Sustainability

A year of challenge and opportunity

The last 12 months have, once again, demonstrated the absolute importance of our ongoing and increasing focus on our environmental, social and governance (ESG) agenda: the impact our operations have on the environment, and how we mitigate this; the post-COVID cost of living crisis fuelled by geopolitical events, and how we best protect customers from its effects; the importance of preparing for possible future scenarios, and providing transparency and line-of-sight on those impacting us today to key stakeholders.

In a year that saw more UK weather records broken, triggering a nation-wide drought, the storm overflow scandal engulfing our employees elsewhere in the sector and annual inflation reaching levels not seen since the 1970s, the challenges that we and the sector must rise to have never been more apparent.

Additionally this year, the requirement for us to progress our periodic and long-term planning processes have provided opportunity to review and update our aspirations and approach with regard to sustainability. Whilst this work continues, strong progress has been made in several areas critical to the ESG agenda.

Updating our Water Resources Management Plan

Our WRMP is a 50-year blueprint for water resources management developed in collaboration with other water companies in the South East. It is contingent on extensive consultation with our stakeholders. Over the last 12 months, we have developed our draft WRMP for 2025 to 2075. Our final plan to be published later this year.

The WRMP is required to demonstrate water sufficiency for people, the environment, and the wider economy in the long term. Water resources are under pressure from population growth, climate change and the growing economy, resulting in increased demand for water alongside its reduced availability. The vital need to ensure that the environment is not only protected, but improved, is also an integral consideration in these plans. We understand these pressures and plan to mitigate them to ensure a continuity of water supply over the coming decades. Our plan is primarily focused on reducing loss of water through leakage, and use of water through facilitating improved efficiency in both homes and businesses.

The South East of England is expected to have a water deficit of up to 2.7 billion litres a day by 2075 if no action is taken to proactively manage water resources. Our WRMP outlines the actions we will take to ensure that we can supply enough water to meet the increasing demand.

Our WRMP forms an integral part of our Long-Term Delivery Strategy (LTDS).

Improving the environment

Alongside the development of our WRMP, we have been working closely with the Environment Agency and other key stakeholders to develop the next phase of our environmental improvement programme. The WINEP comprises a range of statutory and voluntary deliverables aimed at protecting or improving key aspects of the environment – including the control of the spread of invasive non-native species and the protection and improvement of raw water quality and resource levels.

Our work to deliver the current WINEP programme remains on track, and in developing our plan for the next five years – which in turn will help inform future WINEP programmes – we have incorporated more work aimed at delivering truly catchment-wide, multiple benefits, requiring partnership working and co-funding, and opening up the prospect of nature-based solutions in a range of cases.

Building our Long-Term Delivery Strategy

We have developed our LTDS as part of our regulatory submission later in 2023. Focused on the next 25 years, our LTDS will set out our ambition for delivery of a wide range of outcomes for our customers and the environment between now and 2050.

This strategy will propose a core plan, detailing the actions we will take to achieve the required outcomes, and will also incorporate a range of alternative plans that may need to be adopted should the landscape change in the intervening period – for example due to slower population growth, faster climate change, or the rate of technology enhancements.

We published a draft LTDS towards the end of last year and will publish our final LTDS in October 2023.

Preparing for submission of our next Business Plan

All of these planning processes, alongside significant and simultaneous stakeholder and customer engagement, are informing the shape of our Business Plan for the next five years. We are confident that our ESG agenda will figure strongly in this plan.

Governance and reporting of our ESG strategy

The governance structure, and the roles of each Committee, with respect to ESG are presented below, including the ESG Committee that was implemented in the last year. We continue to report on most of these elements in our Annual Performance Report and are preparing to formally report on our performance against the targets in our ESG strategy when fully developed by the ESG Committee.

The Board considers that – through the Committee and Panels below – it has the appropriate expertise to deal with various ESG matters, including climate change, especially with the support provided by the Environmental Scrutiny Panel. External expertise continues to be utilised when required on such matters, including on carbon reporting and reduction, pollution prevention and biodiversity improvements.

The various Board and Executive Committees noted below all continue to cover multiple aspects of ESG. Therefore, in terms of reporting to the Board, the ESG Committee noted below has direct responsibility for collation and reporting of ESG matters directly to the Board, taking into account all ESG matters raised in the other committees, and ensuring the Board has one direct route for understanding ESG strategy, initiatives and associated metrics and reporting.

Board ownership

Nomination Committee

Remit: Ensures appropriate Board and executive recruitment and succession planning with a focus on effective Board structures, composition, experience and diversity.

Remuneration Committee

Remit: Considers all aspects of pay and rewards for the Board, executive and senior management, ensuring pay is appropriately aligned to performance.

Audit Committee

Remit: Ensures management maintains an appropriate system of controls in the business to provide governance around key Company policies and procedures, including external reporting, and mitigate risks of bribery, tax avoidance, corruption or political lobbying.

Governance Committee

Remit: Covers a broad range of governance requirements in the business, including adherence to Ofwat's Board Leadership, Governance and Transparency objectives incorporated into the Company's licence.

Energy Strategy Committee

Remit: Considers various aspects of the Company's energy policies, including energy procurement and key initiatives to achieve net zero carbon by 2030.

Health, Safety and Wellbeing Committee

Remit: Ensures the Company adheres to strict health and safety standards across the business, and that there is appropriate focus on employees' wellbeing, especially recently in light of the cost of living crisis.

Executive management ownership

Equality, Diversity and Inclusion Committee

Remit: Ensures the Company promotes and supports an inclusive environment built on our values where anyone can flourish, irrespective of their background and personal characteristics.

Independent scrutiny panels

Environmental Scrutiny Panel

Remit: To scrutinise, challenge and help accelerate our environmental ambition and to ensure the needs of the environment are integral to our strategy and operations.

Customer Scrutiny Panel

Remit: Ensures the interests and expectations of our customers are put at the heart of our activities. The focus of its scrutiny is on customer engagement and the service we provide, social purpose, community engagement and vulnerability.

Environmental, Social and Governance Committee

Remit: A management-led committee being formed to ensure all aspects of the ESG framework are being appropriately actioned and reported to the Board and other stakeholders.

Sustainability continued

Progress alongside resilient performance

We are proud that, during a year where the environmental, social and resilience credentials of the water and wider utility sector have been called into question by many stakeholders, we continue to deliver across all aspects, whilst at the same time remain agile to ensure our forward strategy remains fully fit-for-purpose.

Water resources

Following a hugely challenging year for the sector, our work to maintain resilience in our water resources, alongside the actions of our customers, allowed us to avoid imposing temporary use bans during the drought.

Winter rainfall, seeing 130% of the long-term average, resulted in our water resource levels ending the last year in a better position than they started 12 months prior.

Whilst higher than planned, we saw PCC reduce slightly over the last 12 months, with measured customers using on average 1,37l/hd/day, and unmeasured around 1,57l/hd/day. This, during a drought year, provides a reassuring sign that the benefits of our metering programme and associated communications are having a positive impact. Despite the inevitable impact of the weather on our network – from both the drought and last December's freeze/thaw – resulting in a slight increase in leakage, we continue to meet our overall leakage reduction target and remain on track to deliver a 15% reduction by 2025.

With our universal metering programme progressing, ongoing focus on leakage reduction and the ever-evolving changes in customer attitudes to water use, we saw significantly lower demand during the record-breaking temperatures of early July 2022, peaking at some 10% lower than the previous record-breaking heatwave in 2003.

Environmental compliance and pollutions

We remain in full compliance with all our 17 environmental abstraction licences and four discharge permits. Additionally, our ongoing delivery of our pollution performance commitment now means that it has been more than 15 years since we last caused a category 1 (serious) or 2 (significant) pollution incident.

Category 3 (minor) pollutions can occur following burst water mains, and we continue to work hard to ensure we pre-emptively report these incidents to the EA. Over the last year, we have commenced training workshops for our employees, led by the EA, to help us better respond, assess and mitigate the impacts of such events. These joint workshops will continue over the next year.

Biodiversity

Reaccreditation of our Biodiversity Benchmarks at Elmer WTW and our Fetcham Springs site have been achieved this year, with good progress being made towards the planned award of the benchmark at our third target site, Bough Beech WTW, in March next year. This includes consideration of a significant expansion of sites where we are working to promote biodiversity net gain in the run up to and during the next business planning period and beyond.

We have continued our work with Bore Place, a charity local to our Bough Beech site, and a number of other partners to assess opportunity to develop biodiversity net gain on a landscape scale. This has helped inform our WINEP strategy and will, we predict, provide a blueprint for work elsewhere across our operational area.

We have welcomed Ofwat's inclusion of biodiversity as a common performance commitment in the next Business Plan and applaud Defra for the prominence it has been given in the recently published Integrated Plan for Water, which we fully support.

Environmental	Social	Governance
Climate change (reporting)	**Health and safety**	**Board structure and diversity**
Carbon transition PIC* – achieve net zero carbon emissions	**Customer relations**	**Policies and procedures**
Sustainable water management PIC* – triple leakage reduction	**Priority Services Register**	**Pay and reward**
Customer usage reduction	**Education and social mobility** PIC* – be the first sector to achieve 100% commitment to the Social Mobility Pledge	**Shareholder returns**
Waste and pollution PIC* – prevent four billion plastic bottles ending up as waste	**Access and affordability** PIC* – strive to end water poverty	**Bribery and corruption**
Biodiversity Benchmark	**Workforce relations and equality, diversity and inclusion**	**Political lobbying and donations**
WINEP	**Charitable giving and community support**	

* Public Interest Commitment.

Greenhouse gas emissions and net zero carbon

We continue to take action to reduce our carbon footprint resulting from our operational activities and have again met our performance commitment, with emissions of 41 $kgCO_2e$/Ml, compared with 47 $kgCO_2e$/Ml last year, the first result under this methodology that was not unduly influenced by suppressed operational activity during the COVID pandemic.

Greenhouse gas emissions are calculated using the UK Water Industry Research Carbon Accounting Workbook, which is updated annually to reflect changes to emissions factors and carbon reporting guidance from the UK Government.

Net operational greenhouse gas emissions (market-based reporting) in 2022/23 were 2,289 tonnes of carbon dioxide equivalent (tCO_2e) (2021/22: 2,800 tCO_2e), around an 18% decrease on the previous year. This equates to operational emissions of 37 $kgCO_2e$ per million litres of treated water (2021/22: 46 $kgCO_2e$/Ml). Using 2021/22 emissions factors, operational emissions for 2022/23 would be equivalent to 2,800/62,135.68 = 45 $kgCO_2e$ per million litres of treated water.

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (direct emissions)
- Scope 2 (indirect energy use emissions)
- Scope 3 (emissions from outsourced services and business travel).

	FY2022 (tCO_2e)
Scope 1	880
Scope 2	–
Scope 3	1,410

To enable like for like comparison with previous years, excludes emissions from chemicals and upstream emissions of purchased fuels required for Ofwat report from 2022/23.

Operational greenhouse gas emissions for 2022/23 for the regulated business include (2021/22 emissions are in brackets):

- Gas consumption: 947,045 kWh and 173 tCO_2e (1,244,341 kWh and 228 tCO_2e)
- Consumption of travel fuels: 1,679,218 kWh and 424 tCO_2e (1,649,168 kWh and 421 tCO_2e)
- Purchase of electricity by the Company for its own use, including for transport: 54,332,386 kWh and 0 tCO_2e (52,506,268 kWh and 0 tCO_2e).

Note: all conversions are using the relevant greenhouse gas reporting figures on a net calorific value basis.

The data for consumption of transport fuels covers vehicles for which the Company is responsible for the purchase of fuel. It includes an estimate of business miles in company cars which are refunded through expenses. This is because the distance information is not practical to obtain. The Company is exploring options to digitalise the expenses process to make this information more accessible.

We have continued the decarbonisation of our vehicle fleet, with now over 30% of our cars and light goods vehicles fleet being pure electric. Alongside this, work to remove the burning of fossil fuels has been mixed over the last year: we have further reduced our dependency on natural gas for space heating and have proven the ability of our standby generator sets to run on pure biofuel. However, supply difficulties and escalating costs owing to the war in Ukraine have prevented a full switch-over to biofuel at this time.

In 2022/23, we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all sites. The Company has 42 charging points across 100% of our operational treatment works and head office. The Company has solar panels installed at five treatment works and at its Redhill head office. In 2022/23, these generated 336,548 kWh (2020/21: 290,024 kWh).

This year there was a reduction in natural gas usage at our treatment works following investment in insulation improvements, which were completed in 2022/23. A programme to remove fossil fuel boilers also commenced during the reporting period. Fuel oil use fell because we did not take part in Triad avoidance, so our generators were not run as regularly.

Our work on demand reduction, energy efficiency and switching to more renewable sources of energy will continue over the coming year and beyond. Alongside this, we have for the first time assessed our embedded carbon emissions over the last year. We will now report this figure annually alongside our operational carbon emissions, and update our net zero carbon routemap to reflect an ambition to reduce both types of carbon emissions simultaneously.