

# water

How we're doing

Our performance for the year to March 2012

# introduction

Water supply is one of the most essential of services to the community. All of our customers and other stakeholders need to be confident that it will be safe and reliable. We all need to be satisfied that we are properly looking after the sources of water, our treatment works, pumping stations, reservoirs and thousands of kilometres of water mains and that we are planning ahead so that we will be able to provide a good service well into the future. When customers have any need to contact us they want us to be knowledgeable and helpful, and address their needs promptly, effectively and fairly. We strive to meet the highest standards in delivering our services.

We operate principally as a water supplier and hold a Licence granted by the Secretary of State for the Environment under the Water Industry Act 1991. Water is supplied to a resident population of over 430,000 in an area of 1,041 square kilometres through a mains network of about 2,800 kilometres. Our area of supply serves the more densely populated urban coastal fringe from parts of Poole in the west to Beaulieu in the east and north to parts of Salisbury. Apart from some large users which are open to competition under the Water Supply Licensing Regime introduced under the Water Act 2003, we are a monopoly supplier of mains drinking water.

Our performance and the standards of service provided are measured and monitored by a number of regulators, including the Water Services Regulation Authority (Ofwat), the Environment Agency (EA), Natural England (NE) and the Drinking Water Inspectorate (DWI). The customer interest is safeguarded by the Consumer Council for Water (CCW).

## How we show performance

This report explains how we performed during the year from April 2011 to March 2012. Our performance is measured against guidelines set by our regulator, Ofwat. An independent third party has audited our data.

We have used 'traffic lights' to show how our performance compares to the regulator's guidelines

**Green** – no concerns; performance is in line with the guidelines

**Amber** – slightly outside expectations

**Red** – outside expectations and needs investigation (none of the data in this report falls into this category).



430,000  
population served



1,041 km<sup>2</sup>



2,806 km  
of water mains =  
the distance from  
Bournemouth to  
Tenerife



'we all need  
to be satisfied  
that we are  
properly  
looking after  
the sources of  
water'



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'customers tell us that the safety and reliability of the water supply must be our highest priority'

# strategy

Our strategy remains unchanged from that set out in our 2009 Business Plan. We formally review and if necessary update our detailed plans at least annually to take into account any new information or changes in circumstances or priorities. We focus our time and resources on providing excellent drinking water and service to customers. We have continued to manage our costs carefully, both those of our day to day operations, as well as those of the investment needed to maintain and enhance our system of assets. We do not have any plans to change significantly the way we provide the service. Our investments and efforts are focused on providing excellent and sustainable value.

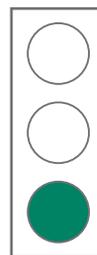
## reliability of the service

We obtain the water we need from a combination of two local rivers (the Stour and the Avon) and a series of deep boreholes which tap into underground aquifers. These are robust sources of water. The dry winters have meant that the amounts of water in these rivers and aquifers has been much less than normal. More recent rain in April, May and June has brought significant benefits and begun to restore water to more normal levels. We do not expect to have any problem in meeting all our water demands in the coming year.

### the reliability of our above ground assets – stable

The reliability of our above ground assets has been stable over the last year. These include

- water sources
- treatment works
- pumping stations
- storage reservoirs
- water meters
- offices
- vehicles
- business systems



147 million  
litres supplied  
a day

equivalent to filling 60  
olympic sized swimming  
pools every day

Customers tell us that the safety and reliability of the water supply must be our highest priority. We must invest sufficient money in our programme of planned maintenance and replacement of the extensive system of water sources, treatment works, pumping stations, reservoirs and water mains. We have an obligation to keep the system in a condition whereby it can provide at least a 'stable' service to customers, that is to say that it must not be deteriorating over the medium or longer term. Our assessment is that we are safeguarding and investing enough in our above ground assets (which include water sources, pumping stations, treatment works, reservoirs, offices and business systems). This assessment takes into account data regarding any bacteria found in the water leaving water treatment works and storage reservoirs, the turbidity (a measure of the clarity) of the water, unforeseen maintenance activity and any enforcement action taken by the Drinking Water Inspectorate. We have no significant concerns about this aspect of our performance.

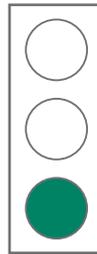
## the reliability of water delivery – stable

The factors we take into account to assess the performance of our underground water network are

- the pressure of the water supply
- any interruptions to the supply
- the number of burst water mains
- the amount of leakage from the distribution network
- certain water quality data
- customers' contact about the appearance or taste of the water

In these terms the network is providing a stable service. A minor issue during the year involved two samples of water taken from customer taps which were found to contain levels of iron slightly above the amount permitted by national standards. Iron can arise from the inside of metal water pipes and the standard for water supply is set many times below any health based level.

We are satisfied that there is no evidence of a deteriorating trend.



'61% of household customers are now metered'

# managing our water supplies

During the year we supplied an average of about 147 million litres of water a day. This represents a reduction of about 3% from the previous year. Demand for water can increase significantly during hot dry periods in the summer, mainly as a result of garden watering. However, both the average and peak amounts of water we have supplied have fallen over the last 15 years, partly because 61% of household customers are now metered and partly because attitudes to using water are changing. We continue to promote the efficient use of water through education and awareness campaigns and we provide free or subsidised products (such as water butts) to help customers reduce their water usage. As a result we will not need to increase the capacity of our water sources for many years. On average, the amount of water used per person in a typical household also decreased during the year by over 4%.

## leakage – 15% of the water supplied

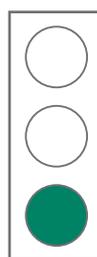
Leakage of water from underground pipes is wasteful but can be expensive to reduce significantly. We need to balance the waste of water with the cost of finding and fixing leaks, so as to keep the overall cost to customers as low as possible. Managing leakage can, of course, be a lower cost way of ensuring we have enough water in the future than building new sources. Our target for the year, as agreed with the regulator, was to ensure that the total losses from the system, which includes any from customers' pipes, was no greater than 22 million litres a day (which equates to about 15% of the water we supply). We achieved this, with leakage down to 21.7 million litres per day. The target takes into account the economics and the best 'balance' between the costs of finding and fixing leaks and the value of the water lost.

Last winter brought some extremely cold weather and we experienced a much higher than normal number of burst mains and leaks, especially during February. However, we were able to manage the impact with very little effect on our service to customers.

We have met our agreed leakage target every year for many years.

## annual average demand since 1995

(millions of litres per day)

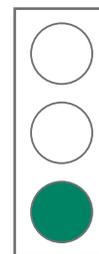


we have met  
our agreed  
leakage  
target



'we are confident in our ability to supply water for all our customers' normal needs'

## security of the ongoing supply of water – 100



A key part of our longer term plans to ensure that we have enough water for all customers' needs has been to meter household customers over time. On average a metered household customer uses around 10% less water than one who is not metered.

We provide and install a meter free of charge for households whenever

- the occupier requests it (because the bill would most likely be lower if based on actual water use), or
- in most cases where the occupier of a household changes

Nearly all business customers have been metered for many years. It is possible that we may install marginally fewer meters by 2015 than we had planned because fewer people are moving home than we anticipated.

Metering has clearly been successful as a key part of our strategy and we are confident in our ability to continue to supply water for all our customers' normal needs. The water industry in England and Wales uses a 'security of supply' index to measure whether we have sufficient margin of safety between the reliable capacity of our sources of water and demand for water.

The score for our area is 100, which is the maximum, and we currently have no concerns about our ability to maintain this in the coming year.

# drinking water quality

The provision of safe drinking water is our primary function. Of the almost 11,000 tests on water carried out on samples taken from customer taps, five failed to meet the required standard, but with no risk to health because of the large margin of safety in the standards. Compliance at the tap was 99.98% using the Drinking Water Inspectorate's 'Mean Zonal Compliance' method of calculation. Thousands more tests were also carried out at treatment works and at our storage reservoirs.

The Drinking Water Inspectorate will publish its own annual report on the performance of water companies for 2011 in July of this year.



water quality  
compliance  
at the tap  
99.98%

# the customer experience

We want to provide excellent customer service so that when customers need to contact us we are helpful and knowledgeable and deal with their enquiry promptly, effectively and fairly. We use a range of techniques to support our delivery teams, such as satisfaction surveys, feedback from customer focus groups, and a comprehensive programme of training our staff.

## customer service (SIM score out of 100) – 85

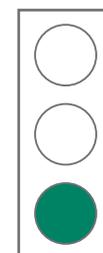
Each water company in England and Wales measures its level of customer satisfaction in the same way and through a comparative performance measure known as the 'Service Incentive Mechanism' (SIM). It has two components.

The first takes into account

- the number of phone calls we received which were in any way critical of the service
- the number of written complaints received
- those complaints which were not resolved the first time and
- any complaints which were referred to the Consumer Council for Water

The second component involves a series of telephone surveys by an independent contractor of a sample of customers who contacted us for any reason.

For the first year of this measure in 2010/11 we were ranked fourth best of the 21 water companies with a combined score of 82 out of a maximum of 100, just one point behind the leading company. This year our score has improved to 85 although we do not yet know the scores of the other companies. This performance measurement helps us to improve our



service, giving customers a prompt response to queries and, importantly, keeping people informed if it will take some time to respond (for example where we might need to carry out works on our system, possibly in the street).

During the year we retained accreditation to the 'Customer Service Excellence' standard. This recognises public services that are efficient, effective, excellent and empowering.

We aim to be amongst the best rated companies for customer service without incurring excessive costs on behalf of our customers to deliver that service.

## complaints

We received 465 written complaints (which include contact by email) in the year, a reduction from the previous year. The number of complaints has reduced every year since 2005/6 but we will always strive to reduce the number further by aiming to understand the root causes of dissatisfaction – and eliminate them.

The largest cause of dissatisfaction as indicated by complaints concerns unexpected leaks from a customer's pipework, usually from the underground supply pipe in the garden. We realise that the first a customer may know about a leak is the arrival of a large water bill, and that this can be very worrying. We continue to work hard to make the experience as stress-free as possible because we can and do help customers with both the cost of lost water and the cost of repairing privately owned underground supply pipes.

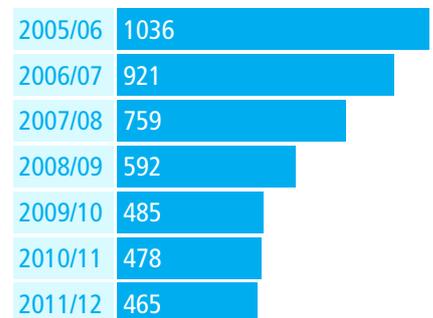
## where we do get it wrong

We guarantee a number of aspects of the service as set out in our Customer Charter, which can be found on our website. Some of these guarantees are required by law. If we fail to meet these standards we will make a compensation payment to the affected customer and in some cases the payment will be made automatically. With most types of failure we will pay more than the law requires.



## retained Customer Service Excellence

### number of written complaints



# interruptions to customers' supplies

## water supply interruptions

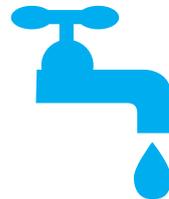
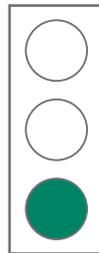
Only 1% of customers had an outage of 3 hours or more. Over the whole customer base these outages would equate to 2.3 minutes per customer. If this figure exceeded 10 minutes we would take action.

Most customers will not suffer any interruption to their water supply for many years, if ever, and most interruptions are for very short periods. However, when we carry out essential maintenance we occasionally need to interrupt the water supply, usually only for short periods. In emergencies, such as burst water mains, we cannot notify customers in advance. We do have a duty to notify customers of any planned work which may affect the supply, however, and we always aim to minimise the impact of this.

In total, out of the 202,600 properties we supply, only 2,104 suffered an interruption to the supply (whether planned by us or as a result of an emergency) that was for three hours or longer. The average interruption time for these customers was 3 hours 45 minutes. We aim to keep any interruptions as short as possible. Three customers suffered an emergency interruption of longer than 12 hours, one as a result of a burst water main which proved difficult to repair and two because we took longer than planned to carry out work. In these situations we compensated the customers for the inconvenience in addition to providing them with bottled water during the incidents. We did fail to notify 49 customers of planned work affecting their supply and compensated them in accordance with our Customer Charter.

## pressure

We have to provide the water supply at above a minimum pressure of approximately 10 metres head of water at the boundary of a property. We keep a register of properties where this has not been achieved and we currently have no properties recorded as receiving insufficient pressure.



99% of properties had no major supply interruptions

# environmental impact

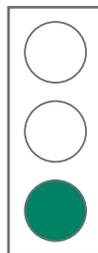
## greenhouse gas emissions – 17,078 tonnes of carbon dioxide or equivalent

Supplying water uses a lot of energy, mostly electricity to power pumps to move the water from its source to the tap. It is therefore important that we minimise this by operating our plant in the most efficient manner, and by pumping as little water as possible. During the year we used about 30 million units (kilowatt hours) of electricity (as a benchmark, an electric kettle boiling for an hour would typically use 2-3 kilowatt hours). We have continued our trend of reducing energy usage each year for several years.

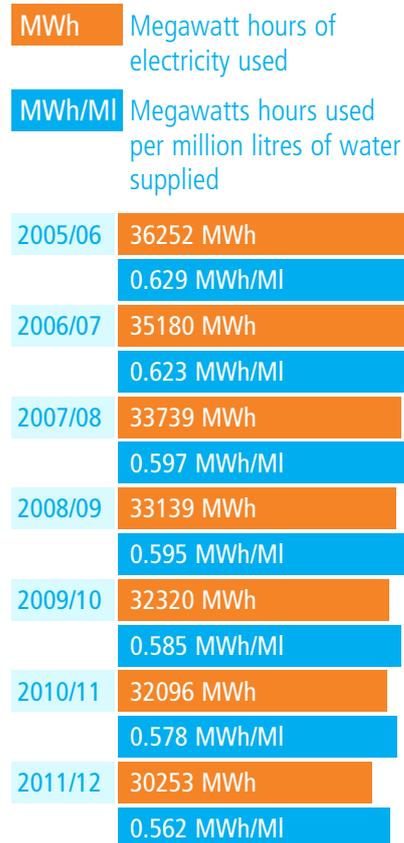
Greenhouse gas emissions (17,078 tonnes of carbon dioxide or equivalent) were better than our target threshold of 18,300 tonnes.

We used about 15% less electricity in the year than in 2005. This is partly due to water demands being lower but we also used about 10% less energy per unit of water supplied. We have updated some of our largest pumping stations with more energy efficient equipment which has also helped with this favourable trend.

Our greenhouse gas emissions are dominated by the effect of pumping water. We are aiming to reduce our carbon footprint and we are well ahead of plans we set in 2009 to reduce greenhouse gas emissions. We spend about £3million a year on electricity. Electricity prices continue to increase and we are very much aware of the carbon footprint of the water supply. Our shareholder invested in carbon free photovoltaic generation on seven of the company's operational sites during the year to help to manage the future cost and carbon dioxide emissions of the business. We are also investigating other ways to reduce the power consumption and climate change impact of our operations.

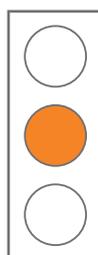


## electricity used 2005/06-2011/12



## pollution incidents – 3.6 per 10,000 km of mains

Our operations must be carefully controlled so as not to pollute the local environment, for example by discharging dirty water into a river or stream. The Environment Agency categorise such incidents into one of three degrees of severity, Category 1 being the most serious and



Category 3 representing incidents with minor impact on the environment.

This figure relates to just one minor Category 3 incident. In early 2011 water from a burst water main washed dirty water (containing soil) into a nearby watercourse, the Danes Stream near Lymington. Although we really want to avoid this type of event, water containing soil may unintentionally be washed into local drains and water courses from a burst water main before we are able to get to the site to stop it. The Environment Agency classified this event as having 'minor' impact on the environment and it was the only event recorded during the year. The performance is recorded as amber as any pollution incident is of concern.

We operate three very small sewage treatment works at our own water sites where there is no public sewerage service. All of these were fully compliant with the discharge consents authorised by the Environment Agency during the year.



CO<sub>2</sub> emission savings

equivalent to 11,000 60w bulbs burning for a year

## our investment plan

We produce a comprehensive investment plan every five years and regularly review it to ensure that we are delivering value and maintaining or improving the service in accordance with the plan. We are currently two years into our 2010 to 2015 investment plan and on track to deliver the whole programme by March 2015. During the year we invested nearly £9 million mostly on maintaining water pipes and water treatment works.

	2011/12 £m	Total in the 2 years 2010/11 and 2011/12 £m	Total which was planned for the 2 years
Regulated business capital investment (2011/12 prices)	8.95	18.29	18.26

With fewer people moving house than usual we have installed 360 fewer water meters than the 6,900 that we had anticipated in the two years. We plan to continue our programme of installing free water meters.

We perceived there to be a small risk of an infection of cryptosporidia (single celled parasites) from water supplied by our Woodgreen water treatment works. We have installed ultraviolet treatment to reduce this risk further. We also made good progress with a scheme to install more specialist access points in our extensive distribution pipe network to make it easier for us to keep it clean and to be able to provide good service.

## safety and employees

Our health, safety and environmental responsibilities to our staff, customers and the public are our first priority. We have integrated health, safety and environmental considerations into all aspects of the business operations and processes with the aim of preventing accidents, injuries, occupational illnesses and pollution and conserving natural resources.

We owe our success in delivering one of the best water supply services and doing it efficiently to the professionalism and dedication of our staff and contractor partners. We aim to be a responsible employer and strive to ensure that our workforce is properly trained, competent and motivated whilst being appropriately rewarded for their efforts and their performance through appraisal. We were the first water company to be accredited with the Investor in People standard. We have held this standard continuously since 1994 and we were re-accredited in 2011. We value the feedback we receive through this process. We continue to work towards tailored employment packages where working arrangements and remuneration are as flexible as possible to take into account the individual's personal circumstances and the company's needs. We consult staff on a wide range of issues. Our Staff Consultative Group involves employees in making decisions about the way the business is run and meets quarterly as does the company's Health and Safety Committee.

All regulated business staff are eligible for an incentive scheme which rewards outperformance against a financial budget as well as for meeting agreed targets in respect of customer service levels, water quality standards, leakage levels, health and safety, and environmental performance.



'our health, safety and environmental responsibilities to our staff, customers and the public are our first priority'

# financial results

A short summary of the company's financial results for the year is shown below.

£ million	2011/12	2010/11	Change on year
Turnover	44.8	43.1	4%
Operating costs	(28.8)	(28.0)	3%
Operating profit	15.9	15.0	6%
Interest charges	(6.4)	(6.0)	7%
Profit before tax	9.6	9.1	5%

The volume of water that we provide decreased by about 3% and the prices that we charged, on average, went up by 6.8% as agreed with Ofwat, our economic regulator. That was 2.1% above inflation as measured by the Retail Price Index (RPI) to allow the company to meet its costs. The number of properties we supply increased by 1,100 to 202,600 at March 2012.

The vast majority of the cost of providing water is the fixed capital and operating costs of installing and maintaining water treatment works, pipes and pumps. This provides a water system that can

- deliver the maximum capacity that our customers demand at any time and also
- withstand failures of plant with little impact on the service to customers.

Our operating costs (which increased by 3% in the year) include items such as the cost of maintaining water pipes and other assets, electricity, the call centre to answer customers' queries as well as billing, debt collection and administration costs.

We employ 197 people (the same number as last year) and have kept increases in salaries and other costs of employment down to below the rate of inflation. Our staff

continue to work hard and diligently and the excellent service they deliver is a credit to them.

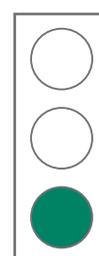
The interest rate that the company pays on most of its borrowings is tied to the rate of inflation (RPI). As the rate of inflation during the year was higher than the previous year the interest charge has also increased.

## return on capital – 7.6%

We need to ensure that we operate our business in a manner which gives a reasonable return on the money provided by banks and shareholders to fund the on-going investment in water treatment works, pipes and other assets.

The business provided an overall return on capital of 7.6% during the year.

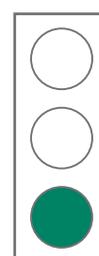
This was higher than assumed by Ofwat when it set our prices (5.5%) and essentially reflects the fact that the company has managed its operating costs well while continuing to provide good service and meet its obligations.



## gearing – 55%

The company's investments are funded by both banks (debt) and by the shareholders (equity). The balance of debt to equity (known as the gearing of the company) is critical in ensuring that the business is efficiently financed but does not risk going bankrupt or borrowing excessive amounts of money (which could also call into doubt the ability of the business to continue to supply its customers).

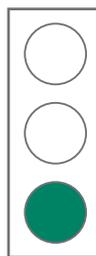
We therefore aim to keep borrowings down to less than 65% of the current value of the regulatory assets. The agreements which we have with our banks put an absolute



gearing limit on the company of 70%. However, as breaching this limit would be very serious, we need to keep some headroom in how we manage our borrowings. Our actual gearing level at the end of March 2012 was 55% so we are keeping within our borrowing limits.

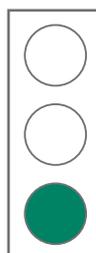
## interest cover – 4.4

It is important that the company is able to continue to pay the interest due on all of borrowings. Not to be able to do so would cause the company to default on its debts with the banks being able to demand their money back immediately. The company would then probably be unable to borrow money from elsewhere in order for it to continue to operate and supply water to its customers. We therefore need to ensure that the profits of the company more than cover the interest charges (leaving of course some money to pay the other providers of capital, the shareholders). This measure of how many times the profits cover the interest charges is known as the interest cover. During the year the company's profits were 4.4 times the interest charges, so we are able to continue to pay our interest.

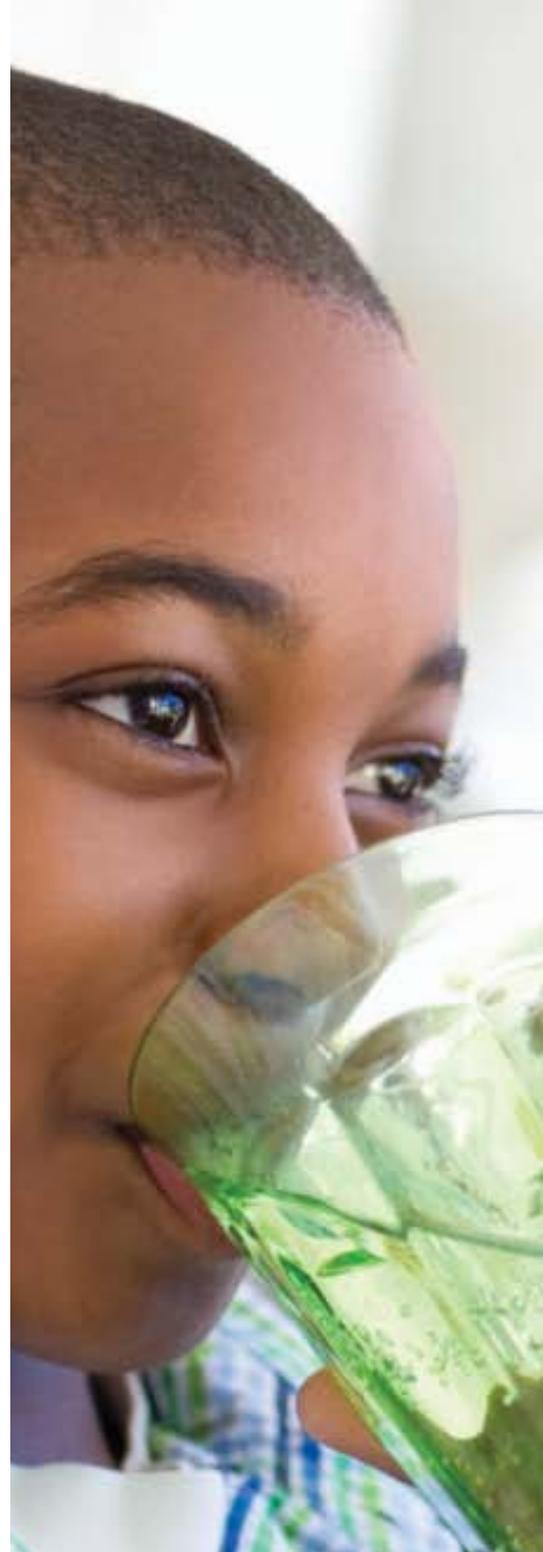


## credit rating – investment grade

To ensure that the company could borrow more money if we needed to (and to act as an independent check on the company's financial performance and prospects) we get two credit rating agencies to assess the business each year.



It is a water supply licence requirement to maintain investment grade credit ratings and we have successfully done so during the year.



'on-going investment in water treatment works, pipes and other assets'

# company information

## list of directors

J F McGown (Chairman)

P J Millward (Audit Committee Chairman)

A C Lane (Remuneration Committee Chairman)

Tan C G

P D Gavens

D M Guy (Alternate to Tan C G)

R I Harrington (Managing Director)

P J Bridgewater (Finance Director)

## registered office

George Jessel House, Francis Avenue, Bournemouth, BH11 8NX, UK

Customer Service 01202 590059 Fax 01202 597022 Email [customerservice@sembcorpbw.co.uk](mailto:customerservice@sembcorpbw.co.uk) [www.sembcorpbw.co.uk](http://www.sembcorpbw.co.uk)

## auditors

KPMG LLP, Dukes Keep, Marsh Lane, Southampton, Hampshire, SO14 3EX

## bankers

Lloyds TSB Bank Plc, City Office, Monument Street, London, EC3R 8BQ

## facts and figures



Area of supply.....1,041km<sup>2</sup>

Length of mains.....2,806km

Peak day demand.....181.77Ml

Ml = megalitre (a million litres or 220,000 gallons)

Population.....430,000

Average daily output  
.....151.9Ml

Number of  
properties served.....202,600

## registered office

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