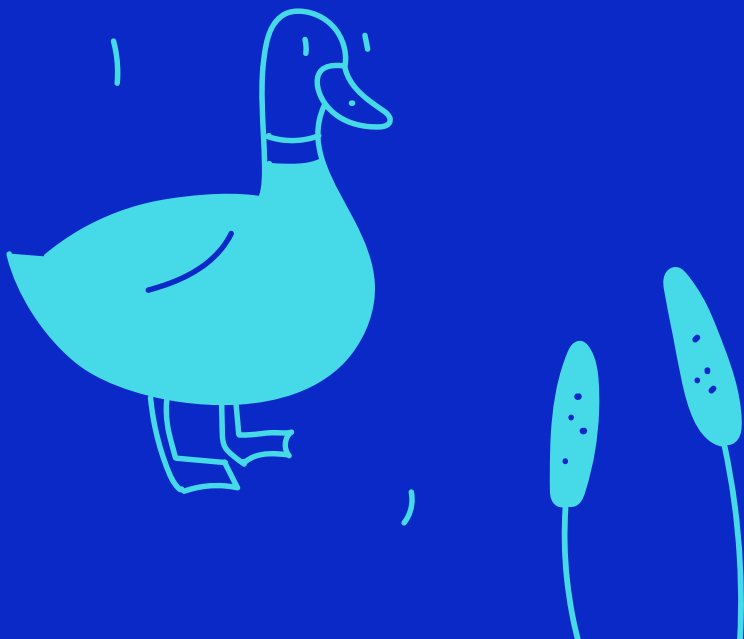


Affinity Water

# Designing Our Future Together



# Our Strategic Direction Statement 2025–2050

December 2021



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# Message from the CEO

## I am delighted to present our long term vision for taking care of your water.

Affinity Water's refreshed strategic direction statement comes at a vital time for the water industry in the run up to the next price review, and at a time when the world around us is in great flux. While the pandemic has shown the resilience of the sector, it has changed everyone's lives and the effects will continue to shape society for many years to come. Climate change and environmental protection are now firmly at the top of the agenda for customers, stakeholders and policymakers alike. And at the same time, there is renewed concern over protecting the most disadvantaged in our society.

In the past 30 years, the sector has delivered clear improvements in drinking water quality and environmental protection but we cannot stand still. Over the next 30 years, climate change, population growth and increased expectations from the public will put unprecedented pressures on water companies. We are at an inflection point where the future will be very different to what we are seeing today. As a provider of a local service backed by private investment, we have a unique role to play to create public value in the local economy and society.

In this document we set out our long-term ambitions to 2050, the challenges we face and the huge opportunities for our company arising from these challenges. We have co-created our strategic direction statement



Stuart Ledger

with our communities, engaged with our local customers, listened to our people and key stakeholders to ensure we have shared outcomes and common purposes.

Our purpose is to provide high quality drinking water and to take care of the environment for our communities now and in the future, reflecting the basics that our stakeholders expect of us. In this document, we set out four ambition statements that will help us deliver our purpose, focused on the environment, resilience, customers and communities.

The area we serve contains a significant proportion of globally rare chalk streams that are environmentally important. We commit to ending unsustainable abstraction from the ground beneath these streams by finding

## To start the work on our Strategic Direction Statement we imagined the future in 2050.

alternative sources. We will work with our customers and communities to reduce wasted water, and work with universities, colleges and supply chain partners to find ever more innovative ways of tackling leakage, and reduce the need to abstract water from the environment. We will continually explore the wants and needs of our different communities, which may lead us to deliver different services, for example tailored customer service.

However, we cannot act alone and we need to work in close partnership with others if we are to achieve our objectives. Covid-19 has shown we can all adjust rapidly to transform our ways of working, but we will need to become ever more agile as the need to deliver more for the environment and for our communities will continue to increase.

We are developing our long-term plan, recognising that parts of it may ultimately be delivered by partners and with others help. It may be that new funding methods can alleviate pressure on customer bills. Our current investors continue to be extremely supportive of Affinity Water and the industry and have forgone dividends in recent years, but this is not sustainable in the long term. To maintain the stability of the industry and a steady supply of investment, our investors need returns commensurate with the level of risk involved in supporting us to deliver our service.

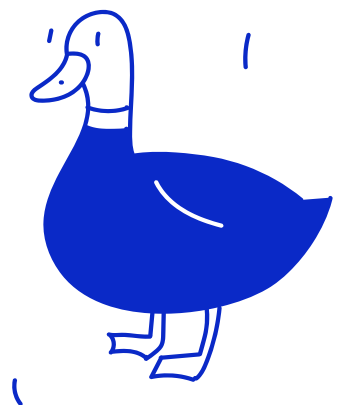
We need Government to set out priorities such as labelling and standards to help people reduce their water usage, and regulation to evolve to enable us to deliver more of what customers want. We also need regulators to work together and be focused on more

outcome-based solutions, for example working with RAPID to achieve regional water resources planning, and considering a move from focusing on leakage and Per Capita Consumption to water abstracted from the environment.

We think bills will need to increase to pay for the improvements required to ensure we can maintain high quality and resilient supplies of water, and deliver real benefits to the environment. We will need to make sure our plans are affordable for the customers we serve and for our business.

This strategic direction statement will change and evolve over the years to match the ambition and needs of all our stakeholders, and the progress we are making towards realising our vision. Our business plans at price reviews are stepping stones to achieving our long term ambitions, and we must deliver our plans in collaboration with our customers and communities. We look forward to working with you to make our vision a reality.

Stuart Ledger  
CEO Affinity Water



# Introduction

Our Strategic Direction Statement sets out our long-term ambitions to 2050, the challenges we face, and the huge opportunities for society, our company and the wider water sector to create value.

We need now to plan, innovate, invest in and build for, a different world – so that we can adapt to that future and have a resilient economy, society and environment – and we do not allow current and future generations to suffer the consequences of indecision or inaction.





## Looking to the future – the challenges we face

### Climate change is making environmental damage worse and reducing resilience

Climate change and population growth are, already, putting increasing pressure on the water environment in England and across the globe. Climate change threatens resilience of the environment from where we get our supplies and water supply itself. By the 2050s, summer temperatures are likely to increase while summer rainfall decreases, leading to increased risk of droughts. Extreme weather brought about by climate change will result in more frequent natural disasters and lasting environment damage.

The National Infrastructure Commission (NIC) estimates a 25% chance of the worst drought in recorded history happening within the next 30 years. And droughts have a massive impact on the UK economy – NIC estimate that a severe drought could cost our economy £40 billion.

In an Environment Agency projection consistent with 4°C global warming by 2100, local sea level rise could be more than 2m for London. Brightlingsea is only 30cm above sea level. Even larger rises are possible with higher warming and/or if the sea level responds more rapidly, for example if marine ice sheets were to collapse entirely. This would put swathes of our supply area under water if we don't respond and adapt. It also increases the risk of seawater incursion into the underground aquifers we take water from in coastal areas.

### While the population is set to grow significantly

As a drinking water supplier to around 13% of London we take our responsibility very seriously. We have to be brilliant at operating our assets, and we have to be brilliant at responding quickly and effectively.

ONS forecasts that the population in England will grow by around 8% by 2041, with a large part of this growth occurring in areas where water is already scarce. The South East where we operate is seeing a lot of new housing to support economic growth with an estimated one million new homes required by 2050 in the Thames Estuary (running to the Oxford-Cambridge corridor in the north and therefore impacting our central operating area).

All of these people and businesses will need clean drinking water at affordable prices and at the same time we must protect our natural environment. We need to act and plan now and invest in new planning and digital tools.

### We must be resilient to high impact lower probability events

And then there are other factors we need to plan for – at the time of writing, we are still currently in the grip of a Covid pandemic which was unprecedented – we need to consider the most unexpected events alongside the expected.

We also need to maintain and strengthen our resilience to a range of pressures in the short- and long-term – from pollution of water supplies through to economic depressions, electricity outages or attacks on computer systems.

## Our strategic direction is founded in what our stakeholders, communities and customers want now and in the future and how we can best work with them to achieve that

Before writing our Strategic Direction Statement, we first talked to our stakeholders, our communities and customers. We imagined how the future could look and then asked them what their priorities were.

They wanted us to ensure both a resilient supply of clean water into the future and to protect and improve the environment. From parliamentarians to environmentalists they were not willing to compromise one for the other. They were also clear that they expected us to act with pace and to be bold.



# We need to maximise environmental and social value for all our stakeholders

Our stakeholders and communities didn't see these challenges in isolation. They said that we needed to think differently about the changes that the situation demands across the whole system. And that we need to think differently about how resilient regional and local ecosystems are to us and how resilient we are to environmental change.

To act with pace we know we need to work with others and we make a commitment to doing so.

We have committed to ending unsustainable abstraction from chalk groundwater sources to protect our globally rare chalk streams. We would like, through reducing our abstractions from underground chalk aquifers, to help restore the natural river flows in the upper reaches of rivers in the Chilterns by 2030 – the rivers Misbourne, Chess, Gade, Bulbourne and Ver – but we need more certainty.

We need early certainty on what is included in the Environment Agency Water Industry National Environment Programme (WINEP) so we can create clear, more cost-effective, roadmaps for delivery on

turning off our abstraction of chalk streams and planning new sources of water.

This will ultimately reduce the long-term cost of changing where we get our water from too. By being able to plan over multiple AMPs, we can invest in the right solutions and make the right strategic decisions at the right time. If we're going to end unsustainable abstraction, as we have committed to doing, we need to work differently.

By working with other sectors in the system such as land managers and farmers we could dramatically benefit the environment and water supply. Researchers at Stanford University are conducting ground-breaking studies into how to manage soils better to actively recharge an aquifer and we are bringing that research to bear by working in partnership with local farmers and research institutes in the region

We need to reduce water demand to sustainable levels – both by reducing leakage and by reducing customer use. We have set ourselves very stretching leakage reduction targets.

# To reduce customer use, we are trying new approaches

This year we are investing to provide our customers with metered data relating to their water use and highlighting areas where they could reduce consumption.

Our #WhyNotWater campaign launched in 2019 asking for mandatory water efficiency labels on all goods is leading to key changes to legislation and policy to help ensure long-term water sustainability. So when you see a fridge with a water usage label on it in the future –

that is one example of our strategic thinking as a result of working with stakeholders.

In 2020, we ran a community campaign in St Albans where we measured carefully the water saved using AI and machine learning algorithms to capture every drop. This led to a model enabling real-time data of our per person consumption. In the drive for open data we opened up this model for free to the water industry for others to use.

We are learning from these campaigns how to use social media influencers more effectively - to spread the word. We also found that humour was the best way to get people to see that behaviour needed to change. On the first day that lockdown restrictions were eased, Sandi Toksvig, Mark Watson and Helen Arney joined us to give a stand-up comedy gig from the middle of one of our chalk streams for our Save our Streams campaign.

This campaign is ambitious – we're aiming to save 21 million litres a day in 2021. We are connecting customer water use with the extraction of water from the environment in a clear and visual way. The SOS campaign has currently been seen 21 million times, smashing our targets – we've built a community of over 125,000 users on our digital platform at time of writing. We want to do more meaningful campaigns like this in the future and share what we learn with others in the sector.

We are changing how we work with other sectors and communities too. We are working with a volunteer group in Cambridge on a data hack around our demand patterns to learn more about reducing water use – and we are partnering with water companies, serving some new developments, known as New Appointments and Variations (NAVs), local authorities and developers to create water neutral new homes. We are collaborating with an SME and the University of Birmingham on quantum sensors to pinpoint leaks by looking through the ground – using technology that was purely theoretical until six years ago but that we expect will be developed to the point where they are mounted on drones as we progress through the next 25 years.

And we recognise that we need wider and faster change. Government and regulators have made huge strides in removing blockers to creating a truly sustainable supply of water, and we need to do more.

# Affordability

Clearly even more so following the pandemic, we need to make sure that everyone can afford their water bill, but we need to think more carefully about what that means. We welcome the recent Consumer Council for Water report which calls for more investigation into alternative tariff structures. We can see a system where those that can afford it and use more water during peak times pay more, some will pay much less for their essential daily water use, and we will continue to support those that struggle to pay.

We have some customers using up to 9,000 litres per day – when the average household usage is 142 litres per person in England and Wales. Is it fair that the first litre costs the same as the 9,000th?

Our customers and communities increasingly expect the management of our company, along with many others, to be driven by a broad range of environmental and social factors.



## Environmental and social governance

We are providing services which are both essential and environmentally sensitive. We recognise that valuing environmental and social impacts is challenging and are looking at the consistency of reporting for the long term. We are a public interest entity and have to ensure that the environment and social service we provide is balanced with that of our shareholders and the wider financial markets.

Like most companies within our industry we are financed through shareholder capital and debt finance. We are managing our long-term debt and keeping the cost of our debt low. Our shareholders are medium-long term investors supportive of the strategic direction that we outline here and have agreed that we can restrict dividends to our shareholders until 2025, supporting company growth.

We need to think hard about interdependencies and to work collaboratively – and urgently

- to understand those and to address them, not only within our water sector but across other sectors. There will also be an impact on our supply chains and upstream infrastructure. This requires a different approach and ways of working. None of us can address these challenges on our own, we are all dependent on each other – businesses, customers, communities, government, regulators, academics.

And it is achievable if we all act together. To provide a sense of scale, UK Government has spent £172 billion at time of writing for measures as a result of the pandemic. The National Infrastructure Commission estimates the additional cost is £21 billion for water sector resilience across the UK. As co-ordinated investment in critical national infrastructure, we believe it is essential for the sector to find that £21 billion to drive the sector's future drought resilience needs.



## We need to deliver improvements through investments in efficiency, innovation and our people

We recognise that we need to deliver improvements that will create financial, social, and environmental value to ensure we deliver on our purpose - to provide high quality drinking water for our customers and take care of the environment, for our communities now and in the future.

We need to embed our ambitions across our organisation. With the challenges we face we are going to accelerate improvements and create a service and an environment that is sustainable for future generations.

We have an asset base that is aging and will need investment in the future so that we can continue to provide great service to our customers. We will be investing in pumps, mains upgrades, new mains and investment in service reservoirs.

We are adopting a twin-track approach to resilience, investing to improve the security of our supply for the future while at the same

time seeking to reduce customer consumption. We plan to spend about £100m to tackle leaks and deliver a 20% reduction from our 2019/20 baseline by 2025. And then we will do more.

We need to preserve the valuable chalk streams throughout our operating area and we need to find additional sources of water whether this be reservoirs, or abstraction from the Grand Union Canal or the River Thames.

Our Water Resources Management Plan outlines new access to water, improved demand management and increased flexibility. This will be updated again in 2023.

We are leading work with other water companies in the South East of England to encourage the best use of existing resources through the introduction of new sources and transfers of water and to secure the development of additional regional supply resources before 2040, when they will be needed.







## Digital technologies

We are investing in digital technology and data to deliver a strategic roadmap for digitisation. Technology and data are fundamental to our success and through transformation programmes we are driving significant change. This includes our new techniques to monitor flows and fast logging and pressure reduction schemes to locate leaks so we can target them more effectively and maximise the amount of water we save; building a 'digital twin' of our supply system so we can stress-test our assets; and working on the progressive digitisation of our data.

We are transforming our end-to-end customer and colleague experiences making sure we get full benefits from mobility and automation in the field. Our self-developed platform Situational Awareness has already delivered significant response time reduction for supply interruptions. It brings together our network data into one screen for our control room and field teams alike. And we will continue to embrace new technologies as they become available, sharing them with our peers to ensure the UK water sector is able to serve both its twin objectives providing clean water for everyone and maintaining and enhancing the environment.

## Our culture

We aspire to embed continuous innovation and improvement in everything we do. We are continuing to shift our working practices to be more agile and more responsive, building on what we have learned through the Covid-19 pandemic as well as transforming our customers' experience. We have created a strong culture of learning and development through significant investment in training and are building a culture of coaching and mentoring to release the potential of our people. We have implemented a Business Excellence programme which trains our teams and leaders in using tools like Six Sigma and agile. This is delivering tangible benefits to our customers and our employees and helping us drive efficiencies in our everyday ways of working.



# Our four ambition statements are our strategic response to what our stakeholders and customers told us



The systems that Affinity Water will work within:

The people that Affinity Water will work with:

## 1. Environment

**Leave the environment in a sustainable and measurably improved state.**

We will work with our customers and communities to restore the environment into a sustainable state where it can regenerate itself so that it can continue to provide its assets and services to support current and future generations who will enjoy its natural wealth.

- End unsustainable abstraction from chalk groundwater sources
- Achieve Net Zero Carbon by 2045 (and 2030 for our operational emissions)
- Deliver a net gain in Natural Capital

## 2. Resilience

**Be prepared for change, and resilient to shocks and stresses.**

We will invest with our stakeholders to create a more resilient community able to cope with and respond to an increasingly uncertain future.

- Ensure a resilient supply of water for our customers
- Ensure our physical assets are resilient for the longterm
- Ensure our people, processes, suppliers and finances remain resilient

## 3. Customers

**Deliver what our customers need, ensuring affordability for all.**

We will develop a constructive, collaborative relationship with our customers that enables us work together to deliver for the future.

- Exceed customers' expectations for drinking water
- Personalise our services to support different needs and wants
- Take care of our vulnerable customers and ensure affordability for all

## 4. Communities

**Work with our communities to create value for the local economy and society.**

Create a collaborative relationship with all our communities allowing us to act together with common purpose to deliver a society and environment that are mutually sustainable, based on:

- Building trust and transparency
- Enhancing environmental and social health to provide value to our communities
- Reducing our impact in the water environment

# Leave the environment in a sustainable and measurably improved state



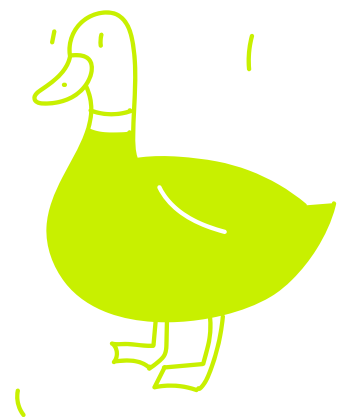
## Strategic focus 1

### End unsustainable abstraction from chalk groundwater sources

Unsustainable abstraction plays a key role impacting our national chalk streams, 10% of which are in our supply area. Chalk streams are a globally rare habitat, confined to north west Europe, with more than 85% of the world's chalk streams found in England. As well as providing water and sustaining an endangered habitat, chalk stream rivers are essential for a range of recreation and health benefits. We have started this vital work through:

- Taking the lead in ending unsustainable abstraction from the groundwater sources that feed our chalk streams.
- Working in partnership with our customers on river restoration and catchment management, such as work completed on the River Gade which has delivered an increase in habitat diversity from aquatic plants to invertebrates and fish.
- Working with our local communities to 'Save our Streams', engaging them on how water saving behaviours can help improve the sustainability of our local environment.
- At the same time we are looking for ways to reduce leakage, improve the resilience of our network and in the future to find regional, sustainable sources of drinking water.

This is a start, and there is much more to do. To get to a sustainable position, we will need to progressively end unsustainable abstraction. To do this we will need to further reduce our leakage, continue to work with our communities to use water sustainably and rapidly develop strategic sources that we can operate sustainably across multiple sectors that take water from our regional environment. We will need to do this in the context of a changing climate situation and a growing population. The scale of this challenge means that we must collaborate to deliver the creative solutions that will deliver our ambition.



## Strategic focus 2

# Achieve net zero carbon by 2045 (and 2030 for our operational emissions)

Water is a medium through which we feel the negative impacts of climate change – through drought, storms, flooding and sea level rise. At the same time, water companies continue to add greenhouse gas emissions through our day-to-day operations (such as pumping water) and the infrastructure we build.

Water UK states that the water sector emits 2.4m tonnes CO<sub>2</sub>e per year. The water sector has committed to achieving net zero operational emissions targets by 2030.

We will achieve Net Zero operational emissions by 2030 through:

- Reducing our carbon footprint (reducing energy use by 7.5% in our operations, reducing demand for water, and working towards a fully electric fleet by 2030);
- Developing 10% self-generated renewable energy (solar and wind);
- Sequestration (trees – planting 110,000 by 2030, improving catchments, and seagrass restoration);
- Purchasing 'green electricity' tariffs; and
- Bought offsets for the remainder.

At the same time, we aim to make rapid progress in understanding embodied carbon in our assets, through assessing and mitigating where possible the carbon impact of our investments for our 2025-30 business plans.

Beginning in 2022 we will also make carbon reduction an explicit aspect of our procurement processes for all our supply chain and our progress will be published in a new annual Environmental Sustainability Report. We will also take opportunities to play our part in the circular economy. We will aim to support all of our supply chain having their own Net Zero targets by 2025 and deliver carbon literacy training to all staff. We will work in our communities to reduce use of water. About 20% of a UK average energy bill is from heating water so this can also help communities reduce their energy use.

We will continue with innovative reverse auctions and engagement with farmers to promote better water sensitive farming which in turn creates carbon sinks. All this work will be supported by our voice and advocacy supporting public policy that will accelerate carbon reduction and removal opportunities.

## Strategic focus 3

# Deliver a net gain in natural capital

Natural capital is that part of nature which directly or indirectly underpins value to people, including ecosystems, species, freshwater, soils, minerals, the air and oceans, as well as natural processes and functions.

We will take a leadership role on nature-based solutions as we rely on ecosystem services including regulation of drought and floods, carbon sequestration and improving water quality – for example in making the best use of our grasslands. Our stakeholders have mandated us to take on this role.

We will develop the partnerships and investment needed to ensure we can provide high quality drinking water and protect the environment. To do this, we will need to make a cultural shift, by considering environmental net gain and the role of partnerships throughout the business – from our strategic planning to our daily operations. We will develop natural capital accounting systems so we can measure and quantify the net gains we are delivering. We have started this journey already through innovating and trialling projects designed to deliver net gain.

For example, one of the projects that Ofwat has approved for innovation funding is the Affinity Water led Seagrass Seeds of Recovery project, which aims to unlock the benefits of marine sequestration at four trial restoration sites. The trial will help us develop a 'blue carbon'

finance framework, understand the scope of seagrass restoration to help the water sector and other industries with significant process emissions, improving biodiversity, improving water quality, supporting fisheries and reducing coastal erosion. Trialling innovative projects is just a starting point, the next stage will be to build capacity and operationalise them.

Using a market-based approach we will work with farmers to plant cover crops on otherwise bare soil. This helps to restore soil health and depth and sequesters carbon. We have been doing this work for several years to reduce the use of nitrogen-based fertilizer and used this as an opportunity to understand carbon sequestration and how our partners in our communities want to work with us. We now propose to expand this to eight million square meters per year by 2025.

Moreover, we are also committed to restoring biodiversity while sequestering carbon. Wildflower meadows on chalk downland are home to an incredibly rich and diverse range of plant and insect life, including many species that don't grow anywhere else. We have lost more than 80% of our chalk grassland since the Second World War. This is mainly because of changes in land use from traditional low-level animal grazing to intensive farming methods. We will work with landowners and conservation bodies to restore over 250 hectares of chalk grassland by 2030.

# Deliver what our customers need, ensuring affordability for all



## Strategic focus 1

### Exceed customers' expectations for drinking water

If our detailed engagement with communities finds there is a clear local or regional demand, we don't want customers to have to 'make do', put in water softening equipment piecemeal, or to have to resort to buying bottled water because they want more or something different from their water. We also don't want customers to have to pay twice for water if there are better value options for us to provide the type of water they want.

We will explore with our customer communities what they want from their drinking water now and for the long-term. Our early engagement suggests that some customer communities may be dissatisfied with aspects of their drinking water including water hardness and taste. If we see strong customer support for us to change drinking water locally, and it is economical and practical to do so we will put forward efficient investment cases.

With the collection of more data and bringing forward new technologies we will be able to ensure that every community has the highest quality of water, and we can serve communities to their tastes and requirements.



## Strategic focus 2

# Personalise our services to support different wants and needs

We need to gain an ever deeper understanding of who our customer communities are and what different communities want and need. We will develop close relationships so that we truly understand what matters, from the most vulnerable to the most affluent in society. As our understanding deepens, we will be increasingly able to tailor our service to different communities.

We will need to work hard to improve our current service levels, make active use of the insights we generate from our dialogue with communities, and partner with our communities to shape our approach to serving customers.

Our ongoing engagement and collaboration with customers will determine which services we will propose. Part of our long-term journey will be using our understanding to deliver market-leading tailored service to our customers. We aspire to be proactive with information that customers need to know or care about, and not to wait for customers to contact us for help where we have information that could pre-empt a contact. We want to challenge ourselves to serve customers better every day and to ensure our words match our actions.

We also want our tariffs to reward customers who help us improve environmental health through using less water. We will consider how to structure tariffs that reward customers for helping the environment without placing pressure on vulnerable customers.

We are currently working with Experian, the information services company, to connect our data sources and develop a better understanding of our customer base. We have identified seven core customer groups with shared traits and attributes and have mapped these across the regions we serve.

We are combining data from Automated Meter Reading meters with data from logging and network hydraulic models to provide customers with information about water use in their locality. As we build more knowledge of how water is used in our area we are finding that a bespoke approach for ultra-high users is more effective at reducing demand cost-effectively. We will continue to build on our early understanding in this area which is particularly prevalent in our supply zones, which include some of the most affluent parts of the country.

## Strategic focus 3

# Take care of our vulnerable customers and ensure affordability for all

We engage with our customers every day to understand more about the things that matter to them. One of the things they tell us is that affordability continues to be a key concern, especially in the wake of the pandemic.

Through our work to gain a deeper understanding of our customer communities, our goal for vulnerable customers is to seek out and reach out to those who need our help the most.

We'll work hard to keep our bills as low as they can be, and if we need to change our prices, we'll make sure our customers will always know what this means to them and how we can help them make their bills more affordable. We want water to be affordable and equitable for all. We'll ensure our prices and costs are simple and clear. We'll work with those who can afford to contribute more to help support those members of our communities who need more help. We will proactively make sure everyone who needs extra help and support receives it.

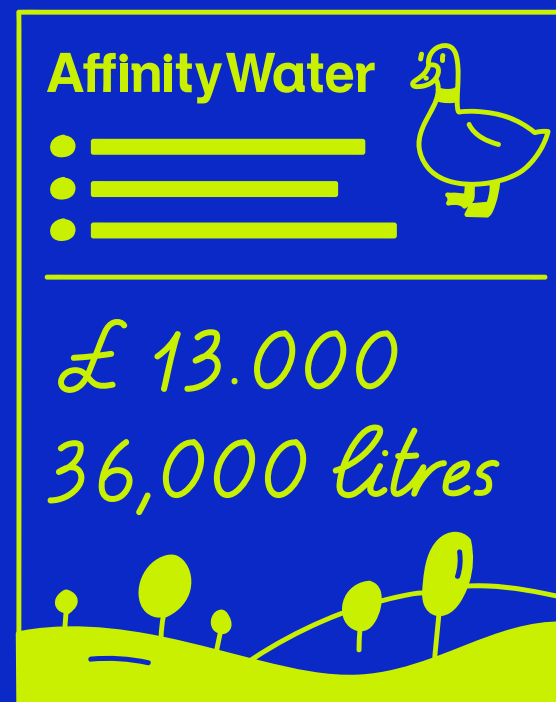
We will be there for our customers when they need tailored service. While we will use technology to help make things easier, there will always be an option to speak to a person.

We have piloted an In-House Crisis Fund for our customers and are currently evaluating the pilot outcomes. We are projecting that the number of customers receiving support through our social tariff will increase to 82,000 customers by 2025.

Some examples of our recent work include:

- Publicising our Priority Services Register and promoting our collaboration with the National Debtline charity in order to better help our customers with any debt-related issues.
- Proactively contacting customers who may have been impacted by the pandemic such as people who pay using cash, and have facilitated payment via direct debit instead.
- Helping low income households. We currently support over 80,000 households in receipt of certain benefits with discounted charges via our social tariff, and in 2021 offered three month payment breaks for over 7,000 customers in severe financial hardship.
- Teaming up with seven other utility networks to provide a boost to local community foundations, contributing £15,000.

# Work with our communities to create value for the local economy and society



## Strategic focus 1

### Building trust and transparency

Trust is critical to delivering our common purpose. We must build trust into our relationships with all our communities to deliver mutually beneficial outcomes. We will need trusted relationships with communities ranging from customers, industry, the state, farmers, employees, regulators to shareholders.

Trust with our customer community has improved over time, from around 50% with recent levels at around 60%. We recognise that we have scope to build greater trust with our customers and other communities and are committed to doing this so that we can deliver mutually beneficial outcomes that will benefit society.

We believe that trust comes from transparency. Communities have told us that we need to explain our mutual relationship better, seeing challenges through their eyes and not just ours. To collaborate effectively we will need to share information with our communities (where it is right to do so and within the bounds of data protection). Through sharing information about areas where we might be able to collaborate, we can understand where our communities could best contribute to co-creating our future. We expect this process to unlock greater value from developing local services that help us all to adapt.

We also think that people are trusted when they are the people you can see. So we are trying to be open, and present, in our communities. We are open to media scrutiny and work with local authorities to spread our message and provide assistance to customers. For example, we work with adult social care teams in incidents to ensure that all who need support receive it as well as the reassurance that a trusted face can bring. With the decline in regional media and the increase in online media communication we are looking at different ways to highlight the good things we are doing in communities as well as unforeseen interruptions in water supply. We have developed a range of podcasts and are publishing all the speeches that we make to show our thinking around for example water use, planning, infrastructure requirements and the weather as it becomes more extreme.

We have asked our customers what their preference is for interacting with us and have developed a suite of materials that can be used for different demographics and needs – children, the elderly, busy families, the visually impaired and those that do not have access to the internet. We will build on this and continue to adapt to different channels as they emerge, as well as maintaining our use of traditional means of engagement.

## Strategic focus 2

# Enhancing environmental and social health to provide value to our communities

We will negotiate with our communities to build opportunities to collaborate on areas where we have a common purpose, enhancing environmental and societal health regionally. We will use market concepts to ensure the value we jointly create is shared between participants. For example, we work with farmers using online trading platforms to collaborate on improving water quality in the environment. This land management service delivers a host of wider benefits to our communities compared with building an asset. These include carbon sequestration, biodiversity improvements and reducing soil loss.

We will need to find ways of quantifying and distributing the benefits of collaboration with our communities between the communities we are working with (including our customers, shareholders and other communities we collaborate with such as farmers). We will therefore need to consider approaches such as natural capital accounting to understand the value we are generating together with our communities.

Over a generation, we aspire to create substantial value in the order of a billion pounds to our communities through co-creation. We will also work with our communities to promote the designation of the Chilterns Area of Outstanding Natural Beauty as a National Park. We are also exploring the value of securing UNESCO World Heritage biosphere status for chalk streams. We believe that this simple change could bring huge environmental and economic benefits to areas which include areas of high inequality and oftentimes low social mobility.

Markets can also drive innovation and efficiency. Working with the government and our economic regulator, Ofwat, we are looking at ways to further develop markets for developer services –and taking opportunities to meet the growing need for eco-friendly houses.

## Strategic focus 3

# Reducing our impact in the water environment

We recognise that to produce and deliver water to customers we are reliant on finite natural resources. Our goal is to work with our customers and communities to reduce waste, using sustainable technologies and renewable sources to minimise our impact on the water environment.

We will need to take steps to reduce leakage and wastage, which are likely to include stepping up our asset replacement rates, innovating and deploying new technologies. We also want to create pathways for our communities to contribute to innovation.

We will work with:

- Policymakers to deliver the introduction of mandatory water efficiency labelling to help customers make informed choices when they come to replace water using devices, and to save significant amounts of water. We estimate this could save 30 litres per person daily.
- Suppliers and housing developers to systematically introduce more opportunities for water reuse in existing and new homes. As part of this, we intend to work with our communities to test technologies such as grey water reuse and rainwater harvesting in new developments, and act on the learnings from these projects to help our customers reduce their use of drinking water. Our goal is to achieve water neutrality for larger new developments.
- Retailers who serve our local non-households such as businesses and schools to incentivise greater resource efficiency and reuse.

- To introduce services to help major high-use businesses to reduce their usage which makes up the majority of non-household use.
- As an example, we plan to spend about £100m to tackle leaks and deliver a 20% reduction from our 2019/20 baseline, and by 50% by 2050.

Our short-medium term plan is to:

- Fix 50% of visible leaks in 24 hours, 70% within 48 hours and 90% within 5 days.
- Use quantum technologies to detect leaks.
- Use new techniques to monitor flows and fast logging and pressure reduction schemes to locate leaks so we can target them more effectively and maximise the amount of water we save.
- Work with customers to identify and repair leaks on the pipes supplying their homes.
- Help customers to understand their overall water footprint, including the embodied water in the products they use.

In the longer term we will need to continue to innovate and partner to reduce leakage as we drive ever improving performance. This will require an open mindset and collaboration if we are to succeed.

# Be prepared for change and resilient to shocks and stresses



## Strategic focus 1

### Ensure a resilient supply of water for Affinity water customers

Our current forecasts suggest that population growth will increase the demand for water within our region by around 10% by 2050. Climate change and our ambition to cease unsustainable abstraction from our groundwater sources will conversely reduce the amount of water we can take from the environment. This means we will have a gap between demand (the amount of water our customers will need) and our ability to supply that water of between 250 and 410 million litres per day by 2050. This is equivalent to the amount of water required to supply between 1.9 million and 3 million customers.

Affinity Water and our customers all have a role to play in addressing this gap. Although we are at an early stage in forming our plans, it is clear that we will need to develop new sources of sustainable water and reduce wastage by going further to drive down the amount of water that leaks from our pipes. Customers will also need to reduce the amount of water they use every day.

We are aiming to reduce water consumption by 130 million litres a day in 2025 from a 2020 baseline. We have started a major campaign called Save Our Streams which is already helping over one hundred thousand customers to save millions of litres per day.

We are delivering in-home and virtual water wastage checks that are immensely popular with customers. Working with a new portal available to all customers we are supporting you faster, delivering more comprehensively and most importantly, delivering your bespoke needs.

By 2030 we will have offered half of our customer base an actual or virtual home water saving visit. Bespoke to them and their needs we will provide products to be fitted and relevant behavioural change advice. Alongside this, we will check to see if our customers have any leaks, in pipes, leaky loos or dripping taps and if found will support you to get them fixed.

By 2050, we will have made even more savings in water consumption, alongside additional leakage reductions, to help us reduce our impact on the environment by reducing the amount we abstract to sustainable levels.

We are transparent in our approach as we develop our Water Resources Management Plans and openly engage customers and stakeholders as our plans evolve. It will not be cost effective (or in some cases technically possible) for Affinity Water to resolve these challenges on our own. We will need to innovate and collaborate with our neighbouring water companies and other communities. We will need to share assets and access to water across the whole South East to ensure that we are all able to meet the needs of our customers in the long term.



## Strategic focus 2

# Ensure our physical assets are resilient in the long term

Affinity Water has worked with our economic regulator Ofwat to keep bills affordable for all our customers. The sector's approach has been to optimise the lifespan of assets. This means the average age of our assets is increasing, and there comes a point where replacement is needed. Our data indicate that our assets will soon require significant investment.

We are continuously building on our existing understanding of our asset base and how that degrades with time and usage. We plan to build a strong business case for a more sustainable investment in a resilient asset base to both maintain services in the immediate and long term and to reduce our environmental footprint within a generation.

We will work with our regulators to develop our business case, but also to identify the right regulatory mechanisms to ensure we deliver our plans and can finance the investment in a low-cost, sustainable way. We will engage with customers on resilience to make sure our plans reflect the needs, particularly affordability, of future as well as current customers.

We will adopt a broad assessment of value to enable multiple threats to be mitigated or outcomes delivered through a single intervention. For example, enhancing network connectivity to improve availability of supplies to our customers. This type of approach can provide water supply resilience to multiple threats such as outages, drought and contamination.

We will invest in new technologies to provide even more accurate images of our assets, for example the use of low-level satellites, and we will continue to look at the materials that we can use for pumps and pipes to ensure longevity and effectiveness, and that they are all part of lifecycle recycling.

## Strategic focus 3

# Ensure our people, processes, suppliers and finances remain resilient

We have learned from the experience of operating during the pandemic and from our operational incidents to ensure our people and supply chains are resilient to shocks and stresses. We are putting in place a culture and structure to make us more resilient in future. We will ensure that our combined resources are sufficient and competent to respond to and recover from risks, shocks and threats that we may face.

We will ensure that our Board continues to have an appropriate, yet diverse, composition of individuals with the right balance of skills, and that our assurance processes continue to help deliver corporate resilience, as well as challenge the executive to deliver operational resilience and maintain our financial resilience.

To maintain transparency about our governance and the involvement of our shareholders in our business, we set out the matters we will consult them about in our 'Consulting with our shareholders' publication to ensure that their interests as shareholders are respected, while maintaining the role of our Board to lead and govern the business.

We are investing in our people, ensuring excellence in everything we do and learning the benefits of flexible, agile working while working from home. We are passionate about enhancing the experience of working for Affinity Water, and are putting in place a culture where we continuously improve our people's career progression, skills, onboarding, and personal development. It is only through investing in our people and culture that we will adapt to ensure the best service possible for all our stakeholders.

We commit to have adequate funding arrangements, cash and standby facilities, to enable us at all times to have the level of funds available for the achievement of our business and service objectives.

Our challenges over the next 25 years will require substantial investment. This means we will explore alternative funding arrangements to ensure that the best value is delivered for customers, Affinity Water and our shareholders.



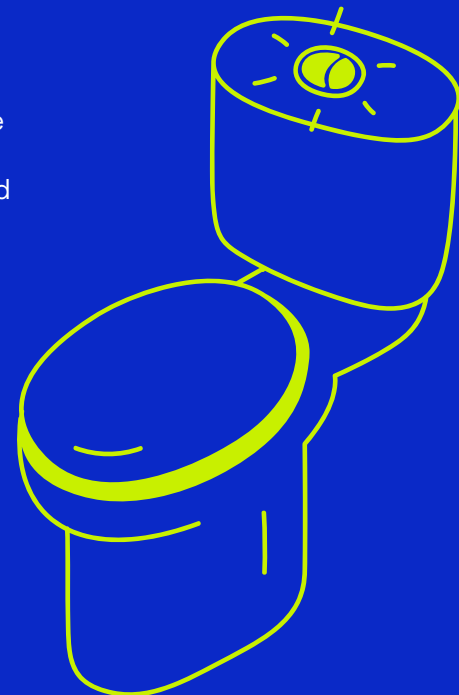
# What happens next?

## Working together towards a common goal

In this document we have set out that we have a mandate from our communities to be bold and brave in our thinking and step up to the serious challenges we face. We have co-created this document with our stakeholders and regulators and engaged with our customers to align shared outcomes and common purpose.

To achieve our purpose, we will need to collaborate, forging stronger relationships with regulators and policy makers to work towards a sustainable future.

- We will need investment and policy change to support our long-term goals to protect the environment, sustain the growth in our areas and respond to increased expectations from our customers. The policy landscape is shifting rapidly. We will draw on our consultation with our customers and communities to be opinion leaders on the outcomes we jointly cherish.
- We are clear that we too will need to adapt to ensure our common purpose with our communities is built on trust and underpinned by an open and transparent approach, sustainable financing and shared value. We will redefine our commitment to our communities to demonstrate we have listened, addressed their concerns, and shared their views and ideas.



We will need to adapt to a very different future and recognise that:

- We are the custodians of our natural capital, and our role is to convene action to protect our local environment.
- The environmental pressures we face are unprecedented, and we must act now .
- The trust of the financing community will be essential to achieve the investment required and maintain affordability for all.
- We will play our part to deliver government policy and we have clear mandate from our communities .
- We will need to do things differently and innovation must play a key role.
- We will need to develop new skills and adapt our business model to enable us to collaborate on delivering our common purpose.

### Key milestones for building our future plans

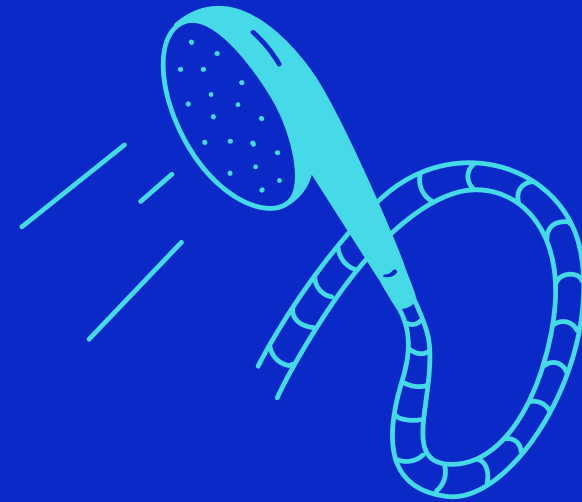
- ☑ Regional water resources plans in 2022 will define the solutions and investment needed for water companies in the south east and east of England.
- ☑ Our Water Resources Management Plan in 2023 will set out our long-term need for water supply and demand.
- ☑ Our Business Plan in 2023 will detail our plan to 2030 and beyond to deliver the ambitions set out in our SDS.

## How can you help?

Did you enjoy reading about our strategic direction?

If you would like to help us on our journey to a more sustainable future we would love to hear from you at [sds@Affinitywater.co.uk](mailto:sds@Affinitywater.co.uk)

Have you been involved in the co-creating of this strategy? If so, we are looking forward to continuing our conversation with you. We want this to be a living document and we will provide updates from our strategic direction statement landing page as we learn more from our communities that helps us develop our direction and the future plans we are preparing.



## AffinityWater

Taking care of your water

## About Affinity Water

We are the largest clean water supply company in the United Kingdom, owning and managing the water assets and network in an area of approximately 4,515km<sup>2</sup> across three supply regions in the South East of England.

We supply drinking water to 3.83 million people every day of the year and we recognise that we have to make sure our water is the right quality, every single time.

We operate 93 water treatment works, distributing our water through a network of over 16,800km of mains pipes.

We invest in, innovate and explore new ideas and techniques to ensure our assets are running at optimum efficiency.

We plan to invest £1.44bn in our business during the next four years in order to meet the stretching targets that we have committed to from our regulator, Ofwat and to ensure that we have sufficient capital to allow us to follow our long-term strategy.

Although we have sufficient water to serve our customers now, we are currently achieving this through abstracting from chalk stream sources – this is not sustainable if we are to protect these internationally rare habitats. And this needs to change.

### Our Purpose

To provide high quality drinking water for our customers and take care of the environment, for our communities now and in the future.

### Our Vision

Our vision is to be the UK's leading community-focused water company.

By deeply understanding and responding to the needs of different community groups, we are accountable for delivering their needs.

It reflects the importance we place on our people working within and for the communities where our customers live and work.

By doing this while protecting our environment we will create value for everyone.

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**AffinityWater**

Taking care of your water