



# **RETAIL BUSINESS PLAN FOR HOUSEHOLD CUSTOMERS 2015-2020**

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## **Key Facts**

We are an independent company unique in the industry as we are majority owned by a Trust on behalf of our employees

150

We are proud to have served the local community for over 150 years.

94.5

On average our household customers pay £94.50 per year for their water supply.

693,000

Over 693,000 people use our clean drinking water every day

289,000

We provide clean drinking water to 289,000 homes.

3,200

Our area of supply has a network of over 3,200 kilometres of underground mains.

176

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis.

On average, each day we supply approximately 176 million litres of water.

*We provide drinking water only. We do not provide sewerage services; this is normally provided by Southern Water*

## Overview

Our Retail operation manages customer contact, billing, debt recovery and meter promotion from our Head Office in Havant, central within the area which we supply. We also assist customers with help and support with regard to water efficiency within their homes and leakage within their privately owned water supply pipes.

We are committed to improving service, both in our areas of direct responsibility and challenging the wholesale business, who are responsible for making sure that our customers receive a constant supply of high quality water, so that we deliver a service that delights our customers. Together, we already supply water at the lowest cost in the industry, whilst maintaining high levels of service.

Currently, we are a fully integrated business. Retail has, broadly speaking, been identified by accounting separation rules and is not currently run as a distinct, separate arm of the business. With retail competition for non-household customers due to commence in 2017, we are considering how our internal structure can best equip us to succeed in this new market. Preparing this plan has driven us to think like a retailer and accordingly challenge the wholesale part of the business. We consider internal challenge a useful tool in ensuring continuous improvement, both in terms of customer service standards and efficiency.

Costs per customer within the Retail business are already the lowest in the industry, being £14 on average per annum (this is known as the cost to serve). This contributes to the most affordable water supply bill in the industry, which currently stands at an average of £94.50, compared to a national average bill of £186. The overall average bill to household customers is broken down as follows:

Retail Element.....	£14
Wholesale Element.....	£80.50
Total Average Household Bill.....	£94.50

Note: This is an average of unmeasured and measured customers

Our bills are the lowest within the industry and have, before inflation, reduced in recent years, even when viewed against average incomes. Exceptionally high levels of customer acceptance of this Plan (99%), within all socio-economic groups, shows that our Plan is considered affordable by customers as a whole, not just wealthier customers.

This Plan sets out our plans for the Household Retail Business and examines the costs of delivering the retail services.

The Board of Portsmouth Water has listened to customers and challenged the wholesale and retail parts of the business to work together, and deliver a plan that improves levels of service without increasing bills beyond inflation. This we must deliver whilst protecting the interests of future customers and the environment.

This Plan is built around a series of commitments (outcomes) that have been established from customer research and stakeholder engagement. The key areas identified as priorities from customer research that will be delivered by the Retail Business are meter option promotion, increased water efficiency activity and elements of leakage reduction. Customers also expect improvements in the way that we handle contacts and manage their accounts, but do not expect to pay for these types of improvements.

Although customers have said that they are not willing to pay for improvements to key elements of the retail service, the Service Incentive Mechanism, which is an industry wide means of assessing customer satisfaction with associated rewards and penalties, is driving improvements in and expectations of service across the industry. The public have expectations of certain levels of service and the Board is determined to exceed these expectations.

Delivering the improvements highlighted within our plan, without increasing bills will be challenging. Success will come through innovation, exploitation of more cost effective technology and capitalising on the advantage of being a small water company that is able to offer a local personal service from a workforce that are committed to the company and, through an Employee Benefit Trust, actually own a majority stake in it.

The principal measure of success within the retail business will be the Service Incentive Mechanism. Having invested to ensure that our performance against this mechanism can be properly judged, we are well placed to now be recognised as a company within the industry's top quartile.

## 1 INTRODUCTION

As part of our long term planning we at Portsmouth Water are considering our levels of service and costs for the period 2015 – 2020, this Plan will allow staff and other stakeholders to understand our strategy and aspirations. We have produced an overall plan setting out the key commitments and activities that customers and other stakeholders have told us are most important to them. We have also ensured that we will meet our regulatory and statutory obligations during this period.

**Our overall plan has been judged as ‘acceptable’ or ‘completely acceptable’ by 99% of a representative sample of surveyed household customers.**

Whilst we are an integrated business, dealing with all matters from source to tap, we have split our high level plan in to three key areas, with separate plans for those interested in the detail. This plan is our Retail Plan for Household customers, but we also have a retail plan for Non-Household customers and one relating to our wholesale business which deals with the taking water from the environment, ensuring its safety and delivering it to customers. In order to provide clarity the roles of the wholesale and retail parts of the business are set out within this document.

The retail business is committed to help deliver the overall company mission:-

**“To supply drinking water of the highest quality, combining high levels of service with excellent value for money”**

We will ensure that we are a pleasure to deal with, agile, flexible and efficient, both working with and challenging the wholesale business to achieve the best possible outcomes for customers.

Overall our success will be judged by our service levels, principally measured by Ofwat’s Service Incentive Mechanism (SIM), which combines a number of different service aspects to give an overall score that allows comparison across the industry.

We believe that SIM has driven up service standards within the industry but we have had difficulty reporting one of the quantitative elements, which has meant that our historic overall score is not truly reflective of the service that we provide.

We are based within the area that we are proud to serve and, with limited outsourcing, consider ourselves to be well placed to continue to provide high levels of service with the lowest cost to serve in England and Wales.

We supply 289,000 household properties, representing a population of 693,000. We only bill for water supply, with the vast majority of our customers receiving sewerage services and sewerage bills from Southern Water.

**2 THE RETAIL BUSINESS**

The retail household part of our business is the public face of Portsmouth Water, undertaking the following activities:-

- Customer Billing.
- Payment Handling.
- Tariff administration.
- Customer calls and queries – relating to both billing and operational calls.
- Debt Management and Bad Debts.
- Making decisions about disconnections and reconnections.
- Helping customers with water efficiency
- Repairing leaks on customers external supply pipes and giving advice about leaks on customers pipes

### **3 CUSTOMER ENGAGEMENT AND RESEARCH**

#### **3.1 Customer Challenge Group**

Our customer engagement and research has been shaped, reviewed and challenged by the Customer Challenge Group (CCG). The CCG was established specifically to engage with key stakeholders and includes members from the Consumer Council for Water, Drinking Water Inspectorate, Environment Agency, Natural England, South Downs National Park, local council and key customer representatives. Their role has been to review the quality of our engagement and provide an independent report of their overall view and challenges.

#### **3.2 Our Engagement**

In preparing this Business Plan we have engaged with our customers and stakeholders and listened to their views. As a local company with a long history, customers have always been our focus and we have put customers at the heart of our plans; using the feedback gained from our engagement to form our views and base our plan on the priorities of our household customers.

Our primary research used in formulating the plan was an independent quantitative survey including questions about “willingness to pay” which was conducted in spring 2013. This type of research is designed to cover a sufficient number of representative customer types to determine whether customers overall are willing to see bills rise to allow certain improvements in either our service levels or the environment. Whilst we are using these customer priorities to determine improvements which our customers value, we are not proposing to increase bills in real terms. Instead we will fund improvements in service levels through efficiencies and innovation. This will be a challenge as we are already recognised as being one of the most efficient water companies in the industry, though we are confident that we can deliver.

We have also conducted Acceptability Testing on our Draft Business Plan which was published at the end of September 2013. During this element of testing we also developed a means for customers to value different aspects of our service.

#### **3.3 Other Research which has Informed the Plan includes:**

- Focus group (qualitative) research conducted by an independent research company immediately prior to the quantitative research referred to above.
- Our own monthly customer survey, which also asks a sample of our customers a number of simple questions.
- Focus group research, conducted in 2011, by an independent research company.
- Responses to the consultation on our “Looking Ahead” (Outline Business Plan) document via our website.
- Direct discussions with other key stakeholders.
- Questionnaires completed by customers at three shopping centres within our area of supply again centred around our “Looking Ahead” outline Business Plan proposals.
- Respondents to our website and in shopping centres were given the chance to win £1000. Almost 500 people responded to enter the draw.
- We have also consulted with and gained feedback from our major

stakeholders on our “Looking Ahead” (Outline Business Plan) document as well as getting their views via our Customer Challenge Group (CCG).

We asked for responses to our Draft Business Plan published in September 2013, with respondents again having the chance to win a prize draw. Overall, including the formal research we had feedback from approximately 1,500 customers during the process.

### 3.4 **Customer Priorities**

The principal messages coming through from our customers included the following:

- Whilst customers did express a modest willingness to pay (WTP) for improvements in certain areas of the service they receive, we did not see this as a mandate to increase bills beyond the level of inflation. The WTP was therefore used to assess the priorities of customers.
- The main areas where customers were willing to see small increases in their bills for specific improvements in service were as follows:
  - *Protecting wildlife habitat in local rivers and streams*
  - *Hard water*
  - *Leakage*
  - *Carbon footprint*
  - *Public amenities/community support*
  - *Water efficiency*
- A majority of customers surveyed were in favour of increasing the number of properties with a water meter, especially for those customers who would be most likely to save money. This aligns with our proposed metering strategy in this plan.
- Customers appreciated the fact that when they called us they could quickly get through to talk to someone in person. The plan reinforces this way of operating going forward.
- Customers rarely need to contact us and were generally happy with the level of service we provide. They were not willing to pay for additional spend to increase the level of service offered by our call centre, so in our Business Plan improvements are being funded entirely by efficiencies and innovation.

### 3.5 **Acceptance Testing and Customer Valuation of Commitments**

We have conducted testing to establish whether these proposals which were included in our Draft Business Plan were acceptable to customers. 99% of household customers thought our proposals were acceptable with the split by socio economic grouping as shown below:-

<b>Acceptable/Unacceptable</b>	<b>A/B</b>	<b>C1/C2</b>	<b>D/E</b>
Acceptable/Completely Acceptable	98%	98%	100%
Unacceptable/Completely Unacceptable	2%	0%	0%
Don't Know / Can't Say	0%	2%	0%
Total	100%	100%	100%

We also asked customers if they wished to see a reduction in bills, combined with the potential impacts on long term service. No customers supported this option, with only 2% neither agreeing nor disagreeing. Accordingly 98% of customers would prefer not to see bills drop if it risks increasing supply interruptions in the longer term.

Our household customers were asked to consider the extent to which they valued the commitments that we developed following our engagement with them. Each commitment, and the customers valuation of them, is included later in this document.

Further details of our customer research can be found in our technical report "Customer Engagement and Research", which also includes within its appendices copies of all the independent research referred to within this section.

## 4 COSTS AND EXPENSES WITHIN THE RETAIL HOUSEHOLD BUSINESS

### 4.1 Costs Within the Retail Household Business

Based on 2012/13 prices, detailed below is the expected annual cost to run the retail household business in 2015/16 along with the key activities undertaken.

<b>OPERATING COSTS</b>	<b>2012/13 000's</b>	<b>2015/16 000's</b>
Customer Services – Dealing with billing customers, debt recovery calls and queries, processing payments	1,378	1,378
Inspectors – Reading meters, solving customer queries relating to their water supply	280	280
Distribution Administration – handling calls about problems with our network e.g. leak reporting	178	178
Bad Debt Provision	451	451
Water Efficiency	65	65
Additional metering costs – The cost of reading and billing new meters	-	80
Overheads – Cost of billing system, Buildings, Rates, Pensions and general overheads	1,507	1,571
<b>Retail Household</b>	<b>3,859</b>	<b>4,003</b>

The remainder of the household bill relates to wholesale charges which for 2015/16 are £21.9m in total for the household business.

As can be seen, before inflation, costs will be the same in 2015/16 as they were in 2012/13, subject to two exceptions. Firstly, additional meter costs exist as a result of customers switching to a meter, and new metered properties being built in the intervening period. Secondly, overheads increase, this is largely as a result of increased pension contributions to the Company's Defined Benefit Pension Scheme following a recent valuation. This pension scheme is no longer open to new employees, so cash contributions by the Company are anticipated to reduce over time as the scheme matures, subject to the pension scheme assets continuing to be sufficient to meet technical liabilities.

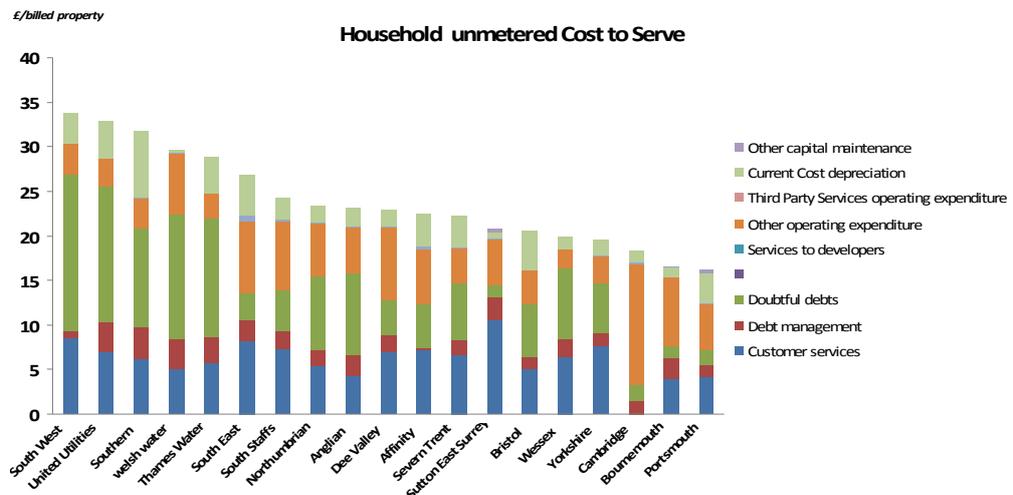
### 4.2 Retail Costs to Serve Customers

We supply water at the lowest price in the industry. This is due to a low wholesale price and a low cost to serve in the retail business. Of an average £94.50 household bill in 2013/14, £13.31 relates to retail activities (for an unmetered customer).

Moreover, as can be seen below, bills have reduced in real terms every year since 2010, and will continue to reduce through to 2015:-

	2010/11	2011/12	2012/13	2013/14	2014/15	Average Per Annum
Price changes before inflation %	-4.8	-2.1	-1.7	-1.4	-0.6	-2.1
Industry average price changes % before inflation	+0.3	+1.6	+0.6	+0.4	+0.5	+0.5

Based on draft data for 2013 shared across the industry, the ratings agency Moody's has produced the following table showing the unmetered cost to serve. From this analysis, Portsmouth Water is the lowest cost to serve in the industry.



Source Moody's - This data is produced by Moody's and is for illustration.

Our historic low cost to serve has been due to an efficient operation aided by an in house billing system which had been highly developed to deliver very efficient unmeasured billing processes. However, this mainframe billing system was running out of support and whilst unmeasured processes were excellent, the measured capability and future flexibility were very limited. With an ever growing proportion of measured customers and a desire to improve our customer service over time this system would quickly have lost its efficiency advantage. Accordingly, in the autumn of 2012 we went live on a new billing system which offers much more flexibility and functionality. Also, we have added a Customer Relationship Management layer which allows us to be highly SIM compliant and analyse contacts to target service improvements but this does slightly increase average call lengths.

Initial benefits derived from the new billing system have included accurate SIM reporting, offering new Direct Debit dates, allowing Direct Debit sign up by telephone and facilitated the collection of much more customer information and contact points. The Direct Debit issues were a frustration for our customers and resulted in a number of complaints. A reduction in billing complaints seen since we went live on our new billing system illustrates the success of these and other enhancements.

#### 4.3 **Additional Costs to Serve Metered Customers**

We incur additional expense in relation to metered customers. Measured Household customers represent 20% of our customers but 27% of our billing contacts. Measured customers are more likely to telephone as their consumption may vary and be queried by them, for example they may suspect an incorrect meter reading or a contact regarding a high bill which may be the first sign of leakage.

Meter reading costs are also added to the cost to serve our metered customers. Given that we have the lowest proportion of metered customers in the industry, our reading costs are likely to be higher than typical as we are not able to benefit from the economies of scale that arise from a higher meter penetration. Furthermore, in some areas companies have been funded to compulsorily meter with automatic meter reading technology. This technology, once paid for, reduces reading costs dramatically, but is normally only cost beneficial alongside an intensive metering programme.

Our additional cost to serve measured household customers is £4.23 per occupied property.

The total average cost to serve a measured property is therefore £17.54.

#### 4.4 **Profit Levels within the Retail Business – The Retail Margin**

In any normal market, retailers charge a margin to create an element of profit, remain financeable and as a protection against business risk.

Historically, our prices to customers have included a margin, albeit that it has not ever been set out separately. This historic margin has been covered within the Company's overall cost of capital. Accordingly, in creating this margin for retail we have reduced the company's cost of capital that is used to set wholesale prices, so that we do not in effect receive the margin twice.

We have taken advice from Oxera in setting the Retail Margin which, prior to an adjustment for a return on historic assets, which is received by the wholesale business, has been set at 1.5% for the Retail Household Business.

The overall retail margin is made up of the following 3 elements:

##### Return on Assets

- New assets purchased within the period are assumed to have a return of 4.21%, which is calculated at the same rate as cost of capital within the wholesale business.

##### Working Capital Cost

- Measured Billing. It is assumed that the wholesaler will invoice the retailer on 30 day terms for measured bills issued. Existing debtor days of 35 have been used to create a cashflow forecast with the borrowing requirement having an assumed financing cost of 2.9%, which is the interest that would be for such a facility and is based on the cost of bank finance available at the current time.
- Unmeasured Billing. For the unmeasured it is assumed that the retailer will be invoiced half yearly in advance, on a 30 day basis. Half yearly billing for unmeasured has been chosen as the retailer is obliged to offer this option to its customers. Existing debtor days of 45 have been applied to calculate the

borrowing requirement with an assumed financing cost of 2.9%, being based on the cost of bank finance available at the current time.

Residual Risk allowance

- This is the chosen margin of 1.5%, less the following items:-

Return on old retail assets that remain within wholesale

Return on new retail assets

Working Capital Costs

The table below shows the calculation of the margin, which averages 1.38% over the period:-

HOUSEHOLD MARGIN	£000	2015/16	2016/17	2017/18	2018/19	2019/20
Return on Assets		1	2	3	4	5
Working Capital Cost		26	25	25	24	25
Residual Risk		334	338	341	344	347
<b>TOTAL</b>		<b>361</b>	<b>365</b>	<b>369</b>	<b>373</b>	<b>377</b>
<b>% Margin</b>		<b>1.37%</b>	<b>1.38%</b>	<b>1.38%</b>	<b>1.38%</b>	<b>1.38%</b>
<b>TOTAL REVENUES £m</b>		<b>26.3</b>	<b>26.5</b>	<b>26.8</b>	<b>27.0</b>	<b>27.3</b>

#### 4.5 **Future Cost Rises within the Retail Business**

The retail business will not be subject to an automatic annual adjustment to allow for increases in costs in line with the Retail Price Index, which is applied to the Wholesale elements of the business.

As a highly efficient retailer, as confirmed by our low cost to serve, we have very little capacity to absorb cost increases, albeit that we will challenge ourselves to constantly improve efficiency.

An independent report, prepared for us by First Economics in August 2013, sought to determine, in part, the expected input price pressure that the Retail Business is expected to be subjected to. Evidence was collated from a number of sources and the table below summarises their findings.

##### 4.5.1 **Input price forecasts (nominal, % per annum)**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Labour – general	1.8	2.9	3.8	4.0	4.0	4.25	4.25
Labour – specialist	3.05	4.15	5.05	5.05	5.05	5.5	5.5
Materials – machinery	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Materials – civils	3.5	4.5	4.5	4.5	4.5	4.5	4.5
Power	17.3	13.5	9.4	9.7	3.4	4.9	4.2
Chemicals	3.0	5.0	5.0	5.0	5.0	5.0	5.0
Plant and equipment	3.0	4.0	4.0	4.0	4.10	4.0	4.0
Business rates	2.6	3.3	2.8	3.2	3.6	3.9	3.4
Bad debt	3.1	2.9	3.3	3.7	4.0	3.4	3.4
EA charges	3.1	2.9	3.3	3.7	4.0	3.4	3.4

Business IT	0.75	0.75	0.75	0.75	0.75	0.75	0.75
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The overall input price inflation for our Retail Business was calculated by weighting the forecast in the table to our cost structure.

As a heavily labour intensive business, staff cost are a considerable part of our overall costs (60%). As can be seen, labour costs are expected to rise considerably over the period. These wage increase percentages come directly from the Office of Budgetary Responsibility's (OBR) March 2013 forecast. This labour cost rise is expected to be as a result of the economy returning to growth rates in the order of 2.5% - 3% per annum over the planning period.

All the value of bad debt is borne by the Retail Business, which represents a small element of the overall bill. As the wholesale element is indexed to Retail Price Index inflation a major part of the bill issued by the retailer is indexed. It is unrealistic to assume that this can be offset by improvements in debt collection.

First Economics also examined the extent to which productivity growth can be expected to offset the input price pressures, by looking at historic trends in the sector, which are summarised below:

#### 4.5.2 Annual total factor productivity growth (%) by sector

	UK Sector	1970 to 2007	1990 to 2007
A	Manufacturing	1.8	1.9
B	Electricity, gas and water supply	2.2	0.9
C	Sale, maintenance and repair of motor vehicles; retail sale of fuel	2.0	2.6
D	Transport and storage	2.1	1.7
E	Finance, insurance, real estate and business services	(0.9)	0.3
F	Construction	0.7	0.6

Source: EU KLEMS.

The Finance, Insurance, Real Estate and Business Services sector is the most similar to our Retail Business.

On the basis of the above evidence, and other work detailed within their report, they concluded that an annual efficiency of 0.3% is achievable. Combining the input cost pressures and productivity assumptions, results in the following cost escalation which have been averaged to 3.2% from 2015/16.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Household retail costs							
Input price inflation	1.8	2.6	3.3	3.4	3.5	3.6	3.6
Productivity growth	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Cost escalation	1.5	2.3	3.0	3.1	3.2	3.3	3.3

Given that we have the lowest cost to serve in the industry, the Board believes that, given the above information, it is unrealistic to assume that rising input prices can be offset by productivity gains and would lead to severe financeability

issues. We have therefore applied an input cost uplift of 3.2% each year based on the above figures and this has given us additional allowed revenue.

Further details of our financeability and supporting independent reports can be found within our technical report "financeability" and associated appendices.

#### 4.6 **Financeability**

Detailed below is the anticipated cashflow for the retail Household business before any inflation or input price pressures. As can be seen, there is sufficient headroom to cover tax, working capital requirements and some margin to deal with an increase in bad debts or other unanticipated cost increases.

<b>RETAIL CASHFLOW AND HEADROOM</b>					
<b>RETAIL HOUSEHOLD</b>					
<u>CASHFLOW</u>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Opening Cash Balance	-	391	706	982	1,220
Customer Receipts	26,324	26,445	26,641	26,876	27,155
Wholesale Payments	- 21,962 -	- 22,121 -	- 22,317 -	- 22,546 -	- 22,761
Capital Expenditure	31	31	31	31	31
Retail Operating Expenditure	- 4,002 -	- 4,040 -	- 4,080 -	- 4,123 -	- 4,164
Closing Cash Balance	391	706	982	1,220	1,481
Working Capital Interest	- 25 -	- 25 -	- 25 -	- 24 -	- 24
Tax Paid	- 70 -	- 72 -	- 72 -	- 73 -	- 74
Closing Cash Balance	295	610	885	1,122	1,383
Retail Service Revenue	4,362	4,406	4,449	4,496	4,540
Retail Service Expenditure	- 4,002 -	- 4,040 -	- 4,080 -	- 4,123 -	- 4,164
Retail Net Margin	360	366	369	373	376
<u>Household Headroom</u>					
Retail Net Margin	361	365	369	373	377
Retail Tax	- 70 -	- 72 -	- 72 -	- 73 -	- 74
Working Capital Interest	- 25 -	- 25 -	- 25 -	- 24 -	- 24
	265	268	272	275	279
Headroom % check	74%	73%	74%	74%	74%

#### 4.6.1 **Impact of Input Price Pressures on Headroom**

Detailed below is the impact on headroom if the allowance for Input Price Pressures as identified in 4.5 being proposed in this Plan is not allowed.

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Retail Net Margin (000's)	361	365	369	373	377
Retail Tax (000's)	70	72	72	73	74
Working Capital Interest (000's)	25	25	25	24	24
Total (000's)	265	268	272	275	279
Reduced cashflow from loss of input Price Pressure adjustment (000's)	197	325	437	550	668
Total (000's)	68	(57)	(165)	(275)	(389)
Headroom % check	19%	-	-	-	-

As can be seen, the headroom is significantly reduced in 2015/16 and has been eradicated by 2016/17.

Further details of this scenario can be found in Table A20 and associated commentary.

Further details of our financeability and supporting independent reports can be found in our technical document 'Financeability'.

## 5 RISKS WITHIN THE RETAIL HOUSEHOLD BUSINESS

### 5.1 Operational Risks

The Retail business has significant experience of managing operational risks, which are both recorded and reviewed regularly. Once identified, risks are recorded as Green, Amber and Red, with the latter two categories having action plans in place to mitigate the identified risk. Also significant projects have an individual risk register that is monitored by the projects steering committee.

Separately, a Business Continuity Plan is held which has procedures and timescales to deal with significant issues, including loss of premises, critical IT systems, telephony and a key supplier.

### 5.2 Risks arising from changes within the Regulatory Regime

A number of new risks will exist for the Retail Business over the period 2015-2020, the key ones of which are listed below:-

- Loss of Retail Price Index annual inflation adjustment. Unlike the Wholesale business, the Retail operation has no automatic assumed annual inflation increase to its revenue requirement. Whilst we have taken advice on likely input cost pressures, that are included within this Plan, they may not be accepted. Furthermore, whilst these estimates are the best available to us, some experts believe that the current Bank of England objective of reducing unemployment will create significant inflation which, over time, will be addressed by interest rate rises. Inflation exceeding any allowed input cost adjustment represents a risk to us, albeit that it may be partially offset by the retail margin.
- Bad Debts. Over 80% of the bill received by our customers represents the Wholesale element and accordingly is inflated annual by Retail Price Index inflation. The entire bill is, however, recovered within the Retail business which is responsible for bad debts. Accordingly, the Retail business is subject to an inflation risk within bad debts that it has no automatic means to finance via an increase in revenue.
- Service Incentive Mechanism (SIM). The SIM components are subject to a consultation and likely change. Since this will not be finalised until after this Business Plan has been submitted to Ofwat for review, this creates uncertainty. Clearly any changes could result in costs to comply with any new requirements, especially to ensure accurate reporting.

**6 OUR PEOPLE**

The retail business manages most customer contacts for both the retail and wholesale elements of the business and strives to provide a high quality service delivered by a knowledgeable and professional team.

In order to deliver the best service possible, we understand the importance of training and development. Within the Customer Services department all clerks under 25 undertake a level 2 NVQ in Customer Service, with many going on to level 3.

Also, newly appointed supervisors are always given study leave to undertake an appropriate qualification, successful completion of which is a condition of the appointment.

Training and development is also supported by events and weekend schools run by professional bodies, most notably the Institute of Water.

**7 BOARD ASSURANCE**

The Board have been actively involved in the preparation of this Business Plan. The Executive and Non-Executive Directors have actively participated and challenged in building a plan based on the views of current customers, whilst considering the impact on future customers, responsibilities to the environment and our duties.

The Non-Executive Directors have each taken responsibility for reviewing specific elements of the plan to provide an additional level of informed challenge.

Key elements of the Boards consideration for household retail were:

- That the plan reflects customer views.
- Whether input price inflation should be included. The Board were mindful of Ofwat’s guidance and challenged the First Economics paper, but concluded that as a frontier company it would be a considerable risk to believe it could generate sufficient productivity gains to offset expected likely cost pressures.
- Methodology for calculating the residual risk element of the retail margin.

Throughout the development of the retail plan the Board has challenged the approach. This challenge was principally against information provided at Board meetings, but latterly included each Director reviewing and providing input to the Plan.

A more detailed explanation of the Board’s assurance of this plan can be found within our technical report “Board Assurance”.

**8 WHAT'S NEW FOR 2015-2020?**

- Greater Meter Option Promotion.
- More targeted water efficiency activity, especially for those that struggle to pay their bill
- More information on water hardness and Lead
- Longer Call Centre opening hours
- Customer's leaking supply pipes to be fixed within 5 days, where they qualify for a free repair
- Average bills will be less than 0.5% of average household income
- Redesigned bills
- Greater ongoing customer engagement
- Improved first time resolution
- Improved Web and Electronic interaction

Overall we will achieve this by aligning our values, processes and behaviour to improve the customers' experience in dealing with us, rather than operational convenience. This will require innovative thinking.

## **9 REWARDING AND PENALISING PERFORMANCE IN THE RETAIL BUSINESS – SERVICE INCENTIVE MECHANISM (SIM)**

Whilst individual elements within the plan will have measures of success, it is the SIM that, for this plan, will determine any financial rewards or penalties in respect of our performance.

We will be within the top 5 in the Industry as measured by the SIM. We see this as a realistic target given our historic survey scores and that our historic quantitative score has not been truly reflective of our performance. Accordingly we believe that this is not a step change in performance, merely a reflection of our new ability to report unwanted calls robustly.

For the Retail Business we see the SIM as the single most important means of assessing our overall performance. The SIM is currently made up of quantitative and qualitative measures which are described below.

### **9.1 Quantitative Elements of the Measure**

#### **9.1.1 All Lines Busy**

This is the number of calls that receive the engaged tone when telephoning the company.

#### **9.1.2 Calls Abandoned**

This is the number of calls where the customer abandons a call whilst waiting to speak to an agent.

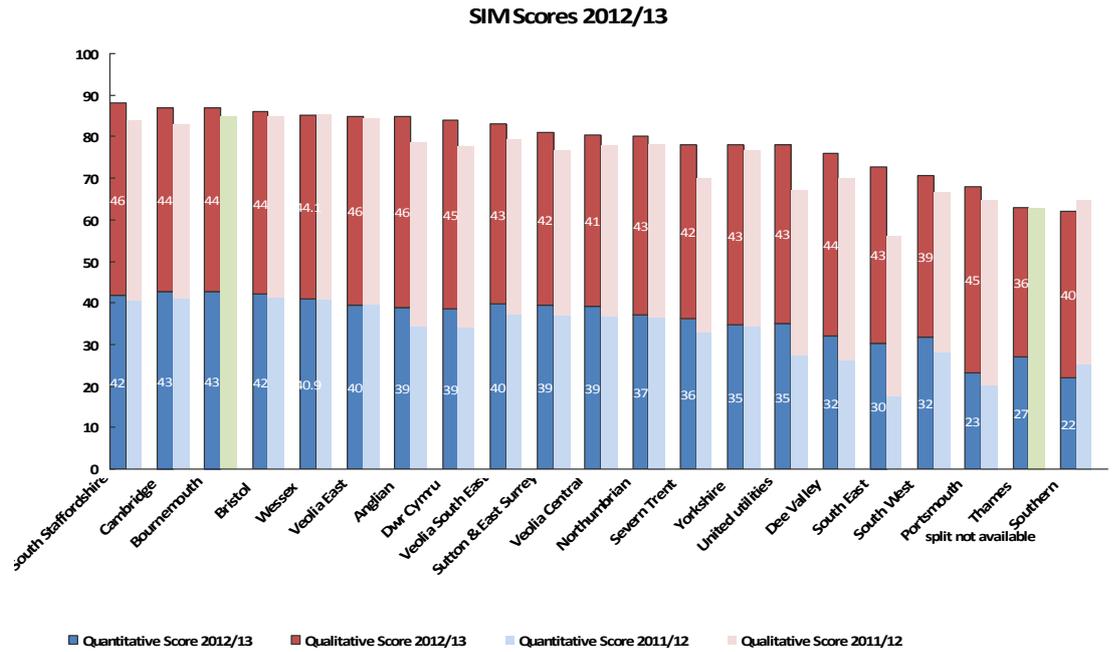
#### **9.1.3 Written Complaints**

This counts both initial and second stage complaints handled within companies and the number of complaints escalated to the Consumer Council for Water, having exhausted the Company's complaints procedure.

#### **9.1.4 Unwanted Telephone Contacts**

This is intended to capture the proportion of calls received that were unwanted from the customer's perspective.

For us this element has been exceptionally challenging to report accurately as we have not historically had a Customer Relationship Management (CRM) system that records all customer contacts. Accordingly, in line with Ofwat's instructions, we have assumed calls to be unwanted if we can not evidence that they are wanted. This assumption led to us reporting a very high unwanted figure that is clearly out of line with the other elements of the measure and not truly representative in our view.



As can be seen from the graph for 2012/13 above we were joint 5<sup>th</sup> out of 21 for the qualitative score but 20<sup>th</sup> for the quantitative score. Clearly a very high rating at survey would be inconsistent with a very low quantitative score. If we re-calculate the quantitative score based on the first half year of 2013/14 unwanted total our quantitative score moves to 38. This performance would have made us 10<sup>th</sup> overall. Since we have not significantly altered our processes, but experienced transition issues with our new billing system which went live in October 2012, we believe that this score is a much more reliable, but still conservative, indication of the service that our customers actually received.

Having now introduced a CRM system we can robustly show that unwanted calls are much lower than the level reported from our manual system.

## 9.2 Qualitative Element

This element captures and scores feedback from customers who take part in a quarterly independently canvassed telephone survey. Each survey consists of 100 resolved billing issues and 100 resolved operational issues.

We are very supportive of this survey and the improvement in results seen is clearly a sign that the industry is embracing a service culture.

## 9.3 SIM Rewards and Penalties

We accept that the rewards and penalties for SIM will be set industry wide by Ofwat following consultation with the industry. This consultation will not be completed prior to the submission of this business plan.

## 10 COMMITMENTS (OUTCOMES)

We have conducted customer research and undertaken stakeholder engagement that has allowed us to develop the following commitments which represent the outcomes that customers have told us they expect:-

<b>Commitment</b>	<b>5 Year Cost of meeting each Commitment in Retail (in millions)</b>
Safe, Secure, Sustainable and Reliable Supply of Drinking Water	£ Nil
Less Water Lost Through Leakage	£0.192
A High Quality Service and Value for Money	£19.330
An improved Environment, supporting Biodiversity, Public Amenities and Recreation	£0.481
Supporting the Community we serve by Taking Opportunities to Support the Local Economy	£0.578
Proving Attractive to Investors long term sustainable Business	£ Nil
Recognised by stakeholders as having a Culture of Health and Safety through all our activities	£0.188

The above costs relate to delivering within the household retail business. The overall bill to customers includes the costs of supplying the water from the wholesale business which in total for 2015-2020 is £113m.

Elements of all these commitments are delivered by the Retail and Wholesale business. Responsibility for the various parts of delivery is clearly set out and covered within this document. Some activities contribute to more than one commitment, in such cases full details of the activity are given against the commitment which they principally support. The most significant commitment for the retail business is 'A High Quality Service and Value for Money'. Accordingly this section has greater detail within this plan.

**11 SAFE, SECURE, SUSTAINABLE AND RELIABLE SUPPLY OF DRINKING WATER****11.1 The Key Elements that make up this Commitment**

- Meeting Water Quality Standards.
- Maintenance of our assets to ensure a reliable supply
- Water Resources Planning to ensure long term security of supply.

**11.2 Customer Support for this Commitment**

97% of a representative sample of household customers was either satisfied or very satisfied with this commitment.

**11.3 The Retail Business Contribution**

- Educate customers with regard to Lead.
- To promote Meter Options.
- To promote Water Efficiency.
- Ensure staff are trained and equipped to handle queries.

**11.4 The Wholesale Business Contribution**

- Ensure that water quality meets the standards set by European and UK Legislation as overseen by the Drinking Water Inspectorate.
- Maintain assets to ensure service levels are maintained for current and future customers and protect the environment.
- Ensure sufficient supplies are available to ensure that restrictions should only occur, on average, once in every 20 years.

**11.5 Our Obligations**

The Retail Business is obliged to promote water efficiency.

**11.6 Lead****11.6.1 Current Record**

Water quality is the responsibility of the wholesale business, but advice and information is delivered via the retail business.

Whilst the water we provide from the mains in the street is wholesome and virtually lead free, lead can be picked up if it passes through a lead service pipe, which in the case of many older properties, connects the water main to a customer's house.

The wholesale business has conditioned the water for some years to limit the lead from pipes being dissolved into the water.

Lead can also be picked up from internal lead plumbing or certain other plumbing fittings. Lead was generally used for water pipes up to the 1970s. Properties built

since the 1970s are unlikely to have lead pipes – copper and plastic being the most commonly used materials.

The current regulatory standard for lead in drinking water reduces from 25 micrograms per litre (equivalent to 25 parts per billion) to 10 micrograms a litre from December 2013. We expect to get less than 10 failures a year against this new standard.

**11.6.2 What Customers have told us:**

We gave information on lead in private pipe work to the focus groups that were conducted in winter 2012. In general customers were surprised by the amount of lead in household plumbing and felt that the water company should be highlighting this to customers. They expressed the view that more information would allow customers to make informed decisions.

**11.6.3 Our Proposals**

We will enhance the information on our web-site and literature available to customers.

The wholesale business will be funding a lead awareness campaign that will be delivered by the Retail part of the business.

**11.6.4 Internal Targets**

We will set and monitor targets to confirm the effectiveness of our campaign activity.

**11.7 Meter Option**

Since 2000 Household Customers have been able to elect to be supplied through a meter and for that meter to be fitted free of charge, subject to survey. The Retail part of the business promotes this meter option as part of its role.

Details of our meter option performance and strategy are covered within our commitment ‘An improved environment supporting biodiversity, public amenities and recreation’ given the environmental benefit that comes from metered customers using less water. However, our Draft Water Resources Management Plan does have an assumption of 5000 option meters per annum, the assumed savings from which partly contribute towards our calculated surplus throughout the next 25 years.

**11.8 Water Efficiency**

Details of our Water Efficiency performance and strategy are covered within our commitment ‘An improved environment supporting biodiversity, public amenities and recreation’ given the environmental benefit that comes from metered customers using less water. However, our Draft Water Resources Management Plan has an assumed level of water efficiency activity which partly contributes our calculated surplus throughout the next 25 years.

**11.9 Retail Costs to Deliver this Outcome**

The costs allocated against this commitment in respect of Lead will be paid by the wholesale business as responsibility for water quality and adequacy of supply rests with this part of the business.

Costs related to water efficiency are included within our commitment 'An improved environment supporting biodiversity, public amenities and recreation' given the environmental benefit that comes from metered customers using less water.

## 12 LESS WATER LOST THROUGH LEAKAGE

### 12.1 The Key Elements that make up this Commitment

- Leak Detection, repair and management.

### 12.2 Customer Support for this Commitment

75% of a representative sample of household customers was either satisfied or very satisfied with this commitment.

### 12.3 The Retail Business Contribution

- Free Supply Pipe Repairs – to help reduce leakage on customers privately owned supply pipes.
- Promotion of Free Meter Option – It is much easier to identify leaks on metered supplies.
- Ensure staff are trained and equipped to handle queries.

### 12.4 The Wholesale Business Contribution

- Monitor Leakage levels.
- Actively locate and repair leaks in pipes owned by Portsmouth Water.
- Optimise pressure to minimise leakage from pipes.
- Detect leaks in customer's pipes, in accordance with our Leakage code of Practice.

### 12.5 Our Obligations

The Retail Business is obliged to offer a single leak repair on a customer's external water supply pipe.

### 12.6 Supply Pipe Repairs

#### 12.6.1 Current Record

The ownership of supply pipes is not well understood by customers, many of whom assume that all underground pipes are owned and maintained by the water company. However, normally customers own the pipes from their house up to their property's boundary.

We estimate that approximately 24% of leakage occurs within customers privately owned supply pipes.

Historically we have provided customers with free leak detection advice and at least one free external supply pipe leak repair for the period they occupy a property, with a second free repair being available if we do not recommend that the pipe is replaced at the time of our first repair. In 2013/14 we undertook 407 free repairs.

Alternatively, we suggest that a customer replaces their supply pipe by making a claim on their household insurance. In this case we contribute £60 towards any insurance excess. In 2013/14 154 customers with supply pipe leaks took advantage of this offer.

Water companies have recently been asked by government to consider whether the maintenance of supply pipes should in future become the responsibility of water companies. We are supportive of the concept of supply pipe ownership moving to Water Companies as it removes the risk of unexpected repair bills from customers and prevents any need for customers who are worried about this potential cost to take out an insurance policy to cover the risk.

#### **12.6.2 What Customers have told us:**

Given media interest, customers tend to have some knowledge of and opinion on leakage. Our quantitative research showed a willingness to pay of £1.09 for improvements and leakage was the fourth most important area for improvement in our customer's view.

Given that customer's views were largely based on perception and the difficulty in explaining economic levels of leakage management within a quantitative survey we undertook further deliberative research to determine how informed views differed from uninformed views. The wholesale business has used this research to shape its plans.

#### **12.6.3 Our Proposals**

- Continue to offer free leak detection services
- Continue to offer up to two free supply pipe repairs for property occupiers
- We will undertake to repair customers supply pipe, where eligible, within 5 working days.

#### **12.6.4 Our Measure of Success (internal targets)**

- We will monitor the proportion of supply pipe repair completed within 5 days
- We will measure satisfaction with our supply pipe repair service

#### **12.7 Meter Option**

Metering at the boundary of a property plays an important role in identifying leakage on customers supply pipes as unexpected high consumptions and/or a constant flow of water through a meter are signs of leakage, often which will not be visible. We also check for signs of leakage when the meter is fitted.

Details of our meter option performance and strategy are covered within our commitment 'An improved environment supporting biodiversity, public amenities and recreation' given the environmental benefit that comes from metered customers using less water. However, our Draft Water Resources Management Plan does have an assumption of 5000 option meters per annum and that leakage detection and repair rates are higher for metered than unmetered supplies, given that it is our normal practice to meter at the property boundary.

#### **12.8 Retail Costs to Deliver this Outcome**

The cost in the Retail Business of delivering this outcome is £192,000 over the 5 year period.

**13 A HIGH QUALITY SERVICE AND VALUE FOR MONEY****13.1 The Key Elements that make up this Commitment**

- Managing Supply Interruptions.
- Ensuring customers receive adequate pressure.
- Managing Customer Contacts.
- Affordable Bills and Debt Management.
- Customer Billing.
- Advice on Water Hardness.

**13.2 Customer Support for this Commitment**

97% of a representative sample of household customers was either satisfied or very satisfied with this commitment.

**13.3 The Retail Business Contribution**

- Managing Customer Contacts.
- Affordable Bills and Debt Management.
- Customer Billing.
- Advice on Water Hardness.
- Taking overall responsibility for the experience of the customer and the SIM result.

**13.4 The Wholesale Business Contribution**

- Manage Supply Interruptions, repairing burst mains and maintaining our pipe network. They will issue notices to customers for planned supply interruption, providing advance notice.
- Ensuring customers receive adequate pressure.
- Deliver the lowest cost wholesale bills in England and Wales.
- Offer and keep appointments where access to a customer's property is needed.
- Renew meters once they are 12 years old.

**13.5 Our Obligations**

The following Guaranteed Service Standards (GSS) are set by Government, who require us to pay £25 to customers in compensation should we fail. We pay above the Government compensation levels, paying £30 for each failure.

- If we need to meet an appointment to visit you about your water supply. We will offer am or pm appointments, or upon request a 2 hour time slot.

- If you have a billing query we will respond within 10 working days, or 5 days where the query relates to a change in payment arrangement that can not be met.
- We will reply to all written complaints within 10 working days.

Whilst not a duty, we will also pay £30 if we do not read a meter used for billing at least once in a financial year, provided that the property has been occupied the property for the whole year and access has not been denied.

## 13.6 **Managing Customer Contacts**

### 13.6.1 **Current Record**

In this section historic results are combined figures, covering both household and non-household customers.

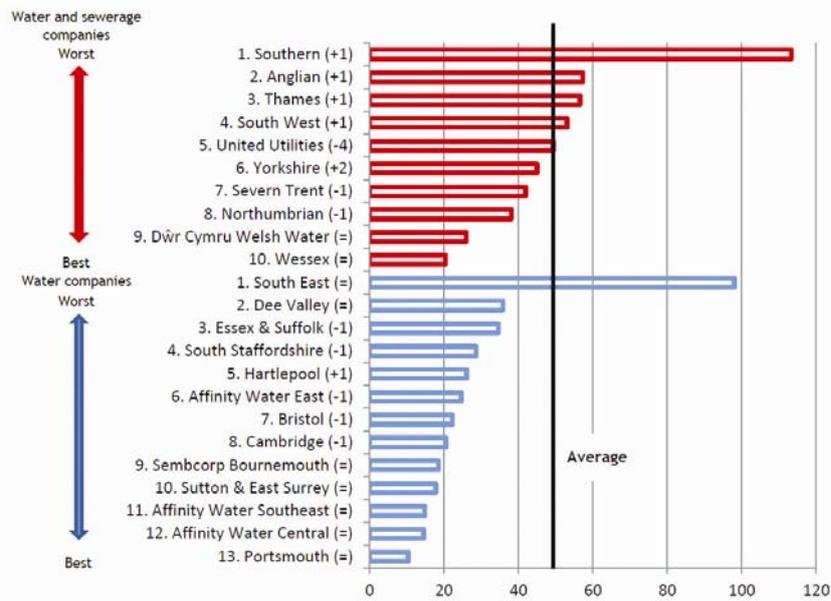
We are proud to serve our customers and have always done so from a local base with limited outsourcing. Our SIM survey results have shown a high level of satisfaction with our service as can be seen below.

Year	Survey Score	Position in industry
2010/11	4.50	2nd
2011/12	4.56	2nd
2012/13	4.58	5th

As can be seen, throughout this period we have been within the industry top quartile (21 companies) and our score has improved on a year on year basis. However, the move from 2<sup>nd</sup> to 5<sup>th</sup> in the industry, despite an improved score, does illustrate the improvement within the industry as a whole and we can certainly not afford to rest on our laurels.

Whilst the above score shows a good performance, one element of the overall SIM, unwanted calls, has represented a real reporting difficulty for us and we have therefore had to report many calls as unwanted as we had no robust means of proving that they were wanted. Details of our reporting issues are covered in the earlier section 'Rewarding and Penalising Performance in the Business – Service Incentive Mechanism' on page 15.

We are particularly proud of the fact that for many years we have had the lowest number of written complaints within the industry, when measured against the number of connections. In 2012/13 we had 10.4 complaints per 10,000 customers compared to an industry average of 49. Our comparative performance can be seen below.



Source: "Complaint Handling in the Water Industry England and Wales April 2012 - March 2013" - Consumer Council for Water

### 13.6.2 What Customers have told us:

Independent quantitative customer research by MVA in spring 2013 showed a very low willingness to pay of 57p (in real terms) for increased office hours and faster responses to enquiries. This was 7<sup>th</sup> out of 11 priorities for improvement that customers were asked to consider.

However, we are determined to improve service levels and first time resolution and accept that an innovative approach and making the best use of new technology will be required and that improvements should be financed out of cost beneficial enhancements and efficiencies rather than bill increases.

Whilst not directly seeking funding for improvements in this area, high levels of success may be rewarded via the Service Incentive Mechanism (SIM), an Ofwat measurement incentive scheme that encourages companies to deliver the highest possible levels of service.

### 13.6.3 Our Proposals

- Longer office opening hours – currently our customer service office is open 8.30 – 16.30 Monday to Friday. We will review these hours and extend our availability.
- Improved web and electronic interaction – our web-site offers currently a number of options, including change of address advice, change of name, requesting a water meter and bill payment. We know that increasingly customers are transacting business on line and will extend options further and develop the web-site so that it adapts and remains easy to use if people access our site via a tablet or mobile phone. With a low number of metered customers, demand for consumption information is currently low, but we will monitor demand and develop services accordingly. Whilst these developments can be costly to introduce, once utilised they represent a low

cost to serve and, therefore, will be developed as they become cost beneficial. We will develop a social media strategy and consider innovative use of the available options in order that customer satisfaction can be economically enhanced and result in improved customer interaction to include such activities as reporting suspect leaks, faulty apparatus and traffic disruptions as a result of road works.

- Locally handled telephone calls with limited automation– we are committed to retaining a local presence and exploiting the local knowledge and easy internal communication. Whilst size can bring economies of scale, we believe that, as a small water company, we have the advantage of a personalised service.
- Improved first time resolution. We monitor first time resolution from the quarterly survey that is undertaken on behalf of Ofwat. We intend improving from our current first time resolution rate of 68% to 90%. We believe that this can be achieved by redesigning key processes around the customer journey rather than operational convenience.
- Greater customer engagement to help shape plans and priorities – As a retailer we need to engage with customers more than ever before. This will help us to understand their journey in dealing with us, rather than us basing change on assumptions that may not be correct.

#### 13.6.4 Our Measure of Success

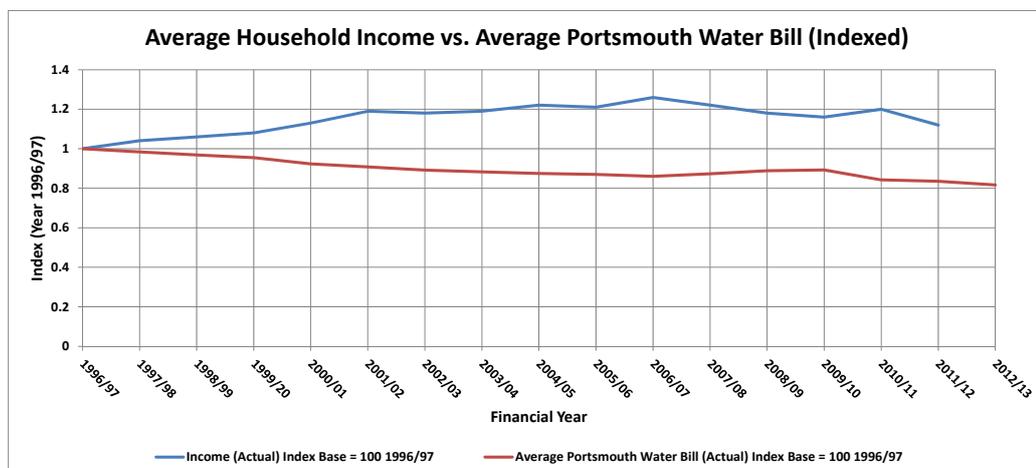
The Service incentive Mechanism will be used to monitor performance and determine any incentive or penalty payment.

### 13.7 Affordable Bills and Debt Management

#### 13.7.1 Current Record

The efficiency of the wholesale business and low cost to serve of the retail operation has combined to supply water at the lowest price in England and Wales.

As can be seen from the graph below, our prices have increased at a lower rate than average household incomes, making our bills more affordable now than they were in the mid 1990's.



We serve a mix of rural and urban areas. Based on information from the Family Resources Survey 2008/09, albeit covering the larger Southern Water area, the proportion of customers spending more than 3% of income on their combined

water and sewerage bills is 22%, compared with an unweighted national average of 24.3%. It should be remembered but the Portsmouth Water bill represents approximately a quarter of our customers overall water and sewerage bill. Whilst we do not consider the area to be affluent we do not consider ourselves to be a special case when it comes to affordability, albeit that there are hot spots where affordability issues are clearly apparent.

Debt tends to be highest within tenanted property and can be difficult to collect especially as often the occupiers have failed to register with us. Also, with student lets the responsibility for bills is often not clearly understood by the students.

We consider that it is our responsibility to collect our bill, wherever affordable, but identify and help as much as possible those with genuine affordability issues. Indeed, unpaid debt is estimated to increase the average combined water and sewerage bill by £15 per annum nationally. Identifying those that can't pay from those that won't pay is not easy and requires a dialogue with customers. We believe having the lowest supply bill in the industry means that our bill alone is unlikely to cause financial difficulties, but those with debts elsewhere may, nonetheless, struggle to pay our bill.

As can be seen below, we will offer more advice and methods for customers to provide affordable reductions to their water supply bill.

A low bill does, in itself, make debt recovery decisions difficult as the cost of some types of recovery action can not always be justified against a small debt as the cost of recovery may exceed the debt. For this reason, much of the recovery work undertaken on our behalf by third party debt collection agents is based on them keeping a percentage of monies collected rather than a fixed fee per account sent to them for recovery.

As can be seen from the table below, historically we have had very little debt within our measured household customers. This is largely as a result of the vast majority of these customers being people that opted to move on to a meter, an option which appeals to those that both pay their bill and can see an opportunity to lower their bill level. However, given that we have compulsorily metered new properties since 2005, we do expect this debt to grow over coming years.

Unmeasured debt has grown year on year, as a result of non-payers continuing not to pay their bill and a growth in households falling behind with their bills. This growth is due to economic conditions, growth in tenanted property where the occupier is not always registered with us and water being a low priority debt, given our inability to disconnect household supplies.

The figures below are for Debt over 48 months old, representing hardcore debt that is ultimately unlikely to be recovered.

#### **Debt outstanding over 48 months and Number of Households**

<b>Year</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Measured Household Debt	£1,000	£2,000	£3,000	£4,000	£7,000
Number of Measured Households	8	16	19	34	60
Unmeasured Household Debt	£206,000	£227,000	£285,000	£320,000	£394,000
Number of Unmeasured Households	1,372	1,494	1,809	1,994	2,398

### 13.7.2 What Customers have told us:

Our independent quantitative research conducted by MVA in spring 2013 revealed that 88% of domestic customers considered that Portsmouth offered good value for money.

Providing a cross subsidy to help those that can least afford their bills was not a high priority within our quantitative research, ranking 10<sup>th</sup> out of 11 service aspects that customers were asked to provide a willingness to pay for improvements to.

### 13.7.3 Our Proposals

- Low Bills – maintain our position as the lowest cost water supplier in England and Wales, with no increases above inflation and bills at less than 0.5% of average household incomes. We see that the maintenance of low bills is key in providing value for money. With pressure on household incomes over recent years in a difficult economic environment we accept that there is little customer appetite to see bills rise, even where they can see that improvements may result.
- Promote Metering – Metering gives customer's some control over their bills and results in lower bills for approximately half of our customers. We intend targeting customers that may save from metering, these typically being customers with a low level of occupancy in properties with high rateable values.
- Promote WaterSure – WaterSure is an industry wide scheme offered under Government Vulnerable Customer legislation. This scheme limits the metered bills of larger families or where a family member is suffering from certain medical conditions, and the family in receipt of qualifying benefits.
- Promote WaterDirect – WaterDirect is a Government scheme that allows a direct deduction from certain benefits to contribute towards a customer's water bill. Currently 1,800 customers pay via this scheme.
- Assist Vulnerable Customers. We currently have four directly employed Visiting Officers. Their role is to visit customers in debt and historically their focus was very much based on trying to secure payment. Whilst this remains an important part of their role, they are starting to collect much more information from customers to ensure that we do consider as fully as possible personal circumstances. In future they will also distribute free water efficiency devices, including some that are not normally free, in an effort to reduce both customer's water and energy bills, thereby making our bill even more affordable.
- Consider a Social Tariff. We would like to offer a Social Tariff and have been closely watching Southern Water's development of such a tariff, which has been piloted from 1<sup>st</sup> October 2013. If they proceed, they have agreed in principle that we can mirror it and share applications for mutual customers. We feel that it is important that customers can submit just one application and receive any bill reduction to both their water and sewerage bills. Once Southern Water have finalised their design we need to ensure that it can be configured within our billing system, gain formal agreement from them that we can mirror it and then we need to gain customer support prior to implementation.

- Greater customer engagement to help shape plans and priorities. We accept that successful change needs stakeholder engagement and are keen to build on the heightened level of customer involvement that has occurred in shaping this plan. Along with a continuation of a Customer Challenge Group we will more regularly use customer research to drive priorities for improvement and understand the customer journey in all dealings with us.
- Provide free payments at the Post Office. Currently, those customers that pay cash at the Post Office have to pay a fee of £2.85 for each transaction. Whilst there are several other free payment methods, we are conscious that the Post Office is the favoured payment option for some of our most vulnerable customer's. Customers will continue to be able to pay their bill free of charge at any branch of NatWest or RBS.
- Provide a pound for pound scheme. We will be introducing a scheme whereby we will write off, on a matched basis, old debt providing customers start to make a contribution to their current bill.
- Develop links with outside agencies. We have regular contact with Age Concern, Citizens Advice Bureau and other local groups. We intend to develop these contacts further in an effort to ensure that those with affordability issues can agree an acceptable bill contribution.
- Actively pursue debts from those that are able to pay. With the average combined water and sewerage bill being inflated by £15 to compensate for those that do not pay, robust recovery procedures are essential. We consider our current core approach of sending a bill followed by a series of reminders to be reasonably robust. Where payment is not forthcoming we have a number of strategies that we may employ, based on analysis of the account and the need to vary approach in an effort to provoke a response. This may include visits by our staff, selective Court action or passing the debt to a specialist third party debt recovery agency.

Collecting debt is a challenge, especially for tenanted property where the occupier's details may be not known by us. Accordingly, we are supportive of the landlord portal that is being developed to give a national facility for Landlords to provide change of tenant information which is then forwarded to the relevant water and or sewerage provider. We would like to see Government enact legislation that compels landlords to supply this information, rather than it being voluntary as at present.

#### **13.7.4 Our Measure of Success**

- Service levels will be monitored and incentivised by the Service Incentive Mechanism.
- No increase in debt above inflation. We do not propose any incentive or penalty against this measure as we do not consider all growth in debt to be wholly within management control (internal target).

### **13.8 Customer Billing**

#### **13.8.1 Current Record**

Accurate customer billing is an essential part of the retail business. We have, for many years, printed and dispatched bills from our Havant Head Office, having chosen not to outsource this function.

Historically, the vast majority of household customers have had unmetered charges, which are relatively simple to calculate, with a number of payment channels and instalment options.

However, since the year 2000, customers have been able to choose to have a meter which is normally fitted free of charge and therefore we have seen a shift from unmetered billing to metered billing. This trend accelerated in 2005 when we decided that all new properties should be metered.

Whilst our historic billing system was very good at unmetered billing, the metered billing processes were not as efficient. This, combined with the need to record all customer contacts and the desire to be able to introduce new functionality, such as paperless Direct Debit, led us to renew our billing system in late 2012.

Moving to a new system is not straightforward and requires considerable planning and testing. We are pleased with the implementation, albeit that there was a short term impact on customer service, which was reflected within elements of our SIM score for 2012/13 .

### **13.8.2 What Customers have told us:**

Our quantitative research revealed that 90% of household customers were satisfied with the overall service that they receive from Portsmouth Water and 88% considered our bill to be good value for money.

Typically customers contact us infrequently and accordingly we were not surprised that our quantitative research showed improvements to speed of handling billing queries were a low priority, being 7<sup>th</sup> in a list of 11 potential areas for improvement. The willingness to pay for improvements was 57p.

### **13.8.3 Our Proposals**

- Redesigned Bills – In moving to our new billing system in October 2012, we tried as much as possible to replicate the style of our previous bills in an effort to avoid too many additional contacts immediately post live. However we believe that the current bill could be improved, with greater information and clarity.
- Greater customer engagement to help shape plans and priorities. We intend to work with customers and other stakeholders to deliver improvements with consideration to the needs of vulnerable groups.

### **13.8.4 Our Measure of Success**

Our Service Incentive Mechanism score, with associated incentives and penalties, should reflect our billing performance.

## **13.9 Hardness**

### **13.9.1 Current Record**

Most of the water that we supply is naturally moderately hard as a consequence of having percolated through the chalk South Downs. Hard water has certain characteristics and produces scale when heated which can reduce the life of kettles and water heating appliances. Water from different sources will taste a little different to those with a discerning pallet. Also hard water produces less lather than soft waters, something that those new to a hard water area tend to notice.

Historically we have not softened the water that we supply.

**13.9.2 What Customers have told us:**

Whilst we receive a very low number of written complaints about hard water, it is always a key topic for discussion and debate when we engage with customers. If there was a low cost means of softening water there would certainly be a good deal of support for it amongst customers. However, if actually proposed it is likely that a small proportion of customers would strongly object.

Our quantitative research showed that this is a priority for improvement with a £1.19 willingness to pay. Given the costs to implement, water softening could not be achieved in a cost beneficial way.

**13.9.3 Our Proposals**

The cost for us to soften water would be high and could not be achieved within the willingness for customers to pay. The operational costs, without any initial capital outlay being taken into account, of softening of water would add approximately £6 to an average bill. Also, softening may have water quality implications as the chemicals used to soften water may increase any lead absorbed by the water and would alter our water's characteristics and taste. Accordingly, even if a more cost effective means is developed in the future we would have to carefully consider the implications before proceeding.

Accordingly, our approach will be to provide much more, and clearer information on hardness in the form of leaflets and website information. We will also detail on our website links to companies that install softeners in homes.

**13.10 Retail Costs to Deliver this Commitment**

The cost in the Retail Business of delivering this outcome is £19,330,000 over the 5 year period.

**14 AN IMPROVED ENVIRONMENT, SUPPORTING BIODIVERSITY, PUBLIC AMENITIES AND RECREATION****14.1 The Key Elements that make up this Commitment**

- Work with the Environment Agency to ensure that its water abstraction does not adversely impact the environment and wildlife.
- Increase the percentage of energy from renewable resources.
- Enhanced Biodiversity at our sites.
- Work with Farmers to reduce the impact of chemicals used in farming in untreated water supplies.
- Water Efficiency.

**14.2 Customer Support for this Commitment**

87% of a representative sample of household customers was either satisfied or very satisfied with this commitment.

**14.3 The Retail Business Contribution**

- Water Efficiency.
- Meter Option Promotion.
- Supporting the Community.
- Use billing literature to highlight schemes and initiatives.
- Working with Schools and Staunton Country Park.

**14.4 The Wholesale Business Contribution**

- Work with the Environment Agency to ensure that its water abstraction does not adversely impact the environment and wildlife.
- Increase the percentage of energy from renewable resources.
- Increase Biodiversity activities.
- Work with Farmers to reduce the impact of chemicals used in farming in untreated water supplies.

**14.5 Our Obligations**

The Retail Business is obliged to promote meter options and water efficiency.

**14.6 Water Efficiency****14.6.1 Current Record**

In 2010 Ofwat set us an annual target for achieving water savings, through water efficiency, of 290,000 litres a day (l/d) – equivalent to 1 litre per property.

Our performance since 2010 has been as followed:-

	2010/11	2011/12	2012/13
Water Efficiency Savings	250,000 l/d	360,000 l/d	350,000 l/d

Activities included:-

**Saving Water Challenge** – A campaign which encouraged customers to think about the water that they use at home and in the garden. This campaign, supported by literature and shopping centre stalls gave away free water saving items such as shower timers, save-a-flush bags and reinforced the message with fridge magnets and stickers.

**Save Water Save Money** – We have a partnership with 'Save water Save Money', a national business where customers can apply for free water efficiency items via an on-line application. In 2012/13 nearly 6,000 items were ordered by our customers.

**Meter Welcome Pack** – When a customer switches to a meter we supply a water efficiency pack that includes save-a-flush bags, shower timer and literature giving water saving tips.

**Community Talks and Events** – Community talks, fetes and science fairs are used as an opportunity to distribute free water saving devices and provide water efficiency advice.

**Interactive Water Calculator** – The water efficiency part of our web-site was refreshed last year, offering advice and access to free water saving devices.

Bill messages - highlighting water efficiency matters.

#### **14.6.2 What Customers have told us:**

Of 11 priorities that customers were asked to consider their willingness to pay for improvements within our quantitative research in late January 2013, water efficiency was the 6<sup>th</sup> highest priority, with a willingness to pay of 90p.

#### **14.6.3 Our Proposals**

- Continue with existing initiatives as detailed above.
- Undertake targeted retro fitting, working with housing associations and other landlords, as well as targeting those in debt.

#### **14.6.4 Our Measure of Success**

- We will monitor and report on our target of reducing consumption, through water efficiency measures, of 1 litre per day per property per annum.
- Individual water consumption will fall, on average, from 148 to 144 litres per day over the 5 year period.

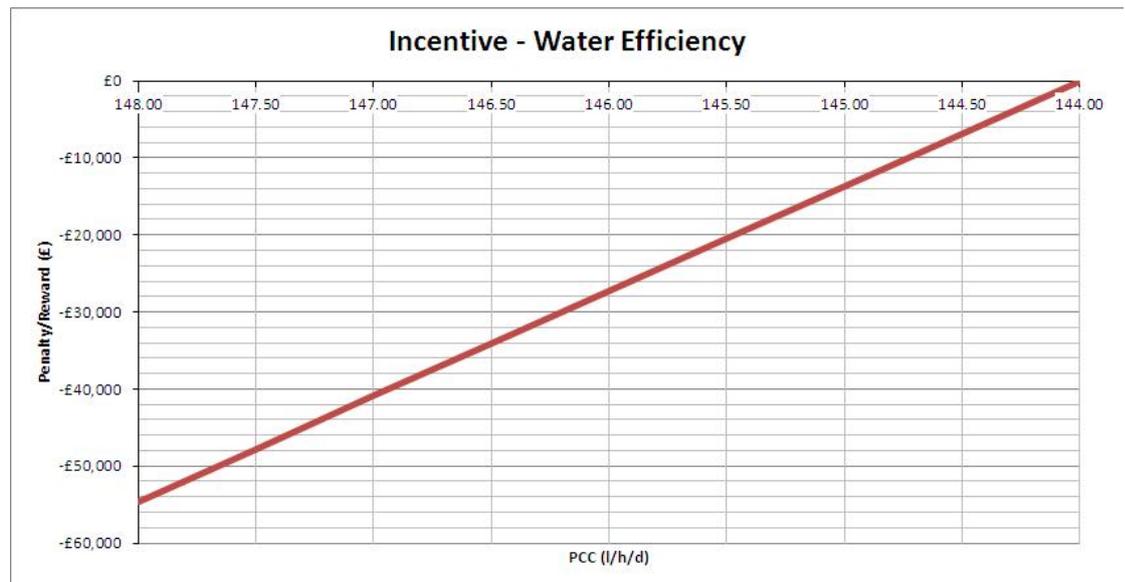
#### **14.6.5 Rewards and Penalties**

As part of our customer research, we asked customers to value our proposed level of performance and over and under performance.

We are happy that we will receive a reputational reward only for an outperformance in respect of the impact of our water efficiency activities on per capita consumption. However, we believe a penalty is appropriate if we fail to deliver the planned reduction.

The size of the penalty has been calculated from customers' willingness to pay for this improvement and the degree to which they valued under and over performance.

The following table shows the penalties that apply for underperformance. Any penalty would be applied at the end of the 5 year planning period. Whilst the table shows a value for outperformance, this would be a reputational reward and not financial.



## 14.7 Meter Option Promotion

### 14.7.1 Current Record

Since April 2000 household customers have had the right to opt for a meter which, subject to survey, is fitted free of charge. Customers also have the ability to switch back to unmeasured charges within 12 months if the meter does not prove beneficial.

Typically metered customers use 10% less water than unmetered customers which reduces overall demand. Also, as we normally site our meter at the property boundary, leakage on a customer's supply pipe can more easily be detected and repaired than for an unmeasured customer.

Every 5 years the company produces a Water Resources Management Plan (WRMP) which looks forward 25 years in an effort to ensure that we will have adequate resources to serve customers without impacting on the environment. This plan looks at likely changes in population, climate change and other factors that impact on our ability to meet customer demands.

The Draft Water Resources Management plan for the period 2015 – 2040 assumes a level of take up of meter options at 5000 per annum. The retail business needs to deliver this. In 2012/13 4,857 meter options were completed,

which is broadly in line with the 5 year average for the 5 years ending 2012/13 of 4,618.

Metering has been promoted via billing literature, an interactive water calculator on our website and is always included within our water efficiency promotion.

#### 14.7.2 What Customers have told us:

As part of our independent research to shape this business plan (MVA report dated 1<sup>st</sup> March 2013) we sought the views of customers on what our strategy should be on metering, explaining the benefits in terms of reduced consumption, leakage detection and fairness. From the options given the following results were obtained:-

	Percentage of Respondents
Promote metering to those most likely to save money	49%
Compulsory meter all customers	22%
Do nothing at present	29%
Total	100%
Sample	273

As well as having considered customer views, the company has had an independent review of our metering strategy which found that both compulsory and change of occupier metering are not cost beneficial. This can be found in Appendix 36.

#### 14.7.3 Our Proposals

Given 71% supported an increase in metering the Retail Business will promote metering throughout the period, setting an internal target of 5,500 meters per annum. This extra promotional activity will be achieved without additional cost to customers by maximising opportunities that arise out of customer contact, promotional literature within bills and as part of our water efficiency activities. We do not propose any specific reward or penalty in respect of achieving this goal.

The wholesale business has agreed to seek funding based upon 5,000 meters per annum, relying on an adjustment at the end of the 5 years to recover the costs incurred due to any outperformance.

#### 14.7.4 How we will achieve the target

- We will actively seek to identify customers who may save money from metering when they telephone our office and promote metering to them.
- Continue with marketing campaigns and mailings, both general and targeted at those most likely to benefit.
- Combine metering with general water efficiency activities that include talks, periodic shopping centre displays and attendance at Fetes.
- Assess any benefits in switching to a meter to those who are struggling to afford our bill.

#### 14.7.5 Our Measure of Success

- We will monitor meter option take up and publish the results annually.

**14.8 Supporting the Community****14.8.1 Current Record**

We have taken opportunities to support the community by using the land we own. We provide facilities for disabled anglers at our Head Office site and provide access to our land for a local observatory club. We also make land available for use as allotments and provided a number of footpaths around our sites to promote greater access to our land where appropriate.

**14.8.2 Our Proposals**

- We will continue to support the community, including access to sites we can.

**14.8.3 Our Measure of Success**

- No specific measure for this activity is proposed for the Retail Business.

**14.9 Working with Staunton Country Park and Schools****14.9.1 Current Record**

We have an education partnership with Staunton Country Park. The partnership, which involves funding a full time education post at the Park and supporting a number of Park activities, as well as delivering a 'Water is Life' programme to schools which covers the water cycle, supply and treatment as well as conservation.

We also attend school science fairs and interact with local schools.

**14.9.2 Our Proposals**

- We consider this work to be very important and will continue to support education and the Staunton Country Park.

**14.9.3 Our Measure of Success**

- No specific measure for this activity is proposed for the Retail Business.

**14.10 Retail costs to deliver this Commitment**

The cost in the retail business of delivering this commitment is £481,000 over the 5 year period.

**15 SUPPORTING THE COMMUNITY WE SERVE BY TAKING OPPORTUNITIES TO SUPPORT THE LOCAL ECONOMY****15.1 The Key Elements that make up this Commitment**

- Playing an active role in the community that we serve.
- Source labour, materials and other resources locally, where feasible.

**15.2 Customer Support for this Commitment**

87% of a representative sample of household customers was either satisfied or very satisfied with this commitment.

**15.3 The Retail Business Contribution**

- Playing an active role in the community that we serve.

**15.4 The Wholesale Business Contribution**

- Playing an active role in the community that we serve.
- Source labour, materials and other resources locally, where feasible.

**15.5 Playing an Active Role in the Community that we Serve****15.5.1 Current Record**

We are proud of our ties with the community that we serve, having supplied water for over 150 years. We believe that employing local people, with local knowledge allows us to effectively communicate with our customers.

We have developed a partnership with a local country park, contributing to their education centre which introduces children to the water cycle and water efficiency. We also re-enforce the health benefits associated with being properly hydrated, which is also supported by our annual subsidised sale of water bottles to schools.

Community talks have, over many years offered us opportunity to increase awareness about company activities as well as providing useful opportunities to increase awareness about free option metering and water efficiency.

**15.5.2 What Customers have told us:**

This commitment was developed from a challenge put to us by the CCG. The CCG felt that a commitment to the community and the local economy reflected feedback from our non-household customers which had not, at that point, in their view been recognised within our commitments.

**15.5.3 Our Proposals**

- We are committed to continuing this work.

**15.5.4 Our Measure of Success**

- No specific measures are proposed for this element of the commitment

**15.6      Retail Costs to Deliver this Commitment**

The cost in the retail business of delivering their outcome is £578,000 over the 5 year period.

**16 PROVING ATTRACTIVE TO INVESTORS LONG TERM SUSTAINABLE BUSINESS****16.1 The Key Elements that make up this Commitment**

- Maintaining an Investment grade Credit Rating within the Appointed Business.
- Meeting financial ratios required by existing creditors and that will secure low rate finance, when required.
- Producing an acceptable return for equity holders.

**16.2 The Retail Business will**

- Debt Performance – We will manage debt effectively to maximise recovery of the income due to us. Details of our Debt Management strategy are covered within our commitment – Customers recognise that we provide a High Quality Service and Value for Money.
- Efficiency – maintain an efficient operation with a low cost to serve, whilst maintaining and improving on levels of service delivered to customers.
- Ensure that it remains financeable and sustainable in the longer term.

**16.3 The Wholesale Business Contribution**

- Maintain high levels of efficiency.
- Earn a sufficient return on its assets to meet its obligations.

**16.4 Our Obligations**

- Take reasonable steps to maintain an Investment credit grade.
- To ensure our loan covenants are not breached.

**16.5 Current Record**

Debt has been well run, with a high level of compliance with industry best practice guidelines.

Our household unmeasured cost to serve has been the lowest in the industry.

**16.6 What Customers have told us:**

This commitment has been set by the company and does not come out of direct customer research. However, in order to successfully deliver customer's priorities we need to be a well financed business.

**16.7 Our Proposals**

- Debt will increase at no more than the rate of inflation, unless any rises are beyond management control.
- We will maintain an average cost to serve that is below the industry average.

**17 RECOGNISED BY STAKEHOLDERS AS HAVING A CULTURE OF HEALTH AND SAFETY THROUGH ALL OUR ACTIVITIES**

This commitment did not come out of customer engagement but was instead insisted upon by our Board of Directors who see health and Safety as a key priority of the business and must be a key item within any business plan that we prepare.

**17.1 The Key Elements that make up this Commitment**

- Proactive Management of Health and Safety.

**17.2 The Retail Business will**

- Actively manage health and safety to ensure members of the public, visitors and employees are kept as safe as possible.
- Evidence its efforts and achievements, thereby achieving a Royal Society for Prevention of Accidents (RoSPA) gold medal in Occupational Health and Safety every year.

**17.3 The Wholesale Business Contribution**

- Actively manage health and safety to ensure members of the public, visitors and employees are kept as safe as possible.
- Evidence its efforts and achievements, thereby achieving a Royal Society for Prevention of Accidents (RoSPA) gold medal in Occupational Health and Safety every year.

**17.4 Our Obligations**

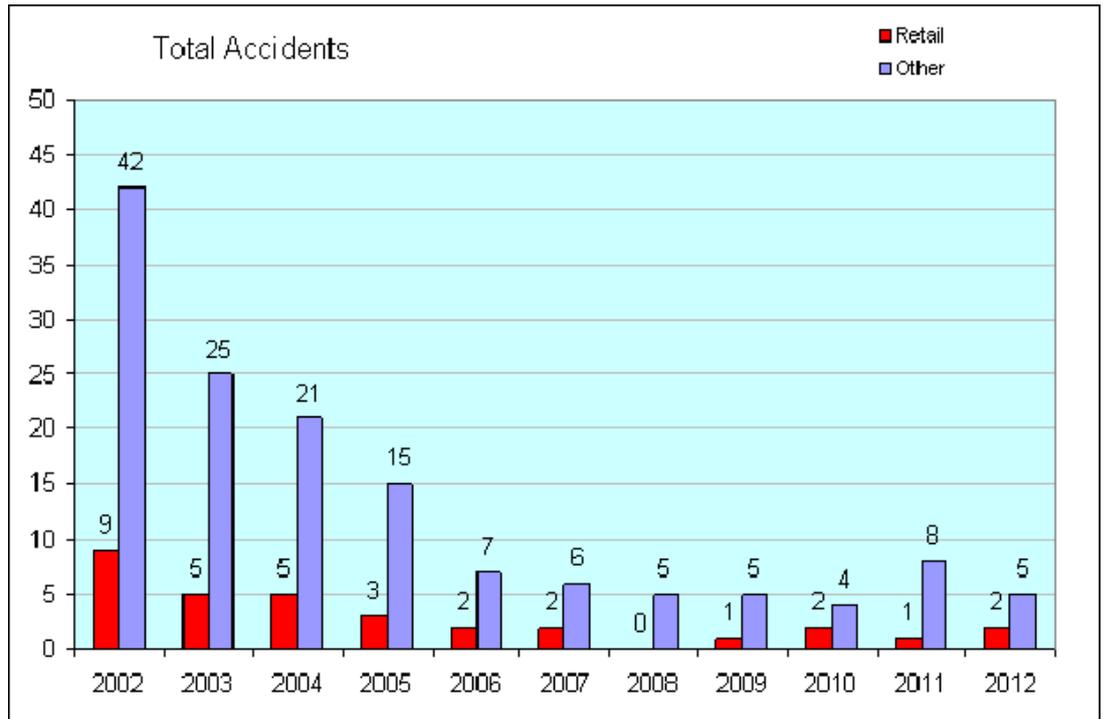
- Compliance with Health and Safety legislation.
- To ensure that our employees return home safely to their families every day.

**17.5 Current Record**

The wholesale and retail elements of the business have a common goal when it comes to health and safety, in that we must provide a safe environment for members of the public, visitors and employees.

In 2002 and 2003 the company recorded 51 and 30 accidents respectively with a reportable accident rate of 11 in each year. It was decided that these statistics and the overall Health and Safety performance were not acceptable. Led by the Board, we focused heavily on improving our performance.

In the last 5 years we have averaged 7 accidents and 1 reportable accident per annum.



#### 17.6 **Our Proposals**

- Regularly assess hazards, maintaining up to date risk assessments where appropriate.
- Keep Health and Safety in the conscious memory of employees with regular quizzes, team briefings and other proactive activities.
- Seek to learn from and share lessons learnt from accidents and near misses.
- Collect evidence of initiatives to support the Company's annual submission to RoSPA.

#### 17.7 **Our Measures of Success**

- No Reportable Accidents.
- Annual receipt of RoSPA award.
- Ensure every employee returns home safely to their family every day.

#### 17.8 **Retail Cost to Deliver this Commitment**

The cost in the retail business of delivering this outcome is £188,000 over the 5 year period.