

Chairman's introduction

As we enter the third year of the current business plan period of 2015 to 2020 Southern Water has seen some significant improvements in both its operational and customer service performance.

For example, we have seen further reductions in flooding and blockages across the network and reduced restoration of service times where water supplies have been interrupted. At the same time we have been working hard to make improvements in more challenging areas such as data quality and customer service.

Our renewed focus on customer service included the appointment of Simon Oates, formerly our Director of Strategy, to the post of Chief Customer Officer and the expansion of our proactive customer team. By better predicting what our customers need we have been able to increase the number of issues resolved before they become a concern. This is evidenced in the 47% reduction in the number of written complaints received over the past year, and the 71% reduction in the number of escalated complaints. Our historic performance was significantly below industry average in this area and while we are pleased with this performance we recognise that we still have more to do.

In other areas we continue to face challenges from our regulators Ofwat, the Drinking Water Inspectorate and the Environment Agency. These are each covered in more detail in our Chief Executive's summary.

Ofwat constantly reviews the information we report to our stakeholders, and during 2016–17 its view was that we failed to meet requirements in terms of our information transparency and quality. As a Board, we called for an urgent review of our monitoring framework, and we have since made a number of changes which we are sure will restore confidence in the way that we present our data. We are also working with Ofwat in relation to the management and operation of our wastewater treatment works and the reporting of relevant information in connection with them.

The Board remains fully focused on further improving performance over the coming years to meet and exceed the expectations of our customers and wider stakeholders.



*Chairman
Bill Tame*

Governance and the Board

Last year saw a number of significant changes to the Board. Matthew Wright stepped down as CEO on 31 December. I would like to take this opportunity to thank Matthew for his valuable contribution to Southern Water during his six years of service. He was replaced by Ian McAulay. Ian is well qualified to lead the business as we look to deliver a significant capital programme, improve customer service and set out our plans for the long-term development of Southern Water. Ian comes with substantial experience in the UK regulated utility, construction and environmental services sectors with United Utilities and Viridor and I am delighted to welcome him to the Board.

At the end of February of this year and after three successful years in the post, Robert Jennings stepped down as Chairman and I am grateful to him for his focused leadership which meant that I inherited a Board of talented individuals who are well positioned to lead the company in to the next price review period. It was an enormous privilege to become Chairman of the Southern Water Board in March 2017, having served as an independent non-executive director for the past two years, and I look forward to working with the Board in continuing to improve performance and deliver innovative solutions to the challenges facing the sector.

During 2017–18 we will be looking to strengthen the Board with the appointment of two further non-executive directors. These new appointments, which we will announce in due course, will provide the additional expertise to support the executive team as they take the company to a leadership position in the sector.

Key highlights

We based our Five-year Business Plan 2015 to 2020 around achieving a set of promises made to our customers. As highlighted in our Year In Review, over the past year we have continued to deliver on these commitments by:

- *improving our customer satisfaction score and position in industry league tables*
- *increasing the number of customers we contact proactively to resolve problems before they become a concern. Our proactive team has contacted more than 100,000 customers during 2016–17*
- *increasing the number of customers we are helping with debt prevention advice, affordable tariffs and water-saving home visits*
- *continuing to reduce sewer flooding by tackling blockages on our network*
- *setting a new 100% record for recycling*
- *launching a new community grant scheme to help those directly affected by our activities*
- *increasing the number of excellent bathing waters in our area to 51 from 43 last year*
- *working hard to maintain industry leading standards in health and safety*
- *continuing our work with customers to reduce consumption and keep leakage levels on our network to a minimum.*

Our Strategic Report (pages 23 to 86) will describe in more detail how we have delivered these benefits to customers.

We have been working hard to make improvements in customer service



Resolving more issues before they became a concern for customers helped us reduce written complaints by 47%

Our people

On behalf of the Board, I would like to thank the dedicated employees who give this company its energy and enthusiasm, as well as our partners and contractors for their contribution to our successes. As I visit some of the many Southern Water sites, I am always impressed by the dedication that our employees show in ensuring we deliver the level of service our customers have a right to expect, and I look forward to meeting many more of them during the course of this year.

Our commitment to ensuring that we safeguard the future by taking on young people as apprentices, trainees and graduates will receive a higher level of focus in the coming year as we review progress in this critical area.

Finally, I would like to thank my fellow Board members for their strategic contributions, which have been critical in developing a customer-focused approach to our future plans.



Let's Talk Water considers customer priorities for the next 25 years

A look ahead

We have a lot to be proud of over the past year with progress made in a number of challenging areas. As with all significant improvements though, we recognise that there will always be opportunities to do more and our management is committed to maintaining this positive transition.

We are tackling issues such as climate change and population growth head on, developing innovative and resilient solutions, such as water reuse schemes and energy-from-waste initiatives, to ensure we maintain a sustainable service for our customers.

We have begun work on our next business plan for 2020–25 and have been talking to customers and stakeholders across our region to understand their priorities. We have also launched an interactive, Have Your Say area on our website so customers are able to share their views with us.

We have now published the first part of our Strategic Statement, Let's Talk Water – Starting the Conversation. This important document sets out key messages from our customers and stakeholders about their priorities for the next 25 years, as well as providing a view on the specific challenges faced by our region. In it we also identify possible ways in which we can transform our business to ensure that we can continue to deliver these priorities, while meeting the challenges we face and taking advantage of the opportunities we have to deliver smarter solutions.

let's talk water

We are currently seeking feedback on whether we have captured the right priorities and identified the right challenges and opportunities to enable us to finalise our Strategic Statement, which will be published in the autumn. The ongoing insight that we gain from these conversations will form the basis of all subsequent plans, including our Drought Plan, Water Resources Management Plan and Business Plan, which we will publish between now and 2020.

Our plans must demonstrate that customers have had their say, are charged a fair price and their needs have been balanced with the needs of the environment. These plans are then scrutinised and reviewed by our regulators, the Consumer Council for Water and our independent Customer Advisory Panel to confirm this is the case.

As the regulatory landscape changes, preparing ourselves for the introduction of retail competition for water services to non-household customers has also been a high priority. We announced last year that we were selling our non-household retail business to Business Stream, a specialist retailer at the forefront of the competitive market in Scotland. Around 100,000 of our non-household customers have been transferred so our teams have been working hard to ensure the transition to Business Stream has been as smooth as possible. This was completed successfully in time for the opening of the non-household market on 1 April 2017.

We remain confident in the long-term prospects of the company and in our ability to thrive in an increasingly challenging environment and we look forward to making further progress in 2017–18.

Bill Tame
Chairman