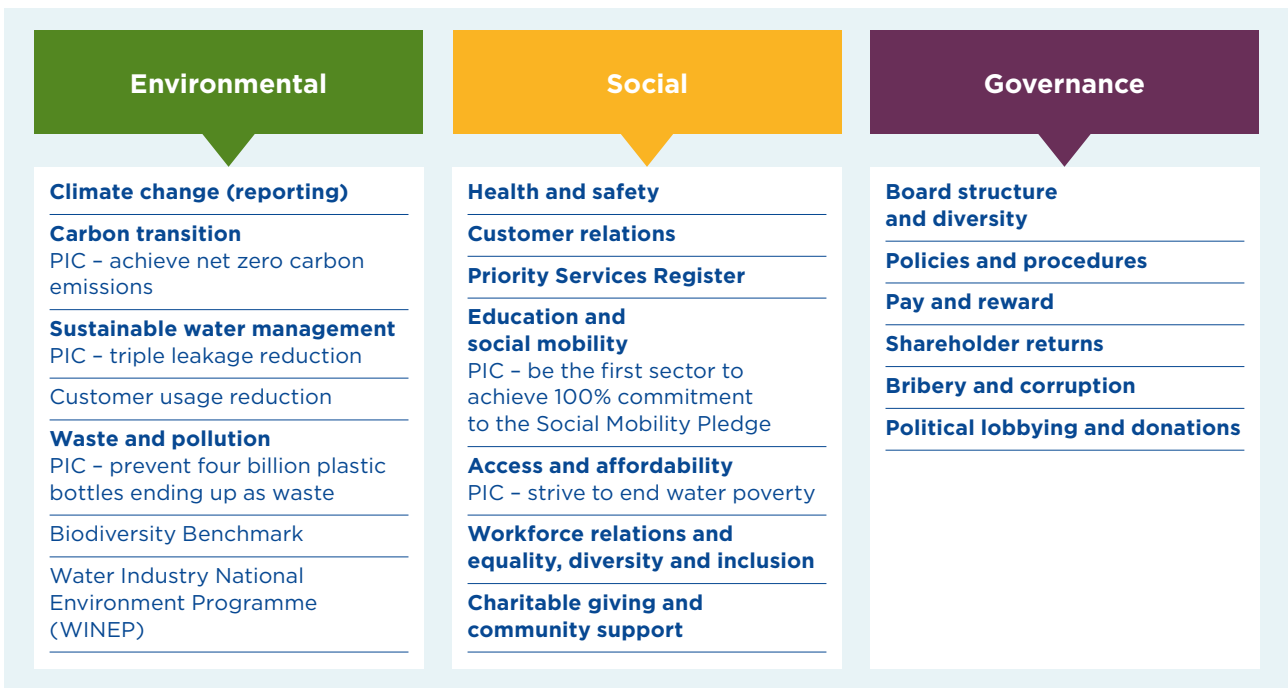
### Developing an environmental, social and governance strategy

In the past year, led by our Board, we have started to formalise, develop and embed an environmental, social and governance (ESG) strategy across our business that will drive what we deliver and how, and enable us to report consistently and transparently on our performance. While elements of this ESG strategy have always been part of our daily work as a water company – such as sustainable management of our water resources or educating our communities about the benefits of using water wisely – collating the varied strands of such work into

a specific strategy that aligns to our purpose is vital to meet the needs and expectations of all our stakeholders.

The ESG framework that we will use to develop and embed our ESG strategy is provided below. During the next year, with the support of our customers, employees, shareholders and other stakeholders, the Board will develop and communicate the key initiatives that underpin each of the elements within the ESG pillars and communicate with all parties the work being done – and support required – to meet such goals.

As can be noted in the framework below, several of these elements of the ESG framework already align to the goals of the water industry’s Public Interest Commitment (PIC) which the sector has committed to achieve. We will continue to use our ESG framework to ensure monitoring and ongoing alignment of wider sector goals.



## Governance and reporting of our ESG strategy

Several elements of our ESG strategy are already in place and governed via a series of Board and management level committees across the business. These will be supplemented by an ESG Committee, led by the Chief Financial Officer, in the coming

year to ensure all aspects of the ESG strategy are progressing and there is requisite reporting to the Board. This governance structure, and the roles of each Committee, are presented below.

We already report on most of these elements in our Annual Report but from next year we will formally report on our performance against the targets in our ESG strategy.





## Sustainability

Continued

# Our approach to the environment and climate change

While the Board, with executive management, will continue to develop and embed our ESG strategy in the coming year, we have already made progress in two key aspects of the environment pillar – reporting on climate change and the focus on our journey to net zero carbon.

### Climate change reporting

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) published recommendations to encourage businesses to increase disclosure of climate-related information. These recommendations focus on governance, risk management and business strategies to manage climate-related risks and low-carbon opportunities, with an emphasis

on financial disclosures and the use of scenario analysis.

We have always reported certain aspects of climate-related disclosures under our regulatory requirements (such as greenhouse gas emissions), but this year we have taken the first steps to integrating these requirements into our Strategic report.



#### Governance

##### Progress to date

- Clearly defined Board responsibility for the oversight and challenge of our overall strategy, including the ESG strategy, which includes climate-related issues in our Business Plan and exposure to risk
- Use of the Energy Strategy Committee to specifically review matters associated with climate change, including aspects of our route to net zero carbon, such as fleet electrification and solar power generation
- Formation of an independent Environmental Scrutiny Panel, which includes various third parties such as representatives from the Environment Agency, to review and challenge climate-related initiatives, metrics and goals

##### Plans for 2021/22

- Enhancement of the climate-related governance into the wider ESG framework and strategy, ensuring appropriate accountability for progress towards key climate-related goals, such as carbon transition

#### Strategy

##### Progress to date

- Set out 2020 to 2025 performance commitments with financial penalties for greenhouse gas emissions
- Water resource models including climate scenario analysis
- Climate change resilience explicitly set out in our Business Plan
- Strategic commitment and performance pledges including climate-related matters

##### Plans for 2021/22

- Enhancement and development of our wider ESG strategy, including climate change-related strategies
- PR24 strategic planning to include climate mitigation pledges and long-term climate projections

#### Risk management

##### Progress to date

- Identification and alignment of climate change risk and opportunities into our risk register, including consideration of water resource risks
- A robust review to identify which corporate risks would be influenced by climate change
- Publication in this Annual Report of the risks identified as being particularly sensitive to climate change
- Consideration of the financial risks associated with additional climate change investment as part of our long-term viability statement, inclusive of scenarios required to achieve net zero carbon by 2030

##### Plans for 2021/22

- Integrate further climate change transitional risks into the risk register, including the risk associated with funding our transitional climate change goals in the future

#### Metrics and targets

##### Plans for 2021/22

- Environmental metrics will be built into Board LTIP plans – see more detail on page 94
- In 2021/22 we will publish our net zero carbon route map

## Carbon transition – our progress to net zero carbon by 2030

Each year, the combined gross carbon emissions produced by the English water companies in carrying out their day-to-day operational activities is three million tonnes. As a sector we are committed to achieving net zero operational carbon emissions by 2030, some 20 years ahead of the economy as a whole, making it one of the most ambitious decarbonisation targets in the country.

At SES Water, we currently emit 2,550 tonnes of carbon per year in the delivery of the high-quality drinking water we produce. This is 89% lower than ten years ago because of changes we have already made to how we source and use energy. This has included purchasing 100% of the electricity we use from green sources, increasing the number of electric vehicles in our fleet, improving how we monitor and control our energy use and investing in renewable energy generation at our own sites including solar generation. However, there is much more to do. Our current Business Plan performance commitment is to

maintain 55 kgCO<sub>2</sub>e/megalitre until 2025, but to achieve net zero by 2030 we must go further and faster.

Read more about our greenhouse gas emissions this year in the Directors' report on page 104.

We've devised a routemap to net zero operational carbon by 2030 so we can deliver a more sustainable service to customers, improve the environment and contribute to the sector-wide target. It includes five areas of strategic focus:

- **Renewables** – we will source more renewable energy and increase how much we generate on our land
- **Energy efficiency** – we will reduce how much energy we use to deliver each litre of water by improving the monitoring and control of our energy use
- **Water efficiency** – we will reduce how much water we abstract from the environment and help our customers to use less
- **Fleet** – we will increase the number of 'emission free miles' our staff

travel to carry out their jobs by reducing unnecessary travel and switching to electric vehicles

- **Fossil fuels** – we will phase out our use of fossil fuels, replacing them with alternative sources and new technology.

By 2030 we are aiming to achieve more than a 70% reduction in operational carbon emissions. We will need to offset any remaining emissions through purchasing carbon offsets by third parties. The need for offsetting is a key challenge, our response to which will evolve between now and 2030, in dialogue with stakeholders including Ofwat. Longer term, our focus will be on measuring and reducing the carbon used during capital works such as upgrading or constructing new treatment works and pipelines – also known as embodied carbon. We'll also be looking at ways to sequester and remove more carbon from the atmosphere through improving how we manage our own sites, helping to deliver long-term environmental improvements.



N.B. the data in this table is a forecast and is based on our ambitions set out in our net zero carbon routemap

## An independent view on our plans and performance

### Expanding the scope and focus challenge

This year we took the decision to boost the level of independent scrutiny on what we do by forming an Environmental Scrutiny Panel (ESP) to work alongside our already established Customer Scrutiny Panel (CSP). Together the groups look across our current performance and future plans, providing expert input and challenging the level of ambition for the benefit of customers and the environment.

The two panels have equal standing and work collaboratively - including via joint sub-committees focused on areas of shared interest - reporting on their findings to customers, stakeholders and Ofwat. Both panels include independent members who have expertise in areas such as consumer matters, sustainability and community engagement; as well as representatives from organisations including CCW (the water industry's consumer watchdog), the Environment Agency, local authorities, and environmental and consumer support groups.

### The Environmental Scrutiny Panel Chair's report

#### The Environmental Scrutiny Panel

The ESP was established in April 2020 to scrutinise, challenge and help accelerate our environmental ambition and to ensure that the needs of the environment are integral to our strategy and operations. It monitors our delivery against our Business Plan commitments related to the environment, alongside our wider environmental performance, whilst simultaneously challenging that we look further into the future and develop a robust long-term environmental strategy with tangible outcomes for the local community. The ESP is chaired by Alison Thompson and its members have a range of interests and expertise in environmental matters.



**Alison Thompson**  
Chair, Environmental Scrutiny Panel

#### Scrutinising performance

SES Water has pledged to, 'support a thriving environment we can all rely upon'. Since our inaugural meeting, we have been scrutinising the delivery of the Company's environmental performance commitments alongside its wider Business Plan obligations, as well as how it is contributing to delivery of the industry's Public Interest Commitment (PIC) that relates to the environment. The PIC sets out how water companies will continue to strengthen the work they do for the good of the public and enshrine this as an integral part of their purpose.

In addition, we have contributed knowledge and expertise, challenging the Company to think differently about its long-term strategy and ensuring regional alignment with its neighbouring companies.



The English water companies have made a PIC to achieve net zero operational carbon by 2030. SES Water has been developing its own net zero routemap (see page 45) and we have challenged its scope and goals as we believe that the next step in developing a robust response to climate change will be how it can adapt and build greater resilience to what is already 'locked in' while at the same time mitigating further impacts.

The demand for water companies to contribute to a green recovery and invest in nature-based solutions is growing. We are delighted that the Company has achieved the gold standard in The Wildlife Trusts' Biodiversity Benchmark for enhancing the biodiversity at its Elmer Water Treatment Works and will be keen to review how this initiative is rolled out at other sites.

We recognise that delivery of the first year of its ambitious Business Plan, in particular the target to reduce how much water household customers use, has been impacted by COVID-19 restrictions. Driving down overall water demand, through a strategic approach to leakage and water efficiency, is an area of great prominence. Long-term water scarcity issues, exacerbated by population growth and climate change impacts in the South East, mean that investing in the best available technology and empowering customers to play their part is increasingly important.

An area in which we have challenged hard this year is the Company's smart metering programme. We consider the commitment in its Business Plan – to meter 90% of its customers with at least 10% receiving a smart meter by 2025 – to not be ambitious enough, or in line with the increasing digital expectations of customers. It is a trend that is only compounded by the pandemic and evidenced further in recent online customer research groups. We are therefore encouraged the Company is showing evidence of listening and actively developing a case for a deeper reaching smart metering programme.

Engaging with future customers on the environment is an area where we would like to see more action, both by SES Water and the sector in general. Positive steps have been taken this year in terms of embracing online lessons for schools and opening a brand new education centre at Bough Beech Reservoir.

### Looking to the future

SES Water has shown it is open to well-evidenced and well-argued challenge. We have enjoyed testing Board thinking and having constructive discussions with team members. A tangible example is the Company's agreement to develop a long-term Environmental, Social and Governance (ESG) Strategy, thereby responding to our challenge on long-term thinking. Mindful of growing environmental need, stakeholder expectations and wider public value, this work will be underpinned by the outcomes of its work on enhancing its social purpose, which the ESP has critiqued, together with the CSP. We welcome this more strategic, forward-thinking ambition.

**Alison Thompson**  
Chair, Environmental Scrutiny Panel



**SES Water has shown it is open to challenge and we have enjoyed testing thinking and having constructive discussions.**

## An independent view on our plans and performance

Continued

### The Customer Scrutiny Panel Chair's report

#### The Customer Scrutiny Panel

The CSP ensures that the interests and expectations of our customers are put at the heart of our activities. The focus of its scrutiny is on delivering the Business Plan performance commitments; on the way we engage with customers and the service we provide; and on agreed areas of forward focus such as social purpose, community engagement and vulnerability. Chaired by Graham Hanson during the year, most of the members of the CSP are also SES Water customers.



**Graham Hanson**  
Chair, Customer Scrutiny Panel

Until April 2021

#### Scrutinising performance

2020/21 has been a difficult year due to the impact of COVID-19 and, as a small company, SES Water's resilience has been stretched like many others in the industry. The CSP commends the Company on its positive and compassionate response to the pandemic, both internally, through the support it has given to employees, and externally with customers.

We have continued to meet virtually with the Company on a quarterly basis to review and provide constructive challenge on performance against the customer commitments in its Business Plan. Performance over the year has been mixed, even accounting for the pandemic impact, and some key commitments were missed.

The target to reduce customer water usage was not met – although this was impacted due to people being at home more – and the supply interruptions target was missed due to a single significant burst last summer. However, although challenging, the leakage reduction target was achieved, and the Company continued to perform well in supporting customers in vulnerable circumstances. In addition, because of focused attention on the customer experience (C-MeX) performance commitment, including regular deep-dive reviews with the CSP, there was a continuous improvement in the C-MeX customer satisfaction score. This confirms that the programme is delivering the right initiatives to improve service to customers.

We have also closely monitored the broader customer transformation programme, which is aimed at delivering further improvements to the customer experience.

Unfortunately, COVID-19 impacts on staffing has created slippages in key dates and the operational 'go-live' for the new billing system is now expected later this year. So, while positive progress has been made during a difficult situation, we will continue to closely scrutinise the various customer experience activities underway, as the Company must continue to improve so it moves out of the lower half of industry performers in this area.

#### Looking to the future

In the coming year, the Company is embarking on an ambitious programme to become a more purposeful organisation. We are actively involved in supporting this programme, which includes creating closer and more meaningful relationships with customers and the local community. Linked to this, the Company is building on its 'Voice of the customer' research programme, to further enhance its understanding of customer needs and priorities and drive ongoing improvements to service.

For my part, this is my last Annual Report as CSP Chair, as my final term of office concluded this year. I have been honoured to have had the opportunity to chair a panel of such committed members, representing the interests and expectations of SES Water's customers. The next few years will be critical for the Company to move forward and improve its comparative performance in the industry and beyond, and I have no doubt the CSP, and its incoming Chair, will continue to ensure that the 'Voice of the customer' remains at the heart of its activities.

**Graham Hanson**  
Chair, Customer Scrutiny Panel



**Steve Crabb**  
Chair, Customer Scrutiny Panel

From April 2021

### Meet our new CSP Chair

We are pleased to welcome Graham's successor, Steve Crabb, to chair our panel. With a background in customer experience across a number of industries and with a particular passion for supporting people in vulnerable circumstances, Steve tells us about his new role.

### What interested you about the role?

Firstly, I think SES Water is a great company with a really impressive vision for the future. It's also large enough to make a difference yet small enough to be agile and really understand its customers. Secondly, I have a lot of experience around chairing, bringing an 'outside-in' perspective to organisations and constructively challenging to drive improvements in service, so this seemed like a great fit.

### What can you tell us about your past experiences and achievements related to the position?

I started my career as a business journalist, asking difficult questions to help organisations improve what they do. I then worked for a number of leading charities, campaigning on behalf of people who are often marginalised in society, before joining British Gas to set up its first dedicated team for vulnerable customers, driving continuous improvement in the services and support offered to consumers in vulnerable circumstances. Since leaving there in 2019 I've been an independent chair and consultant, specialising in consumer affairs.

### What do you hope to achieve?

To continue the great work which has been done by Graham and the members, to support the panel so it functions as a highly effective team, to work with and constructively challenge CEO Ian Cain and the team and to bring new perspectives to SES Water as it faces complex new challenges and devises innovative new ways to respond based on customer insight and engagement.

### What do you think of SES Water's current approach to its customers?

I am enormously encouraged by what I've learned so far about SES Water's determination to understand and engage with its customers, and by the quality of the people I've met from both the business and the Customer Scrutiny Panel.

### What do you think are the biggest challenges facing the water industry?

There are so many! Becoming genuinely customer-centric is one

of them - water companies have historically been better at dealing with pipes than people. The drive to net zero carbon. Finding ways to reduce water usage while demand is growing. Reducing leakage and abstraction. In the short term (we hope!) coping with the impact of COVID-19. Thinking long term in a regulatory environment that works in five-year cycles. Successfully navigating these challenges will require innovation, collaboration and above all ensuring that customers are fully engaged with the changes needed.

### How do you think SES Water can play a bigger role in the communities it serves?

Water companies have the potential to play a pivotal role in our communities as - uniquely among essential services - they are grounded in specific localities and they have a direct relationship with the customers they serve. They can ensure communities run smoothly, help them become more resilient to the effects of climate change and extreme weather events, and enable them to deal with emergencies. But tackling the challenges that SES Water faces will require fresh thinking about what we mean by 'community'. SES Water serves an incredibly diverse range of people and places in a relatively small area, from Box Hill to the Benhill Estate. The Company's programmes of insight and engagement should drive a far better understanding of the needs and wishes of all SES Water's customers, and ensure that this diversity becomes a source of strength, highlighting new opportunities for collaboration and innovation that will lead to deep and lasting changes in the way we use, and think about, water.

**Steve Crabb**  
Chair, Customer Scrutiny Panel



## Our stakeholders

We actively manage a range of key stakeholder relationships, recognising that our success and sustainability depends on their input and involvement

Stakeholder group	What they expect
<b>Customers</b> 	<p><b>Our water to be high quality and safe all the time</b>  <b>Our service to be reliable and resilient</b>  <b>We reduce leakage</b>  <b>We help people cut how much they use</b>  <b>We keep our call centre local</b>  <b>We support vulnerable customers</b>  <b>We help to improve the environment and contribute more to society</b>  <b>Our bills are fair and affordable, and we provide value for money</b></p>
<b>Employees</b> 	<p><b>Training and development opportunities</b>  <b>Fair pay and recognition of good performance</b>  <b>We attract and retain high-quality employees</b>  <b>We are a responsible local business that plays an active role in the communities that we serve</b>  <b>A healthy, safe, inclusive and diverse working environment</b></p>
<b>Regulators</b> 	<p><b>We build trust and confidence in the sector</b>  <b>We deliver on the promises we have made in our Business Plan</b>  <b>Our bills are affordable for all customers</b>  <b>We contribute to improving the environment</b>  <b>We increase our resilience to a range of events</b>  <b>We are efficient and innovative</b>  <b>We have a positive impact on society</b></p>
<b>Local community groups</b> 	<p><b>We play an active role in the communities we serve</b>  <b>We support those who are most vulnerable in our communities</b>  <b>We create and protect local jobs in the community</b>  <b>We carry out work in roads and public spaces in a way that has minimal impact on communities and businesses</b></p>
<b>Local authorities</b> 	<p><b>We plan ahead to meet the needs of a growing population</b>  <b>We soften our water in areas where it is naturally hard</b>  <b>We work with them and other parties to limit disruption to local areas</b></p>
<b>Environmental organisations</b> 	<p><b>We are guardians of the natural environment</b>  <b>Our operations do not cause environmental damage</b>  <b>Our decisions are based on long-term environmental sustainability</b></p>
<b>Our suppliers</b> 	<p><b>A transparent and compliant procurement process</b>  <b>Mutual adherence to legal obligations such as being free from modern slavery</b>  <b>Contractual arrangements including provision for data protection</b>  <b>Prompt payment for goods and services</b>  <b>Efficient and effective working practices as partners</b>  <b>A focus on health and safety</b></p>

### Understanding who they are

Our stakeholders broadly fall into two categories – those likely to be affected by what we do and those whose actions can affect us. Although the relationship with each stakeholder group will be different, all must be managed effectively to ensure they help inform our decision-making and how we deliver what we have promised. This page provides a summary of our key stakeholder relationships.

We are also in daily contact with our shareholders, who have non-executive representation on our Board and who also second individuals into our business to work beside senior management, lending support and insight to our work. Our shareholders, and the structure in which they operate, are described in more detail on page 13.

#### How we engage

Our dedicated ‘Voice of the customer’ programme which includes a range of activity to better inform the decisions and improvements that we make  
Online ‘Talk on Water’ community  
Our education programme  
Attendance at community events  
Our independent Customer Scrutiny Panel

#### How we create value for them

Business Plan targets reflect customer priorities including:  
– 15% leakage reduction  
– 7.3% reduction in consumption  
– 25,000 people on our Water Support Scheme  
– 100% of people will be served by more than one treatment works  
– 90% of our customers on a meter  
Our call centre will continue to be based in our local area  
Bills will fall by 15.6% by 2025  
Significant investment in our digital capability to better serve customers

Annual employee engagement survey  
Roundtables involving all employees and the directors and CEO  
Dedicated Board member responsible for employee engagement  
Senior leader visibility and accessibility  
Staff suggestion scheme  
Structured development and appraisal programme

Investors in People silver accreditation  
Performance management system and skills strategy in place  
Industrial cadets programme to attract young people to the Company  
‘Live local work local’ initiative  
Employee volunteering scheme  
Constructive negotiation through the Joint Negotiation and Consultative Committee (JNCC) to secure a two-year pay deal  
More flexible working practices going forwards

Regular meetings with all our regulators including by our non-executive directors  
Regulator attendance at Board meetings  
Responding to consultations and information requests  
Participation in national campaigns  
Sharing our expertise and perspective through industry-wide forums

Maintaining our gearing at a level that is acceptable to Ofwat  
Updated dividend and executive pay policies  
Lowered bills by more than 15% and committed to supporting 25,000 people with our Water Support Scheme  
Pledged to make £9 million of efficiency savings between 2020 and 2025  
Leading the industry’s research and innovation programme to reduce leakage  
Signed up to the Social Mobility Pledge  
Participation in Ofwat’s innovation competitions

Membership of local business forums  
Working with organisations that help vulnerable customers  
Supporting worthy local causes with volunteering time and financial donations  
Our education programme

More than £27,000 of community grants provided through the Community Foundation for Surrey  
Extending our education programme to reach more schools, young people, business and community groups  
Moved people living in housing association properties onto direct billing so we can provide a discount through our Water Support Scheme  
Provided payment holidays and automatic enrolment onto our Water Support Scheme to those affected by the COVID-19 pandemic

Meetings with Chief Executives  
Supporting local economic prosperity initiatives  
Project-specific department engagement such as highways  
Participation in local resilience forums

Planned for a 50% increase in the number of people living in our area by 2080  
Investing £11 million to deliver our softening operations and committed to keeping average hardness levels at no more than 80mg of calcium per litre per fortnight  
Delaying some of our mains laying activity to minimise further disruption during the COVID-19 recovery

Involvement in our local catchment partnerships  
One-to-one meetings  
Independent Environmental Scrutiny Panel

Specific targets in our Business Plan to:  
– Not cause pollution  
– Increase biodiversity at our sites  
– Reduce abstraction from two sources during low flows  
– Reduce our carbon emissions

Dedicated relationships depending on the scope and nature of the arrangement  
Our procurement team and supplier forums  
Annual performance reviews for business critical suppliers

Productive and stable working relationships  
Agile decision-making as a small company  
Participation in joint industry award entries  
Testimonials and PR

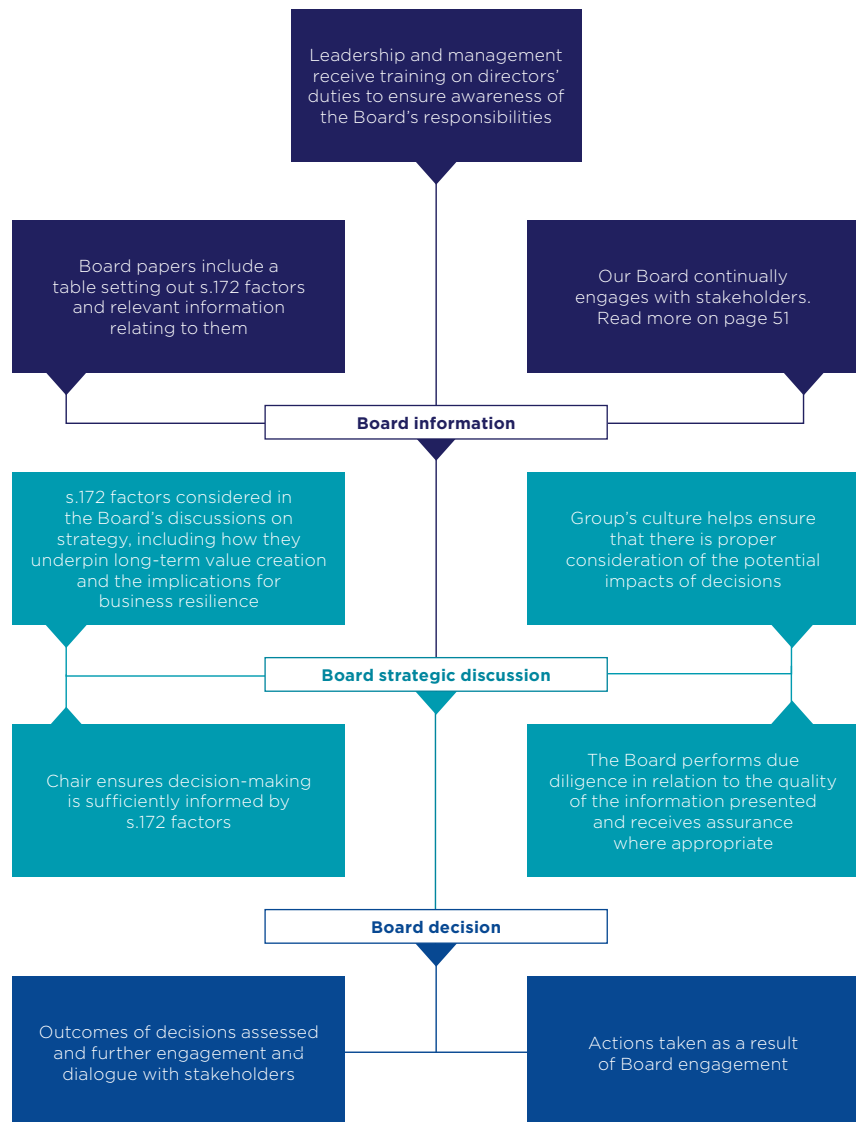
## Section 172 statement

### The role of the Board

Stakeholder engagement is a critical function of the Board, central to the creation and delivery of our plans, both in the shorter term and looking to the future, too. There is a role for the Board to play in assessing the needs of different stakeholders and carefully considering competing priorities as part of the decision-making process.

#### Our process

A key reporting requirement is a statement of the directors on our compliance with section 172(1) of the Companies Act 2006. This includes the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard. You can read our statement, along with some examples in action, on page 72.





### A focus on employee engagement

Independent non-executive director Dave Shemmans is the Board's lead on engaging with the workforce and has helped ensure the employee voice is heard in key discussions and decisions. He attends the Joint Negotiating and Consultative Committee annually where he speaks directly with the representatives without management being present. This year, key topics of discussion have included the response to COVID-19, the pay deal, mental wellbeing and the move to electric vehicles for the company car scheme.



I value the openness of employees in sharing their views with me directly so that the Board can make decisions that are better informed by the people who are so important in delivering what matters most to our customers. Equally, I hope I have been able to give the reps an independent opinion on a number of areas that are important to them, from my perspective as an experienced CEO in a different industry.

**Dave Shemmans**  
Independent non-executive director

### Board deep-dives

In addition to regular meetings of the Board, regular deep-dive sessions take place throughout the year, which are an important part of the governance process and helpful for a greater knowledge of both the Board and management. Time is spent looking at important projects to ensure the investment, structure, goals and delivery plans will result in long-term benefit for the Company and its various stakeholders.

It's also an opportunity for Board members, particularly the independent non-executive directors, to provide targeted challenge and support into specific management plans, such as the go-live criteria for the new billing system and the key learnings from PR19.



#### Progress on the creation of our smart pipe network

customers, suppliers, local authorities and environmental organisations



#### Implementation of a new billing system

customers, employees and suppliers



#### De-briefing on the PR19 price review process and planning for PR24

customers, employees, local community groups and regulators including Ofwat



#### Customer service improvement plans

customers, employees and regulators including Ofwat and CCW



#### Managing lead in drinking water

customers and regulators including the Drinking Water Inspectorate



## Our financial performance



**Paul Kerr**  
Chief Financial Officer



**I am pleased to report that our Company has remained financially resilient while still being able to deliver for our customers throughout the year.**

At the end of what has been a challenging year for all businesses as a result of the COVID-19 pandemic, I am pleased to report that our Company has remained financially resilient, while still being able to deliver for our customers throughout the year. In particular, from a financial perspective, it has been important for us to ensure that the appropriate support was available for our customers when they needed it the most – and in the year, more than 20,000 customers benefitted from our Water Support Scheme and in response to the pandemic we launched our payment holiday programme ‘Breathing Space’.

As expected, our revenue reflected the re-basing of tariffs under the PR19 price review, which lowered bills for our customers when compared to prior years. However, the impact of COVID-19 lockdowns has also impacted revenue in the year, with higher domestic usage for our measured customers mitigating to a degree the more significant decline in non-household consumption. Under the regulatory model we will be able to recover shortfalls in this year’s allowed wholesale revenue in 2022/23.

This decline in water revenue has been partially offset in the year by an increase in non-water revenue from the prior year. Overall total revenue has decreased by £4.0 million (6%) to £65.8 million (2020: £69.8 million).

Operating profit was down by 46% from prior year to £11.1 million. In addition to the impact of lower revenue, we spent more on power to pump water around our network to meet increased customer household usage and on labour and hired and contracted costs to support our customer targets performance. As expected, our bad debt cost increased as difficult economic conditions resulted in lower cash collections from our household customers. This increase in costs was partially offset by an increase in other operating income from insurance receipts related to damage caused by a chemical spill in 2017 at Elmer Treatment Works.

Profit before tax benefitted from the lower inflation on our index-linked debt. Our tax charge for the year was £0.2m, which is an effective tax rate of 6% (see Note 10 on page 134 for our detailed tax reconciliation). The 2020 charge

## Financial performance

Our financial results are summarised in the table below. For more information refer to the statutory financial statements from page 114.

Year ended	2021 £000	2020 £000	Change £000	Change %
Measured water revenue (household)	<b>31,058</b>	29,566	1,492	5%
Unmeasured water revenue (household)	<b>21,551</b>	24,768	(3,217)	(13%)
<b>Total water revenue (household)</b>	<b>52,609</b>	54,334	(1,725)	(3%)
Wholesale revenue from retailers (non-household)	<b>7,360</b>	10,862	(3,502)	(32%)
Other water revenue	<b>742</b>	843	(101)	(12%)
Non-water revenue	<b>2,952</b>	1,718	1,234	72%
Non-appointed revenue	<b>2,156</b>	2,065	91	4%
<b>Total revenue</b>	<b>65,819</b>	69,822	(4,003)	(6%)
Operating expenses	<b>(54,320)</b>	(47,751)	6,569	(14%)
Other operating income	<b>2,202</b>	119	2,083	1750%
Net impairment losses on financial and contract assets	<b>(2,589)</b>	(1,760)	(829)	47%
<b>Operating profit</b>	<b>11,112</b>	20,430	(9,318)	(46%)
Finance income	<b>706</b>	444	262	59%
Finance expense	<b>(7,950)</b>	(10,201)	(2,251)	22%
<b>Profit before tax</b>	<b>3,868</b>	10,673	(6,805)	(64%)
Tax charge	<b>(236)</b>	(6,028)	(5,792)	96%
<b>Profit after tax</b>	<b>3,632</b>	4,645	(1,013)	(22%)
Dividends paid	<b>4,910</b>	6,100	(1,190)	(20%)
Capital additions including intangibles	<b>26,491</b>	35,600	(9,109)	(26%)
Net pension scheme asset	<b>19,470</b>	26,362	(6,892)	(26%)
Cash and cash equivalents	<b>25,601</b>	25,630	(29)	(0%)
Net debt	<b>186,631</b>	170,411	16,220	10%
Interest cover ratio	<b>1.6x</b>	2.1x		
Regulatory gearing	<b>70.9%</b>	64.9%		
Bond gearing	<b>78.2%</b>	72.0%		
Moody's credit rating	<b>Baa2-</b>	<b>Baa2-</b>		

was £6.0 million, an effective tax rate of 56%, which included the substantively enacted tax charge at 19% in March 2020. Overall, our profit after tax was £3.6 million, 22% lower than prior year.

During the year I am pleased to see that we continued to invest in our capital programme, with capital expenditure of £26.5 million (2020: £35.6 million), although the COVID-19 lockdown did curtail some of our metering and mains replacement activity.

Cash and cash equivalents remained healthy at £25.6 million (2020: £25.6 million) and our net debt was £186.6 million (2020: £170.4 million), with regulatory gearing at 70.9% (2020: 64.9%), reflecting strong capital management despite the impact of low inflation on our RCV. In June 2020, we extended our revolving credit facility from

£35.0 million to £50.0 million, with a maturity in 2024, and will complete our remaining AMP 7 debt raising to fund our capital programme activity in 2021, in line with our Business Plan.

### Revenue

Our revenue is generated mainly by billing our household and non-household customers for their water supply. The prices that we charge our customers are determined by working with our regulator Ofwat on a five-year price review process, with 2020/21 being the first year of this new regulatory five-year period.

Total revenue has decreased by £4.0 million (6%) to £65.8 million (2020: £69.8 million) due primarily to a reduction in demand from businesses as a result of COVID-19 (down 32% to £7.4 million from £10.9 million in prior year). The drop in total

revenue also included a reduction of £1.7 million (3%) to £52.6 million (2020: £54.3 million) in household water revenue. While there has been an overall increase in demand for household water as a result of lockdowns, this is only seen in measured revenue where customers are metered. Those without a meter are on a predetermined annual rate, so increased consumption has had no impact upon revenue. Under the regulatory model we will be able to recover shortfalls in this year's allowed wholesale revenue in 2022/23.



## Financial review

Continued

### Operating expenses and other operating income

Other operating income increased by £2.1 million to £2.2 million due to £1.6 million (2020: nil) of insurance receipts related to damage caused by a chemical spill in 2017 at Elmer Treatment Works, and profit on disposal of assets of £574k (2020: £119k).

Operating expenses increased £6.6 million (14%) to £54.3 million (2020: £47.8 million) which, combined with the fall in revenue, has resulted in the operating margin falling from 29% in 2019/20 to 17%.

The increase in operating expenses has primarily been driven by:

- Power costs increased £1.7 million (30%) to £7.4 million as a result of increased electricity costs to pump water around our network, driven by a change in customers' behaviours with more people at home
- Staff costs have increased £1.1 million (8%) to £14.4 million as wages increase in line with inflation, and due to increased resource levels to drive improved performance
- Due to operational events and lockdown restrictions on work, the profiling of our network maintenance work changed and as a result we increased the use of subcontractors with associated costs rising £2.1 million (63%) to £5.5 million to ensure that our essential network maintenance programme continued

The fall in operating margin also reflects a significantly increased expected credit loss charge in the year, which increased by £0.8 million to £2.6 million, where COVID-19 has adversely impacted our customers' ability to pay their bills.

### Tax

In 2020/21 we paid £1.3 million (2020: £1.6 million) in corporation tax payments. Our corporation tax charge has decreased by £5.8 million (96%) to £0.2 million (2020: £6.0 million) primarily driven in the prior year by the change in tax rate that was substantively enacted in March 2021, increasing our deferred tax liability. In addition, the reduction in operating profit has further reduced our tax charge. In the financial year ended 31 March 2021 there has been no change in the UK corporation tax rate, nor any significant changes to any adjustments in arriving at taxable profits. However, we have noted in our statutory financial statements an estimated £13.1 million impact of future increases in tax rates from 19% to 25% substantively enacted in May 2021 and will be accounted for in the financial year ended 31 March 2022.

### Dividends

Ordinary dividends paid fell by £1.2 million (20%) to £4.9 million and were paid from profits arising from the Company's regulated and non-regulated activities. The Board carefully considered the payment of these dividends in line with our dividend policy, taking into account service delivery for our customers. A full explanation of the Board's consideration of these dividend payments is provided in the Directors' report on page 103.

### Capital expenditure

In the year, we commenced our AMP 7 capital programme with investment of £26.5 million (2020: £35.6 million). Our capital expenditure programme has been directly impacted by COVID-19 where activity had to be paused as our workforce was not able to access certain work sites – primarily related to our meter and mains replacement schemes.



**We have continued to invest in the ongoing replacement of the pipes in our distribution network, investing £2.8 million this year.**

However, we have continued to invest in the ongoing replacement of the pipes in our distribution network, investing £2.8 million (2020: £5.6 million) this year enabling targeted replacement based on age, condition and performance of our network. A further £2.3 million (2020: £6.3 million) was invested across our network primarily to improve our 'resilience mains' (to ensure water can be efficiently moved around our supply area now, and in the future). Finally, £0.8 million (2020: £1.1 million) was spent on extending our network into new housing developments.

We have also invested £11.4 million (2020: £13.7 million) on replacing and upgrading equipment at our treatment works, pumping stations, service reservoirs and other operational sites. This includes £3.6 million (2020: £9.4 million) invested in upgrading our Elmer Treatment Works. A further £2.1 million (2020: £2.6 million) was invested into our ongoing metering programme to ensure we can accurately bill and monitor water usage and predict future demand trends.

Finally, £7.1 million (2020: £6.1 million) was invested in IT, including replacing our billing system, vehicles, laboratory, office equipment and support areas.

### Pension scheme

The Company is a member of the Water Companies Pension Scheme (WCPS) which is a defined benefit scheme. The scheme closed to the future accrual of benefits with effect from 31 March 2019, with active members becoming entitled to deferred pensions within the scheme. Our employees also pay into a defined contribution scheme and the Company offers an attractive top-up contribution to encourage employees to contribute.

There is a net pension scheme asset of £20.5 million, a decrease of £6.9 million (25%) (2020: £27.4 million) included in the balance sheet regarding the defined benefit scheme.

### Cash and net debt

The Company held cash and cash equivalents at the year-end of £25.6 million (2020: £25.6 million). Due primarily to the impact of COVID-19, less cash from operating activities was generated this year (£14.9 million), a fall of £16.8 million (53%) compared to the prior year. This was partially offset by a spend of £25.9 million on the capital programme, a reduction of £9.5 million (27%) compared to the prior year due to the effect of COVID-19. The Company had cash receipts of £8.1m, a decrease of £2.7 million (25%) compared to the prior year from financing activities.

The Company's net debt at 31 March 2021 is £186.6 million, an increase of £16.2 million (10%) (2020: £170.4 million). This was primarily driven by the increase in the use of our revolving credit facility which was £44.0 million at the year end, an increase of £13.0 million (42%) (2020: £31.0 million), to fund our capital programme. The carrying value of our £100.0 million index linked bond increased by £3.2 million to £168.0 million (2020: £164.9 million). This increase was driven by an average RPI of 0.6% (2020: 4.1%) and interest charges of £4.9 million (2020: £4.8 million).

### Financing ratios and credit rating

In accordance with our £100.0 million index linked bond we have restrictions on our level of gearing and interest cover ratios (ICR).

Our gearing, as measured by the bond agreement, is the ratio of net indebtedness to regulatory capital value (RCV) which is determined by Ofwat. The RCV is indexed by movement in RPI and the linking of our principal debt instrument to the same inflation index provides an effective hedge against the impact of inflation. The ratio as defined by our bond was 78.2% (2020: 72.0%), within the 80% permitted by our covenants. The increase in borrowing is driven by our continued investment in the capital programme in accordance with our Business Plan.

Our interest cover for the year was 1.6x (2020: 2.1x), and our adjusted interest cover ratio (AICR) as defined in the bond agreement (including the indexation charge on the bond) was 1.0x (2020: 1.1x), again within the minimum levels required of 1.00. The reduction in cover is driven primarily by the fall in profits over the year.

We have continued to have constructive conversations with the credit rating agencies throughout the year, with our focus on financial and operational resilience during the COVID-19 pandemic allowing us to maintain our Moody's rating of Baa2 on negative outlook.

## Managing risks

# Managing risk is a key activity embedded in our culture

Impact			
High			
Medium			
Low			
Likelihood	Unlikely	Possible	Likely

### Principal and emerging risks

We continually monitor and mitigate the risks we face. In this section we put the spotlight on some of our principal and emerging risks and how we manage them.

Those summarised over the following pages have had greater focus and discussion at Board level this year, such as COVID-19. A full set of principal risks is provided on page 62.

Our formal risk register records and ranks risks according to the likelihood of occurrence and magnitude of

impact, as well as keeping track of mitigating actions. A formal assessment of both the principal and emerging risks has been carried out, with the Audit Committee reviewing the register of risks twice a year and reporting back to the Board on new and emerging risks, changes in principal risks and the status of mitigating actions being taken to address such risks.



As new risks emerge, they are identified and assessed at an early stage so they can be included on the risk register with appropriate

mitigation put in place. We monitor them closely, and some, in time, may become fully fledged principal risks or be incorporated into existing principal risks. Some may be superseded by other risks or cease to be a risk as the internal or external situation changes.

A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of our Company. Emerging risks are new risks, familiar risks in a new or unfamiliar context (re-emerging), trends, innovations and potential game changers.

Principal risk	
<b>Cyber attack</b>	
<b>What is the risk?</b>	<b>What does it mean for us?</b>
That we may experience loss of data (including personal data) or interruptions to our key operational control systems as a result of a cyber attack.	If we experience an attack that results in the loss of data, the security of our customers' and employees' personal information could be compromised and we risk a significant fine under the General Data Protection Regulations (GDPR). If the attack is on our operational control system, it may result in us being unable provide high-quality drinking water to our customers. In this case action would be taken against us by the Drinking Water Inspectorate which would also include a financial penalty.
<b>Pledge</b>	<b>Risk after mitigating action</b>
<b>What are we doing to manage the risk?</b>	
<p>We have completed the roll-out of the next generation of anti-virus protection across all our users. This includes three layers of security and detects and blocks even the most sophisticated threats in near real-time. It is a cloud-based system and runs continually in the background without any impact on the user.</p> <p>We introduced multi-factor authentication, which requires another layer of identification when accessing our network, for all office-based staff. This is particularly important with the increase in employees working at home due to COVID-19 and is being rolled out across all users.</p> <p>We have seen a rise in phishing scams over the last year with emails being sent to employees becoming more sophisticated and appearing more authentic. To address this, we have enhanced our testing regime. We send staff different emails at different times, making it harder for them to identify a potential scam, and send emails that mimic those sent by the scammers.</p>	<p>We are also tracking how employees respond more closely and can intervene with additional support and training where needed. All new employees receive cyber security training and are immediately included in our testing programme.</p> <p>We carry out network penetration testing every six months where third party security professionals carry out controlled hacking attempts on our network. This identifies and tests any weaknesses that could be exploited by cyber criminals. No high-risk vulnerabilities were found in our most recent test, but a small number of medium-risk vulnerabilities were identified which we are addressing.</p> <p>The issue of cyber security is regularly reported to the executive management team and is discussed at the Board and Audit Committee. Separately, in the last year, the Board received cyber safety and awareness training and a full suite of online cyber awareness training is accessible for all employees.</p>



Principal risk	
<b>Water supply failure</b>	
<b>What is the risk?</b>	<b>What does it mean for us?</b>
That we experience an operational incident such as a water treatment works failure or major mains burst that results in serious disruption to water supplies.	If the main water supply to some areas that we serve is cut off for an extended period of time we would need to provide alternative supplies. In the event of an interruption to supplies we would need to ensure that priority customers such as hospitals, schools and customers with vulnerabilities are provided with adequate water supplies. Such an event could result in us failing to meet our performance commitment targets and receiving a financial penalty, as well as significant negative reputational impact.
<b>Pledge</b>	<b>Risk after mitigating action</b>
	
<b>What are we doing to manage the risk?</b>	
<p>We have upgraded Elmer Treatment Works to improve the chemical dosing that is carried out at the site, so it is efficient and meets health and safety legislation. We also replaced equipment used to soften water at the site, something we are legally required to do. Together this investment will reduce the risk of the site being temporarily shut down and disrupting services to customers.</p> <p>We also started work on a water mains renewal project in Redhill. The current water mains (some dating back to the 1890s) are beginning to reach their maximum operating capacity, due in part to the amount of new development in the town. We will be laying approximately 1.5 kilometres of new main across Redhill in a phased approach over the next two years.</p>	<p>A key focus of our work this year has been to start the roll-out of our intelligent water network. This uses Vodafone's next generation Narrowband Internet of Things (NB-IoT) 5G network which has deeper coverage underground and within buildings; and advanced loggers that leverage the benefits of the NB-IoT network by recording and providing more accurate, consistent and detailed data so we better understand how our network is performing. We then apply Aquasuite software, which has Artificial Intelligence (AI) and machine learning capability. It takes signals from the network sensors, performing in near real-time, predictive analysis to compare expected with actual performance. Together this combination of new technologies will revolutionise how we monitor, react and carry out maintenance on our network so we reduce the risk of bursts and supply failures.</p>

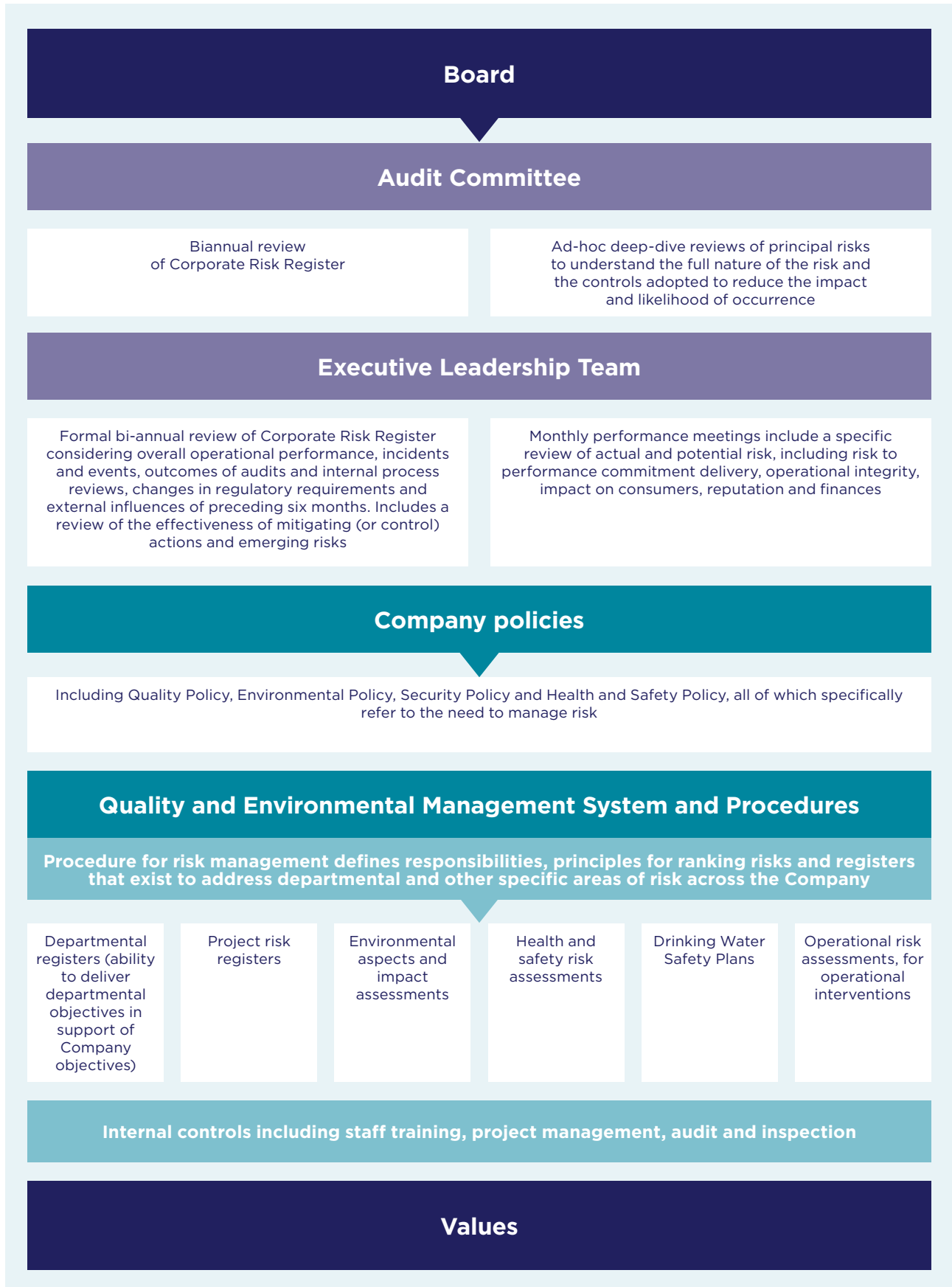
Principal risk	
<b>Water supply shortage due to drought</b>	
<b>What is the risk?</b>	<b>What does it mean for us?</b>
That we experience a period of low rainfall that results in a drought which means less water will be available to supply our customers.	If a drought occurs, we will need to change the way we operate some of our water sources and ask customers to use less water. As the drought develops and becomes more serious, we will need to restrict certain activities that use water. If a drought becomes severe, we will need to take emergency measures to ration supplies. This will have a significant impact on customers, businesses, the environment and the economy as well as damaging our reputation and that of the water industry.
<b>Pledge</b>	<b>Risk after mitigating action</b>
	
<b>What are we doing to manage the risk?</b>	
<p>We are planning ahead to make sure we have resilient water supplies. Climate change is expected to change rainfall patterns affecting how much water is available from our water sources and when that water will be available. As a result, more serious and frequent droughts are expected in the future. We have been working with our neighbouring water companies as part of Water Resources South East (WRSE) to apply the most recent climate projections to our water resources, so we know which are most vulnerable to the impact of climate change.</p> <p>Over the next year WRSE will develop a regional resilience plan that will forecast how much additional water is needed in the future to build resilience to drought and deliver environmental improvements. We are continuing to invest in new water mains so that we can serve all of our customers by more than one water treatment works by 2025, reducing the risk of supply loss.</p>	<p>It will plan for more severe drought events, those that would only be expected to occur once in every 500 years, in line with new Government policy. It will identify where new sources of water need to be developed, where new transfers should be constructed so water can be moved around and where we need to do more to reduce demand, so water supplies are more resilient in the future. The regional plan will inform our next Water Resources Management Plan which identifies the solutions we need to progress to secure water supplies.</p> <p>We have updated our Drought Plan, which is the operational plan we follow when a drought occurs. This is subject to statutory consultation and will be finalised this year.</p>

## Managing risks

Continued

Principal risk	
<b>COVID-19</b>	
<b>What is the risk and what does it mean for us?</b>	<b>Bad debt increase</b>
The pandemic has had a far-reaching impact on water companies' operations and caused a number of the risks on our risk register to become a reality or increase in likelihood.	This risk has increased to high due to the financial impact the pandemic has had on some household customers and their ability to pay their water bills, resulting in an increase in bad debt. Likewise, retailers deferred payment of their wholesale charges in the year because so many businesses have been impacted, although all deferred balances have now been repaid to us.
<b>Staff absence and wellbeing</b>	<b>Penalties from non-delivery of Business Plan performance commitments</b>
The risk of staff absence has remained high throughout the year but we have seen a lower level of absenteeism than projected. We are mindful of the impact COVID-19 is having on the mental health and wellbeing of our employees, both now and as we start to re-mobilise in line with Government guidance.	We have been unable to make as much progress against some of our performance commitments in the first year of this Business Plan period as expected. This is because lockdowns and social distancing requirements have stopped us carrying out some non-essential activities. In particular, our work to reduce household consumption and tackle leakage have been impacted, as well as the next phase of our network resilience programme.
<b>What are we doing to manage the risk?</b>	
<p>We have had an incident management team running throughout the pandemic with an executive director incident controller. This has been the primary mechanism for our decision-making in accordance with the latest Government advice. Key activity through the team has included establishing risk assessments for high-priority activity to ensure it is carried out in the safest way for employees and customers.</p> <p>Where possible, office-based staff have continued to work at home and the number of people entering offices and sites has been tightly controlled. We have provided operational employees with appropriate protective clothing and put in place policies to minimise the risk of transmission of the virus. We recognise the impact the pandemic has had on people's mental health and have increased the support we provide to employees, including training more mental health first aiders and providing free subscriptions to the Headspace mindfulness app. We are developing a comprehensive wellbeing strategy for the future, too.</p>	<p>We have put in place a permanent 'breathing space' scheme which offers customers a three-month break if they are struggling to pay their bills. Furthermore, over 20,000 customers are now on our Water Support Scheme that discounts bills by 50%, helping to make bills more affordable while maintaining cash flow into the business.</p> <p>All retailers are required to offer a repayment plan for business customers. We have been part of the industry group that is working with Ofwat and the market operator MOSL to support retailers while also ensuring wholesale charges are paid.</p> <p>Despite the pandemic we have managed to achieve our leakage reduction target for the year. We have also updated our policy for how we help customers with leaks on their supply pipe and internal pipework.</p> <p>We have proactively offered virtual home water efficiency checks to all our customers to help them reduce their water usage. We have also installed meters as part of a repatriation programme with Raven Housing Trust tenants to help them save water and money.</p>
<b>Emerging risks</b>	
<b>Climate change</b>	<b>Governance</b>
We fail to adapt early enough to sustainability challenges, such as those indicated through Water UK's Public Interest Commitment, or there fails to be adequate funding to achieve our stretching environmental and climate-related targets.	We do not plan our longer term business-wide resilience work in the context of both Ofwat and the recent Department for Business, Energy & Industrial Strategy consultation on restoring trust in audit and corporate governance.













## Board oversight of risk



## Principal and emerging risks

# Managing risk is a key activity embedded in our culture

Our principal risks are provided in the table below, grouped into categories that consider financial and reputational impacts. Key emerging risks are also shown, which have the potential to increase in significance, and we have also indicated where COVID-19 has a specific impact on our risks. We continually monitor all of our risks and a formal register ranks them and keeps tracks of mitigations.

Risk	Pledge	Effect	Mitigations	Risk after mitigating action	Additional COVID-19 impact
<b>Business systems</b>					
<b>Cyber attack</b>		Interference with operational controls Loss of personal data	<ul style="list-style-type: none"> <li>Multiple layer security</li> <li>Controlled access to Company systems</li> <li>Participation in expert forums</li> <li>Regular testing and enhancement of security measures</li> <li>Increased employee awareness training</li> </ul>		Increased risk of fraudulent activity More employees working remotely
<b>Non-compliance with legal obligations</b>		Failures lead to enforcement action and reputational damage	<ul style="list-style-type: none"> <li>Improved employee training</li> <li>Formal processes for compliance with market codes</li> <li>Increased dedicated resources</li> <li>Independent assurance</li> </ul>		N/A
<b>Failure of billing system</b>		Temporary loss of revenue Poor customer experience	<ul style="list-style-type: none"> <li>Current billing system is being replaced</li> <li>Detailed controls in place for transition</li> <li>Disaster recovery arrangements tested annually</li> <li>Adequate liquidity for temporary loss of billing capability</li> </ul>		Delay in implementation of new billing system
<b>Inability to adapt to impact of climate change</b>		Failure to meet regulatory expectations Environmental impact affecting water resources Financial impact of inadequate investment	<ul style="list-style-type: none"> <li>Specific environmental performance commitments in our business plan</li> <li>Creation of a new Environmental Scrutiny Panel</li> <li>Dedicated Energy &amp; Carbon Manager and Energy Strategy Committee</li> <li>Board leadership through a new environmental, social and governance strategy (ESG)</li> </ul>		N/A
<b>Physical assets</b>					
<b>Water supply shortage due to drought</b>		Customer demand not met	<ul style="list-style-type: none"> <li>Detailed water resource management planning including at a regional level</li> <li>Updated drought plan out for consultation</li> <li>Maintaining ability to treat peak demand at treatment works</li> <li>Resilience and flexibility of network</li> <li>Roll-out of universal metering programme</li> <li>Water efficiency programme</li> </ul>		Increased demand with more people at home Unable to fit meters inside homes during full lockdowns
<b>Large scale water supply or quality failure, including by deliberate acts</b>		Disruption to supplies Failure of statutory duty	<ul style="list-style-type: none"> <li>Increase in prosecutions for illegal connections</li> <li>24/7 manned Control Room and standby arrangements</li> <li>Detailed control procedures and automated treatment processes</li> <li>Security measures at all sites</li> <li>Asset flood protection</li> <li>Extensive sampling regime &amp; in-house laboratory</li> <li>Targeted asset investment</li> <li>Increase in number of customers who can be supplied by more than one treatment works</li> </ul>		Employee absence levels have been manageable and any small scale incidents have been responded to



### Impact

High			
Medium			
Low			
Likelihood	Unlikely	Possible	Likely

### Pledges

	We will provide you with high-quality water all day, every day		We will provide excellent service, whenever and however you need it
	We will provide your service at a fair price and offer help when you need it		We will support a thriving environment we can all rely upon
	We will provide you with a service that is fit now and for the future		

Risk	Pledge	Effect	Mitigations	Risk after mitigating actions	Additional COVID-19 impact
<b>People</b>					
<b>Absence of large numbers of staff</b>		Failure of normal business operations	<ul style="list-style-type: none"> <li>Health benefits including flu injections offered to employees</li> <li>Staff engagement and consultation to avoid industrial action</li> <li>Focus on health, safety and wellbeing of staff</li> <li>Cross-training and succession planning</li> <li>Annual disaster recovery exercises</li> <li>Industry mutual aid agreements</li> </ul>		Absence levels have been manageable
<b>Failure to recruit, retain and develop high quality staff</b>		Degradation of service to customers and business success	<ul style="list-style-type: none"> <li>Competitive employment conditions and employee benefits</li> <li>Investors in People silver recognition</li> <li>Performance-related pay for senior employees</li> <li>Use of expert recruitment partners</li> <li>Staff recognition schemes</li> <li>Training and development</li> <li>Annual employee engagement survey</li> </ul>		Staff turnover remains low but potential delays to recruitment Increase in expectation for flexible working arrangements
<b>Financial</b>					
<b>Penalties for not delivering regulatory performance targets</b>		Lower revenue recovered from customers Reputational damage including the impacts of not achieving our C-MeX and D-MeX targets	<ul style="list-style-type: none"> <li>Improvement and recovery plans in place. This includes improving services to all our customers, including developers, through targeted action plans and supplemented by system improvements through the implementation of a new billing system</li> <li>Dialogue with regulators including representations on specific impacts of the pandemic</li> </ul>		The pandemic has affected performance in certain key areas such as reducing leakage and consumption, identifying properties that are connected to our network but not charged and adequately supporting developers when the construction industry re-started
<b>Resilient financing</b>		Insufficient funding to fulfil duties Failure to meet efficiency targets Increase in borrowing costs breaches financial covenants	<ul style="list-style-type: none"> <li>Updated totex plan in place</li> <li>Reviewing optimal financial arrangements to ensure gearing remains at an acceptable regulatory level</li> <li>Credit agency liaison</li> <li>Detailed treasury controls at key measurement points</li> <li>Independent audit</li> <li>Adequate reserves in place</li> </ul>		Reduction in number of customers able to pay their bill impacting our liquidity Financial market instability
<b>Customer participation</b>					
<b>Increase in bad debt</b>		Loss of revenue, reducing liquidity with increased reliance on debt	<ul style="list-style-type: none"> <li>Variety of bill payment support options offered</li> <li>Regular reviews of cash collection and debtor rates</li> <li>Recovery plan in place</li> <li>Payment of deferred wholesale charges from retailers</li> </ul>		Increase in customers experiencing financial hardship Closure of many businesses during lockdowns Additional bill payment holiday options offered

The Strategic Report was approved by the Board of Directors on 2 July 2021 and signed on its behalf by Paul Kerr, Chief Financial Officer