

# **Interim results for the six months to 30 September 2013**

## **Overview**

As we approach the final year of the current price control period our focus has remained on delivering industry leading levels of customer service and environmental performance. Indeed, in the past six months, Ofwat has confirmed that we were the best performing water and sewerage company in England and Wales in all areas of customer service and we, once again, topped their Service Incentive Mechanism (SIM) league table.

The Environment Agency has also announced that, for the second consecutive year, we were the best performing water and sewerage company in 2012 in their annual Environmental Performance Assessment.

The first half of the year also showed a reduction in the number of customers suffering from sewage flooding and an increase, to 100%, of beaches in our region meeting bathing water standards.

For the 37th year in succession, we did not have to impose water supply restrictions despite a protracted period of warm summer weather. Hard work and careful investment in a resilient infrastructure base has meant that we are well set to ensure that security of supply is protected for our water supply customers with leakage retained at historically low levels. Our regional water grid continues to take shape as construction progresses towards a forecast completion in 2017.

Meanwhile, development of our 2015-20 business plan has seen extensive customer engagement with a wide variety of stakeholders enabling us to align our plan to our long term aims. One of the key messages coming out of this on-going work has been concern regarding the squeeze on real incomes.

As a part of our new affordability initiative, known as "tap" and announced in our 2012-13 annual results, we introduced an extended social tariff from 1 April 2013. During the first half of the year we have seen a steady increase in customers on this tariff and, in total, 14,000 households now benefit from our affordability assistance.

In light of these economic pressures we have also committed not to raise bills in 2014/15 by the amount allowed by Ofwat in our last regulatory deal. This will mean a real terms decrease in customers' bills in the final year of this 5-year period.

In addition to this measure we will be delivering a business plan to Ofwat which will outline record levels of investment, a continued focus on customer service and environmental performance whilst delivering reducing bills, in real terms, each year to 2020.

We are also well placed to respond to a changing regulatory environment including the introduction of competition for commercial customers. Our decision in 2001 to separate our billing operation has proven to be ahead of its time and has subsequently allowed us to provide high levels of customer service at the lowest cost per customer in the sector.

## **Financial performance**

Our results for the half year show that operating profit increased by 2.7% from £116.8m to £119.9m, whilst profit before taxation increased by 10% from £72.8m to £80.1m:

- Total turnover increased by £14.9m from £248.4m to £263.3m. Regulated tariff turnover increased by £13.1m due to the price increase allowed by the industry regulator Ofwat for the third year of the current regulatory period. This price increase amounted to 5.4% and comprised November 2012 RPI of 3.0%, a K factor of 1.9% and an allowance for tariff rebalancing of 0.5%. There was an additional £1.8m of turnover from the net effect of new customers, a dry summer, the impact of customers switching from unmetered to metered supply and growth in non-tariff turnover.
- Operational costs (excluding depreciation and capital maintenance) increased by £7.7m from £72.3m to £80.0m. The main factors causing this increase were business rates, a rise in energy prices and bad debts increasing in line with turnover against a backdrop of economic conditions which still remain challenging. Apart from these increases there has been good control over chemical and energy consumption and in addition pay increases for employees have also been kept below inflation.
- Depreciation and capital maintenance increased by £4.1m from £59.3m to £63.4m. There was an increase of £1.4m in base depreciation, as new assets were depreciated for the first time, and an increase of £2.4m in infrastructure maintenance charges. There was a loss on disposal of fixed assets of £0.4m compared with £0.1m last year.
- Net interest payable decreased by £4.2m. Underlying interest costs decreased by £3.9m from £42.9m to £39.0m, despite an increase in average debt, because of lower inflation impacting index-linked bonds. The average cost of debt decreased from 5.1% to 4.4%.
- Taxation reduced by £4.2m from £15.1m to £10.9m. There was a £1.0m reduction in corporation tax, despite the increase in profits, and a £3.2m reduction in deferred tax. The main reason for both reductions was a further lowering of tax rates by HMRC.
- Dividends declared for the six months to September 2013 were £72.7m being a reduction of £11.9m compared to the same period last year.

Capital investment for the six months totalled £113.0m representing an increase of 29% over the same period last year. There were increases in expenditure on both quality and capital maintenance schemes.

Net debt increased by £52.8m from £1,738.3m to £1,791.1m in the six months to September 2013. The net cash inflow from operations was £176.6m with cash outflows on the capital investment programme of £113.0m, interest payments of £29.7m, tax payments of £14.0m and dividends of £72.7m.

Liquidity at 30 September 2013 was £120.0m being cash deposits with banks. Approximately 50% of these deposits mature within 1 month and the other 50% between 3 and 6 months.

The next significant repayment of debt facilities the company has to make is not until December 2015.

## **Operational performance & investment**

We continue to make good progress in terms of operational performance and capital investment, and we are on target to meet all 2010-15 milestones and regulatory outputs.

	2012-2013	First half 2012-2013	First half 2013-2014
<b>Customer service</b>			
SIM customer satisfaction score	91%	91%	91%
SIM customer contact score (lower is better)	112	55	49
Billing contacts dealt with in 5 days	100%	100%	100%
Written complaints dealt within 10 days	100%	100%	100%
<b>Water supply</b>			
Risk of receiving low pressure (per 10,000 properties)	2.4	3	3
Unplanned interruptions over 12 hours (per 10,000 properties)	0.4	0	0.3
Supply restrictions (per 10,000 properties)	0	0	0
Drinking water compliance	99.98%	99.97%	99.97%
Total leakage (millions of litres per day)	69	69	69
<b>Sewerage</b>			
Risk of internal sewage flooding once or more in 10 years (per 10,000 properties)	0.8	0.8	0.8
Internal sewage floodings (per 10,000 properties)	2.0	1.0	0.4
<b>Environmental standards</b>			
Compliance with EA abstraction licences	100%	100%	99.99%
Number of pollution incidents	67	35	45
Beaches meeting mandatory standards	94%	94%	100%
Population served by compliant sewage treatment works	100%	100%	99.99%
Sewage sludge disposed satisfactorily	100%	100%	100%
Carbon emissions (thousand tonnes CO <sub>2</sub> equivalent)	154	81	68

2013 has seen a largely stable performance across operational measures, with reductions seen in the number of internal sewage flooding incidents. Improvement of bathing water standards this year meant that 100% of beaches in our region met the mandatory standards.

The impact of a change in the weather, from very wet conditions at the start of the year which led to a high frequency of blockages and sewage pumping problems, to very low flows and

hot weather, has significantly contributed to the increase in the number of pollution incidents reported this year.

## **Delivering for customers**

### **Service levels**

We continue to put customers at the heart of everything we do and we deliver the best performance on customer service and satisfaction in the industry.

Ofwat has confirmed that we are, once again, the best performing water and sewerage company in England and Wales topping its Service Incentive Mechanism (SIM) league table for 2012/13.

Performance figures for the first six months of this year indicate that we retain this leading position with unwanted contact and complaints continuing to fall and satisfaction levels remaining high. Such high satisfaction levels are due, we believe, to our prompt, warm voice telephone answering, quick response times, first time resolution of problems and keeping customers informed of what we are doing at all times. Our staff are also key to our success not only in their knowledge and dedication but also in their desire to go the extra mile for customers.

We are not standing still however and continue to expand our customer engagement and, through our customer experience group, use this invaluable feedback to improve our service. This year we launched 'Have your say' one of two new online customer panels to add to our well established customer and stakeholder engagement process.

Our Customer Care team continues to call customers when we complete any operational work at their property to check the problem is resolved and that they are satisfied with the workmanship. This initiative is proving very popular with customers. We have also reviewed and improved some of our response times to operational problems, for example fixing visible leaks within 24 hours.

We continue to widen our communication channels to give customers more choice in the way they interact with us and we interact with them for both billing and operational issues. We are making more use of text messaging, emails, social media and widening the range of online self-service options.

### **Customer guarantees**

Through the Wessex Water Promise we continue to provide customer guarantees and compensation well in excess of the statutory guaranteed standards scheme and have one of the best overall packages of guarantees in the industry.

### **Affordability**

Affordability remains the top priority for customers as the economic situation continues to put pressure on household budgets. Our commitment to tackling this issue is reflected in our strong partnership work with Citizens Advice, other debt advice agencies across our region and National Debtline (Money Advice Trust) to improve the availability of debt advice to

customers struggling to pay. This is delivering real benefits for customers, debt advice workers and Wessex Water alike.

Our tap programme offers customers tailored assistance through a range of schemes and low rate tariffs to help them afford their ongoing charges and repay their debts along with practical help to reduce their water and energy use. It continues to receive plaudits from external stakeholders and the debt advice community.

We widened eligibility for our low rate social tariff, Assist, this year and now have more than 8,000 customers on the tariff. Working with our affordability advisory group we have developed an action plan to raise awareness and increase uptake further. Assist reduces charges to customers who are in extreme financial difficulty and allows them to make a modest contribution towards the costs of water and sewerage services.

This year we've launched our Money Matters Awards providing grants for financial literacy and money management projects directed at the young and more vulnerable across our region.

### **Education and community involvement**

We continue to provide an education programme offering a range of services to support schools, teachers and students from primary to university level. We are also working with organisations in our region to reach vulnerable customers, as well as offering community talks on wider water and sewerage issues.

Our community partnership programme, the Wessex Water Partnership, incorporates all our community involvement. In addition, it offers proactive help and advice on water conservation, our affordability schemes, our community support programmes and reinvestment of efficiency savings and customer service improvements.

### **Meeting new demands**

Maintaining the supply of water remains a primary objective and last summer marked the 37th year without supply restrictions in the Wessex Water region.

As a result of the particularly wet weather in 2012 we started the current financial year in a strong water resource position with reservoirs full and groundwater levels above average for the time of year.

We have maintained our focus on reducing leakage from our extensive network of around 11,500 km of mains and met our leakage target in 2012-13. This level of active leakage control continues into this year and we are working hard to meet the target again for the full year 2013-14.

Our on-going water efficiency initiatives to help customers reduce their consumption includes free device distribution through our WaterSave packs, a promotion of low flow shower heads in our customer magazine helping customers save water and energy, our schools' education service and commercial audits. We are on course to meet our water efficiency target for 2013-14.

Whilst demand for installation of free water meters was lower than the corresponding six month period last year, numbers installed continued to follow a long term upward trend.

In May 2013 we published a new draft Water Resources Management Plan that sets out how we plan to maintain a balance between supply and demand whilst protecting the environment for the next 25-years. Our proposals for the future include fitting a meter free-of-charge when someone moves house and enhanced water efficiency services that will help reduce consumption and deliver a reduction in leakage; licence reductions where they are necessary to improve river flows; and the completion of our integrated water supply grid. The draft Plan was subject to public consultation over the summer and in early November we published a statement of response to the comments we received and also prepared a revised draft Plan that incorporates the changes we made as a result of the consultation. The revised draft WRMP is a key component of our Business Plan that will be submitted to Ofwat in December 2013.

Throughout 2013 we have continued our liaison with the Mere Rivers Group. The dry weather of 2013 allowed us to accurately test the impact of our abstraction on the flow in the rivers that pass through the town. Using these results we have proposed to try to minimise our exports from the Stour catchment when flows in the river are low, but retain the ability to do so should that be required to provide a reliable supply to our customers. The Mere Rivers Group has expressed its support for this approach and we propose to trial it from 2014 to 2020.

We have continued to work closely with developers and planning authorities across our region with many new housing sites, which have been in abeyance for some time, now showing signs of progress.

Design & construction works are progressing on major sewerage schemes serving new development at Filton Airfield site in Bristol and at sites in Keynsham and Calne.

## **Improving drinking water and the environment**

Our mean zonal compliance for the half year was slightly lower than the same period last year at 99.97%. The measure is very sensitive to individual failures. So far in 2013 there have been nine failures of the 18,500 tests that have taken place. There is a range of reasons with no common underlying cause: taste and odour from a concessionary supply in Nutscale Valley, three iron failures, one manganese failure, one nickel failure, an enterococci detection and an exceedance of the bromate standard.

### **Coping with worsening raw water quality**

Deteriorating raw water quality has often triggered multi-million pound investments in water treatment works. To avoid these high-cost schemes and to develop more sustainable solutions we are continuing with our innovative strategy of catchment management.

Our catchment management specialists are working alongside the local farming community to identify potential pollutant pathways and find alternative management practices that protect and improve groundwater quality at 15 sources. We propose to extend this approach into the 2015-20 plan period.

## **Sutton Bingham water treatment works**

Construction of the major process extensions and extensive maintenance works at Sutton Bingham, which serves the Yeovil area, are substantially complete. The project will improve the performance of the works, first developed in the 1980s, in dealing with pesticides and taste and odour problems. Commissioning will conclude by spring 2014.

## **Mains relining for iron compliance and reduction in discoloured water**

Our programme of mains rehabilitation to reduce discoloured water complaints and improve our performance with regard to iron compliance continues. The work is targeted at nine particularly high-risk zones and the work completed to date has already shown a beneficial effect in reducing the number of discoloured water contacts. We will be continuing with this work in other areas in AMP6 in order to deliver a downward trend in customer contacts regarding water quality.

The largest project within the programme is in Taunton, known as 'Taunton Clean and Clear'. Work commenced here in the summer of 2012. As with the previous phases of work, we have adopted a collaborative approach with the highway authorities and an active public relations campaign with local residents and businesses.

## **Addressing the impact of water abstraction on river flows**

We have an active programme of work to address the concerns that have been raised about our groundwater abstractions and their impact on river flows. In particular, to improve river flows in the Wylde and Bourne catchments, in accordance with the National Environment Programme, abstraction licences will be reduced by a further 23.5 Ml/d once the construction of our regional water supply grid is completed.

In addition the regional water grid will enable us to move water more effectively around our region and ensure future demand is met.

The planning permission for the largest project within the grid – the Corfe Mullen to Salisbury Transfer scheme – was granted on the first application by the relevant planning authorities in April 2013 and construction will commence this autumn.

In the meantime we have completed linked projects at Winterbourne Abbas, near Dorchester and the construction of a service reservoir at Allington.

In summary, once complete the grid projects will:

- improve the security of supply to customers, even in the event of a catastrophic source failure
- meet our customers' demands for water over the next 25 years
- meet the reductions in abstraction licences required by the Environment Agency to improve flows in some rivers and protect their ecology
- deal with deteriorating raw water quality, particularly increasing concentrations of nitrates at some of our groundwater sources.

## **Sewerage and sewage treatment improvements**

## **Sewer flooding**

Sewer flooding is rare but when it does happen it is one of the worst service failures our customers and the environment can experience. Substantial investment over recent years has meant that out of 1.2 million properties, only 92 were at risk of internal flooding more than once in 10 years because of inadequate capacity.

Through further investment we aim to keep the number of properties at risk at around the same level, even in the face of climate change, which is causing more extreme storms. We also propose to reduce the risk of external flooding and newly arising flooding problems. We are currently on target to deliver the 527 flooding outputs planned in 2010-15.

The responsibility for flooding is often complex and we are working with local authorities as they produce surface water management plans to investigate these shared ownership problems. We are currently contributing towards these plans and strategies in Bournemouth, Bristol, Weston-super-Mare and Somerset.

Private Sewer Transfer (Section 105A)

We are now two years on from the transfer of ownership of private sewers. The number of incidents attended on average each month increased by 73% in the first year of transfer and by a further 11% in the second. Over the past 12 months, private sewer incidents amounted to 11,966 out of a total of 31,434 sewerage incidents. We are monitoring the increase in workload and the latest estimates have been reflected in our business plan for the next price review.

## **Storm Overflows**

During particularly heavy rainfall storm overflows act as relief valves to ensure properties do not flood. The conditions under which they are allowed to spill are consented by the Environment Agency. We are currently ahead in our five-year programme to improve 65 unsatisfactory storm overflows to watercourses, 63 of which are in Bristol.

We have delivered improvements to 39 overflows with a further 14 programmed to be delivered by the end of the financial year.

## **First-time sewerage**

We provide first-time sewerage to communities not connected to the public sewerage system where it can be shown that this is a cost effective solution to any public health or environmental problems.

The Cold Harbour (Wareham) scheme, where a local nature reserve is being affected by private sewage discharges, is nearing completion and will allow 345 properties to connect to the public system. We are also appraising the viability of nine other newly arising applications.

## **Urban Waste Water Treatment Directive**

This European directive sets standards and dates for the treatment of inland and coastal waters to improve the quality of treated sewage discharges to the environment. Designation

of two river systems in the Somerset Levels as Sensitive Areas means we are required to install phosphorus removal processes at six of our sewage treatment works (STWs).

In addition phosphorus removal is required at Paulton STW, where the connected population has increased above 10,000. During the first six months of this year we have completed the construction work and commissioning of phosphorus removal plants at Yeovil and Evercreech STWs, and commenced construction at Sherborne STW. Design work on the remaining schemes is progressing to programme.

### **Revised Bathing Water Directive**

The revised EU Bathing Water Directive requires that by 2015 bathing waters must meet tighter microbiological standards.

This means providing improved secondary biological treatment at Weston-super-Mare STW, together with storm storage capacity to reduce the frequency of storm sewage discharges from Black Rock pumping station. Construction and commissioning of the new activated sludge plant, final settlement tanks, improved UV disinfection and storm tanks was completed by the target date of March 2013, ahead of the start of this year's bathing season.

### **Other River Quality Improvements**

Improvements are required at five other STWs to meet tighter consent standards associated with increases in dry weather flows. During the first six months of this year construction was completed at the second of these sites (Puddletown) and is progressing on programme at the remaining three STWs (Taunton, Mere and Iwerne Minster).

### **Coastwatch**

2013 was the third year in which Wessex Water provided real-time information showing when coastal storm overflows have been in use. The system was initially trialled in 2011 and has been highly praised by local authorities and Surfers Against Sewage. The number of reported overflow sites has increased to 50, and includes those affecting non-designated 'amenity' waters, such as boating lakes and streams. Wessex Water is one of only three water companies to provide coverage of storm overflow use across all of the bathing waters within our region.

### **Sludge treatment**

All sludge generated from the waste water treatment process is disposed of safely and in a way that meets mandatory standards. An increasing proportion of our sludge is treated using anaerobic digestion which reduces the volume of sludge to be recycled while generating renewable energy. This reduces our costs and our carbon footprint.

Our strategic plan is to extend and upgrade our sludge digestion facilities to further increase the proportion of sludge that we digest and to increase the renewable energy that we generate. This includes the installation of advanced anaerobic digestion at Trowbridge and Taunton, and additional digestion capacity at Berry Hill (Bournemouth). During the first six months of this year construction is progressing well at Trowbridge, with completion planned for March 2014, whilst designs for Taunton and Berry Hill have been finalised.

## **Biodiversity and Conservation**

Like all water companies Wessex Water has a duty to protect, conserve and enhance the wildlife on the land we own. Our two AMP5 Biodiversity projects focussing on 16 high value, but not nationally designated sites, are in the final stages. The outputs will be management plans to ensure the conservation and enhancement of these sites in the future. These plans will be based on the detailed survey work undertaken as part of these projects and reflect the regional importance these sites play. At one site, Sutton Bingham, we have successfully applied for Higher Level Stewardship to fund the conservation management of its important grasslands for the next ten years.

Our award winning Partners Programme provides long term (minimum five-year) support to seven projects across our region. These projects compliment the company's approach, share data and best practice. The Dorset Wild Rivers Project is a key delivery element of Defra's catchment based approach and is integral to the Frome and Piddle Catchment Initiative which Wessex Water is leading. The farmland birds project within the Cranborne Chase Area of Outstanding Natural Beauty, is providing biodiversity to offset the construction impact of our regional water grid.

## **Investigations**

To address future uncertainty surrounding improvements required by European legislation a programme of investigations has been taking place to plan capital investment for 2015-20. These started in 2010 and include bathing water investigations at Weston-super-Mare, Burnham and Blue Anchor, the impact of our discharges on algal growth in watercourses and more sustainable methods of phosphorus removal.

The outcomes from these investigations have been critical in forming our Business Plan. Asset enhancements will be based on sound science to address our contributions to bathing water quality in Burnham, and have promoted a more sustainable approach in Poole Harbour and around our surface water reservoir sites to tackle nutrient levels. Our sustainable phosphorus removal trial has proved successful at both phosphorus and pharmaceutical removal. This will be trialled further during AMP6.

## **Waste management**

Wessex Water diverted 97% of non-sludge waste from landfill in the first six months of the year, compared with 89% in the first six months of 2012-13. Long-term pathways have been developed for landfill diversion for each waste stream, from 2013-14 to 2019-20. At the end of this period we aim to be sending virtually no waste to landfill.