



South Staffs Water

incorporating



Performance Report 2017/18

Welcome

Thank you for taking the time to read our latest accounts and annual performance report. I hope you find this document useful in understanding what South Staffs Water does and how well we are doing our job.

We believe it's important to be transparent with our customers and stakeholders and are working hard to regularly share more information about our performance. We remain the only company in the industry that reports monthly operational performance via a customer-friendly dashboard. We are also making further disclosures around remuneration, governance, tax and our ownership structure.

2017/18 has been a challenging year in terms of our operation and the broader environment in which we work. We have largely reacted well to the challenges and are pleased to see a significant reduction in customer complaints in both our regions. In South Staffs we have achieved our lowest ever level. In addition, we have reduced the number of accidents resulting in an injury in our business to ten in the year - another big step towards preventing all accidents.

However, there have also been some areas where we must redouble efforts. Although we have seen improvements in our Service Incentive Mechanism (SIM) score – the water industry customer service measure – we have not yet reached our target of being amongst the very best. We have also just missed our leakage targets in both of our regions despite being on track to achieve them after significantly increasing our investment levels. That was due to being challenged by unprecedented weather conditions, the 'Beast from the East', in March. We are pleased overall with how our teams minimised the impact on customers, a view supported in the recent Ofwat report, 'Out in the Cold'.

This year, we have placed considerable effort into the production of our Water Resources Management Plan (WRMP), as we seek to achieve the right balance in providing reliable water to a growing population, whilst encouraging customers to use less, reducing leakage and protecting the natural environment.

The water industry continues to see unprecedented transformation with complex challenges including deregulation, environmental pressures, changes in customer expectations and political challenge. South Staffs is building increased flexibility and resilience into our operations which means we can respond quickly and adapt as necessary to the changing landscape.

I'd also like to take this opportunity to thank our teams in South Staffs and Cambridge, as none of our progress or achievements in the year would be possible without their commitment and hard work.

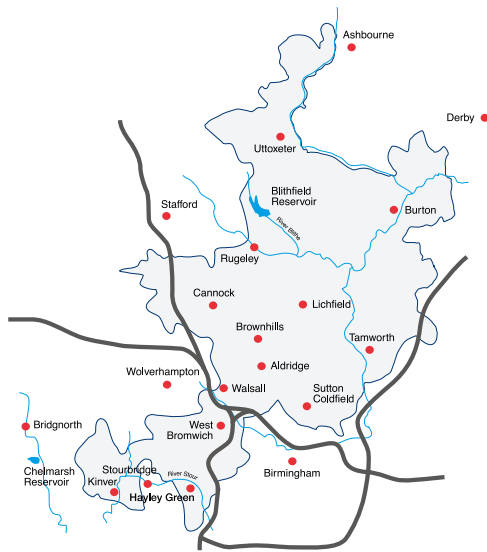


Phil Newland
Managing Director, South Staffs Water



About South Staffs Water

South Staffs Water provides a secure and reliable supply of high-quality drinking water, supported by first-rate customer experience to approximately 1.6 million people in its two areas of supply.



South Staffs region



Cambridge region

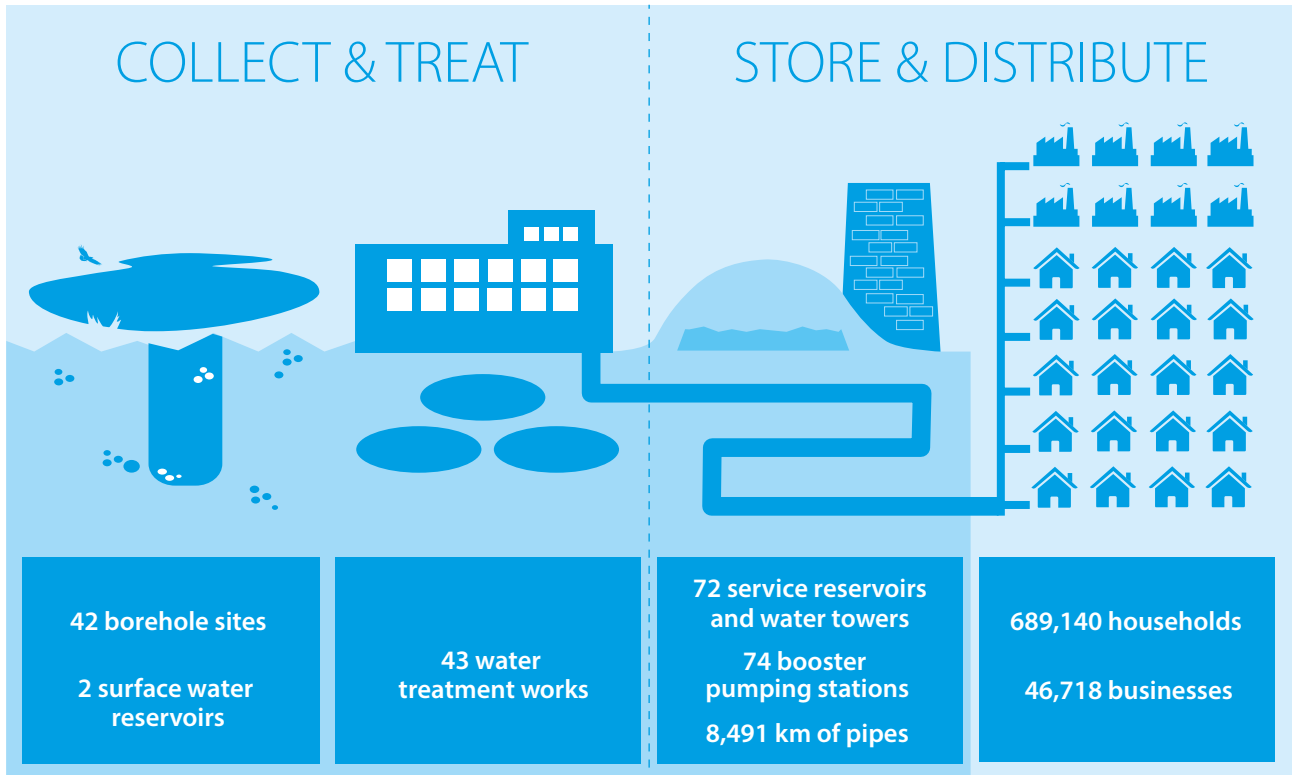
We aim to be transparent and honest with our customers in everything we do; from how we spend the money from bills, through to the quality and reliability of the water supply and the impact of our activities on the environment. We provide an essential public service and realise it is vital that our customers trust us to do this well. Sharing how we have performed against our targets, and other important information about our business, is one way to help build this trust.

The water industry is regulated by the Water Services Regulation Authority, known as Ofwat. Each five years we submit our plans for financing, investment, service levels and customer priorities for the subsequent five-year period, with the current cycle running from 2015 to 2020.

In this period, we will measure our performance using five major outcomes and 15 associated Outcome Delivery Incentive (ODI) targets, which were set with our customers by asking what was important to them. Some of these performance targets are financially incentivised over the five-year period and may result in an underperformance penalty or an outperformance payment, which could impact on our price review for the next cycle.

We have set demanding targets to ensure we provide high levels of customer service and low charges. How this is measured and our performance are outlined in this report.

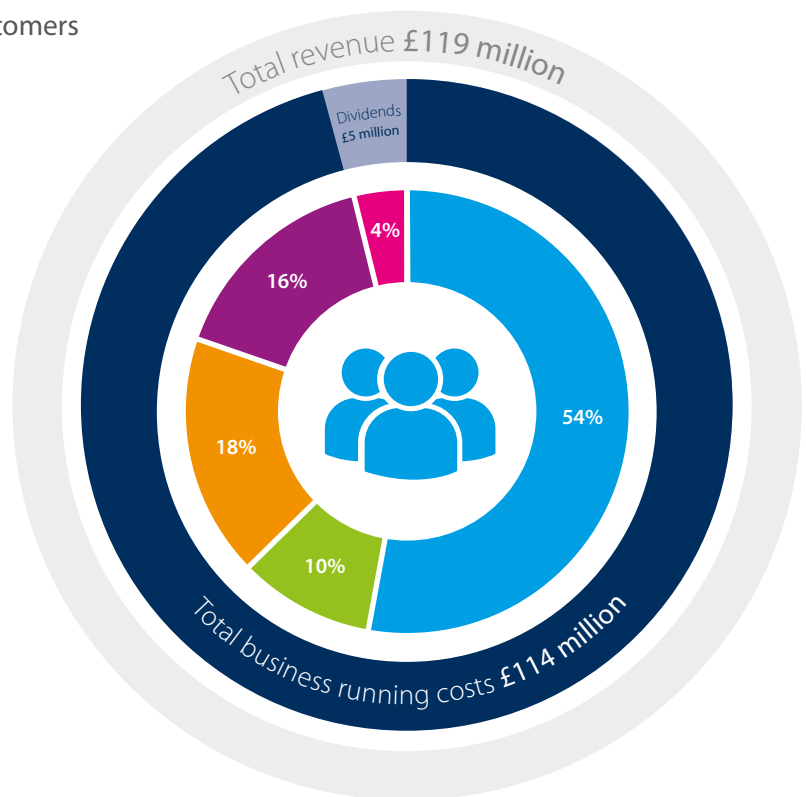
How we collect, treat, store and distribute water



Financial information

How we use the money billed from customers

- Water production, treatment, pumping, network repairs and operations
- Customer services, meter reading, billing and payment collection
- Annual costs of capital investment
- Financing costs and tax
- Dividends



In 2017/18 we have invested over £60 million in pipes, pumping stations, treatment works and reservoirs.

Our performance at a glance

Our five outcomes and 15 performance commitments reflect what customers say is important to them. The summary below shows where we have met or failed to meet these performance commitments over the last three years. The rest of this document contains further information on these commitments and what we are doing to achieve them.

Outcome	Measure name	What we are measuring	Progress of meeting our targets		
			2015/16	2016/17	2017/18
1 Excellent water quality	Mean Zone Compliance	The number of times we fail to meet drinking water standards when supplying customers within our network	✗	✓	✗
	Acceptability of water to customers	The number of contacts for every 1,000 customers that we receive about the taste, smell and appearance of tap water, or cases of illness to customers each year	✗	✗	✗
2 Secure and reliable supplies	Interruptions to supply	The number of times a customer's property suffers a loss of water supply for more than three hours	✓	✓	✓
	Asset health infrastructure	The long-term ability of our underground assets (e.g. pipes) to provide a reliable service	✓	✓	✓
	Asset health non-infrastructure	The long-term ability of our above-ground assets (e.g. water treatment works) to provide a reliable service	✓	✓	✓
3 An excellent customer experience to customers and community	Service Incentive Mechanism	The percentage of customers, who agree that we have handled their enquiry to a high standard	✗	✗	✗
	Customer satisfaction	The percentage of customers, who agree that we offer a good overall service	✓	✓	✗
	Community engagement	The amount of time our staff spend supporting worthwhile community projects	✗	✗	✓
4 Operations that are environmentally sustainable	Leakage South Staffs region	The amount of water, measured in litres, lost through leaking pipes	✓	✓	✗
	Leakage Cambridge region		✓	✗	✗
	Water efficiency	The number of litres of water each person uses per day in our regions	✓	✓	✗
	Biodiversity	The area of land, where we actively protect wildlife, trees and plants from damage	✓	✓	✓
	Carbon emissions	The number of tonnes of carbon we save by changing the way our business operates	✗	✗	✗
5 Fair customer bills and fair investor returns	Value for money and affordability satisfaction	The percentage of customers, who agree that our services offer value for money and that their water bills are affordable	✓	✓	✓
	Support for customers in debt	The number of customers experiencing financial hardship we supported through lower bills	✓	✓	✓
Total targets passed			10	10	7
Total targets missed			5	5	8

Excellent water quality



Outcome

99.94%
water quality
compliance

Contacts from
1.42 out of every
1,000 people
regarding Acceptability of Water

Water quality is one of the most important areas of our service and is a top priority for customers. That's why we have two performance targets covering overall compliance and the acceptability of water to our customers, measured by how often our customers contact us to report issues. We have been stretching regulatory targets for both of these measures.

We are disappointed to report that we have not met 100% water quality compliance, as 15 out of nearly 23,000 samples did not meet the strict regulatory compliance standards. Despite this, our water quality remains at a very high standard overall. The causes of the small number of failures were thoroughly investigated and all corrective actions have been put in place to resolve any issues. We also engaged with the Drinking Water Inspectorate (DWI) on any issues throughout the year.

For the second year in a row, we have delivered an improvement to the acceptability of water, measured by how often customers contact us to report issues. The actions we have taken and investments we have made to improve our water quality have delivered just over a 14% reduction in the number of customers who contact us. Since 2015, this means we have delivered nearly a 30% reduction in the number of customers contacting us to report water quality issues, and this puts us on track to achieve our stretching regulatory target by 2019.

Installing UV in our South Staffs region

Continuing with our programme of work to invest in the latest water treatment technology, we are installing state of the art UV treatment into our largest water treatment works at Hampton Loade near Bridgnorth and also two other borehole sites. This proven, regulated and environmentally-friendly technology ensures water is free from harmful organisms. Less chlorine is needed, reducing the risk of taste and smell issues for our customers.



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Improving the quality of water is the number one priority for the business.

Secure and reliable supplies



Outcome

8 minutes 32 seconds

average supply interruption
per customer

stable

asset health for **pipes,**
pumping stations & reservoirs

One of our highest priorities is to maintain a continuous supply of wholesome water to our customers' taps. Despite a significant number of burst main events during the year and the impact of 'the Beast from the East' in March, we have achieved our performance commitments with a significant amount of hard work from all of our staff in some very challenging conditions.

The 'Beast from the East'

On Sunday 4 March we felt the full impact of the 'Beast from the East'. Following a sustained period of freezing weather, a rapid thaw led to a 25% increase in demand across our networks. We were prepared for the event and had increased the amount of water we had stored in our reservoirs, ensured additional resources were available to respond to the event and enacted our emergency response plans. Despite the significant impact this event had across the whole of the UK, the disruption caused to our customers was minimal. Our teams worked around the clock to ensure our treatment works operated at full capacity, bursts were repaired quickly, our customers were kept informed of the situation and support was given to those who needed our help.

We are pleased to have met our targets despite dealing with this event, although we did see a deterioration from last year's performance. We have put in place a number of initiatives such as targeting 'zero' interruptions from any planned works we undertake. We are already seeing the positive benefits of these initiatives and anticipate further enhancement to the level of service we deliver.



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The 'Beast from the East' caused disruption across the UK, but we responded well and our customers largely went without any disruption to service.

An excellent customer experience to customers and the community



Outcome

SIM score of
87.0

97%
customer
satisfaction

425 days
of community
engagement activity

We are continuing to focus on our customer service performance. Our SIM score, a regulatory measure of customer service performance, increased from last year due to the strong actions we put in place. We also had a very high level of customer satisfaction, although not quite meeting our exceptionally-high target of 98%.

In addition, we have worked hard to improve our customer service in cooperation with internal and external stakeholders, such as our Customer Panel and the Consumer Council for Water (CCWater), implementing solutions to address issues that customers told us they were dissatisfied with.

These changes included a new dedicated customer service team for the Cambridge region, improving our budget plans, more contact with customers to proactively inform and resolve billing issues, and improved response times throughout all our communication channels.



We are pleased to report that our changes have seen a reduction of 37% in the number of complaints and an 11% decrease in complaint response time. We've also seen an increased satisfaction level in our SIM surveys – the second highest increase in the industry.

Our efforts mean that the South Staffs region remains as one of the top complaint performers in the industry, while we will be continuing to work hard to improve Cambridge region's position in the coming year.

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Ensuring excellent customer service remains at the heart of everything we do.

Community Hub

South Staffs Water aims to make a positive difference and develop strong and lasting partnerships with the communities in which we live and work through education about water usage and efficiency, enhancing biodiversity and charitable support.

We have made great progress this year with our community-based activity, which supports those customers, who may require additional support to access or use our services. We have made contact with over 600 organisations and maintain an active relationship with over 200 of them. We now have two Community Engagement Officers, who build relationships and work with community-based organisations to help customers access the best tariff, provide information about water meters and water efficiency, and ensure we have customers on our priority service register.

To support our community work, we recently opened our first Community Hub in Wednesbury, so that we can provide a place for customers to be in direct contact with us and support those who may not be able to or do not want to use either a contact centre or our website.

A change in how we approach engagement with schools has been introduced during the year. We believe that in switching from a location-based offering in the South Staffs region alone to an outreach service in both regions, we are better placed to meet the needs of educational institutions, be able to increase our work in this area and also start to build meaningful relationships with our future customers.

We are pleased to report that due to these efforts, we have met our regulatory target for community engagement this year, almost doubling last year's performance.



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We want to make a positive difference within the communities where we live and work.

Operations that are environmentally sustainable



Outcome

133.09 litres of water per day used by each person we supply

119 hectares of land with a biodiversity initiative

550 tonnes of carbon reduction

72.4 MI/d leakage in South Staffs region

14.4 MI/d leakage in Cambridge region

Water is a precious and finite resource and we must ensure that adequate water supplies and the natural environment are maintained properly in order to support future generations. We also have wider environmental responsibilities and we take great care to ensure that our operations do not impact on the natural environment.

Despite making very good progress on leakage during the year, the late impact of the 'Beast from the East' prevented us from achieving our leakage targets, and we will incur a penalty as a result of this performance, which will be reflected in customer charges from 2020 onwards. A number of initiatives have been put in place during the year that have delivered a prompt recovery and a very positive start to 2018/19, when we are confident that these targets will be achieved.

We have continued to work closely with landowners and the Environment Agency to deliver innovative catchment management solutions to mitigate impacts on the environment and improve the quality of raw water that supplies our treatment works. We now have more than 80 participants within our innovative 'SPRING' and 'PEBBLE' schemes, which encourage sustainable farming practices and biodiversity.

We have a number of initiatives in place to further enhance water efficiency which includes direct engagement with customers and developers, who are encouraged to build properties that incorporate rainwater and grey water harvesting. We anticipate the full commissioning of the Eddington rainwater harvesting scheme later this year, which will eventually provide recycled supplies to more than 8,000 customers. This scheme has been delivered in collaboration with the University of Cambridge and is the largest in the UK.

We are in the process of concluding the consultation process on our Water Resources Management Plan, which details how we will operate in the future and demonstrates how we will mitigate impact on the natural environment. The feedback received to date from a wide range of stakeholders has been largely positive. We anticipate that the final version of this document will be published later in the year once clearance is received from the Secretary of State.

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We understand the impact of what we do and are committed to protecting our environment.

WaterSmart

Our continuing commitment to water efficiency has led us into an exciting and innovative pilot in our Cambridge region. This involves 15,000 randomly-selected customers and software from a California-based company, called WaterSmart. This leading tool is designed to produce personalised water consumption trends for customers. The project's aim is to educate the customer on the value of water, providing tips around reducing consumption and even indicating, if there may be a leakage problem. We see this approach as integral to improving and encouraging customer engagement in water efficiency. We hope the analysis will also help to address affordability and vulnerability and ultimately improve debt management.



SPRING environmental protection scheme

Our new SPRING (Slug Pesticide Rethink - Ideas for Nurturing Growth) environmental protection scheme has built on previous success to further support arable farmers in the Blithe catchment area. We have made grants available towards the costs of voluntary on-farm infrastructure improvements and agricultural management schemes designed to protect the environment and improve water quality. Grants have been awarded for activities such as contour cropping and pesticide sprayer washdown.



PEBBLE funds

We also work to deliver innovative projects that will enhance biodiversity across our region. The first round of funding from our PEBBLE fund (Projects that Explore Biodiversity Benefits in the Local Environment) has rewarded applications, ranging from creating a wildlife walk, and clearing scrubland to supporting a school keen to raise awareness of the environment and local wildlife among pupils. The photographs below show a PEBBLE-funded scheme that created a pond for wildlife at Leasowes.



Fair customer bill and fair investor returns



Outcome

94% satisfaction score
for value for money
and affordability

29,036 customers
helped with debt-support options

We believe it's important to keep our bills as low as possible for our customers, who continue to have low water bills when compared to the other water companies in England and Wales. We think very carefully about how we spend money, and what we invest in. We try to find the right balance, ensuring that our bills are affordable for all, while investing enough in our assets to maintain our service for future generations.

We are pleased that our annual tracker survey shows a 94% overall satisfaction with our value for money and the affordability of our service. This is an increase from last year and meets our regulatory commitment.

We are also committed to providing extra support for our most vulnerable customers when they need it most. We do this by providing a range of additional help schemes tailored to customers' individual circumstances. Through our range of debt support initiatives, we have helped over 29,000 customers, meeting our regulatory target.

Support for vulnerable customers

Our Assure tariff continues to grow. Introduced in April 2016, we have already accepted over 10,000 customers onto the tariff, which is designed to help our customers who struggle to pay their water bills by providing up to an 80% discount, depending on qualifying conditions.

We have undertaken extensive promotion of our new tariff to ensure that those who need it most know about it. This has included digital campaigns on our website and social media channels, as well as local advertising. We expect many of our existing Assure customers to renew for the next financial year, and our continued promotion will ensure an increase in customers being helped.

We have also invested in staff to allow us to visit customers in their own home where necessary. This helps us better understand their needs and support them in accessing extra help. We are visiting an average of 21 customers each month.

Mr and Mrs Walters are customers who have received extra help.

"We couldn't believe it! It just didn't seem real that you can get a bit of help like this when you need it most. The reduction has helped us with things we wouldn't have been able to afford, at a time that we really really needed it. It's definitely made a big difference, our bill is more affordable and its helped us more than we ever thought. Thank you!"
Mr & Mrs Walters, South Staffs Water customers.

Water & sewerage charges for 2017/18:	£369.05
New bill after extra help discount:	£62.82
Overall annual saving:	£306.23

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Our Assure tariff and other types of financial help are making a difference to customers who need it most.

Five-year targets

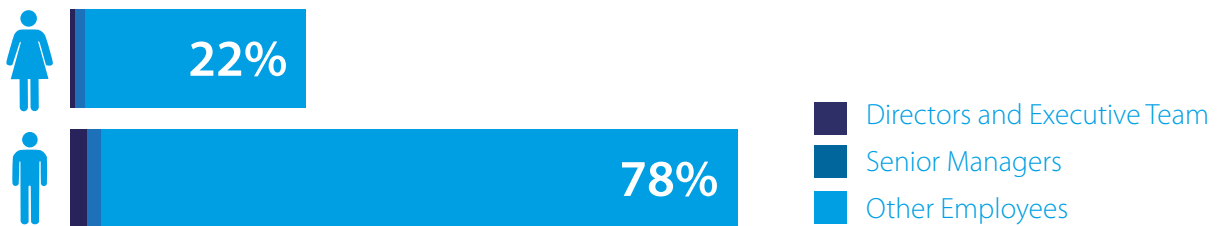
Our five outcomes and 15 performance commitments reflect what customers say is important to them. Some are financially incentivised over the five-year period, meaning we may incur an underperformance penalty or an outperformance payment. For the first three years of this period, we have earned a total outperformance payment of approximately £1.1 million. At the next price review in 2019, this payment will be factored into our overall business plan to determine the customer charges for 2020 to 2025.

Outcome	ODI name	Unit of measurement	Year						Target achieved	Performance against last year
			2015/16	2016/17	2017/18		2018/19	2019/20		
			Actual	Actual	Target	Actual	Target	Target		
1 Excellent water quality	Mean Zone Compliance	%	99.884	99.982	100.00	99.943	100.00	100.00	✘	Declining
	Acceptability of water to customers	Contacts per thousand population	1.96	1.66	1.23	1.42	1.23	1.23	✘	Improving
2 Secure and reliable supplies	Interruptions to supply	Minutes and seconds per property	04:14	05:11	10:00	08:32	10:00	10:00	✓	Declining
	Asset health infrastructure	Category	Stable	Stable	Stable	Stable	Stable	Stable	✓	Stable
	Asset health non-infrastructure	Category	Stable	Stable	Stable	Stable	Stable	Stable	✓	Stable
3 Excellent customer experience	Service Incentive Mechanism	Score	86.3	84.4	90.0	87.0	90.0	90.0	✘	Improving
	Customer satisfaction	%	98	99	98	97	98	98	✘	Declining
	Community engagement	Days	257	222	400	425	400	400	✓	Improving
4 Environment	Leakage South Staffs region	Megalitres per day	69.9	69.9	70.5	72.4	70.5	70.5	✘	Declining
	Leakage Cambridge region	Megalitres per day	13.2	14.3	13.5	14.4	13.5	13.5	✘	Declining
	Water efficiency	Litres per person per day	129.59	129.85	129.52	133.09	128.91	128.31	✘	Declining
	Biodiversity	Hectares of land	76	92	106	119	116	116	✓	Improving
	Carbon emissions	Tonnes of carbon saved	178	285	2428	550	3742	5210	✘	Improving
5 Fair customer bills	Value for money and affordability satisfaction	%	93	91	90	94	90	90	✓	Improving
	Support for customers in debt	Number of customers	19621	23895	24800	29036	27400	30000	✓	Improving

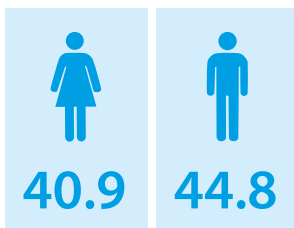
Facts and figures

Each year we provide a comprehensive set of financial accounts, which you'll find on our website. In the meantime, here are some key facts about the people who work to keep your water supply running 24 hours a day and our shareholders.

GENDER OF OUR PEOPLE

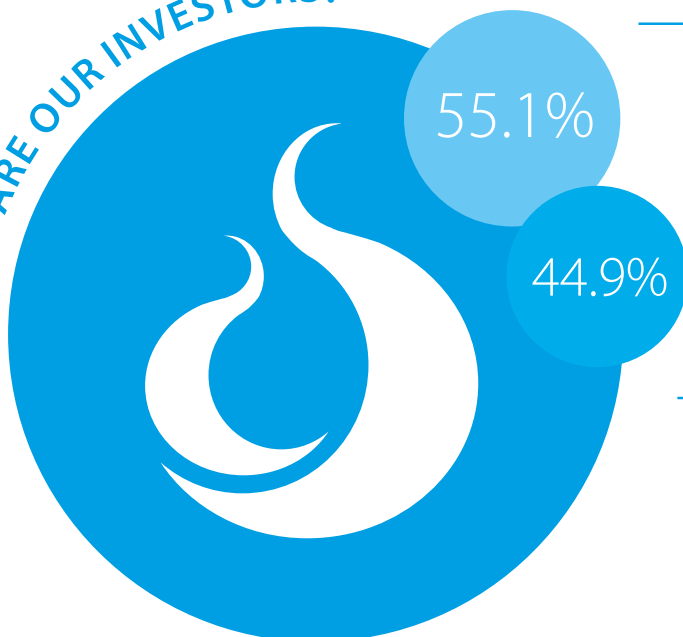


AVERAGE AGE OF OUR PEOPLE



AVERAGE LENGTH OF SERVICE (YEARS)

WHO ARE OUR INVESTORS?



Long-term pension scheme and institutional investors, advised by Arjun Infrastructure Partners which acquired a majority controlling interest in the Group from KKR in July 2018

Mitsubishi Corporation, a global integrated trading business, which acquired a 25% equity interest in the Group in March 2016 and now manages a 44.9% stake in the Group following a further 19.9% investment by Mitsubishi UFJ Lease & Finance Company in July 2018

Rest assured

We want to make sure what we do is transparent, so have measures in place to ensure there can be confidence in our data. Our assurance plan is published at the start of each financial year and published on our website. Within it, we set out how we assure all our data and information.

In summary

Deloitte.

Third party independent assurance on our statutory and regulatory accounts has been carried out by financial audit firm Deloitte.

JACOBS

Third party independent assurance on our financially incentivised performance metrics has been carried out by engineering consultant Jacobs.



South Staffordshire Plc

An independent assurance review of our non-financially incentivised performance metrics has been carried out by the internal audit function of our parent company, South Staffordshire plc.

Customer Panel

An impartial board of customers, stakeholders and experts act on behalf of customers to check on how South Staffs Water operates. Responsibilities include ensuring honest and transparent communications, ensuring that we listen and respond to customers and challenging performance.

A word from our Chairman

The water industry has had an interesting journey through 2017/18 from the opening of a new competitive market for non-household customers through to discussion of nationalisation and reform. South Staffs has been fully engaged at an industry level in these important matters but has continued to maintain real focus on meeting customers' needs in the here and now as well as planning for the delivery of our business plan for 2020 to 2025 and beyond.



With the other members of the Board, I have been closely involved in the business planning process. Our focus has been to continually challenge the Executive team to go further for our customers. I've been pleased to see the real step change we have made in the engagement with customers, which has already delivered huge rewards in terms of understanding their needs and priorities. In effect, we are shaping the future of the business with our customers and that is how it should be for a business that provides a vital public service.

During the year, we have welcomed a number of our important stakeholders and regulators to the Board. These have included the Chief Executive of Ofwat, the Chief Inspector of Drinking Water, our Regional Consumer Council for Water Chair and the Independent Chair of our Customer Panel.

Performance in 2017/18 has seen some real highs in areas such as complaints reduction, the continued reduction in the number of customers contacting us about the quality of their water, and great steps towards helping our most vulnerable customers. However there have also been some areas where we have fallen short and must work harder. Most notably, in the area of leakage, a matter which we know is hugely important to our customers.

I wish to extend my welcome to our new majority shareholder Arjun Infrastructure Partners and express my gratitude to KKR, who has been an excellent investor over the last five years. These are sensitive times for the industry and I am fully confident that Arjun will fully embrace the public service in private-ownership approach that we hold dear.

Finally, I want to thank our staff. Their dedication was illustrated perfectly in our response to the 'Beast from the East' freeze thaw in March. Our office and field-based teams worked tirelessly together through this challenging period to protect supplies to our customers and I am proud to see how well we performed overall.

A handwritten signature in black ink, appearing to read 'J Perowne', is positioned above the printed name.

Sir James Perowne

Further information

South Staffs Water www.south-staffs-water.co.uk

Cambridge Water www.cambridge-water.co.uk

Customer Panel www.customer-panel.co.uk

The Water Services Regulation Authority (Ofwat) www.ofwat.gov.uk

Ofwat is the economic regulator of water and sewerage companies in England and Wales. It exercises its powers in a way that it judges will protect the interests of consumers, promote value and safeguard future water and sewerage services, by allowing efficient companies to carry out their functions properly, and finance them.

The Drinking Water Inspectorate (DWI) www.dwi.gov.uk

Drinking water quality in England and Wales is regulated by the government through the Drinking Water Inspectorate (DWI). Its main job is to check that the water companies in England and Wales supply water that is safe to drink and meets the standards set in the Water Quality Regulations.

Environment Agency

www.gov.uk/government/organisations/environment-agency

It is the Environment Agency's job to look after the environment and make it a better place. Specifically, it seeks to maintain and improve the quality of 'raw' water in England and Wales, and is responsible for issuing water companies with abstraction licenses. The Environment Agency is concerned with the quality of fresh surface and underground water, marine and estuarial waters, and strives to prevent and reduce the threat of water contamination.

Consumer Council for Water www.ccwater.org.uk

The Consumer Council for Water (CCWater) represents water and sewerage consumers in England and Wales. They provide a strong national and regional voice for consumers through close working relationships with the water industry and other key stakeholders in England and Wales. Their job is to make sure that the collective voice of consumers is heard in national water debate and that consumers remain at the heart of the water industry.

The Department for Environment, Food and Rural Affairs (Defra)

www.gov.uk/government/organisations/department-for-environment-food-rural-affairs

The Department for Environment, Food and Rural Affairs (Defra) works for the essentials of life - food, air, land, water, people, animals and plants. It pursues sustainable development - weaving together economic, social and environmental concerns.

Natural England www.gov.uk/government/organisations/natural-england

Natural England is the government's adviser on the natural environment, providing practical scientific advice on how to look after England's landscapes and wildlife.

Public Health England

www.gov.uk/government/organisations/public-health-england

Public Health England works to protect and improve the nation's health and wellbeing, and reduce health inequalities. They support and advise in safeguarding public health and work closely when an incident is reported to protect and inform the public, especially vulnerable groups.

