

Chair's welcome



Ian Tyler
Company Chair

Highlights

- We met our leakage reduction target for the year and reduced leakage by 15.8%. We are on track to meet a 20% reduction in leakage by 2025.
- We published our draft water resources management plan – setting out how we will provide a sustainable supply of water, while taking care of the environment for the next 50 years.
- We met all obligations under the Water Industry National Environment Programme ('WINEP') through our various schemes to improve the natural environment, completing 23 project units to date for the AMP.
- We improved our approach to ESG reporting, producing a unified ESG policy and establishing an ESG sub-committee at Executive Management team level.

It is my great pleasure to welcome you to our Annual Report, and also to welcome to Affinity Water our new CEO, Keith Haslett, who started in January.

After a rigorous search and selection process, we are confident we have found a great leader who shares our goals and ambitions and is passionate about achieving them. I look forward to working with Keith towards these ends.

I would also like to thank Stuart Ledger for his work as interim CEO while we searched for a permanent appointment. Stuart helped us build strong foundations to meet our demanding commitments for the AMP, and focused the business on the PR24 price review.

As you will see in this report, the past year has been challenging for us. Extreme weather and inflationary pressures affected our operations in a number of key areas. However, underlying performance aside from the extreme weather events was strong, and I am therefore confident we have the right systems in place to be performing strongly by the end of the AMP.

Reducing leakage

Despite the extreme weather, I am very pleased to report that we beat our leakage target this year, a milestone we should celebrate.

We have set ourselves one of the toughest leakage reduction targets in the industry. In an area that contains a mix of dense urban populations and rural areas with many interconnections in the network, we face a greater risk of bursts occurring compared with less-populated areas. We are well on course to achieving our target to reduce leakage by 20% by 2025, and I would like to congratulate our hard-working colleagues throughout Affinity Water for this significant achievement.

As we know, alongside reducing demand and bringing online new sources of water, tackling leakage plays an incredibly important part in the long-term sustainable supply of water, and in helping take care of our environment. It is also important to our customers, and is, in fact, a defining issue on how the public perceive their water company and the wider industry.

Public perception

On public perception of the water industry, it could be argued that this is at an all-time low, given frequent reports of environmental concerns, would appear to be attributable

03

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in part to sewage discharges. We recognise the environmental impact this has on our rivers and globally rare chalk streams, and that this has affected public confidence in the entire industry. Although we don't manage waste water and sewage, we are passionate about the health of our rivers and we believe we have an important part to play in returning them to good ecological health. This is not just an issue for the water industry, but a societal one. Which is why we need to continue working with customers, government, the water industry, environmental groups, the agricultural industry and other sectors to increase public understanding on what affects our rivers and what we all need to do to improve them.

Enhancing the environment

We have a great story to tell on our environmental activities and ambitions. In 2022/23, we met all our obligations under the Water Industry National Environment Programme ('WINEP'), through our various schemes to improve the natural environment. These include our river-restoration projects and working with the agricultural community on schemes designed to improve soil fertility and improve the quality of water in the natural environment. We are very much on track to achieve all of WINEP's desired outcomes by the end of this AMP in 2025. However, we know there is much more we need to do, and so we have made some ambitious proposals for environmental improvements in our

draft business plan for the next AMP, from 2025 to 2030.

Our future water resources

Over the past year, Affinity Water, along with other water companies, made significant progress in the planning for future water resources. Following the first-ever regional plan for water resources, we published our 50-year plan (known as the Water Resources Management Plan), which aims to address the immense challenges we face from climate change, population growth, demand for water and taking care of the environment.

This is a collaborative approach that represents a fundamental change in how we plan, invest and build a water sector fit for this century and beyond – not just within our company boundaries, but as regions working together across the country. It is an exciting project to be a part of, and one that demonstrates the substantial investment the industry will be making over the next 50 years, through sums unparalleled in the history of the industry. The investment will ensure a sustainable supply of water for a growing population, and make our essential public supply resilient to the shocks and stresses of the impacts of climate change.

In the near term, between 2025 and 2030, Affinity Water is proposing a much larger investment in our network, services and environmental commitments compared to our current AMP (2020–2025). Over the past few years, our teams have been busy preparing our draft

business plan – our most ambitious to date – following extensive research on the issues that matter most to our customers and other stakeholders. We published the draft plan for consultation in May 2023. It represents a significant step in how we achieve our long-term ambitions, as laid out in our Strategic Direction Statement and 50-year action plan for water.

15.8%

Reduction in leakage. Meeting our 22/23 target and on track for 20% reduction by 2025

23

Project units completed to date for national environment programme



Sustainability

Sustainability is at the very heart of Affinity Water's activities and all of our plans. More importantly, it demonstrates how we add value to society. To enhance sustainability within our activities, we use environmental, social and governance ('ESG') themes aligned to the UN's Sustainable Development Goals, to help us understand both the risks for the business and our opportunities to add value. We have established a framework of themes, not just throughout our operations, but across the company's owners, with regular checks and assurances at Board level.

We continue to improve our approach to ESG reporting and, over the past year, produced a unified ESG policy to help guide and align our teams, while establishing an ESG sub-committee at Executive Management Team level. This committee will monitor the performance of our ESG programmes and balance these with our performance commitments, including overseeing climate-change risks and opportunities and progress towards net zero.

Our ESG initiative also aims to demonstrate the multi-capital value of Affinity Water. We recognise it is important to take a deeper view of value, as the services we provide offer broader value creation beyond the financial. We aim to understand how we create value through six capitals – natural, human, social, manufactured, intellectual and financial assets in our business. There is a strong focus on the value we create through natural capital at Affinity Water, and you can read more about this on page 38.

Our customer service

Our Customer Measure of Experience ('C-MeX') serves as a metric to incentivise water companies in delivering exceptional customer experiences to households.

Despite a slight improvement in our customer experience scores, which covers overall perception of Affinity Water, we are disappointed to report that our ranking in the water industry C-MeX tables has remained unchanged from the previous year, placing us 14th out of 17 water companies. This has been driven by a decline in the customer service element of our C-MeX score.

We are currently reassessing our strategies to reverse this situation and ensure that prioritising the customer is at the forefront of everything we do. We acknowledge specific areas where we can enhance our service and subsequently improve our C-MeX score. These concerns primarily centre around unresolved customer queries related to billing issues, our metering programme, and visible leaks within our network and on customer properties.

Taking care of our customers

The UK is currently witnessing the highest inflation surge in the past four decades, primarily driven by escalating energy costs and the rising prices of essential household items. We are fully aware of the significant strain this places on many of the households we serve, as some customers may encounter difficulties in paying their bills.

To support our customers, we offer one of the most comprehensive social tariff programmes in the industry, with over 97,000 customers already enrolled. We consistently communicate the availability of this support through our own channels and partnerships with esteemed organisations such as Citizen Advice Bureau, Step Change, and Turn 2 Us, ensuring that individuals are well informed about the assistance we provide.

However, we acknowledge that more needs to be done beyond our social tariffs. Over the past year, we made a commitment to offer a £50 payment towards the bills of over 30,000 customers who require it the most.

Additionally, we have actively explored innovative approaches to pricing water, aiming to enhance both affordability and water demand management. In the 2022/23 period, we developed the WaterSave tariff trial in collaboration with our regulator Ofwat, featuring a progressive block charge system with different prices allocated to the initial, middle, and final consumption blocks. This trial, which includes a free allocation of water, will take place in the summer of 2023, involving approximately 1,500 customers from diverse income distributions and both high and low usage metered customers.

A business with people at its heart

Finally, I would like to emphasise the importance of our company culture and values. We believe these have played a significant role in our achievements to date, and we remain committed to supporting a positive, inclusive and productive work environment. We are proud of our employee-engagement initiatives, our diversity and inclusion efforts, our support networks, and other programmes that help us maintain a strong and engaged workforce. I would also like to thank everyone at Affinity Water for their continued efforts. We have had to manage some challenging events over the past year, and the hard work and commitment of all our colleagues during these times ensures we can continue to deliver a vital public service to the customers and communities we serve.

Ian Tyler

Company Chair

12 July 2023

