

Striking the balance

2010



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Registered office: Wessex Water, Claverton Down, Bath BA2 7WW
Telephone: 01225 526 000 Fax: 01225 528 000
Registered in England No 2366648

www.wessexwater.co.uk



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About Wessex Water

Our aims

Wessex Water aims to provide high quality, sustainable water and environmental services which:

- give customers good service and value for money
- protect and improve the environment
- provide employees with the opportunity for personal development and a satisfying career
- give our investors a good return on their investment.

Our values

We aim to be the best and value everybody's contribution in our pursuit of excellence.

We are honest and ethical in the way we conduct our business.

We treat one another, our customers and the environment with respect.

Facts and figures

Wessex Water supplies 1.3 million customers with around 285 million litres of water a day.

We have:

- 97 water sources
- 110 water treatment works
- 209 booster pumping stations
- 344 service reservoirs and water towers
- 11,478 kilometres of water mains.

Wessex Water takes away and treats 481 million litres of sewage from 2.7 million customers every day.

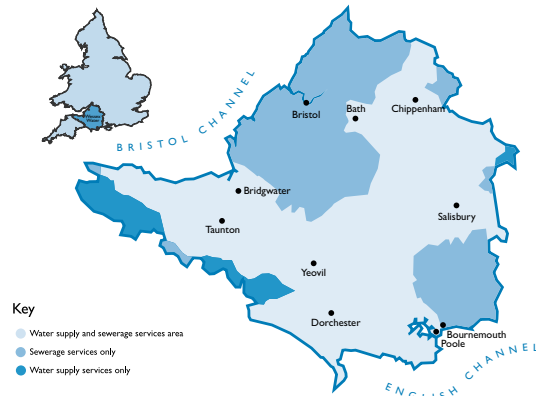
Our sewerage system includes:

- 17,322 kilometres of sewers
- 405 sewage treatment works
- 1,003 combined sewer overflows
- 1,438 pumping stations.

Financial highlights

- Regulatory capital value £2,262m.
- Turnover £438.2m.
- Debt to capital value ratio 68%.

THE WESSEX WATER REGION



Introduction



Welcome to the 14th edition of *Striking the balance*, our annual corporate responsibility and sustainability report.

As a company we remain acutely aware of the importance of putting corporate responsibility, sustainability and environmental awareness at the forefront of everything we do. Through this report we aim to provide a focused insight into the way we approach sustainability across the business, the challenges we face and the progress we have made.

Arranged according to the five capitals of our sustainability vision, each section looks at key areas of interest identified by our customers and stakeholders. These include the affordability of customer bills, security of water supplies, leakage reductions, reduced sewer flooding events and lower greenhouse gas emissions.

Our progress in different areas of sustainable development over the last year is summarised on page 3, taken from our accompanying online sustainability indicators booklet. Further information can also be found on our website at

www.wessexwater.co.uk/sustainability Newly launched last year, it provides more detailed information and case studies on how we are tackling our challenges and integrating innovation across the business.

As a responsible company we know that continuous development in all areas of our business is fundamentally important as we work to become a truly sustainable operation. Our approach to sustainability underpins our commitment to act in a responsible and ethical way.

Our staff and the application of innovative ideas are essential in successfully addressing these issues.

We strive continuously to apply an innovative approach and better technology to our day to day operations and business management, while asking staff and stakeholders to help in this process in order to achieve greater efficiencies and promote sustainable practice.

Internally, we have an employee suggestion scheme called Eureka! that encourages staff to look at their everyday processes to find better and more efficient ways of working. Over the last year we also established two internal management discussion forums which focus on our waste management strategy and the application of innovation and technology within the business.

Externally, we continue to be a signatory and firm supporter of the UN voluntary initiative, Global Compact, and convene various external groups to bring together representatives from a variety of backgrounds. These include a customer liaison panel, a sustainability panel and a stakeholder forum. Their purpose is to provide stakeholders with a platform where they can provide feedback on company direction and ask questions, while at the same time challenging our ideas and proposals.

It was Antoine de Saint-Exupery who said: "If you want to build a ship... teach your men to yearn for the vast and endless sea." While the idea of a truly sustainable business can seem daunting at times, by encouraging our staff, our suppliers and our customers to embrace the move towards a more sustainable approach and see the bigger picture, our aspirations can be achieved.

Dr Julian Dennis
Director of compliance and sustainability

Highlights and indicators for 2009-10

Highlights

- Recognised by Ofwat as the best performing water and sewerage company in England and Wales, receiving the highest ever OPA score in the industry since the measure was introduced.
- Received the Citizens Advice inaugural award for best customer service in the UK for our work on affordability.
- Retained our government standard Customer Service Excellence award for our approach to customer services.
- First water and sewerage company to go two consecutive years without a single category 1 or 2 pollution incident.
- Increased renewable energy production to 15% of our total demand.
- Received a Green Apple Environmental Award for our Biodiversity Partners Programme covering the last four years.
- Achieved ISO 14001 accreditation for environmental management within our Wessex Engineering and Construction Services division.
- Kept leakage within our target level, despite the major increase in bursts caused by the cold winter this year.
- Reduced the number of properties at risk of a 1 in 10 year sewer flooding event by 46% over the last year.
- Met and exceeded all outputs under the monitoring plan programme covering the last five years.

Indicators

CUSTOMERS AND COMMUNITY

Operational Performance Assessment score from Ofwat	✓	428
Customers who rated our service as either good or very good	✓	98%
Drinking water compliance with quality standards	✓	99.95%
Security of supply index score	✓	100
Water supply restrictions	✓	0
Properties with unplanned supply interruptions lasting more than 6 hours	~	753
Properties at risk of low water pressure	~	203
Properties at risk from a 1 in 10 year sewage flooding event	✓	68
Properties flooded by sewage	✓	0.01%

ENVIRONMENT

Compliance with abstraction licences	✓	100%
Sewage treatment works (STWs) compliance – suspended solids, biological oxygen demand and ammonia	✓	100%
Category 1 or category 2 pollution incidents	✓	0
Bathing water compliance with mandatory standards	✓	100%
Sludge recycled to farmland	✓	100%
Energy use (electricity and heating)	~	258GWh
Amount of self generated renewable electricity produced	✓	38GWh
Greenhouse gas emissions (gross, Defra definition)	✓	157Kt
SSSIs in recovering and favourable condition	~	84%

EMPLOYEES

Employee turnover	~	18%
Improvement and efficiency saving suggestions received from staff through Eureka!	✓	113
Major/fatal accidents (rate per 1,000 employees)	✓	2

INFRASTRUCTURE

Leakage from supply network	✓	73.9 MI/d
Intermittent discharges from the sewerage network achieving satisfactory condition	✓	99.93%
Sewer collapses per 1,000km	✓	15

FINANCE

Turnover		£438.2m
Debt to regulatory asset base ratio		68%
Cash interest cover ratio		4.1
Total environmental cost		£14.7m

Performance review based on the last five years:

✓ stable or improving trend ~ variable trend X deteriorating trend

Further information can be found in this report and our website at www.wessexwater.co.uk/sustainability

A sustainable future

We face major global and national challenges. Customers' expectations continue to grow, affordability problems are persisting, EU-led quality improvements show little sign of ending and the country faces the very testing tasks of rapidly decarbonising the economy and reducing its financial deficit. And in the long term we will need to accommodate the extreme weather events associated with future climate change.

Some fresh thinking and major changes are required if we are to deliver a genuinely sustainable water sector and we need to make continuous improvements and deal with emerging challenges successfully.

- As we are a long-term business, investment should be directed by long-term priorities, including the main concerns of customers which we know are consistent over time.
- Interest in competition has increased in recent years and we are interested in greater use of market mechanisms in specific areas such as bulk water trading.
- With company performance levels converging, the need for comparators is much reduced compared to that at privatisation. More efficiency savings would now be gained through mergers, particularly between water and sewerage companies and water-only companies that are co-located.
- We believe the way the Consumer Council for Water consults could be improved by forming customer panels and focus groups that bring together

customers, both domestic and commercial, social providers and interest groups on a regular basis to obtain good coverage of issues and priorities.

- More flexible use of regulated assets would provide wider benefit to the UK. Greater incentives for more sustainable, low capital expenditure solutions such as catchment management would lead to much wider adoption, while metering on change of ownership would encourage water conservation.

We look forward to working in an open and positive way with our financial regulator Ofwat and others as we face up to the challenges of the coming years.



Customers

When it comes to customer service, we no longer live in a world where one size fits all. Our customers rightly expect high quality and value for money, services that are reliable and available when they want them, to be treated with courtesy, and for problems to be dealt with quickly, efficiently and the first time around. It's also apparent that our customers want us to become more environmentally sustainable.

Managing water from source to tap

We aim to provide high quality, reliable and sustainable water services that give our customers good value while protecting the environment.

Water is a precious resource which many of us take for granted. We use around 100 million litres of water a day and it is essential that we manage this water from its source to customers' taps in a safe and reliable way.

Water resource planning

Every five years we prepare a water resources management plan outlining how we will ensure a reliable water supply to our customers over the next 25 years. Our plan for 2010-2035, published in 2010, presents a strategy based on the following measures:

- protecting our water sources from pollution, particularly from nitrates through measures such as catchment management
- developing a more integrated water supply grid
- encouraging and enabling our customers to use water wisely and avoid waste.

As a result of our approach to resource management, it is now 33 years since we have had a hosepipe ban.

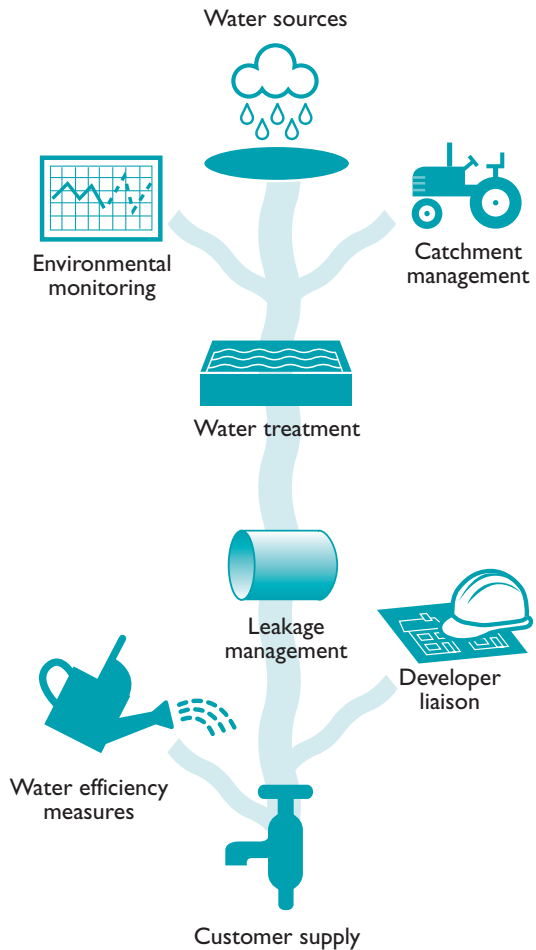
Catchment management

During 2009-10 the use of catchment management to protect our raw water



supplies from pollution continued to be an integral element of our water resources strategy. We are working with farmers in areas where nitrate or pesticide contamination is a concern:

- a small team of dedicated advisers and scientists work closely with the farmers to monitor nitrate levels in soil and optimise fertiliser application rates to reduce leaching into the aquifer
- we monitor trends in nitrate levels at all our sources – modelling this data shows how future land use changes could affect nitrate levels and highlights future water sources under threat
- we work closely with the Environment Agency (EA) on all aspects of water source protection and raw water quality.



Source to tap

Every year we capture around 5% of rainwater falling on the region. This is then treated at our water treatment works before being put into supply. Catchment management, leakage management and water efficiency are some of the factors that influence the way we gather, treat and distribute water across the region.



Advanced treatment

Investment in treatment is crucial to ensure high levels of compliance with drinking water standards and we are committed to providing the very best in disinfection. In 2009 we installed our first ultraviolet (UV) treatment facility in a water treatment works. It is scheduled to go into operation shortly providing protection against cryptosporidium and ensuring a high quality water supply.

Drinking water compliance in 2009 was 99.95%. This is slightly lower than previous years and we have implemented investment plans and process improvements to help enhance performance.

Future supplies

Our integrated grid project will connect areas with surplus water resources to those where deficits might develop in the future. It will enable us to accommodate the EA's request to reduce groundwater abstraction by 23.5 million litres a day without developing new water sources.

Reduced abstraction will help restore groundwater flows to sensitive rivers to improve levels and protect delicate ecological balances. The grid will also improve the resilience of our network to extreme events by increasing the number of people who can be supplied with water from more than one source.

Evidence file – Ice pigging

We believe innovation is the way forward and have recently used a technique called ice pigging.

This involves pushing ice through water mains to remove sediment that, although harmless to health, can cause discolouration of tap water. The new pigging technique has been developed through collaborative working with Bristol University and requires little set up as we insert and extract treated ice through a hydrant.

The ice is pushed along to form a soft plug and its adaptable shape scours the sediment before being removed. In addition to saving costs by not having to cut into the main, it also allows our engineers to clean water mains safely without affecting customers' supplies.

Following the successful trial of this technique, it is now being used as part of Operation Clean and Clear, our scheme to improve 27km of water mains in Bridgwater.



Customer service

We aim to have the highest levels of customer service and satisfaction, with a charging system that is affordable to all.

During the last year Wessex Water has continued to deliver some of the highest standards of customer service. In 2009 we achieved our best-ever score in Ofwat's overall performance assessment (OPA) – which assesses and compares the quality of service provided to customers by water companies. Our overall score was the highest ever in the industry since the assessment was introduced in 1999.

Our telephone service remains top of our financial regulator Ofwat's independent customer satisfaction survey.

We received two awards in 2009-10 for our standards of customer service:

- the government standard Customer Service Excellence award – which focuses on delivery, timeliness, information, professionalism and staff attitude
- the Citizens Advice inaugural award for best customer service in the UK in recognition of our best-practice approach to dealing with customers in debt.

During 2009-10, 98% of the 2,000 customers responding to our monthly satisfaction survey rated our service as good or very good.

While we strive to provide the highest levels of service, we recognise that things can still go wrong. As part of our commitment to ongoing improvement in customer service we aim to learn from and resolve these issues when they

happen to ensure they do not recur. We have introduced a number of new initiatives to our operations and billing services functions, Bristol Wessex Billing Services (BWBSL), in order to continue the improvement in our customer service.

For example, we now offer customers a named contact if they make a complaint. We also proactively call customers after site visits to check our service has met with their expectations, or that any concerns they have raised have been dealt with to their satisfaction.

Through BWBSL, new literature, procedures and website pages were introduced to assist metered customers.

In 2009-10, the OPA system was discontinued. With a growing focus on customer experience, it has been replaced with the service incentive mechanism (SIM).



SIM will reward or penalise companies according to how they perform on a number of consumer experience measures. These include numeric measures of contacts and complaints and an independent survey of customer satisfaction with the service they received.

Early indications are that we will do as well on the SIM measure as we have in the OPA.

Affordability

We are committed to helping customers who have financial difficulties to pay their water and sewerage bills. This has been especially important over the last year with the fragile economic climate and increasing unemployment.

We offer a number of schemes to help those in financial difficulty – our Restart and Restart plus schemes, along with our Assist tariff, all help customers who are in debt or struggling to pay their bills get back on track.

During the year, we continued a three-year trial with 3,000 metered customers to investigate the effectiveness of and customer response to three sophisticated tariffs – rising block, seasonal and peak-seasonal tariffs.

 For more information visit:
www.wessexwater.co.uk/sustainability

Evidence file – Assist

Assist is a low rate tariff for customers in extreme financial difficulty, based on ability to pay.

Around 6,000 have already benefited from the tariff which is aimed at making it possible for those with the greatest difficulty in paying to make a modest contribution towards the cost of water and sewerage services.

On average we have reduced charges by 50% to customers on Assist.



Community engagement

Wessex Water is a large business that impacts on the lives of more than two million customers so it is understandable that stakeholders and communities within our region will have an interest in the variety of work that we carry out. We value the opportunity this brings to work co-operatively with our stakeholders and receive their feedback over a wide range of interest areas. We actively communicate with schoolchildren, customers and local communities regarding water issues, through site and classroom visits and public talks. And our website features information on water conservation in the home, garden and workplace.

We aim to work in collaboration with local communities in our region, providing funding and support to our customers.

During the year we continued to work with local communities by promoting water efficiency, educating children and supporting environmental projects in a comprehensive community engagement programme.

We also continue to work with local businesses to ensure a sustainable future through seminars run throughout the year.

Water efficiency

While, like all natural resources, water is precious and should not be wasted, the treatment and delivery of water to customers is also very energy intensive. By helping customers minimise water wastage we also reduce the carbon footprint involved in supplying clean water.

To help manage water use we have a water efficiency strategy. Ofwat recently introduced water efficiency targets and ours is 0.55 million litres a day for each year from 2010-2015, equivalent to a reduction of a litre of water per household per day.

During 2009-10 we updated our strategy for the next five years, and have been developing several new initiatives. These include free WaterSave packs for household customers and an award for building developers if they design new homes with water efficiency in mind, due to be launched later this year.

Water conservation continues to be a key message at annual roadshows in towns across the region and at public talks given to groups and organisations – as part of our ongoing work with schools we have also continued with our Waterwatch packs for pupils.



Education

We have eight education centres within the Wessex Water region, and our Trowbridge centre celebrated its 10th anniversary in 2009.

Demand for our education service is as high as ever and our two education advisers worked with more than 8,000 pupils at their schools, with an additional 8,300 visiting our education centres.

Students took part in a range of water related activities, from dripping tap calculations to discussions on the effects of climate change on the water industry. Hands-on teaching and the distribution of Waterwatch packs help pupils to appreciate water and their role in protecting it.

Evidence file – Water efficiency packs

Our free WaterSave pack is designed to help customers save water and lower their energy bills.

On average, metered customers using this pack should save £60 per year on their utility bill. The pack includes a self audit guide, a regulator that reduces flows in shower heads and a Save a flush bag.

Our education service has also distributed more than 7,500 Waterwatch packs that challenge pupils to promote water saving at home. This resource has been welcomed by teachers and means our water conservation messages reach a far wider audience.

Working in the community

Through our mentoring programme, staff share their knowledge with both adults and schoolchildren choosing a career path.

John Leonard, a programme manager at Wessex Water, is one of a number of staff members who worked with a local school this year.

Using his knowledge and experience, he set a task for aspiring young engineers that helped them decide whether future studies and ultimately a career in engineering were right for them.

In the summer we opened the doors to our sewage treatment works, which

proved popular among local people keen to learn more about what we do.

We donated more than £13k through our Watermark award scheme to various groups and individuals to help carry out 33 environmental and conservation projects.

We supported many charities in our region and staff raised more money for good causes through our Community PlusFund, which provides matched funding.

Outside our region, 2009-10 has been another successful year for Partners for Water and Sanitation (PfWS). During the year eight Wessex Water staff played key roles on five water management projects across Ethiopia, South Africa and Nigeria.

The programme aims to help achieve the Millennium Development Goal Targets for water and sanitation identified at the world summit in 2002.

We also continue to support WaterAid through fundraising activities and initiatives such as our business development scheme called Business4Life. Each year a team of young professionals are selected from candidates put forward by local businesses,



Evidence file – Seminars for local businesses

In 2009-10 we held a series of seminars for more than 250 of our business customers for whom water and sewage treatment services provide a critical part of their operation.

The seminars, which included guided tours round our Bath operations centre, Poole sewage treatment works and Ashford water treatment works, focused on a wide range of issues including:

- supply and waste water investment plans over the next five years
- five-year price forecast for business customers
- business continuity and emergency preparedness for interruptions or restrictions
- competition in the water industry
- additional services provided by us which could help our customers improve efficiency and lower costs.

The feedback from the business customers was excellent with many commenting positively on how informative and interesting the seminars were.

including Wessex Water. They raise vital funds for WaterAid while gaining business management training.

Last year's team completed a number of fundraising challenges including running a Christmas market, a corporate golf day and an exclusive event aboard the ss Great Britain, raising a total of £42k. This brings the total raised by staff for WaterAid to more than £100k.

Environment

Taking water for public use and then treating sewage so that effluent can be safely returned to rivers and the sea requires careful management and means we are a major environmental stakeholder in our region. In addition, our landholding includes areas that are important for wildlife, we are one of the region's biggest producers of renewable energy and one of its largest emitters of greenhouse gases.

So, the ways in which the water, nutrient and carbon cycles operate and interact are of great importance to us. Dealing with these natural systems in isolation is no longer an option and we wish to see more holistic environmental regulation.

Working within the environment around us

We aim to treat sewage and sludge so that it can be safely returned to the environment. We are working to decrease our carbon footprint, reduce the waste we produce and, with others, working to ensure our regional biodiversity rich landholdings are protected and enhanced.

Bathing water quality

The Wessex Water region covers around 560km of coastline and the beaches and bathing waters along these stretches provide a wide range of activities for residents, businesses and visitors alike.

As these activities include fisheries, swimming and sailing, with Weymouth hosting both the Olympic and Paralympic sailing events in 2012, protecting these areas is, of course, hugely important.

While a range of factors affect the cleanliness of beaches and bathing waters, by carefully managing effluent and stormwater discharges from our coastal sewage treatment works we make a key contribution to maintaining this standard.

During the 2009 season the quality of designated bathing waters within our region met the mandatory standard. Furthermore, 81% of our bathing waters also complied with the tougher guideline standards.





the sources of bacteriological pollution, eg, human, ruminant, avian or canine.

In line with this, proposed work at Weston-super-Mare will include an improved and upgraded sewage treatment plant, optimising the existing sewage works' UV treatment systems to make them more effective, providing additional storm storage to reduce spills of storm sewage, and implementing integrated drainage systems to help prevent surface water entering the sewer system.

River water quality

River water quality in the Wessex Water region has improved enormously since privatisation and is now of a consistently high standard.

During 2009 we completed a large programme of sewage treatment works (STW) improvement projects, including:

- seven first-time sewerage schemes providing waste treatment for small communities
- 13 phosphorus removal schemes to further reduce our environmental inputs of nutrients to sensitive rivers.

The revised Bathing Water Directive, which is due to be implemented by 2015, will tighten water quality standards and require better information about bathing water quality and beach facilities.

We are identifying the work that will be required to meet these new requirements. This focuses on three bathing waters and includes investigations to understand the performance of our assets, particularly under storm conditions, and to distinguish



Ofwat has now approved a range of work proposed for the next five years, including:

- a broad range of investigative projects including chemical risks from STWs, sustainable sewage treatment, the effects of sewage treatment discharges on Sites of Special Scientific Interest (SSSIs) and nutrient loading studies
- phosphorus removal at seven STWs in Somerset
- improvements to intermittent discharges at 65 sites in Bristol.

Carbon and waste management

We have ambitious long-term goals to become carbon neutral and eliminate the landfilling of waste, with an ongoing programme to ensure the efficient use of energy and management of waste.

There have been great improvements in the water quality of coastal and inland waters and drinking water standards remain some of the best in the world. These improvements have been necessary to meet increasingly tight quality standards and have been achieved using reliable processes. However, the downside is that they are often energy and chemical intensive, with implications for our carbon footprint.

We have long recognised that it is essential to significantly reduce our carbon footprint and track our emissions against the UK Climate Change Act's required emissions cut of 80% between 1990 and 2050.

To achieve this we have an ongoing carbon management strategy based on the hierarchy of emissions avoidance, energy efficiency and renewable energy generation. This combines specific carbon-

cutting initiatives with a number of management measures to ensure carbon management is built into decision making and operational activity. As a result, carbon reporting and management is now much more central to what we do.

During 2009-10 we continued to take action to reduce our emissions through a number of energy efficiency projects and increased focus on optimising our renewable energy production.



Energy efficiency

Our energy efficiency database has 200 live projects, with the majority focused on sewage treatment, our biggest user of energy. These include:

- ammonia control at 10 sites
- implementing a thorough review of the operation of our biological aerated filter plants
- designing and commissioning an advanced process control project at Holdenhurst STW, one of our largest sewage works.

Reviewing the efficiency of a treatment works' processes has led to good results. For example, recent work on pumping, secondary and tertiary treatment at our Kingston Seymour site in Somerset has reduced power consumption to 2004 levels.

Renewable energy generation

Anaerobic digestion uses bacteria to convert organic matter in sludge into methane, which can be used as a fuel in a combined heat and power plant to generate renewable electricity. Although we have used this since the 1960s, we have recently invested in advanced digestion to maximise energy production.

Over the last year this investment, combined with an increased focus on the optimisation of digesters and maximisation of biogas production, has had great benefits for our renewable energy production.

This has been helped in part by our creation of GENeco, our waste to energy business, which focuses on the operation of our Bristol STW and Berry Hill sludge treatment centre. Bristol STW has moved beyond self-sufficiency for electricity and is now a net exporter to the national grid.

Outside the regulated business, we have continued our work on:

- possible investment in food waste digestion in Bristol
- potential wind turbine installation at Bristol STW, which we estimate could generate a total of 20GWh each year from four proposed turbines
- investigating other smaller projects, eg, hydropower and other sites suitable for medium or large wind energy generation.

As the UK economy grapples with decarbonisation, we see many challenges and opportunities ahead. We have long argued for pragmatic regulation that recognises both localised and wider environmental issues which can preserve and improve our local water quality and environment, but protect against the wider impacts of climate change.

This means using low carbon solutions where practicable and applying them in a responsible way. This is why we will be investigating sustainable solutions over the next five years, eg, alternative methods for phosphorus removal and algae control.

We will also continue with our energy efficiency and renewable energy generation work, as well as our carbon management activities outside the regulated business.

We will continue to work through our database of energy efficiency schemes and expect to see the fruits of work carried out or started in 2009-10, eg, decreases in UV energy consumption. With regard to renewable energy generation, investment in advanced sludge digestion, like that at Bristol STW, is also scheduled for three other sites.



Evidence file – Improving sludge treatment efficiency at a sewage treatment works

Sludge is a valuable by-product of sewage treatment. As well as being used to generate combined heat and power, following treatment through digestion or liming it is also recycled to land as a fertiliser.

Over the last year we have reviewed options to reduce transport, energy and chemical use in the movement and treatment of sludge.

By modelling disposal routes and costs for each location we have been able to optimise where we send and treat sludge. By removing more water content from the sludge before it is transported (increasing its solid mass from 4% to 5%), the number of journeys has also been reduced.

As a result, sludge transport journeys from across our region were reduced by 1,741 loads during 2009, lowering our fuel use and associated carbon emissions and enabling us to remove three tankers from our fleet.

Additionally we continue to improve the efficiency of each treatment site, for example, at our Wincanton STW we have been able to halve the use of dissolved oxygen. This combined with a reduction in the number of tanker loads has resulted in a £72k per annum saving.

Wincanton STW is now one of the most efficient in our region.

Biodiversity

As part of our wider commitment to improving environmental quality, we have a responsibility to conserve and, where possible, enhance biodiversity on our landholding.

Conservation management

We are achieving this by focusing on how we manage our existing sites for conservation and by checking and monitoring engineering works to avoid damaging the environment during new developments.

A total of 49 of our sites now have specialist conservation measures in place. Each has a specific management plan detailing the special wildlife interest and management measures employed, with a gate sign to inform staff and visitors. The plans can include measures ranging from simple grass cutting arrangements to special access measures to prevent disturbing bat roosts.

We have had a challenging year to meet the national target for the condition of SSSIs, with 84% of our SSSI landholding achieving favourable or recovering condition. We worked with Natural England and our tenants, carrying out work on designated operational sites – eg, by cutting down non-native tree species to restore open heathland on several reservoir sites in Dorset.

Working in partnership

Our award winning partners programme is part of the Biodiversity Action Plan through which we fund conservation work by wildlife organisations in our region. Phase 3 of our programme, which ran from 2006 to 2010, involved the funding of seven projects. This has been very successful and we were pleased to win a silver Green Apple Environment Award for our work on it.

Evidence file – Our partners programme

Some of the highlights from the projects we have been involved in include:

- 600m of chalk river restoration work in Wiltshire
- 296 farm and other visits to target water resource protection in Somerset
- the re-colonisation by tree sparrows in parts of Dorset
- the restoration of a water meadow system at a Dorset Wildlife Trust nature reserve
- aerial photographic interpretation of 12,500 hectares of the Brue Valley in Somerset to identify requirements for wildlife management
- 1,700 hectares of land entered for Higher Level Environmental Stewardship in the Avon Valley in Hampshire.

The partners programme helps all parties involved, with the sharing of best practice, data and other information. The scheme is also contributing to the EU Water Framework Directive's long-term goals of good water quality and ecological status.



For more information visit:
www.wessexwater.co.uk/sustainability

Employees

Every business needs to find ways to best use the knowledge and skills of its staff, to benefit the company and each employee alike. This need is intensified when the economic climate is difficult, when efficiency targets become more stretching and as customers' expectations change. Our staff are multi-skilled: they handle technical tasks and talk to members of the public, communicate with those who have specific interests such as regulators and adapt to changes in the way the business works. We also have many who regularly take up the practical and intellectual challenge around improving equipment, systems and work practices.

Investing in our staff

Our staff are essential to the successful running of the business and we aim to provide them with the appropriate levels of skills, competencies and awareness to carry out their roles in a safe environment.

Employment

It has been a difficult year with redundancies affecting 215 employees across the business. This was due to a number of factors that included the ongoing effects of the current fragile economic climate, the size and timing of our capital investment programme over the last five years, the lack of new development and the challenging price review determination from Ofwat.

Throughout this process we worked closely with Jobcentre and Business Link to provide guidance and support to staff, examined options to redeploy employees to alternative areas and businesses and explored other commercial activities.

Despite the redundancies we remain committed to maintaining the appropriate levels of skills among our workforce and helping them to realise their potential.

Training

New, technically sophisticated treatment equipment is needed to meet increasingly tighter standards and training is essential

to ensure staff can operate these more complex assets.

In the last few years we have restructured our training to make it easier to access and more transparent to staff, providing them with the right training at the right time.

Our Wessex Water Academy is a learning centre providing training courses across the company, with a focus on developing operational, managerial and leadership skills. It delivers internationally recognised qualifications in leadership and management, vocational qualifications, apprenticeships, skills training and professional qualifications. It also assists with access to further education and supports opportunities for personal development.

Our apprentice scheme provided on-the-job training alongside formal education for 10 apprentices during 2009-10. This scheme allows young people, who may have left education aged 16, to achieve important qualifications such as City and Guilds, National Certificates and NVQs.

During the last year we:

- ran 360 courses as part of our upskilling programme
- spent £250k on training through the academy
- supported one hundred staff through their NVQ level two qualifications in a wide range of subjects
- launched a leadership capability programme in a joint venture with Coventry University, aimed at developing the Wessex Water leaders of the future.



Our employees not only operate and maintain our assets, they also provide a direct point of contact for customers, so we

conduct training for customer facing staff to ensure they deliver the best possible service. This training contributed to Wessex Water retaining the Customer Service Excellence award for 2009-10.

Employee communication and feedback

Good communication with staff is essential to ensure they are fully informed, aware of the direction the business is taking, able to discuss issues and contribute to the business. We achieve this by a variety of

methods including seminars, monthly team briefs, our Source intranet and in-house TV media.

Our staff are also critical in identifying how we can be more sustainable in the way we operate as a business. Our online incentive-based suggestion scheme, Eureka!, encourages staff ideas on how we can work more efficiently and provides associated cost savings, eg, through energy and waste reduction.

Eureka! has been running for five years and during that time has received a total of 788 suggestions from staff.

In 2009-10 we received 113 suggestions:

- 28 staff were awarded £100 for their ideas
- £4,200 was awarded to three employees who suggested and implemented the best ideas. These included:
 - the optimisation of pump running times to reduce energy use
 - the automation of sludge belt presses to increase site efficiency
 - a system to prevent groundwater entering water tanks through damaged ducts.

Staff health and safety

To maintain health and safety awareness and practice we have continued our focus on safety briefings, improved reporting and workplace audits and inspections. We also updated our staff support network, ie, our lone worker system.

The benefits of this can be seen with reportable incident rates falling steadily over the last five years from 20.8 per 1,000 employees in 2005 to 6.8 per 1,000 employees in 2009.

Evidence file – Lone worker jetting

In 2008 we completed trials for a remotely controlled, van mounted, jetting unit, suitable for use by one person. As a result, we implemented our first unit this year; a hi-tech vehicle for day-to-day tasks including sewer cleaning and blockages. It contains radio controlled equipment and security devices that enable one employee to safely operate the controls and carry out work which historically would have required two operators. Using this van for smaller jobs enables a quick and efficient response, eg, to a difficult sewer blockage, and allows larger teams to be efficiently scheduled for more complex work.

Evidence file – Our environmental training DVD

During 2009-10 we developed our second in-house training DVD. This provides effective, fast delivery of important and specialist information to all our staff.

The latest DVD covers environmental information on a wide range of site-based issues, from protected species and working near trees, to archaeology and being good neighbours during construction projects.



For more information visit:
www.wessexwater.co.uk/sustainability



Infrastructure

The physical assets we use are not static and unchanging and as standards of water and effluent have increased, more sophisticated technologies have been adopted. The volume of infrastructure that has to be maintained has grown rapidly as programmes of investment have come and gone and we have replaced old with new. Since we are a long-term provider of fundamental services we must ensure our assets are fit for the future. Adapting to climate change and other changes that we face will bring new challenges and require smart solutions.

Maintaining our assets and preparing for the future

As an essential service provider we aim to maintain and develop our assets to ensure an efficient service which helps safeguard against extreme weather events, with minimal environmental impact.

Feedback on customers' top priorities regularly includes security of supply, leakage control and flood prevention. In the last five years we have worked hard to maintain and develop our assets in order to achieve our aims and meet customer needs.

Last year was our second consecutive year without any category one or category two pollution incidents and this notable achievement is a first, both for Wessex Water and within the industry as a whole. A combination of improvements to our assets and the skills of our staff helped us address any potential incidents and prevent any significant impacts on the environment.

Leakage

Our water supply system is around 11,500km long and over the last decade we have worked hard to reduce leakage from it. This has been achieved through pressure control, improved detection technology, refurbishment of water mains and, where necessary, replacing pipework.

Our leakage level is now 73.9 million litres per day, which meets our economic level of leakage target – a significant achievement this year considering the extremely cold weather between January and March.

Flood alleviation

Over the last five years we have invested £62m in flood alleviation schemes to reduce the risk of sewer flooding at more than 800 properties across our region.

Last year we completed a scheme to reduce the risk of sewer flooding in the centre of Bristol. The new relief sewer, built up to 65m below ground, will be capable of storing up to six million litres of storm water and transferring 2,000 litres per second during times of heavy rainfall. The project, at a cost of £9.5m, provides a more sustainable and cost-beneficial solution to the traditional approach of pumping.

First-time sewerage for properties

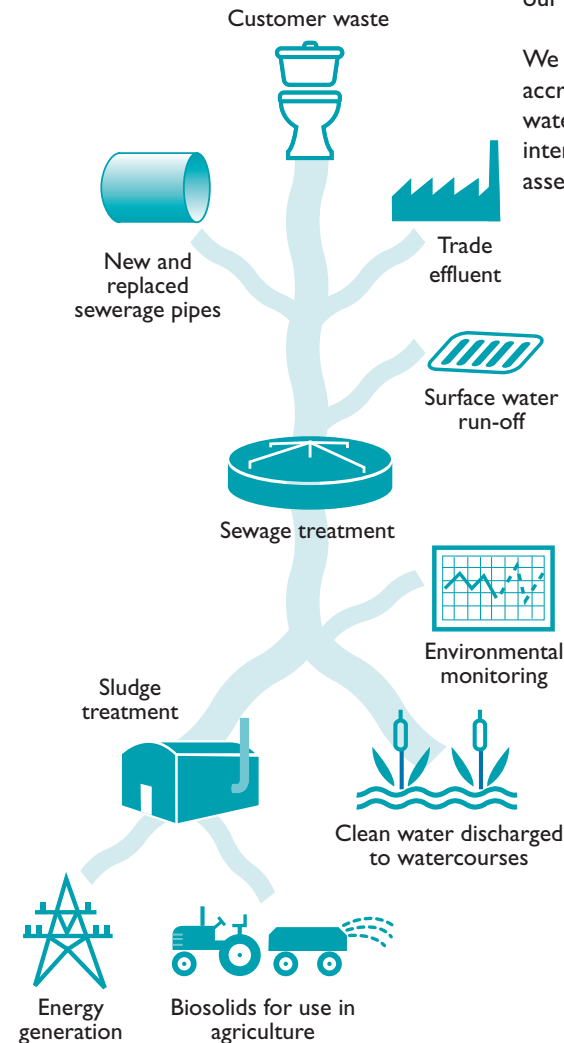
During 2005-10, Wessex Water invested more than £25m in first-time sewerage, connecting households reliant on home sewage treatment facilities, such as septic tanks, to the public system. In the last five years we have provided new sewers to 25 communities, enabling more than 700 previously unsewered properties to connect to a more reliable and controlled service.



Environmental accreditation

Last year our Wessex Engineering and Construction Services division successfully achieved accreditation to the International Standards Organisation 14001 for environmental management. This standard will apply to the development of new schemes and we will be regularly audited by external specialists to ensure we meet our targets.

We also continue to hold PAS55 accreditation, having been the first UK water company to achieve this internationally recognised standard for asset management.



Waste to water

Sewage from 2.7 million customers leaves homes and businesses and travels through our network of sewers until it reaches one of our sewage treatment works. Along the way trade effluent and surface water run-off adds to the sewage. The sewage is then treated before being safely returned to the environment. A by-product of the treatment process is sludge, which releases methane gas that we capture to generate energy, before recycling the sludge to land.

Evidence file – Dealing with winter leakage

The cold start to 2010 brought a rapid rise in pipe bursts when the freeze and subsequent thaw process caused ground movement and weakened pipes. In addition the extended period of snow cover made vehicle access and leak location difficult.

Drawing on previous experience we recruited 25 two-man teams to support our repair gangs for the winter, carrying out additional repairs and maintenance. All bursts were given same day priority and staff worked extra hours to ensure leaks were kept under control.

As a result we were well placed to respond to the leaks quickly and effectively across our region. While it was not possible to prevent these bursts it was possible to minimise their impact by putting the systems, resources and trained staff in place to enable early identification, fast detection and rapid repair.

Evidence file – Our work and asset management system (WAM)

New and innovative technology is steadily being applied within our business to help us meet tighter standards and perform efficiently. Consequently, our approach to staff and their development needs to be equally innovative and technological.

Over the last year there has been an advance in how the company manages its asset work programme through work and asset management systems. This system has three areas:

- a master database, which stores the company's asset information alongside details on performance and condition
- scheduling software that identifies asset-related jobs and identifies the most suitable member of staff to complete them
- Toughbooks (robust remotely operated laptops) which receive work instructions from our scheduling software.

It provides teams with accurate work requests direct to their laptops and allows the progress of each job to be tracked in real time. Extensive training has been rolled out to ensure the equipment is properly used.



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Finance

Environmental and financial management have been moving towards one another for some time and interest has grown in giving a monetary value to environmental impacts.

This means not only looking at how we can work actively with the financial community and our regulator, but also being open and demonstrating added value to society and the environment through the use of sustainability accounting practices.

Maintaining our assets and preparing for the future

We aim to maintain a robust balance sheet and long-term stable relationships with our shareholders and creditors, who share the company's commitment to sustainability.

Sustainability accounting

We have included sustainability accounts alongside our financial accounts since 2001. We report the hypothetical cost of reducing our environmental impacts to a sustainable level and our expenditure, both mandatory and voluntary, on sustainability-related benefits for all stakeholder interests.

We calculate our environmental cost by considering our impacts on air, land and water. This places a monetary value on impacts that have not already led to

company investment and calculates the cost to reduce these impacts to a sustainable level, either by investment, offsetting, markets or shadow prices.

The overall environmental cost for impacts for which Wessex Water is directly responsible and/or has the greatest ability to control is illustrated below. This is sensitive to the scope of the impacts considered and assumptions about valuation of impacts. Our mandatory and voluntary investment in sustainability is also provided.

Environmental cost statement	£m
Environmental cost – known and possible impacts	14.7
Profit attributable to shareholders	112.3
Environmentally sustainable profit	97.6
Mandatory and discretionary investment towards sustainability	£'000s
Customers and communities	26,684
Environment	23,993
Employees	71,671
Infrastructure	57,961
Total	180,309

Working with consultants Mott MacDonald, we have also developed a tool for calculating the whole life carbon footprint of capital investment.

Financial performance

In terms of our financial performance for 2009-10, the fragile economic climate over the last 12 months has contributed to a reduction in water use by both business and domestic customers and an increase in bad debts.

However, we produced a solid set of financial results for 2009-10 and continue to be recognised as one of the most efficient water and sewerage companies, with the highest returns to our shareholder.

During 2009-10, profit before tax rose to £152.9m. An increase in turnover was helped by allowed price increases, although we experienced some negative effect from the current economic climate. Operating costs fell through a combination of further efficiencies and a credit under FRS17 pension accounting.

Interest charges reduced significantly and taxation rose in line with profits but also due to a reduction in group relief available.

The dividend for the year was slightly higher than the previous year but the figures are distorted as a £26.9m dividend in respect of 2008-09 was actually declared in 2009-10. In respect of cash management, we achieved our internal target of no cash outflow for the year, which represented a tremendous result from all parts of the business. Accordingly, net debt rose only by accruals on our bonds. Gearing fell from 70.0% to 67.6%, a result of strong cash performance and a high inflation number in March 2010.

At the end of the year we refinanced our £150m of bank facilities maturing in June 2010 and we now have sufficient liquidity until 2012-13. We have outperformed the assumptions for AMP4 and over the last five years operating costs were 9% lower than Ofwat assumed. The capital investment programme has been delivered for 15% less than was originally allowed for and these savings will benefit customers over the next five-year period.

Future investment

Customers gave a straightforward and consistent message during the 2009 price review – they wanted an efficient, safe, reliable supply of water at reasonable cost now and in the future and everything else was of markedly less importance.



More specifically, all our research pointed to customers wanting better service rather than lower bills, but equally customers did not want to see bills go up above inflation. Key areas for service improvement were reductions in leakage, improvements in security of supply and a lower carbon footprint.

Our draft business plan therefore proposed flat bills plus service improvements on the issues that customers said mattered to them. By the time of the final business plan, the worsening economic climate and new obligations and taxes meant that we could no longer deliver these improvements while keeping bills flat. We therefore refined our plan to defer investment on items of low priority to customers, thus keeping annual bill rises below 1%.

Ofwat's final determination reinstated some of the items that we had proposed to defer and cut out some items that customers had said they wanted; in particular metering that would have reduced leakage. There was also a significant cut to our maintenance programme and a marked increase in expected efficiency. Overall, bills in the future will rise annually at around 0.6% above inflation.

We are now committed to delivering the required outputs and efficiencies of the next five years and continuing to provide the highest levels of customer service in the industry.



@ For more information visit:
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Top tips

Water is a precious resource yet millions of litres are wasted daily. Follow our top tips and start saving water today.



In the garden

- Use a watering can instead of a hosepipe or sprinkler to water your garden.
- Fit a water butt in your garden to collect rainwater and use this for watering.
- Water your garden in the morning or evening so that less is lost through evaporation.
- Fix any dripping taps around the home and garden. A dripping tap can waste up to 15,000 litres every year.
- Wash your car using a bucket of water instead of a hosepipe.



In the bathroom

- Turn off the tap while you brush your teeth – this can save up to nine litres a minute.
- If your toilet has a large cistern, fit it with a water-saving device – this could save you one litre of water every time you flush.
- Take a short shower instead of a bath – standard showers use less than half of the water and save you time and money on your energy bills.
- Only flush toilet paper and human waste down the toilet to prevent blockages.



In the kitchen

- When washing the dishes put the plug in or use a bowl instead of leaving the tap running.
- Make sure you have a full load when using your washing machine or dishwasher.
- When purchasing new appliances look for water and energy efficient products.
- To prevent blockages avoid pouring fat down the sink, instead wait until it has cooled then put it in a suitable container for disposal with the rest of your household waste.



Why you should try to reduce the amount of water you waste

- To protect and conserve the earth's most valuable resource.
- To help reduce the amount of energy needed to supply drinking water and treat sewage.
- To save money by reducing your energy bill.

Order your free WaterSave pack at www.wessexwatershop.co.uk to help you reduce the amount of water you waste.

Want to know more?

Visit our website at www.wessexwater.co.uk/savingwater

Postscript

Annual reports can be grindingly boring; this one is not. It shows a real focus on the wider implications of water supply.



Water companies carry a huge responsibility to the whole community, bringing little praise when things go well and vivid condemnation when they don't. I salute Wessex Water for its commitment to sustainability, to looking after our water resources and to recovering so much sludge from the sewage treatment process.

I have a curious interest in this, having spent three weeks in Ladakh, in the Himalayas, in the 1990s. There, most rural people grow their own vegetables in gardens that are kept lush and productive by their own sewerage systems. The houses have 'long-drops', entirely smell-free, which provide all the fertilization necessary. Nothing is lost. The Ladakhis are obeying a fundamental law of ecology – the Law of Return.

In some parts of the world sewage is flushed out to sea losing many of the nutrients that we took such pains to grow on land.

One day this will change, but meanwhile, we can only be grateful to Wessex Water and others who so ingeniously recover them for redistribution to the land. This pioneering spirit puts water companies quietly at the centre of the battle to protect our environment.

They deserve our sympathy, too, for their efforts to reduce water consumption and wastage in a society that can seem oblivious. We have become comfortable – with 'easy' water. So we waste it prodigiously.

Only, perhaps, when climate change brings wilder fluctuations in weather patterns, will we fully appreciate what Wessex Water is achieving.

Alastair Sawday