

**Delivering for our customers**  
Our 2015 to 2020 business plan



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business plan





# Letter from the Managing Director

*Dear Customer*

It gives me great pleasure to welcome and introduce you to South East Water's 2015 to 2020 business plan.

In fact, it is as much your plan as it is ours. The extensive engagement, discussions and debates we have had with you means you have played a crucial role in shaping what is to come in the following pages.

For example, you have been clear on what your top priorities are – clean water, low leakage, effective service, affordable bills and reliable supplies.

Thank you for the time and effort you have made to make clear what your priorities are. You will be repaid by our promise to deliver them.

That is a commitment made by all the people who are behind the name South East Water and who really define our business – from all the hardworking, dedicated and caring staff who keep your taps running 24 hours a day, 365 days a year, to the Board of the Company.

We are not immune to the effect our future plans can have on water bills and hard-pressed families, particularly in the current economic climate.

That is why we have worked really hard to give you a water supply service that still delivers everything it absolutely must, and that you expect, while keeping our price rises below the rate of inflation.

Our current average household bill is £201. Before inflation, our average household bill for 2015 to 2020 will be £199. We plan to achieve this despite cost pressures and the need to continue to invest in our assets.

Furthermore, we will support our most vulnerable customers who remain in the most difficult of financial circumstances, by introducing a new Social Tariff in April 2015.

At the same time our plan will ensure we consistently maintain our service to the same high levels you receive today. You have given us a ringing endorsement of that approach, with 86% of you finding our plan acceptable in terms of what it will do, and what it will cost.

As a result we will be investing £475 million over the next five years, which represents over £500 for every home and business we supply – an increase of 6% compared to our current level of investment.

We know maintaining the high quality of your drinking water is paramount, and that you value the implicit trust you have in us to keep standards high. We will repay that trust by investing a further £28 million so that every time you turn on your tap, you know the water is safe to drink.

You also told us having a reliable water supply, irrespective of the challenges we face today or in the future – such as the 19% increase in population we will see in our supply area by 2040 – is important too. So we will be investing £192 million in new water resources to keep taps flowing, whatever the weather.

Likewise, we need to make sure the water we already have can go further.

One way of doing just that is to stop water going to waste through leaks. While we have met our tough targets for 11 consecutive years, you have told us we need to do much more to reduce leakage – certainly before we ask you to cut back on your water use, for example, in times of drought.

We agree with you, which is why we have pledged to reduce leakage on our own water pipes to 10% by 2040.

We know that may seem a long time to wait, but you have also understood that finding and fixing those invisible, ever-smaller weeps and seeps of water is very expensive – a cost that has to be reflected in your water bills. So while it might seem a small step now, the promise we are making is a giant leap to getting the level of leakage to one which you will find acceptable.

Our plan also recognises some specific increases in our everyday running costs, many of which are outside our control – such as the cost of the energy we need to buy to treat and pump water, and our business rates.

So how have we been able to do as much as now, and in some cases deliver more, for less in terms of your future water bills?

Well, we have set ourselves a significant challenge to be more efficient than we already are in the way we run our business, and have committed to deliver £36 million worth of savings over the next five years.

Another key factor is the positive recognition by our shareholders and investors of the part they want to play in keeping water bills as low as possible and affordable for customers.

We have made a significant reduction in the rate of return that is paid to those who give us the vital cash injection that we need to finance our investment programme.

The challenge in our plan does not stop there.

While you have a limited appetite to pay for further improvements in service, you have been very clear in how disappointed you would be if our service deteriorated.

We have understood your views and introduced a package of incentives linked to what you value most about your water supply.

A number of these incentives have a reward or penalty attached to them. That means if our performance is better than expected, we will be financially rewarded; similarly if our performance is below what is expected, then we will be financially penalised.

We propose to combine the incentives – which represent either a maximum £7 million reward or a maximum £17 million penalty – from 2020 onwards, based on how well we do over the next five years.

We believe this further underpins our clear promise to you.

In summary, we are incredibly proud of this plan. We have embraced the challenge of building a plan with less prescription and more company ownership. It also reflects the renewed partnership we have with each other so that we deliver the water supply service you want today, and which we are committed to delivering for many more tomorrows.

Yours faithfully



Paul Butler,  
Managing Director





# Introduction

Welcome to South East Water's business plan for 2015 to 2020.

This leaflet summarises what we will do to keep water flowing for our 2.1 million customers across the South East of England, the investment we will need to make over the next five years, and what impact that will have on customers' water bills.

We have talked with, and listened, to nearly 8,500 households and businesses to help us make our decisions for our business plan.

As a result, our customers have influenced every building block that forms the basis of the judgments and decisions we need to make for today and tomorrow's water supply service.



# Customers' priorities

Our customers have been clear in what their priorities are.

C

## Clean water

Customers take the quality of their tap water for granted and trust us to supply a clean and safe water supply which has an acceptable appearance, taste and smell. In the event of a problem with water quality, customers want to know why the problem has occurred, and expect the problem to be resolved quickly.

L

## Low leakage

Customers believe the current level of leakage is too high, and an inefficient use of a valuable resource. It is a problem we need to fix, and certainly before we ask them to conserve water when there are shortages.

E

## Effective service

In general, customers are happy with how we operate our business in terms of opening hours, response times, and the availability of emergency contacts. The key word for customers is choice - customers expect to be able to choose how and when they do business with us, and expect to get regular information from us.

A

## Affordable bills

A clear priority for the majority of customers is low, affordable bills. Customers are not willing to pay for any significant improvements to their current water supply service. Where future investment is needed, it should be immediately targeted to critical areas customers consider are a priority, and within existing bills.

R

## Reliable supplies

Customers generally take the reliability of their tap water for granted. They believe we should be able to meet their demands for water, now and in the future, whatever the impact of external pressures such as climate change and population growth. Customers have told us that saving water and developing new supplies are equally important.

## Delivering customers' priorities through performance and promises

Having understood customers' priorities, we developed a set of performance measures and promises that would support their delivery.

For the next five years we will:

- Track and measure the actual service customers receive, through performance targets on key areas of our service; and
- Track and measure overall customer satisfaction with our service through regular customer surveys

We will measure and publish each year how well we have done, and where we need to do better.

## What investment our plan will deliver

Our plan has customers' priorities at its heart - clean water, low leakage, effective service, affordable bills and reliable supplies.

Over the next five years we will invest a further £475 million in our water supply service. This equates to just over £500 for every home and business we supply.

Key areas of our investment include:

- £28 million to maintain the high quality tap water that customers trust
- £255 million in the vital – but largely unseen – network of pipes, pumping stations and treatment works that deal with millions of litres of water every day
- £142 million will go into developing new water resources to keep taps flowing, whatever the weather, for existing and future customers
- £50 million in our Customer Metering Programme
- A pledge in the longer term to drive down leakage levels on our pipes to 10%





Priorities



Service



Outcomes



Performance



Incentives



Acceptability

## What our plan means for customers' water bills

We know that there are pressures on customers' finances, and so having water bills that remain affordable is a top priority.

Over the past four years our average household bill has increased from £195 to £201.

We have worked hard to ensure any change in the level of future bills is minimised, while still delivering our customers' priorities.

As a result our average household bill from 2015 to 2020 will be £199, before inflation.

Our plan for the next five years can be translated into average bills for our household customers as shown below.

	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Average	196	196	199	201	201

## Helping those in financial difficulty

In addition to the wide range of financial support schemes we already have in place, we have developed a Social Tariff, which will be implemented from April 2015. This will allow a specially-created fund to be set up from which we can target those most in need of our help to pay their water bill.

# The promises we make in our plan

## Our promise: Customers consider the appearance, taste and smell of their water is acceptable

Our performance commitment

Customers have told us that water quality is among the top priorities for their water supply service.

We want to achieve a 100% pass rate of all the samples we take and test to meet the stringent standards aimed at protecting customers' water supply.

Water quality	2012/13 performance	2019/20 target
Mean Zonal Compliance	99.96%	100%

### Measuring customer satisfaction with water quality

We will also measure and work to maintain the high levels of customer satisfaction around water quality to make sure we deliver on our promises.

Outcome	Customer satisfaction in 2013/14	Customer satisfaction by 2019/20
Customers consider the appearance of their water is acceptable	4.6	4.6
Customers consider the taste and smell of their water is acceptable	4.3	4.3

### Our promise: Customers consider the level of leakage is acceptable

We are committed to driving down leakage, not just in this five-year business plan, but in the longer term too, so that by 2040 leakage on our own water mains is close to 10% – something our research showed customers would support as being acceptable.

We are phasing delivery of this promise as achieving both a better performance to reduce overall leakage, and improved customer satisfaction, is a long-term process.

### Our performance commitment

We measure our leakage in two ways.

	2012/13 Actual	2019/20 Target	2040 Target
Total leakage (million litres per day)	93	88	86
Leakage per property (litres per day)	104	93	78

### Measuring customer satisfaction with overall leakage

We have met our leakage targets for 11 consecutive years but know customers have a low level of satisfaction with our current performance on leakage.

We will measure and work to improve customer satisfaction around leakage.

Outcome	Customer satisfaction in 2013/14	Customer satisfaction by 2019/20	Customer satisfaction by 2025
Customers consider the level of leakage is acceptable	3.6	4.0	4.3



## Our promise: Customers consider their direct interaction experience to be positive

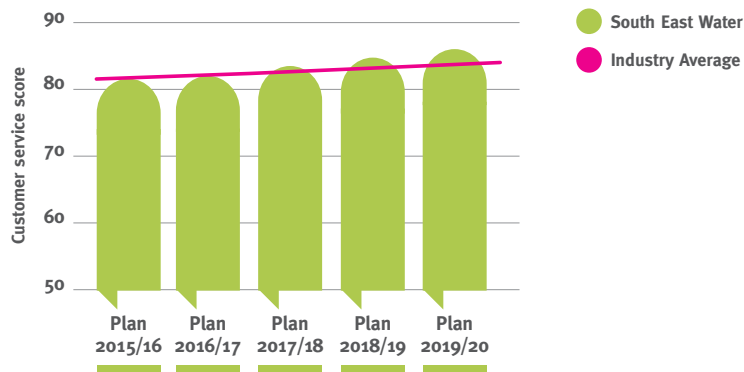
There are already high levels of satisfaction among our customers with both the quality of the water and service we provide.

We believe that maintaining and improving that trust has to be underpinned by providing a service which is both effective and efficient.

### Our performance commitment

We will continue to improve our service to customers so that by the end of 2020, we will be among the top performers in the industry.

Figure 1: Customer service performance 2015 to 2020



### Measuring customer satisfaction with our service

We will undertake regular surveys to ensure we maintain the high levels of satisfaction with the service our customers already receive. These surveys will include all our customers – not just those who contact us.

Outcome	Customer satisfaction in 2013/14	Customer satisfaction by 2019/20
Customers consider their direct interaction experience to be positive	4.5	4.5



## Our promise: Customers consider bills to be value for money and affordable

Our extensive customer engagement and research has consistently shown that a clear priority for the majority of our household customers is low, affordable bills.

To achieve this promise, we will control our costs so that customers' bills remain affordable. We will also engage more with customers so they consider their overall water supply service is value for money.

### Our performance commitment

We have set ourselves challenging efficiency targets on both our operating costs and investment programme to make sure customers' bills are no higher than they need to be.

	Costs	Activity from 2015 to 2020	Expected savings by 2020
Investment programme	£457 million	Challenge the cost of our investment programme by 5%	£25 million
Operating costs	£469 million	Reduce our everyday running costs by 0.5% per year	£11 million

Our plan for the next five years will result in the following average bills for household customers, today's average bill is £201.

	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Unmeasured	253	251	248	239	220
Measured	171	177	187	194	198
<b>Average</b>	<b>196</b>	<b>196</b>	<b>199</b>	<b>201</b>	<b>201</b>

Note: The average bills are shown in 2013/14 prices.

The average unmeasured bill is reducing due to those customers who are unable to have a meter fitted moving onto a system of water charges that is based on the number of bedrooms. Likewise, the average metered bill is increasing due to the overall change in occupancy rates in households, and an increase in average water use per property.

### Measuring customer satisfaction with water bills

We will measure customer satisfaction with the level of water bills.

Outcome	Customer satisfaction baseline	Customer satisfaction by 2019/20
Customers consider bills to be value for money and affordable	72%	> 80%

## Our promise: Customers consider their water supply is reliable

Customers believe we should be able to meet their demands for water, now and in the future, whatever the impact of external pressures such as climate change and population growth.

We also asked what they think should be the priority when it comes to how we meet future demand for water. Customers have given us a clear view of their preference – saving water through water efficiency programmes, and developing new supplies, are equally important.

### Our performance commitment

To deliver this promise we will measure three areas of our performance:

- Meeting demand for water
- The frequency and duration of water supply interruptions
- Water pressure

The way we measure meeting demand for water is by assessing the overall security of our water sources and customers' supplies. The maximum score that can be achieved is 100.

Performance measure	Performance in 2012/13	Performance by 2019/20
Meeting demand for water	100	100
Average time lost per property	13 minutes	< 13 minutes
Number of properties at risk of low pressure	62	60

### Measuring customer satisfaction with reliable water supplies

We will measure and work to maintain the high levels of customer satisfaction around reliable water supplies to make sure we deliver on our promises.

Outcome	Customer satisfaction in 2013/14	Customer satisfaction by 2019/20
Customers consider their water supply is of sufficient pressure	4.5	4.5
Customers consider the frequency and duration of supply interruptions is acceptable	4.7	4.7
Customers consider the frequency of water use restrictions is acceptable	4.1	4.1

## Our promise: We are compliant with all of our statutory obligations

It is important that our plan ensures we remain compliant with all of our legal obligations, and we are making investment decisions which protect the service of the future.

### Our performance commitment

Many of our duties are enshrined in UK and European legislation which, we believe, provide a strong operational foundation on which to deliver our service.

It also provides confidence to customers and stakeholders that we are focussing on their priorities of delivering safe, clean drinking water whilst protecting the environment.

Outcome	Performance Measure	Current Performance 2012/13	Performance Commitment 2019/20
We are compliant with water quality regulations	% mean zonal compliance	99.96%	100%
We are compliant with environmental obligations	Number of breaches of abstraction licences, discharge consents and environmental permits	Zero	Zero
	Number of pollution incidents (Cat 1-2)	Zero	Zero
We are compliant with National Security obligations	Number of compliance breaches	Zero	Zero
We are compliant with health and safety regulations	Number of compliance breaches of legislation	Zero	Zero
We are compliant with our other statutory obligations and licence conditions	Number of compliance breaches	Zero	Zero

## Our promises: Our assets are capable of delivering promises in the future

**We will reduce our impact on the environment**

**We will be a financially responsible company providing reasonable returns to our investors**



Priorities



Service



Outcomes



Performance



Incentives



Acceptability



### Our performance commitment

The investment decisions we are making in this plan will protect the water supply service of tomorrow, and deliver our promises. We will also ensure the long term sustainability of our business by ensuring our drinking water operations, at the very least, minimise any impact on the environment.

Outcome	Performance Measure	Current Performance 2012/13	Performance Commitment 2019/20
Our assets are capable of delivering outcomes in the future	Below ground asset performance assessment	Stable assessment	Stable assessment
	Above ground asset performance assessment	Stable assessment	Stable assessment
	Number of sites at risk of flooding	55 sites	Zero sites
We will reduce our impact on the environment	Carbon emissions per customer per year	39.4 kg	38.7 kg
	Monitor our abstraction at low flows at environmentally sensitive sites	To be defined when robust data is available	
We will be a financially responsible company providing reasonable returns to our investors	Investors consider the risk and return to be adequate	Adequate risk and return	Adequate risk and return
	Shareholders consider their reputation is maintained	Reputation maintained	Reputation maintained

### What happens next

The extensive engagement, discussions and debates we have had with our customers has played a crucial role in shaping this plan, but our engagement does not end here.

We welcome your views on this plan. You can contact us in the following ways:

**Website:** [www.southeastwater.co.uk/businessplan](http://www.southeastwater.co.uk/businessplan)

**Write:** Economic Regulation, South East Water Ltd, Snodland, Kent ME6 5AH

Owat will now review our plan and in April 2014 they will publish their overall assessment and provide us with feedback.



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