

# Responding to a changing environment

The last year has been dominated by the PR19 Business Plan process. Water companies submitted their Business Plans for 2020 to 2025 to Ofwat in September 2018, setting out how they will improve services to customers and the cost of water bills over the period. Each company received an initial assessment of their plans (including a categorisation) at the end of January 2019 - only three companies were fast tracked to receive early draft determinations.

For most companies, including ourselves, further work was needed, and more detailed information and updated plans were re-submitted by the 1 April 2019 deadline. Ofwat has indicated that further work is required by several companies, including us, to address the cost assessment challenges raised as part of the regulatory review process. We will continue to engage with them on this ahead of the final determination in December 2019.

There has been significant activity by Government, regulators and water companies in a number of key areas over the last year to address issues associated with trust and confidence in the sector, resilience to drought and environmental enhancements. Furthermore, the future priorities for economic regulation have come under the spotlight.

### Public Interest Commitment

Water companies, including us, have strengthened our commitment to acting in the public interest by working together towards five challenging goals by 2030:

- Triple leakage reduction
- Strive to end water poverty
- Achieve net zero carbon emissions
- Prevent 4 billion plastic bottles ending up as waste
- Achieve 100% commitment to the Social Mobility Pledge

## Market drivers

### Trust and confidence

**“Water companies deliver essential services that are vital for public health, the environment and economy and a well-functioning society. Holding a monopoly licence to provide this service is a privilege. Customers rightly expect companies to take this special responsibility seriously and to be accountable for their actions.”**

Rachel Fletcher, CEO, Ofwat

### Resilient water supplies

**“Without further action there is a 1 in 4 chance over the next 30 years that large numbers of households will have their water supply cut off for an extended period because of a severe drought.”**

Sir John Armitt, Chair, National Infrastructure Commission

### Enhancing the environment

**“I want water companies to invest in the long-term future of our environment. It is right that the Environment Agency is challenging water companies to go further. This significant investment will help tackle some of the biggest challenges facing the natural environment. It will help to improve our waterways, increase biodiversity and combat non-native invasive species. This will support our goal to leave the environment in a better state for future generations.”**

Michael Gove, Secretary of State for the Environment

### Future of economic regulation

**“The UK has a world-class regulatory system which protects the interests of consumers. But it needs to be fit to respond to the challenges of the future to remain cutting-edge. Therefore, the Chancellor announced he will commission the National Infrastructure Commission to carry out an independent study of the telecoms, energy and water regulators. This will ensure they have the ability to encourage investment, promote competition and innovation and meet the needs of consumers in the 21<sup>st</sup> century.”**

HM Treasury

### Did you know?

18 regional water companies operate in England and Wales

8 provide drinking water only (SES Water included) known as **WoCs**

10 provide drinking water and remove wastewater known as **WaSCs**

## What's happened?

Ofwat published its 'Putting the sector in balance' position statement setting out its expectations for Board leadership, transparency and governance. It addressed issues such as dividend policy, executive pay and financial resilience to ensure the right balance is being struck between companies, shareholders and customer interests.

There has been increased focus on how the industry operates for the wider public interest given the essential service it provides.

## What have we done?

- Reduced our level of gearing (the balance of money we receive from shareholders compared to what we borrow from lenders) from c.77% to c.61% as at 31 March 2019 to increase our financial resilience
- Published our 'Keeping it clear' document to explain how we are owned, run and financed
- Committed to Ofwat's principles for dividend and executive pay policies in our Business Plan for 2020 to 2025
- Expanded the Corporate governance report in this Annual Report, together with a revised regulatory report which contains a new Board statement requested by Ofwat
- Worked with Water UK and our industry colleagues to put the public interest and our role in supporting a healthy and prosperous society at the heart of everything we do through the development of an industry-wide Public Interest Commitment
- Signed up to the Energy & Utility Skills Inclusion Commitment to workforce diversity to better reflect the communities we serve

The publication of the National Infrastructure Commission's (NIC) first National Infrastructure Assessment shone a light on what is needed to secure long-term water supplies. This was followed by a direction from Government and industry regulators for companies to strengthen regional water resource planning to identify the strategic water resource infrastructure and demand management activity needed to increase drought resilience.

The Environment Agency began the development of a National Framework to support and co-ordinate the water resource planning process and, along with Ofwat and the Drinking Water Inspectorate, committed to form a regulatory alliance to streamline the delivery of water infrastructure projects.

The Government consulted on a draft National Policy Statement for major water infrastructure projects and announced its intention to set a national per capita consumption target to cut household water use.

- Committed to halving leakage and reducing demand to below 118 litres per person per day by 2050 in our Business Plan, in line with the NIC's recommendations
- Included a programme in our Business Plan to meter 90% of homes in our region by 2025
- Worked as part of Water Resources South East (WRSE) to enhance the role of regional planning through the production of a multi-sector resilience plan
- Continued our 15-year plan to install additional water mains to ensure 100% of our customers can be supplied by more than one treatment works

The Environment Agency published the Water Industry National Environment Programme (WINEP) setting out the investment water companies need to make to improve the environment between 2020 and 2025.

The Government started work on an Environment Bill which will deliver the aspirations of the 25-year Environment Plan. It included a consultation on how to better manage water in the natural environment.

- Included £1.5 million of investment in our Business Plan to deliver the requirements of WINEP in our region. We've also committed to increasing biodiversity at a number of operational sites
- The WRSE regional resilience plan will enhance the environment across the region by leaving more water in the environment and identifying options that will increase natural capital and deliver environmental net-gain
- Moved to purchasing only renewable energy for use in our operations and started the replacement of our diesel vehicle fleet with electric vehicles

The Government asked the NIC to conduct a study into regulation of the UK's energy, telecoms and water industries, to ensure the necessary levels of investment and innovation whilst these critical services are kept affordable for everyone.

The National Audit Office (NAO) published a report on how well regulators measure and report their performance in protecting the interests of customers which concluded that more needs to be done to give consumers confidence that they are providing value for money and protecting those that need it.

- Continued to commit significant management and Board time to compliance with the regulatory framework
- Supported a review of the regulatory framework and in particular changes that will help ensure that the regulatory weight placed on us is proportionate and at the level necessary to protect the interests of those that we serve