

Business review

Severn Trent Water – Delivering against our KPIs

Our 20 Key Performance Indicators (KPIs) remain the primary basis through which we measure our performance and during the year we continued to improve our scores in many key areas of the business and achieved our targets.

Customer service levels showed further improvement, a result of investing in our people, increasing capability and focusing on process and technology improvements – for example, over 100,000 customers registered for our online account management system in its first year. We improved performance in customer call resolution, maintained our high performance in job resolution and delivered a 23% reduction in customer written complaints over last year.

Water quality improved again in 2009/10, while for the third year running we achieved our leakage target, despite the coldest winter for 30 years. Our teams reacted quickly to the prolonged period of freezing temperatures to bring leakage rates back down as rapidly as possible.

We also maintained our high standards in control of pollutions and made further improvements, reducing sewer flooding incidents; our continued focus on creating and maintaining a safe working environment resulted in a 16% reduction in lost time incidents over last year.

We have improved our debt management processes and helped customers with our WaterSure tariff and Water Direct, a scheme from the Department for Work and Pensions which allows payments directly from benefits to help customers manage their bills. Against the backdrop of the downturn in the economy, debtor days performance improved to 32.6 days at March 2010 (March 2009: 33.1) although it has become more difficult to collect debt over one year old. As a result, we have increased our bad debt charge, which now represents around 2.5% of turnover (£35.0 million), up from around 2.3% (£31.7 million) at the end of last year. We continue to monitor developments closely.

The table opposite sets out our actual performance on the KPIs and includes benchmarking against other comparable companies in the

16%

Improvement in lost time incidents

23%

Fewer customer written complaints

89%

First time call resolution – billing

74%

Employee motivation

water and waste water sector, as well as other companies with similar characteristics in other sectors. Our performance is classified in one of three categories; lower quartile, upper quartile or median performance. We now have nine KPIs where we are achieving upper quartile performance (2008/09–11), with nine at median (2008/09–8) and two at lower quartile (2008/09–1). The movement between categories is partly due to improved benchmarks, which we update in September every year, but there are still areas where we need to do more. For example, on unplanned interruptions, one of the KPIs in the lower quartile, we have not fully addressed issues such as poor network condition and incident response, but we have an action plan in place focused on improving network monitoring and resilience, and how we deal with incidents causing supply interruptions. The other KPI in lower quartile, breach of consents, was impacted by non-compliance with processes during some site upgrades or routine maintenance, and again we have taken action to address these issues. The implementation of SAP release 2 will help to provide a more structured approach to routine maintenance.

Although we have made progress in a number of areas we recognise there is more to do, and as companies in our sector or elsewhere redefine what upper quartile means, our objectives move with them.

Looking forward to 2010/11

In our drive for higher standards we have reviewed the measures we will need in the future to demonstrate our progress and to reflect the evolution of the regulatory environment. In most cases our objectives and regulatory requirements are unchanged as we move from AMP4 into AMP5 and so the majority of our KPIs will remain unchanged.

However, five KPIs will have improved measures:

- KPI 10 Gross capex vs. final determination
- KPI 11 Capital process quality to be introduced in 2011/12
- KPI 15 Pollution incidents (cat 1, 2 and 3) per 1,000 properties
- KPI 17 Sewage treatment works – breach of consents
- KPI 19 Net energy use

And two new KPIs will be introduced:

- KPI 18 Supply availability, replacing security of supply
- KPI 14 Ofwat efficient billing factor to be introduced in 2011/12, replacing cost to serve per property

We will provide more detail on these during 2010/11.



KPI Sewer flooding incidents

Promoting the proper disposal of fats, oils and greases (FOG)

Last year we outlined this trial as part of our work to reduce sewer flooding through community support. This year we are pleased to bring you a further update and some good results.

Through a partnership with national charity Community Service Volunteers (CSV), a project called 'Grease Lightning' was set up in south east Birmingham to raise awareness

of the problems caused by disposing of FOG down the sink.

The scheme has shown positive results. The proportion of households in the area that dispose of FOG down the drain reduced from 26% in February 2009 to 17% in October 2009.

This also resulted in a reduction in actual sewer flooding incidents in the area. There were 52 flooding incidents as a result of FOG between April and November 2008. This reduced to just 17 incidents in the same period in 2009.

Basis	KPI	2008/09 Performance	2009/10 performance	2009/10 quartile	At a glance
MAT	Lost time incidents per 100,000 hrs worked ¹	0.43	0.36	Upper	⬇️
QR	Employee motivation % ²	83%	74%	Median	🔄
MAT	Water quality (test failure rate) ppm	200	131	Upper	⬇️
MAT	Customer written complaints per 1,000 properties ^{3,4}	6.44	4.95	Upper	⬇️
MAT	First time call resolution for billing % ⁵	88%	89%	Median	⬇️
MAT	Unplanned interruptions > 6 hrs per 1,000 properties ³	7.29	10.09	Lower	⬇️
NPR	Properties at risk of low pressure per 1,000 properties ^{3,6}	1.21	0.12	Median	🔄
MAT	First time job resolution % ⁵	96.0%	96.5%	Upper	⬇️
QR	Non-performance against regulatory obligations % ⁵	10%	5%	Upper	🟢
AMP	Capex (gross) vs final determination % ⁷	5.0%	6.1%	Median	⬇️
MAT	Capital process quality (number of defects per £100k) ⁵	0.00	0.07	Median	🔄
ACT	Debtor days ⁸	33.1	32.6	Median	⬇️
MAT	Opex vs final determination (UK GAAP) £m ⁸	500.9	492.4	Upper	🟢
MAT	Cost to serve per property £ ⁹	236.53	231.03	Upper	⬇️
MAT	Pollution incidents (cat 1, 2 and 3) per 1,000 properties ^{10,11}	0.08	0.08	Median	⬇️
MAT	Sewer flooding incidents – other causes per 1,000 properties ³	0.172	0.131	Upper	🟢
PPS	Sewage treatment works – breach of consents % ¹⁰	0.00%	0.31%	Lower	🔄
IDX	Security of supply	98	99	Median	⬇️
MAT	Net energy use – kWh/MI ^{5,12}	440	435	Upper	⬇️
MLE	Leakage MI/d ³	492	497	Median	🔄

Key

 Improved quartile
  Maintained quartile
  Declined quartile

Notes

- MAT** = Moving Annual Total
QR = Quarterly Review
NPR = Number of Properties on Register
AMP = Asset Management Plan 4
PPS = Percentage of Population Served
MLE = Maximum Likelihood Estimate
ACT = Year end Actual
IDX = Year end Index
- Actual performance across all employees and agency staff.
 - Performance based on quarterly survey of 10% of permanent employees.
 - As reported in June Return to Ofwat. Performance figures are provisional at this stage as the June Return will be submitted to Ofwat on 11 June 2010.
 - Performance excludes properties billed by other water companies.
 - Actual performance based partially or wholly on internal data.
 - Benchmark has been compiled using data inclusive of information from pressure loggers, previously calculated exclusive of pressure loggers.
 - Actual performance based on audited UK GAAP financial statements for AMP4 ended 31 March 2010.
 - Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2010.
 - Actual performance based on audited regulatory accounts for the year ended 31 March 2010.
 - Measure for calendar year to 31 December 2009.
 - Actual performance for calendar year 2009 equates to 332 pollution incidents (2008: 313).
 - Metrics of this KPI changed from waste water returned in 08/09 to waste water treated in 09/10. Prior year performance has been restated accordingly.