

INTRODUCTION

This note seeks to inform the CCG members of our performance highlights over the last year, which we hope will assist members with gaining an overview of some of the progress we are making and the challenges we face. The information is focused on operational and customer service headlines rather than including information on financial performance. Should there be a desire to also review financial performance then this can be progressed at a later meeting once the Financial Accounts for 2011/12 are published on 13th July.

It is appropriate to refer briefly to one aspect of financial performance - operating cost efficiency - since the Company's desire to be one of the most efficient companies in the industry (Ofwat currently refer to this as "Band A" efficient) has and remains a significant driver of our business operations. This strategy of focussing extensively on efficiently run operations and stringent budget control benefits our customers who face water bills that are significantly lower than the national levels, our domestic water bills are over 20% lower than our neighbouring water company.

Unfortunately there is some regulatory terminology in this paper. Members may wish to refer to the glossary we provided on the back page of the "Induction" booklet circulated at the last meeting. Alternatively we would be happy to clarify issues at the forthcoming meeting.

This report does not show comparative performance (i.e. league tables) with other water companies, which has been an approach that the Regulators (Ofwat, CCW, EA, DWI) has used in the past. Should there be any particular areas where this information would be desired then members are welcome to raise this at the meeting on 5th July.

SUMMARY

The Company's vision is to be seen as a highly respected and caring water supplier – offering the highest standard of service, at the lowest possible cost. Our performance in 2011/12 is consistent with this. We are proud to deliver excellent customer service combined with an average household water bill in 2012/13 of £140 – this is considerably lower than the industry average of £182.

Performance Headlines

- The SIM score reflecting customer service standards improved from 73 in 2010-11 to 84 in 2011-12. Whilst it is pleasing that improvements were seen in both qualitative and quantitative areas, further improvement is required.

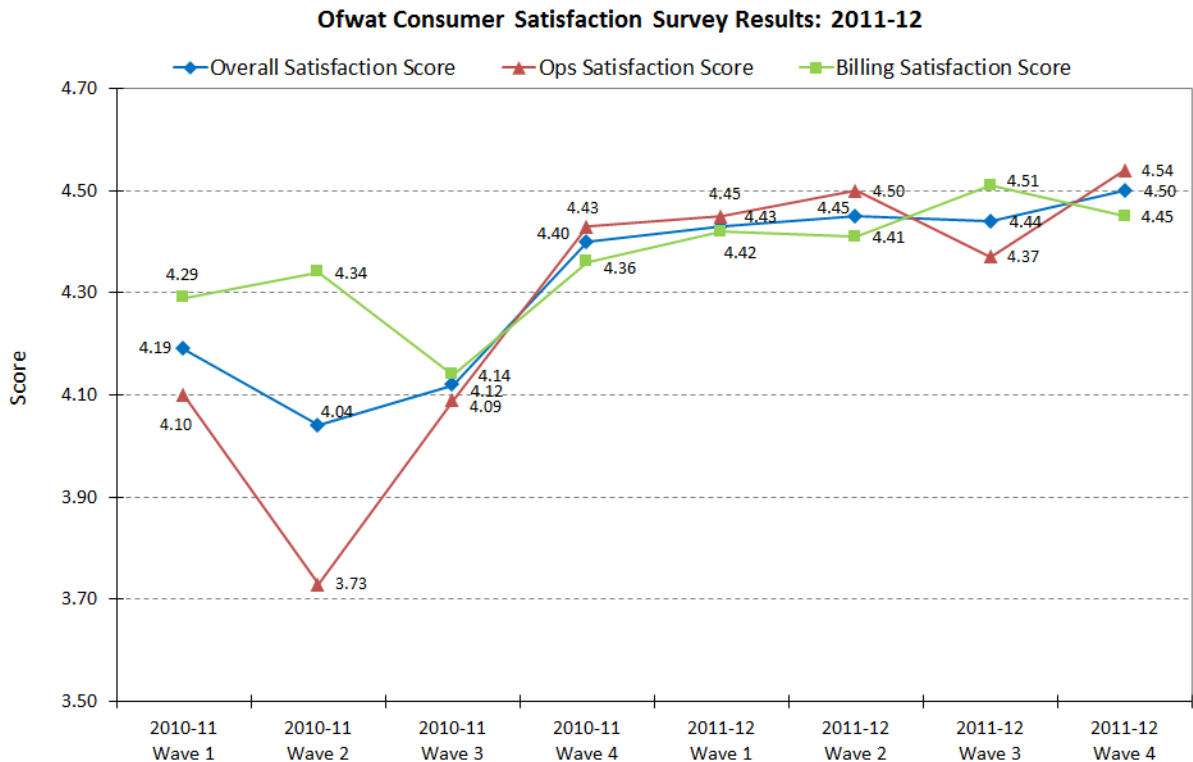
- The leakage level was 68 MI/d, which is 8% lower than the regulatory leakage target of 74 MI/d (prior year levels were 72.8 MI/d). This lower level reflects the mild winter weather and also continued efforts to have efficient and productive operations. The water efficiency target was also achieved.
- Asset serviceability indicators remained stable.
- Efforts to arrest the decline in debt collection performance appear to have been successful. Despite the continued harsh economic conditions, the internal targets were met and subsequently the bad debt charge has reduced by £0.5m to £2.5m.
- Early action prevented the need for drought restrictions, but hampered efforts to reduce carbon and energy usage.
- Notable operational incidents occurred at Streetly (major flooding following burst) and at Tipton (discoloured water following damage by third party).

Service Incentive Mechanism (SIM) – Ofwat’s method of assessing service levels

In 2010/11 the Company recognised that SIM performance would need to improve and a range of initiatives commenced to progress this improvement. It is pleasing to report a higher SIM score of 84 (2010-11: 73) and reflects improvements in both the satisfaction surveys (qualitative element) and the metrics of contact/ complaint levels (quantitative element). The initiatives progressed in the year that contributed to this improvement included:

- the introduction of customer service standards and audits;
- a customer service champion programme;
- staff training and awareness activities; and
- enhanced customer feedback and communication activities

Ofwat survey 200 customers each quarter to assess their level of satisfaction and the graph below shows a summary of the survey results for 2011/12, with the prior year performance also presented to show the improving trend.



Despite this progress, the Company continues to strive for further improvement.

Cambridge Water

On the 3rd October South Staffordshire Plc acquired Cambridge Water, who are approximately a quarter of the size of South Staffs Water. The Competition Commission (CC) held an inquiry and has now cleared the merger.

Operational Events in 2011/12

The year saw a number of unprecedented and exceptional operational events occur. The Company does not consider that they are linked nor are they an indication of poor asset serviceability. The unfortunate events that occurred were all handled in a professional manner by the Company and did not lead to non-compliance with regulatory targets in the year. The events demonstrate our staff capabilities to deal with such incidents and they also indicate the resilience of our asset base. Lessons learnt from all events are taken forward. The following notable operational events were experienced:

- Drought
- Streetly flooding
- Tipton flooding/discoloration (third party damage)

A brief summary of these events is provided below.

Drought

The exceptionally dry conditions experienced during 2011 and early 2012 were challenging for the Company. Blithfield Reservoir is the Company's main surface water reservoir and as such is the Company's 'barometer' for its water resources position. Whilst Blithfield Reservoir levels were lower than normal during 2011 we were able to move large volumes of water around our network in order to ensure that supplies to customers were maintained without restrictions. Customers will have observed no direct impact on the service they received but these actions were costly for the Company and increased our costs by around £0.3m through the extra pumping requirements associated with the conservation actions needed.

The Environment Agency declared that the Midlands region was in an official drought for the period 16th April, but following heavy rainfall this was lifted on 11th May 2012.

The heavy rainfall in April 2012 has been very welcome and the Company's water resources are now normal or above normal for the time of year.

Streetly

The Streetly flooding incident occurred on 12th November 2011 impacting on 90 residential properties. This was an extremely significant event that led to substantial disruption to our customers and much media interest. It resulted from a failure of a valve bypass on the trunk main system, with the water escaping in the early hours of the morning causing substantial damage to properties and gardens. The incident was carefully managed and the Company was praised for the efforts to assist customers following this unfortunate event.

Tipton

In January 2012 a 20" main was damaged in Tipton by third party contractors working for Western Power. Several customers were flooded in Great Bridge and there was significant and widespread discolouration of water supplies reported. The trunk main was repaired in around six hours.

Strategic Projects

The Company has progressed several strategic projects to:

- Improve IT capabilities to allow greater opportunities for mobile working, less reliance on paperwork and office visits, more up-to-date information to be passed to customers, improved response times and more efficient work planning/scheduling for activities to maintain our assets.
- Review the terms and conditions of field staff, the level of innovation and the mix of work insourced and outsourced.
- Assess the network configuration to determine the scope for power and carbon savings.
- Review best practise in debt collection approaches.

Other Levels of Service Indicators

With the introduction of SIM and with Ofwat's review of regulatory compliance that has led to new regulatory KPIs, we recognise that attention on the traditional reporting of DG standards is falling. Nevertheless we consider it is appropriate to summarise the performance that prevailed.

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
DG2 - % properties receiving low pressure at year end	0	0	0	0	0	0	0
DG3 - overall performance score wrt supply interruptions	0.09	0.28	0.45	0.16	0.44	0.04	0.05
DG 6 - % billing contacts dealt with within five working days	99.4	98.3	98.3	99.3	99.9	99.8	99.8
DG7 - % complaints dealt with within 10 working days	100	100	99.8	100	100	99.9	99.8
DG8 - Bills for metered customers, % performance	99.9	99.8	99.8	99.7	99.8	99.9	99.9
DG9 - % of calls abandoned	3.2	1.8	1.8	3.8	6.2	7.0	3.5
DG9 - % of calls receiving the engaged tone	0.1	0.3	1.0	0.5	1.1	0.5	0.1

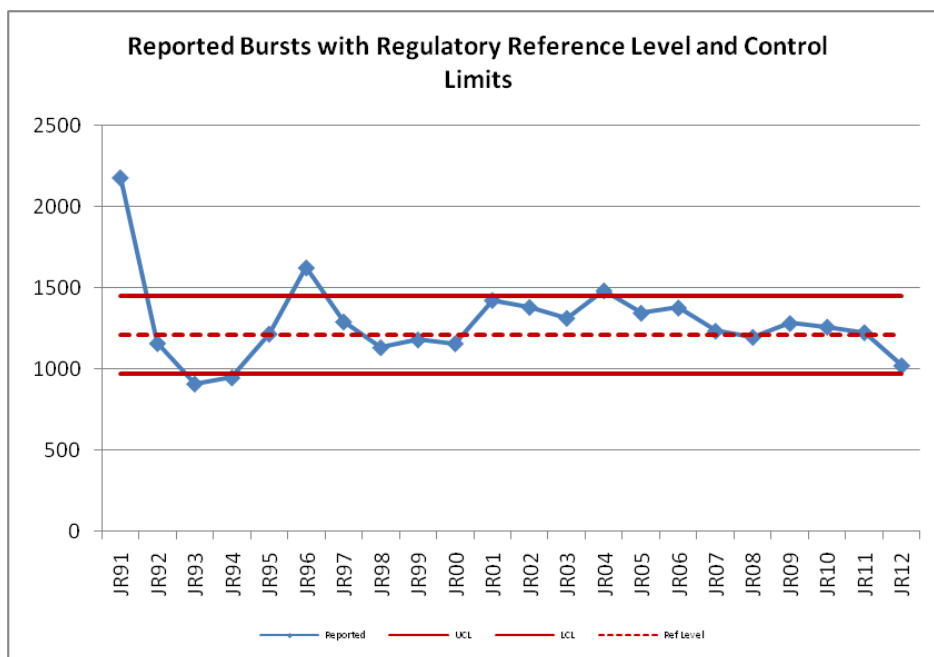
Drinking Water Quality Measures and Outputs

In the calendar year 2011 the Company continued to deliver excellent water quality and achieved a Mean Zonal Compliance (MZC) rate of 99.971%. Although this is a lower figure than previous years, the result is still above the industry average for the calendar year.

A five year programme of work to investigate ways of reducing lead levels in excess of the revised 2013 standard of 10ug/l has been progressing. Enhanced monitoring in discrete high risk areas, identification of vulnerable groups and customers and other stakeholder engagements has been on going. Less than 1% of samples taken in 2011 exceeded 10ug/l. Investigations into pipe replacement and lining techniques will take place during 2012.

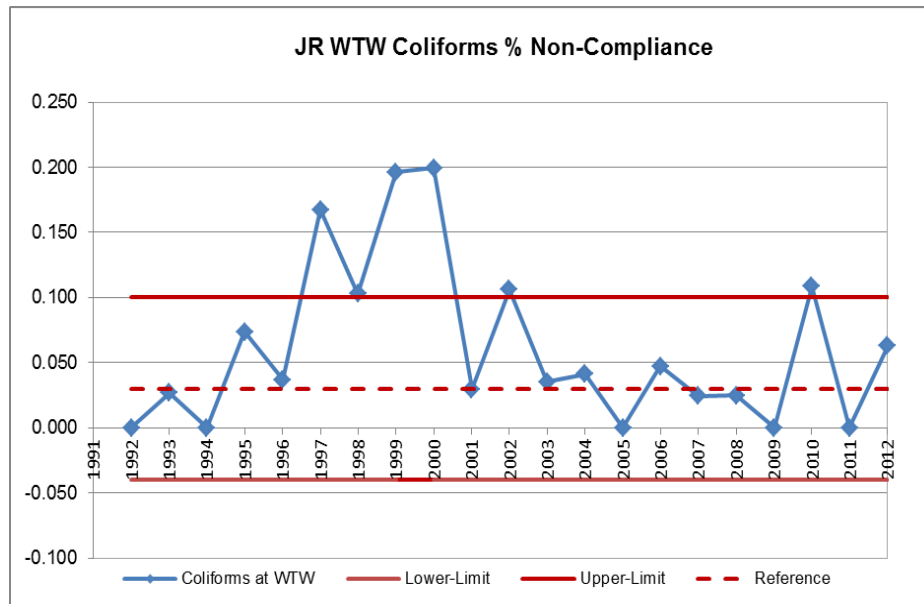
Serviceability – underground assets

The level of bursts is shown in the graph below:



Serviceability – overground assets

The Company considers that the primary indicator that demonstrates the performance of non-infrastructure assets to be WTW coliforms.



Carbon Accounting

The Company set itself a challenging target to reduce its energy consumption by 2GWh for the year 2011/12. This equates to approximately 2% of the Company's grid electricity consumption and a corresponding reduction in carbon emissions of 1,080 tCO₂e. Whilst we did progress with planned expenditure on raising pumping efficiency and improvements in the management of the pumping and distribution system, the dry weather and the resultant needs to pump more from Hampton Loade to maintain our supply position and restore levels in Blithfield Reservoir led to this internal target being missed.

Health and Safety

The Company's aim is to achieve an incident and injury free environment wherever it operates. However disappointingly in 2011/12 there were 8 reportable incidents reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR), all have been fully investigated to understand the causes and appropriate action taken to prevent a recurrence.

Conclusion

The Company experienced a challenging but successful year, making progress in improving customer service levels and meeting regulatory expectations.