

Meeting our customer and environmental commitments whatever the weather



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Anthony Ferrar
Managing director



The weather, while outside anyone's direct control, is a huge factor in the performance of water companies. 2018 saw extremes with freezing conditions in February followed by the hottest English summer on record. This presented a number of challenges as large swings in temperature affect ground conditions which in turn affect our network of pipes - pivotal to transporting clean and safe water across our supply area. During hot spells, our customers naturally want to enjoy the sunshine and spend more time outside which means water use soars as sprinklers and hosepipes are turned on. Demand is always higher in the summer but in 2018/19 record-breaking volumes of water were put into supply to satisfy the demand.

Despite the best and worst of the British weather last year, our customers rightly expect us to be resilient, even in the most testing of circumstances. I am very pleased that we have continued to meet their expectations in the majority of areas which is due to the skill and commitment of our experienced employees. There are countless examples of individuals going above and beyond to strive to deliver our vision of being an outstanding water company delivering service excellence.

Our promises to customers (see pages 22 to 23 for a full breakdown of our measures and performance)

Our last Business Plan made a number of promises to our customers focused around delivering six aims.

Overall aim – Continue to be a well-run, respected and successful business:

We take our role of being trusted to provide an essential public service very seriously indeed – but we don't just supply water, we want to play an active part in the areas we are privileged to serve. We are a small, local company and are proud to have been deeply embedded in local communities for over 150 years. This year we have donated over £18,000 to local good causes and given over 120 hours of our employees' time through our 'Give-a-Day' scheme which enables individuals to use their skills to help others. This year has also seen us giving our customers more of a say on the organisations we support by installing a charity voting box in a café in Dorking.

The results of this year's annual employee engagement survey, which gives people the opportunity to express their feelings about the Company as an employer, showed promising improvements on the previous year, particularly with regards to the visibility of senior managers and communication. The high response rate of over 70% ensured a representative view across each department and shows the areas to focus on so that our people can be the best they can be.

The health and safety of our employees, contractors and the public is of the utmost importance to us. We comply with all relevant regulations set by the Health and Safety Executive and endeavour for no incidents to occur. However, there have been four lost-time accidents this year, including one which resulted in the employee needing extended time off work so was reported under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013). Our Safety Committee – including nominated representatives from each department – has evolved to include greater employee contribution including a dedicated ‘Health and Safety Day’ which was very positively received. Highlights included a number of talks and challenges from our suppliers, as well as hearing directly from the police about the dangers of drink and drug driving.

Recognising the importance of mental wellbeing alongside physical health, our ‘Aqualibrium’ programme has continued to support employees with a range of services from lifestyle questionnaires and a new financial education tool to confidential counselling and Mental Health First Aiders.

In response to recent Ofwat views across the sector with respect to debt levels being carried by all companies, in October 2018 we significantly lowered our debt (or ‘gearing’) level from c.77% in March 2018 to c.61% at 31 March 2019 to achieve a better balance between the money we receive from our shareholders compared to lenders like banks. An equity injection from our shareholders enabled a £30 million bank loan to be repaid and at the same time £12.4 million of preference shares were converted into ordinary shares so they no longer command a guaranteed high rate of interest. Our financial health is also kept under scrutiny by two independent credit rating agencies – Moody’s and Standard and Poor’s – and maintaining a public investment grade credit rating contributes to the transparency of our financial resilience. We have maintained a stable rating with both companies for a number of years now and this year was no different, despite the expected impact of the PR19 price review process.

Aim 1 – To provide a reliable and sufficient supply of safe, high quality drinking water:

Planned interruptions to supply are necessary so that we can improve the long-term resilience of our network by replacing ageing pipes. However, our performance in this area this year is largely due to unplanned activity which cannot be predicted, such as burst mains. While we aim for no customers to lose supply, in May 2018 we experienced a significant burst in the Merstham area that impacted around 1,000 customers for longer than the three hour time period that our regulatory target is based on. Historically we have been amongst the best performers in the industry so although this year we have missed our target due to a single, isolated issue, our customers are still much less likely to experience an interruption to their supply compared to elsewhere in the country.

Another area of historic strong performance is the number of burst mains. Again, while our overall goal is to not have any bursts, we did meet our regulatory target this year. There were more than the previous year, again reflecting the challenging weather conditions which puts stress on ground conditions and our pipes, but the still low number reflects the general good health of our network and the work that goes into maintaining it, such as pressure management and sustained investment.

Top quality water is our customers’ number one priority so it is pleasing to report achievement of 99.97% for the Overall Drinking Water Quality Index in 2018. We carry out thousands of samples every year and the water leaving our treatment works and service reservoirs achieved 100% compliance on all tests carried out. Our performance reflects only two failures for the lead standard measured at the customer tap from a total of 31,173 tests.

We have a challenging target to minimise the number of customers that need to contact us about the taste, smell or appearance of their water. In 2018 we received 388 contacts – 38 more than the limit set – which means we will incur a penalty from Ofwat of £1,000 per contact for every one over the deadband of 375 – a total of £13,000.

Whilst any penalty from the regulator is disappointing, we have maintained our top three industry ranking for the fourth year in a row and we were also industry leading for taste contacts, something we are still very proud of as it demonstrates the teamwork involved to deliver a product that our customers are so satisfied with.

Around 85% of the water we supply comes from underground sources which we then partially soften. In 2015 we started a £22 million investment programme to upgrade our Woodmansterne Treatment Works to supply greater quantities of softened water to meet the needs of a growing population. The project completed on schedule as planned in March 2019 and means we met our commitment of delivering the investment programme.

The security of supply index is a way of monitoring the resilience of our water resources so that they are able to meet customers’ demand. We have maintained our index at 100% for both an average dry year and a critical period of peak demand.

Aim 2 – Offer good value for money and keep bills at a fair and reasonable level:

With less than 8% of customers questioned feeling that their water bill is not good value for money, this is well within the target limit of 15%. Our average household bill for 2018/19 increased by £5 – less than the rate of inflation and equating to about 53 pence per day – with money from bills playing a crucial part in funding our ongoing investment programme.

Most customers do not struggle to pay their bills but we recognise that for some people it can be a challenge, even temporarily, so we are very pleased that now over 10,000 eligible customers are in receipt of our Water Support Scheme which provides a 50% discount to those in financial hardship. We pledged to help 5,000 people by 2020 but we reached this level three years ago and continue to welcome more people onto the tariff by increasing our activity to raise awareness of the support we can offer.

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More affordable bills for more customers means less bad debt which is the cost of water charges that we are unlikely to be able to collect. We aim to keep this level below 1% of turnover, however this year it is just over this target but is still one of the best collection records in the country.

Aim 3 – Increase the resilience of our network to drought, flooding and equipment failure:

We have had no restrictions on the use of water this year. Like other water companies, we depend on winter rainfall for the water we supply to our customers as underground aquifers – rocks which act like a giant sponge – only usually fill up between October and March when there is less plant growth and evaporation. October 2018 – the start of the critical six month ‘recharge season’ – was dry, with only about half of the average rainfall during the month, however November and December were wetter. There was a dry spell again in January and just under average rainfall levels in February. March was very wet which brought overall winter rainfall to 96% of the long-term average. However, our groundwater resources have remained below average throughout the year which is largely due to the increased demand we experienced during the heatwave last year which significantly depleted resources.

Since 2010 we have been progressing a resilience programme to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of our area, which was previously completely reliant on groundwater supplies. This means that by 2025 our aim is that every property can be supplied by more than one treatment works which is so important to keeping customers’ taps running, particularly during outages and periods of low rainfall. A significant step forward in this ambition this year was the completion of a 7.3 kilometre trunk main between Woodmansterne Treatment Works and the town of Purley, which was a challenging project to deliver on time, largely due to the urban location and resulting traffic management and stakeholder engagement required.

As well as laying new pipes it’s very important to maintain the ones we already have so we have renewed nearly 14 kilometres of mains this year, key to minimising bursts, leakage and interruptions to supply.

Aim 4 – Deliver consistently high levels of service:

Satisfaction with the overall water service we provide is very high and above target at 91.5%. This score is generated from our household satisfaction survey which is completed by a random representative sample of 400 customers during the year and asks about important topics like continuity of supply, pressure and taste.

We have continued to also be measured by Ofwat’s Service Incentive Mechanism (SIM), an industry customer service metric intended to provide consistency of measurement across all companies. The score is based on two factors – customers’ experiences when they have had to contact us and also the number of unwanted customer contacts and complaints we have received. Regrettably, despite making some progress this year, including achieving our highest ever quarterly billing score, we have still finished in the bottom quartile of the national league table, as we did last year. Essentially, taking both satisfaction targets into account demonstrates that our customers are happy with their water – however we need to perform better when customers contact us about a change in circumstances or an operational problem. We are now part way through our two year transformation programme to enhance the interaction and experience our customers receive which is based on what our customers tell us is important, such as getting things right first time every time and investing in our digital contact channels.

Another key indicator of customer satisfaction is the number of complaints we receive. Disappointingly we have had more than our target this year but our downward trend over recent years has continued and we are now at a four year low of eight complaints per 1,000 properties. This demonstrates that the changes we are making, such as increased training and simplified processes, are working.

Aim 5 – Reduce our impact on the environment while seeking to make a positive contribution to its quality:

Managing leakage is one of our customers’ top priorities and a key focus for us too. We have met our leakage target for the 20th successive year which is particularly pleasing given the increase in bursts due to the challenging weather conditions. This was only made possible through a concerted team effort and increased resources to drive down the backlog of jobs and respond to the increase in leaks reported. We remain one of the top performing companies in this area and are committed to doing even better in the future with very challenging targets in our next Business Plan.

We operate in a region which is classified as being in serious ‘water stress’ due to the growing population and limited resources which is why we have a target to reduce the amount of water per person that we need to take from the environment. While we have missed this target this year due to the substantial summer demand, we have significantly increased the number of water meters we have installed – over 10,000 – which is one of the most effective ways to influence and educate our customers about their usage as they then only pay for what they use.

Another education activity is the work we do with children and adults to increase the value that they place on their water supply. This ranges from school visits at our Bough Beech Reservoir to spreading our water-saving messages at community events, all of which we know leads to small changes that can add up to big benefits. We have reached well over 11,000 people this year and are always evolving our programme to make the most of new opportunities, such as being the first water company to introduce an alumni club for school children to stay in touch with participants to understand the behaviours they have changed.

The water industry is a significant user of energy due to the amount of electricity needed to pump and treat water but we have substantially reduced the amount of greenhouse gas emissions per litre of water we supply by switching to 100% renewable electricity and being more energy efficient. We have also increased the amount of electricity we generate ourselves by installing solar panels on the roof of our head office building and have also started a trial of electric vans.

There have been no incidents of pollution this year, another notable indicator of the importance we place on protecting and enhancing the environment.

Financial performance

Our financial performance remained healthy this year. Revenue increased to £66.8 million (2018: £65.0 million).

Operating costs increased to £48.4 million (2018: £45.1 million). Operating profits increased by £0.2 million to £20.1 million (2018: £19.9 million).

Interest charges decreased by 9% to £11.0 million (2018: £12.1 million) driven by the conversion of preference shares to ordinary shares and paying off our £30 million loan, both part of our de-gearing strategy.

Interest receivable and similar charges generated £0.7 million (2018: £0.7 million).

Profit before tax fell by £0.8 million to £9.7 million (2018: £10.5 million) where 2018 benefitted from a one-off gain on the sale of the non-household customer accounts.

Our accounting tax charge for the year was £2.2 million (2018: £1.1 million).

Capital investment

The Company has continued with its five-year investment programme, with £25.3 million invested in new and replacement plant and equipment in the year (2018: £26.0 million). The most significant portion of this spend, £4.1 million, was invested in the upgrade to Woodmansterne Treatment Works (2018: £9.6 million), which was commissioned ahead of the 31 March 2019 deadline, with full handover scheduled for later in 2019.

We have also continued to invest in the ongoing replacement of the pipes in our distribution network, investing £5.3 million this year to provide targeted replacement based on their age, condition and performance. Other investment of £6.9 million continued across our network, primarily on the improvement of our resilience mains to ensure water can be efficiently moved around our supply area and also £2.0 million in pipes to supply new developments. The remaining £7.0 million was spent in replacing equipment at our treatment works, pumping stations, service reservoirs and other operational sites (£2.6 million), investment in our ongoing metering programme (£2.7 million), and investment in IT, vehicles, laboratory and office equipment (£1.7 million).

Net debt

Net debt for the Company at 31 March 2019 decreased substantially by £35.5 million to £155.2 million (2018: £190.7 million) following the de-gearing exercise that was undertaken in the year, which included the repayment of the £30 million bank loan following a further issue of ordinary shares to our current shareholders. The carrying value of our £100 million index-linked bond was increased by £5.2 million due to the link to RPI (2018: £5.6 million increase). Cash and liquid resources increased by £1.7 million in the year (2018: £1.8 million increase).

The Company has also completed the renewal of its five year revolving credit facility.

The level of gearing is a key ratio under the covenants associated with our index-linked bond and is measured by the ratio of net indebtedness to regulatory capital value (RCV). The RCV is indexed by movement in RPI and linking of our principal debt instrument to the same inflation index provides an effective hedge against the impact of inflation. The ratio as defined by our bond was 66% at 31 March 2019 (2018: 78%), within the 80% permitted by our covenants.

Dividends

Ordinary dividends of £3.1 million (2018: £3.0 million) were paid from the Company's regulated activities. The Board applied the dividend policy as noted on page 35 when approving this level of dividends, determining the appropriateness of such ordinary dividends in terms of service delivery to customers and financial performance in the year. In addition, dividends of £0.6 million (2018: £2.6 million) were paid from accumulated reserves and cash balance from non-regulated activities. In 2018, £2.0 million of the dividend paid was deployed by the Company's parent undertaking to fund the acquisition of the non-household customer list by an associated company on 1 April 2017.

Pensions

The Company is a member of the Water Companies Pension Scheme (WCPS), details of which are disclosed in the financial statements under the requirements of IAS 19(R). A net pension scheme asset of £16.6 million (2018: £21.1 million) is included in the balance sheet.

Conclusion

Overall, I am very pleased with the significant progress made in achieving our aims for our customers in an efficient and effective manner, thanks to the continued dedication and hard work of our employees. This will stand us in good stead for the year ahead and the final phase of the current price review process.

Anthony Ferrar

Managing director
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