



South Staffs Water

incorporating



Performance Report

2016/17



Welcome

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

As a business we believe it's important to be transparent with our customers and are working hard to regularly share more information about our performance. This report is just one of the ways we are making this happen.

Over the coming pages we will provide you with an overview of how we're doing, including how we measure up against our financial and non-financial targets. We have also tried to bring our story to life with examples of projects or activities from the last year.

On reflection, I am particularly proud of the improvements we made in the year in relation to water quality. The reliable supply of the highest quality water is the most important thing we do for our customers. I also want to acknowledge the efforts made in maintaining good performance in areas including interruptions to supply, encouraging and enhancing biodiversity; and providing support for customers in debt.

However, we must be honest in recognising that there are areas where we have not performed to the levels we set ourselves and those which our customers should expect as a norm. A particular disappointment is our Service Incentive Mechanism (SIM) score – the water industry customer service measure. Our efforts to reduce costs so customers can continue to experience great service at a fair price have had an unfortunate impact on the overall customer experience with an accompanying increase in complaints. We understand what went wrong and we are on a mission to put this right as quickly as possible. As I write, I'm pleased to report that as a result of a lot of hard work, we are beginning to see improvements.

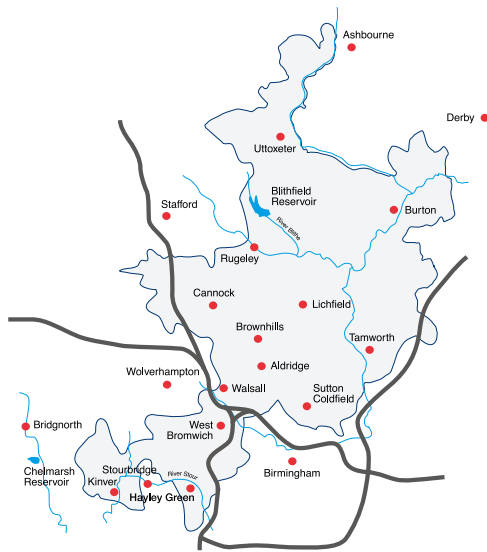
As we enter the year ahead our thoughts are increasingly turning to building our plans for all that we will deliver for customers in the period 2020-2025. It's vital that we keep making progress and aim high whilst ensuring that our service is affordable and accessible for all. We will share much more of these plans over the next year and hopefully engage with many of you during that period. We need your ideas to help us shape the South Staffs Water of the future.



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

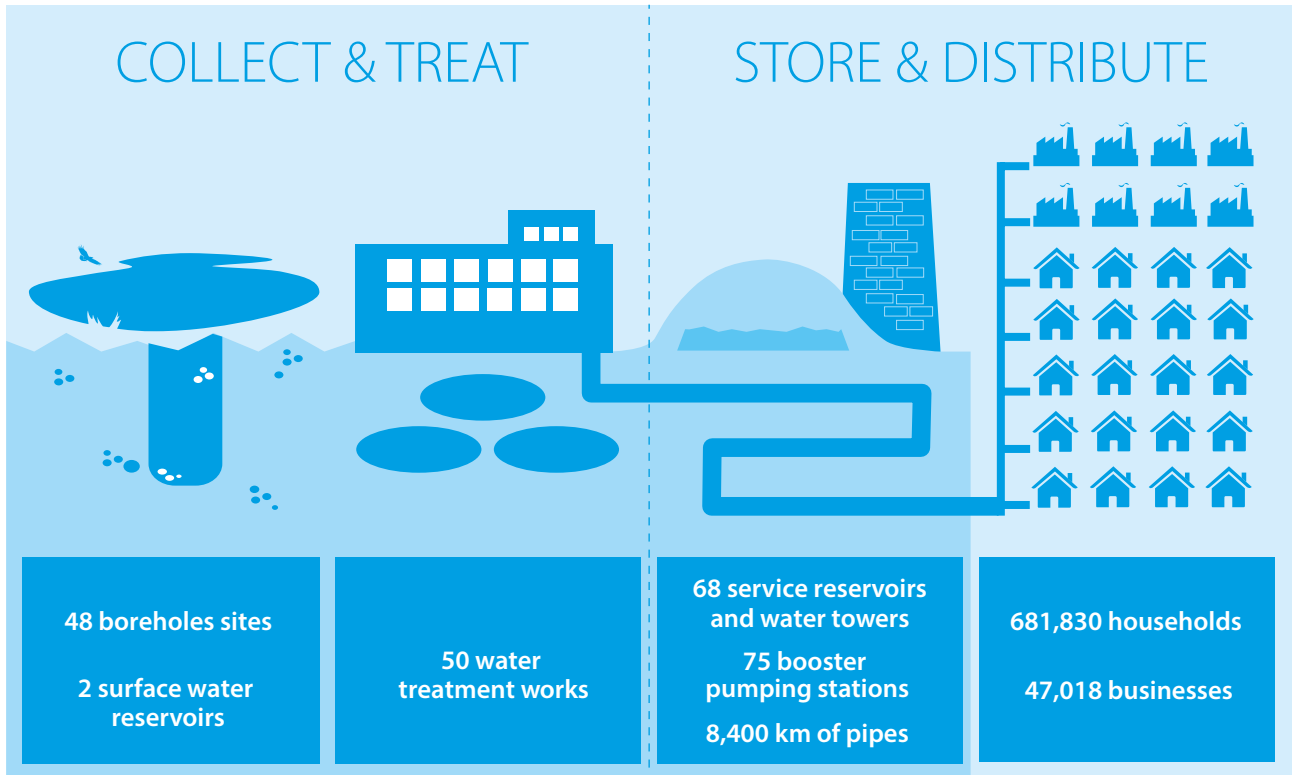
We aim to be transparent and honest with our customers in everything we do; from how we spend the money from their bill, through to the quality and reliability of their water supply and the impact of our activities on the environment. We provide an essential public service and realise it is vital that 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 a penalty or reward, 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 is outlined in this report.

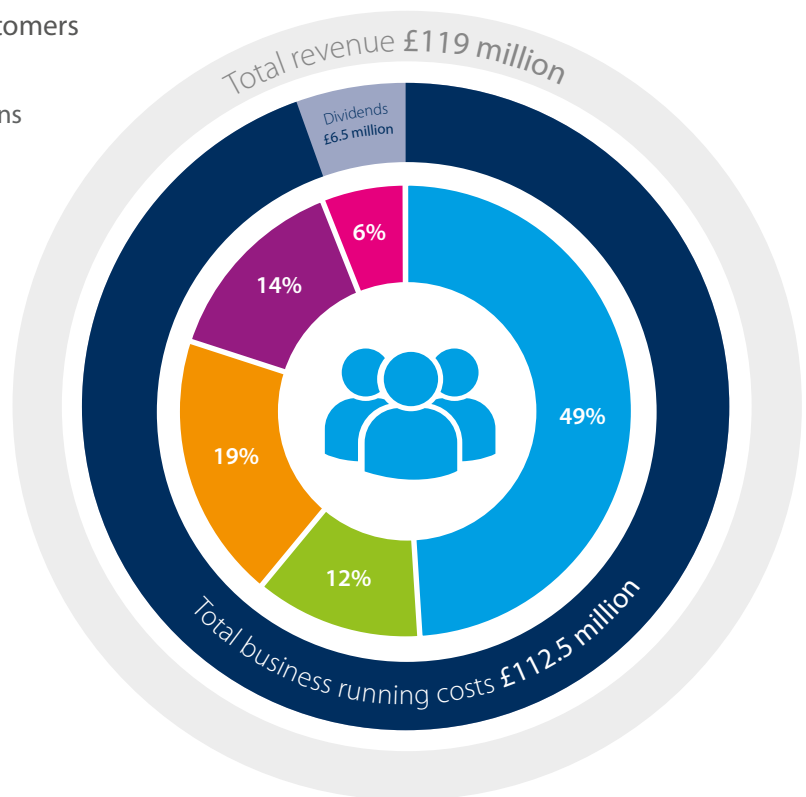
How we collect, treat, store and distribute water



Financial information

How we use the money billed from customers

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



In 2016/17 we have invested over £44 million in pipes, pumping stations and reservoirs.

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 a penalty or reward. For the first two years of this period, we have accrued a total reward of approximately £1.3 million. At the next price review, in 2019, this accrued reward 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 | Target | Actual | Target | Target | | | Target |
| 1 Excellent water quality | Mean Zone Compliance | % | 99.884 | 99.970 | 99.982 | 100.00 | 100.00 | 100.00 | ✓ | Improving |
| | Acceptability of water to customers | Contacts per thousand population | 1.96 | 1.43 | 1.66 | 1.23 | 1.23 | 1.23 | ✗ | Improving |
| 2 Secure and reliable supplies | Interruptions to supply | Minutes and seconds per property | 04:14 | 10:00 | 05:11 | 10:00 | 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 | 90.0 | 84.4 | 90.0 | 90.0 | 90.0 | ✗ | Declining |
| | Customer satisfaction | % | 98 | 98 | 99 | 98 | 98 | 98 | ✓ | Stable |
| | Community engagement | Days | 256.5 | 400 | 222 | 400 | 400 | 400 | ✗ | Declining |
| 4 Environment | Leakage South Staffs region | Mega-litres per day | 69.88 | 70.5 | 69.85 | 70.5 | 70.5 | 70.5 | ✓ | Stable |
| | Leakage Cambridge region | Mega-litres per day | 13.24 | 13.5 | 14.32 | 13.5 | 13.5 | 13.5 | ✗ | Declining |
| | Water efficiency | Litres per person per day | 129.59 | 130.15 | 129.85 | 129.52 | 128.91 | 128.31 | ✓ | Stable |
| | Biodiversity | Hectares of land | 76.2 | 91 | 92 | 106 | 116 | 116 | ✓ | Improving |
| | Carbon emissions | Tonnes of carbon saved | 178 | 1320 | 285 | 2428 | 3742 | 5210 | ✗ | Improving |
| 5 Fair customer bills | Value for money and affordability satisfaction | % | 93 | 90 | 91 | 90 | 90 | 90 | ✓ | Stable |
| | Support for customers in debt | Number of customers | 19621 | 22200 | 23895 | 24800 | 27400 | 30000 | ✓ | Improving |

Excellent water quality



Outcome

99.98%
water quality
compliance

Contacts from less than
1.7 out of every 1,000
people
regarding Acceptability of Water

Following a poor year in 2015/16 when we experienced a number of compliance failures, we are pleased to report that we have met our regulatory target for water quality compliance in 2016/17.

We have also made a 15% improvement in the number of contacts we receive from customers about their water quality. We have worked hard to achieve this, examining the root causes of customer contact and mitigating these risks as far as possible. Whilst we have not met our regulatory target this year, the improvements we have implemented put us on track to do so next year.

Investing in water quality

As part of our commitment to the highest water quality standards, we've installed state-of-the-art UV treatment technology within our Seedy Mill water treatment works. This proven, regulated and environmentally friendly UV technology ensures water is free from harmful organisms, and means less chlorine is needed, reducing the risk of issues with taste and odour.



Nitrate removal in our Cambridge region

We are also working through a multi-year programme in our Cambridge region to treat water for rising nitrate levels. Nitrates arise from the historical use of crop fertilisers. Over a long period of time these chemicals seep through the ground into our water sources, and we need to remove them from the public water supply through specialised treatment processes.



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

Secure and reliable supplies



Outcome

5 minutes 11 seconds
average supply interruption
per customer

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

One of our customers' highest priorities is that there is a continual supply of wholesome water from the tap. We have maintained our strong performance in supply interruptions to customers and remain an industry leading company. Our performance this year means that we will earn a financial reward under Ofwat's incentive mechanism. However, this will not be reflected in our charges to customers until after 2020.

It is not just today's customers that benefit from our strong performance. Our measures of asset health – for pipes, pumping stations and reservoirs – demonstrate that we are working hard to ensure that the vital service we provide can continue at the same levels of reliability in the future.

New drinking water storage reservoir ensures continued secure and reliable supply

A new drinking water storage reservoir, as part of our existing site at Outwoods in Burton-upon-Trent, is currently under construction. When complete, it will provide storage for up to 10 million litres of drinking water, helping to maintain supplies for around 38,000 properties in the area. This is the first reservoir we have constructed since the 1990s and is part of the commitment in our current five-year business plan to invest over £190m in assets to deliver a safe, secure and reliable supply of water to you 24 hours a day.



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We expect the pressures on our water resources to increase in the future and we need to ensure our supply network can continue to operate, to provide a safe and reliable water supply for current and future generations.

An excellent customer experience to customers and the community



Outcome

SIM score of
84.4

99%
customer
satisfaction

222 days
of community
engagement activity

At our last price review in 2014 there were some significant retail challenges, which required us to cut our costs between 2015 to 2020. For this reason, we have implemented a lot of changes relatively quickly, some of which have negatively impacted on the customer experience. We have endeavoured to address these concerns quickly, but it does mean that 2016/17 saw an overall increase in customer complaints and a decline in our regulatory measure of customer service performance (SIM) from our previous industry leading levels.

We have mitigated the negative effects of the changes we implemented, but we know there is still more to do. We have developed and are implementing a detailed plan, to help us regain our previous industry leading position in customer service performance. We are pleased that we still have a strong customer satisfaction score of 99% from our annual tracker survey, and this demonstrates we are still moving in the right direction.

Key areas of the plan include our commitment to:

- Respond quickly when you contact us
- Ensure bills and supporting letters clearly provide you with the information you need
- Keep you informed when you have requested a visit and make sure we are on time for our appointments
- Carry out training with our customer service and field teams so that they deliver the right customer experience
- Improve the way we keep you up-to-date
- Develop our online MyAccount service to make things easy for you
- Provide support to those who need it through our new social tariff Assure, and other initiatives



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

Community work

As a provider of a vital service that we all rely on, and a large regional employer, we recognise the need to engage with the communities we serve in both regions. We work with local groups and trusts to deliver a wide range of community partnerships and projects. We have also introduced a new education outreach service where we visit schools to deliver assemblies and workshops on water related topics. Whilst we have not met our performance commitment in this area, the projects we have participated in have delivered real value and we will continue to seek opportunities for further involvement over the coming year.

Supporting Heritage Open Days

In September, we opened the Maplebrook pumping station in Burntwood as part of the national initiative, Heritage Open Days. The Grade II listed building is one of the few remaining pumping stations in England to retain its original triple expansion steam engines in situ, although the engines are no longer functioning.



Working with the Cambridge Wildlife Trust

As part of our on-going partnership with the Wildlife Trust, we have undertaken a number of projects over the last 12 months. These have included wildlife meadow planting and support for an environmental family fun day.

Our Employee Volunteer Scheme

We support staff to give up to three days paid time per year, to take part in work that will make a positive difference to their communities. Activities undertaken in 2016/17 include:

- Helping young people develop lifeskills through role-playing workplace scenarios
- Grounds repair work at a riding school for the disabled
- Helping with gardening projects, such as building bug hotels, plant clearance and preparation for wildlife meadow planting
- Supporting a local bird club by clearing reed beds and overgrown banksides, and cutting back overgrown trees

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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

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

92 hectares of land with a biodiversity initiative | **285 tonnes of carbon** reductions

69.85MI/d leakage in South Staffs region

14.32MI/d leakage in Cambridge region

Water is a precious and finite, natural resource and we must take care of it. We all have a part to play in protecting water supplies for future generations. We made a number of regulatory commitments on the environment at the last price review in 2014. We have met some of these targets, but we are disappointed to report that there are some we have missed.

In particular, our leakage performance has shown mixed results. Whilst we hit our target in our South Staffs region, we missed it in our Cambridge region. This was due to a range of operational factors and we have engaged additional specialist leakage resource to drive Cambridge leakage back to acceptable levels quickly. Our missed target means we have incurred a financial penalty under Ofwat's incentive mechanism, which will be reflected in customer charges from 2020 onwards.

Unfortunately, we also missed our carbon reduction target. In 2015 the Government cut the financial incentives available for renewable energy projects. This has resulted in our planned renewable energy projects no longer being economically viable. We are actively seeking replacement projects to deliver the commitment, but it is unlikely that we'll find sufficient cost effective projects to deliver the full target by 2020.

Encouraging water efficiency

Working with our customers and local communities we have continued to promote water efficiency. Projects range from promoting customer metering, supplying water saving devices for the home, and providing water efficiency education to communities and schools. Due to these efforts we have hit our regulatory targets for water efficiency.



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

Developing strong environmental partnerships

As part of our new SPRING project, farmers in the Blithe catchment area can apply for a grant of up to £10,000 per farm. This can be used towards the costs of voluntary on-farm infrastructural improvements and agricultural management schemes designed to protect the environment, boost biodiversity and improve water quality.

A Uttoxeter farm has signed up, and together we are exploring ways of farming which will prove mutually beneficial. Funding is being provided to trial innovative farming practices and technology designed to reduce agricultural diffuse pollution and deliver environmental improvements. Ultimately, this means the raw water in the Blithe catchment will be of a higher quality, even before it is treated, reducing the requirement for advanced water treatment.



"I farm the land to make a living but I also want to do what I can for the environment. . . Farming has had some bad press when it comes to polluting the environment, but I think we need to do what we can to help organisations like South Staffs Water protect the water supply for future generations."

Cambridge PPF and the Pebble Fund

PEBBLE is a new fund created to actively encourage and enhance biodiversity in the local environment. This year we have awarded over £26,000 in grants to local initiatives.

Local charity Cambridge PPF was awarded £2000 towards its EMBLEM ecology project.

The money has been used to purchase essential equipment, including GPS units, bat detectors and recorders, butterfly nets, camera traps and a digital endoscope, which will be used in a range of monitoring programmes and surveys. The results, which include the recording of 137 new moth species since the project started, enables the charity to set a baseline from which to form a strong framework for its management works in the future and identify ongoing species and habitat improvement projects.



"We have been so delighted to have this support for our new ecology project. We have been able to greatly increase our monitoring capacity and accuracy with exciting results coming in already. The knock-on effect has also been an increase in public engagement and more volunteer opportunities, new training events and workshops for the public and our staff."

Fair customer bill and fair investor returns



Outcome

91% satisfaction score
for value for money
and affordability

23,895 customers
helped with debt support options

We believe it's important to keep our bills as low as possible for our customers, and our household customers 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 91% overall satisfaction with our value for money and the affordability of our service, meeting 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 nearly 24,000 customers, meeting our regulatory target.

Support for vulnerable customers

Providing extra support for our most vulnerable customers when they need it most is important to us. 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 nearly 24,000 customers, meeting our regulatory target.

The uptake of our new Assure tariff is encouraging. Introduced in April 2016, we have already accepted over 4,000 customers onto the tariff 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 Stanton is just one customer who has received extra help.

"I cannot thank you enough for this; it has made such a difference. My bill for next year is now £40.74 and that's not far off what I would have paid a month, I cannot thank you enough, I am so happy, it will make it easier for me to afford the other bills". Mr Stanton, South Staffs Water customer.

| | |
|---------------------------------------|----------------|
| Water & sewerage charges for 2017/18: | £304.51 |
| New bill after extra help discount: | £40.74 |
| Overall annual saving: | £263.77 |

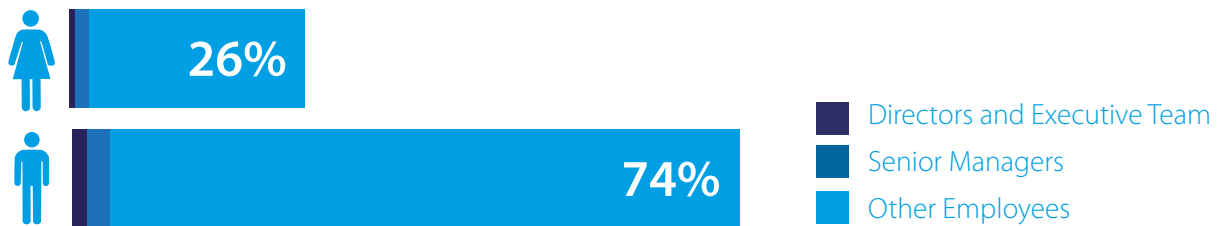
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This year, we introduced Assure, a new social tariff to provide more help for those on low incomes.

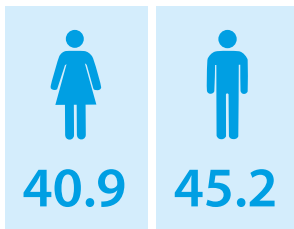
Facts and figures

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

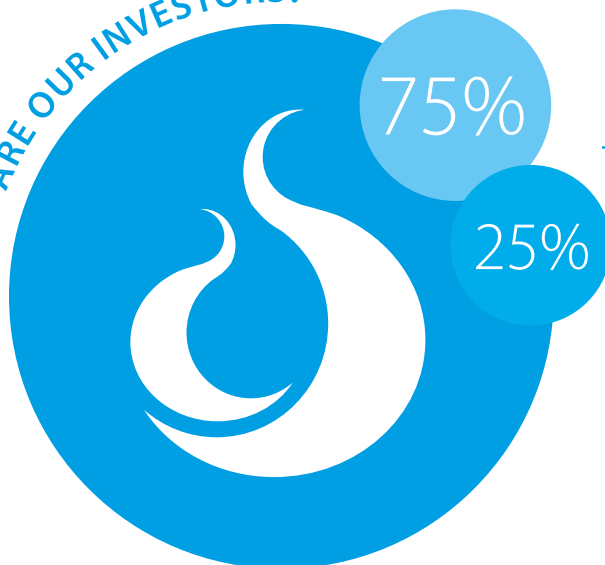


AVERAGE AGE OF OUR PEOPLE



AVERAGE LENGTH OF SERVICE (YEARS)

WHO ARE OUR INVESTORS?



The global infrastructure fund of KKR & Co L.P. which acquired a controlling interest in the Group from Alinda Capital Partners in July 2013, along with its co-investors

Mitsubishi Corporation, a global integrated trading business, which acquired a 25% equity interest in the Group through its investment in one of the Group's Jersey registered holding companies in March 2016

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 [here](#). Within it we set out how we assure all our of 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.

MONSON

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



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, listening and responding to customers and challenging performance.

A word from our Chairman

Having started in role as Chairman in April of this year, I am heartened to find a business with a clear focus and understanding of its priorities and what it needs to do to perform to a consistent and high standard while delivering low prices.

I want to acknowledge the successes you will find in this report, most notably the efforts in ensuring a reliable supply of the highest quality water – without doubt, the number one deliverable for any water company. I look forward to being able to congratulate the business in maintaining and building upon this performance in the next 12 months and will do all I can to support them in doing so.

However, to properly fulfil my role, I need to challenge the business in all areas so will be questioning the executive team on their plans to address those areas of poor performance and asking for evidence of their actions and consequent improvements. I want the business to demonstrate collaboration, innovation, long-term planning and careful investment in its operations and people, building on its innate strengths and mitigating the weaker areas.

I will act as a reminder of the duty to our customers and the need to get it right with everyone in our two areas of supply – from big business owners and housing developers, to households in our communities. All the signs so far are very encouraging. I am met by positivity, hard work and a commitment to success. I am proud to be Chairman of a business that aims high and I look forward to the year ahead and seeing how this ambition will flow through into the plans being developed for the Price Review Period 2020-2025.



Sir James Perowne



Further information

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

Cambridge Water www.cambridge-water.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.