

# Operating environment



Abberton Reservoir

## Our external environment

The largest of NWG's businesses, NWL, operates in the north east and south east of England. The two areas have very different economic, demographic and water resource characteristics.

In the north east there has been a gradual fall in overall water demand in recent decades as a consequence of a reduction in industrial demand for water. This trend is expected to continue for at least the next five years with a faster decline in the short term due to the impact of the economic recession. The north east compares well to the rest of the country as far as water resources are concerned and our major regional rivers can all be supported by Kielder Water. This provides very high security of supply for our customers.

In contrast, NWL's southern operating area is in a water scarce region that is forecast to experience further economic and population growth in the medium term. While this area has also seen a reduction in demand from heavy industry and the recession is likely to dampen housing growth in the near future, we have a current deficit, meaning supplies are not secure in a severe drought. Future growth will intensify the pressure on the balance between supply and demand. NWL is implementing long term plans to ensure the availability of water supplies to meet both current and future demand in a region where water resources are already constrained. After approval from the Environment Agency, the project to increase the capacity of Abberton Reservoir near Colchester, coupled with ongoing demand management measures, will secure supplies to the Essex area for the foreseeable future.

The current pressures within financial markets have been well documented and the credit crunch has resulted in reduced availability of certain types of finance. It is highly unlikely there will be a return to the exceptionally low cost of debt experienced from late 2005 to early 2007. Although market conditions have improved in recent months, some uncertainty remains. With the financing we have already put in place, we are sheltered from this uncertainty in the short term as we will not need to raise any new debt before the end of 2011.

## Regulatory environment

As a monopoly supplier of an essential public service, the UK water industry operates within a demanding regulatory environment.

The Water Services Regulation Authority (Ofwat) regulates prices and levels of customer service, while the Drinking Water Inspectorate (DWI) monitors drinking water quality and the Environment Agency (EA) covers environmental protection. Customers' interests are represented by the Consumer Council for Water (CCWater).

**Customer service is at the heart of the company and all employees have a clear focus on getting things 'right first time every time'.**

NWL aims to maintain good working relationships with its regulators and with regional organisations, such as local authorities, which have an interest in the services it provides and can influence the company's business.

The final determination established a tough settlement for the period 2010-15. However, we are well placed to deliver the required objectives and to meet our commitments to providing safe and secure water supplies and protecting the environment. There is a change in emphasis in the quinquennial £1.2 billion investment programme, from achieving new quality standards to maintaining the high standards already achieved. We will also be working to tackle the challenges posed by climate change, reducing our operational carbon emissions and improving the resilience of our assets.

We welcome the passing of the Flood and Water Management Act 2010 which clarifies responsibilities in relation to flooding and sustainable drainage as well as tidying up and updating other water related legislation. The introduction of a duty on landlords to provide water companies with relevant details so that accurate bills can be issued to tenants is particularly welcome and should assist in collecting income from the private rented sector where bad debts have been relatively high.

The full implementation of Operator Self Monitoring was completed in January 2010. This involves NWL taking on responsibility for sampling and analysing the final effluent at sewage treatment works for compliance purposes. This task was previously undertaken by the EA and the transfer is consistent with the Better Regulation principles.

We are pleased that the final 'River Basin Management Plans' published by the EA for the rivers in our regions proposed an appropriate balance between challenging environmental targets and a clear evidence base for action. We support the emphasis on tackling diffuse pollution at source rather than end of pipe solutions.

NWL intends to increase the emphasis given to catchment management across its operating areas and will increase the number of employees dedicated to promoting catchment management solutions. This will help tackle emerging challenges from water soluble pesticides and also bring a range of other benefits in terms of habitat protection, biodiversity and carbon management.

**Putting customers first**

Our relationship with customers is core to the success of our business and it is essential that they trust our service. Customer service is at the heart of the company and all employees have a clear focus on getting things 'right first time every time'. Although we are required to meet regulated standards for customer service, the quality of our service goes beyond that.

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For the third year, we only increased our prices by the rate of inflation and did not use the real increase allowed by Ofwat. This decision benefited customers directly.

We measure the views of our customers with quarterly tracking research alongside qualitative work in focus groups. This helps us to understand their views on service, value for money and other issues as well as their general perception of the company.

We keep customers informed about our activities through leaflets with bills, an annual magazine called 'Source' and our websites at [www.nwl.co.uk](http://www.nwl.co.uk) and [www.eswater.co.uk](http://www.eswater.co.uk). The sites include information about our services and now allow customers to ask questions and investigate work being carried out in their area. If customers are directly affected by any work, we give advance warning and explain the need for the timing of such work. We also communicate more broadly with local communities through public meetings.

NWG is actively involved in the business community in both of its operating areas through direct membership and involvement in the councils/boards of the CBI, Chambers of Commerce and other similar organisations.

NWL has longstanding relationships with its key industrial and commercial customers in the areas it serves. The north east, in particular, has a significant industrial base and existing customers and potential investors in the region value the availability not only of high quality potable and raw water but also access to reliable effluent treatment services.

## Stakeholder relations

NWG has a code of ethics, 'Our Code of Conduct', which is available on the Company's website, covering its relationships with customers, employees, suppliers, local communities, shareholders, other investors and regulators. NWG meets its stakeholders regularly and also communicates by printed and electronic forms of communication and through the media.

## National

NWL is an active member of Water UK, the industry association which represents all UK water and waste water service suppliers at national and European level. It provides a very effective framework for the industry to engage with Government, regulators, stakeholder organisations and the public and helps to develop policy and improve understanding of the industry.



CCWater and DWI site visit for the mains cleaning programme in Northumberland

We also meet regularly with national, regional and local authorities and other appropriate organisations to explain NWL's activities and related issues.

### Political

During the year, the Group has worked with politicians of all parties, officials and opinion formers. This work has included making representations on issues which NWL feels are important to our customers and communities such as competition, the Flood and Water Management Bill, adoption of private sewers, Water for health, climate change, the Water Framework Directive and other legislative issues which could affect our customers.

We do not support any political party and we do not, directly or through any subsidiary, make what are commonly regarded as donations to any political party or other political organisations. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the Group and political parties and political organisations. These activities include attending Party Conferences, as these provide the best opportunity to meet a range of stakeholders, both national and local, to explain our activities, as well as local meetings with MPs, MEPs and their agents. The costs associated with these activities during 2009/10 were as follows:

Name of political party	£
Conservative	3,832
Labour	12,855
Liberal Democrats	2,864
<b>Total</b>	<b>19,551</b>

Shareholder authority to permit the Company to continue with these activities until the 2011 AGM will be sought at this year's AGM.

### Our investors

Our main communication with shareholders is through the publication of the annual report and financial statements, half-yearly financial report, interim management statements and through information on the Company's website. In addition, the executive directors have regular contact with the Company's large institutional investors, as well as giving presentations to analysts and stockbrokers. During the year, the executive directors met 30 times with a range of institutional investors. Further information on NWG's shareholder relations is contained in the corporate governance report.

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## NWL aims to be recognised as an employer of choice.

### **Employees**

Each company within the Group has developed its own employee policies, reflecting the framework set out in NWG's 'Our Code of Conduct'. These policies are tailored to specific business objectives and operating environments. Each company aims to recruit and retain the best people, with a diverse range of skills, experience and backgrounds, who are committed to making the company successful. In return, each company aims to provide opportunities and training for employees to develop their skills and capabilities to equip them to meet the challenges of their roles, while rewarding the contributions of both teams and individuals.

### ***Equality and diversity***

The Group operates an equal opportunity policy designed to ensure that no job applicant or employee receives less favourable treatment on the grounds of age, gender, marital status, disability, race, ethnic or national origin, religion or sexual orientation. NWL monitors its workforce profile against census and sector data and aims to be recognised as an employer of choice within the diverse communities it serves, ensuring it takes full advantage of the rich backgrounds and abilities of current and potential employees.

NWL welcomes employment applications from people with disabilities and, where existing employees develop disabilities, they are supported to remain in employment, wherever practicable, by providing appropriate adjustments to their roles and/or effective redeployments. Occupational health physicians assist this process with professional medical advice.

### ***Consultation and engagement***

Each company engages with its employees through a variety of means appropriate to its working environment. The importance of an inclusive and engaging management style is fully recognised. In 2009, NWL continued to build on its award winning approach by engaging with all employees over some 120 workshops in a dialogue on improvements to our working practices and environment and to seek their views on the areas that should be covered in the 2010-15 People Plan.

### **Training and development**

All Group companies train and develop their employees to benefit both the company and the individual. Annual appraisals are given high priority, as is the identification of training needs, in recognition of the importance of training and development in achieving the Group's goals and policies.

### **Communication**

The Group uses a wide range of communication methods including magazines, newsletters, intranet, notice boards and regular team meetings. 'Unplugged', NWL's magazine, contains articles on activities and news from across the business, focusing on employees and their achievements. NWL issues all employees with a series of information booklets clearly explaining areas such as the company's mission and values, terms, conditions and benefits of employment, occupational health and wellbeing programmes and People Plan objectives.

### **Disclosure (Whistleblowing)**

The Group encourages open feedback and is committed to protecting employees who wish to voice concerns about behaviour or decisions that they believe to be illegal or unethical. The Audit Committee regularly reviews the disclosure policy.

### **Health and safety**

A safe working environment is given high priority across the Group. A health and safety policy is maintained and implemented at each subsidiary. Further details of health and safety can be found in the operational performance section.

### **Employee Share Incentive Plan (SIP)**

The directors believe that employee investment strengthens the ties between the Group and its employees. More than a third of employees participate in the SIP, with an interest in 0.5% of the issued share capital. The scheme provides one free matching share for every three shares bought by an employee. Shares for the SIP are purchased at market price by the Trustee and dividends are paid in cash directly to participants. There are no performance conditions attached to the SIP but free shares not held in trust for at least 12 months are forfeited. Employees participating in the SIP are given the opportunity to exercise their voting rights through the Trustee of the SIP.

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## Corporate responsibility

NWL is expected to provide a secure supply of water, a basic necessity for health, and to protect or enhance the environment when we return waste to it. However, our stakeholders also expect us to:

- behave fairly and responsibly;
- use resources wisely;
- improve quality of life; and
- contribute to economic development.

We take our corporate responsibilities seriously. Our aim of balancing economic, social and environmental priorities underpins all of our activities and is an integral part of the way we do business.

We have significant resources in our assets, land and employees and believe we have a responsibility to use these resources for the benefit of our customers, our shareholders and the wider communities we serve.

The Chief Executive Officer is directly accountable to the NWL and NWG boards for both the environment and sustainable development policies.

We have developed our own model to integrate corporate responsibility as an essential part of normal business practice in NWL. This model is published on our websites with links to our policy, action plan, key performance indicators, trend data and case studies for 25 key areas of our business.



NWL's corporate responsibility model

The Corporate Responsibility Committee (CRC) is a subcommittee of the NWL board and comprises non-executive directors, management team members and senior managers from the business. The CRC maintains a strategic overview of corporate responsibility policies and issues. Within the business, a Corporate Responsibility Management Group (CRMG) drives and manages our corporate responsibility programme both prioritising activity and facilitating reporting and monitoring.

The CRMG is supported by two regional groups and by teams of community and environmental champions drawn from across the business to ensure communication and influence is as effective and widespread as possible. We also have specialist working groups responsible for investigating, advising on and driving change on specific projects, such as climate change, energy use, transport, waste and recycling.

The Corporate Responsibility Advisory Group (CRAG) is made up of senior representatives from partner organisations in the key areas of our partnership strategy; environment, community, health, regional support, education and WaterAid. The CRAG acts as a critical friend, helping to validate, guide and challenge NWL's CR strategy and activities.

# Sustainable Development – The Queen's Award for Enterprise

Northumbrian Water Limited was awarded the Queen's Award for Enterprise in the category of Sustainable Development. This award recognises our ongoing commitment to best practice and continual improvement in the areas of environmental performance, community investment and sustainability and recognition in this category is rare.

The Queen's Award for Enterprise: Sustainable Development 2009 citation:

*"Northumbrian Water Ltd receives The Queen's Award for Enterprise for its ongoing and impressive commitment to sustainability.*

*It has actively striven to promote best practice within its sector and is committed to ongoing review and continuous improvement.*

*With a commendable and ever improving environmental performance in place, it is, however, Northumbrian's extremely impressive social and economic initiatives which elevate it to the status of sector leaders.*

*A diverse suite of programmes have been implemented, encompassing local procurement, strong apprenticeship programmes, individual up skilling and the continuous leverage of their spending power, employment and wider economic presence to ensure maximum benefit for local communities.*

*Northumbrian's driving commitment to sustainability governance provides an example and benchmark across sectors, demonstrating that strong leadership and ambition can make a tangible difference to communities both local and more widely."*

Since the award, work has continued with our long term partnerships; for example, Castle View Enterprise Academy opened to pupils in September 2009 and phase two of Healthworks was opened in November 2009. Further developments in corporate responsibility agenda highlights can be viewed at [www.nwl.co.uk/aboutCR.aspx](http://www.nwl.co.uk/aboutCR.aspx) Other examples are outlined below:

## **Sustainable procurement**

Our top suppliers participated in a project called 'Making a Difference Together'. Each was subject to a half a day interview and an in depth corporate responsibility questionnaire. The analysis will be used to further drive sustainable procurement through our supply chain.

## **People Plan**

During workshops, employees were given the opportunity to influence the development of the 2010-15 People Plan and to respond to the employee survey results. This involved all employees and allowed them to highlight both positive and negative aspects of working for NVL. This was the first time that employees on a large scale have participated in the strategic development of the business and this engagement, at every level in the business, resulted in valuable new ideas which have been incorporated into our forward planning.

