

Business Stream Annual Return Commentary 2007-08

Section B4 & B7 – Output to Customers

General Comments

BCM Enquiries, Change of Payment method and New written complaints (B4.1 to B4.21) where completed using reports from the Hi Affinity Billing System. This is consistent with previous years Annual Return and has seen no changes in report structure.

Telephone Contacts (B4.22 to B4.29) where completed using Customer Contact 6 with reports derived from our central Telephone System.

1- Billing/Charging/Metering Enquiries

Overall Performance

B4.1	Total number of enquiries:	154,183
B4.2	Number dealt with in 5 working days:	153,174
B4.3	Number dealt with in 5 to 10 working days:	681
B4.4	Number dealt with in more than 10 working days:	328

Comments

We continue to use Hi Affinity to log customer enquiries. There have been no fundamental changes in processes or methodology of reporting.

There were no major incidents during the reporting year.

Compared to 2006-07 there has been a reduction of 7.11% in total number of enquires received for 2007-08. This is due to a continued emphasis on resolving enquiries at first point of contact. Of the total enquiries 70.65% are closed on day of receipt.

Development of internal processes has resulted in a reduction in the number of repeat contacts for the same enquiry, with 90.07% of enquiries being resolved in one contact.

A redesigned internet site has provided customers with an alternative source for information on charges, policies and the number of users has increased throughout the year.

The continued emphasis on resolving enquiries within 5 days has resulted in only 0.65% of enquiries being responded to in over 5 days.

GMS Performance

There were 328 enquiries where a response was not issued in 10 working days. This represents 0.21% of the total enquiries received.

A daily Hi-Affinity report is run to show the number of failures for the previous day. This report enables the issuing of automatic payments. As part of this daily check, the individual contacts are audited. Where it is found that a contact has been incorrectly logged as coming from an external source, the automatic payment is withheld. Therefore it is found that a number of the enquiries have been incorrectly logged and should have been converted to internal contacts, there by removing them from the reported numbers. Training is being implemented to reiterate the importance of correctly logging data onto the Hi-Affinity system.

2- Change of Payment Method Enquiries

Overall Performance

B4.8	Total number of enquiries:	2,357
B4.9	Number dealt with in 5 working days:	2,357
B4.10	Number dealt with in 5 to 10 working days:	0

Comments

We continue to use Hi Affinity to log customer enquiries. There have been no fundamental changes in processes or methodology of reporting.

There were no major incidents during the reporting year.

Continued use of an automated Direct Debit system has improved the response times to change of payment methods, with 84% resolved on same day as receipt, where the contact has been received by telephone this increases to 96.28%. The automated process has resulted in no change of payments request failing the 5 day target.

GMS Performance

As detailed above the procedure has ensured that there were no GMS failures against change of payment method.

3- Written Complaints

Overall Performance

B4.15	Total number written complaints:	1686
B4.16	Number dealt with in 10 working days:	1683
B4.17	Number dealt with in 10 to 20 working days:	2
B4.18	Number dealt with in more 20 working days:	1

Comments

There were no major incidents during the reporting year.

The logging of complaints was moved to Hi-Affinity at the start of the reporting year. In the previous year written complaints were logged and tracked on spreadsheets. This resulted in a lower confidence grade in last year's annual return. A new procedure was introduced where written complaints were logged and tracked on Hi-Affinity this is reflected in a higher confidence grade this year. This has resulted in an improvement of our response to written complaints with 99.82% receiving a response in 10 working days.

Of the total written complaints, 908 were Operational enquiries, which were passed to Scottish Water. Weekly review meetings between Business Stream and Scottish Water improved the overall response to Operational enquiries and allowed faster resolution of the customer complaint.

GMS Performance

There were 3 complaints where the response was not issued in 10 working days. This represents 0.17% of the total complaints received.

As complaints are now logged on Hi-Affinity this allows them to be included in the report showing the number of failures for the previous day. This report enables the issuing of automatic payments.

4- Telephone Contacts

Overall Performance

B4.22 Total Calls received on customer lines:	130,556
B4.23 Total Calls Answered on customer lines:	129,531
B4.24 Total calls answered in 30 seconds:	127,209
B4.18 Total calls answered >30 seconds:	2,322

Comments

There were no major incidents during the reporting year.

Total number of calls received increased by 6.40% from the previous reporting year. This is in part due to a vacant property project which resulted in circa 7,000 extra contacts from the previous year.

There was also an increase in calls due to operational calls from Business Stream customers now coming direct to Business Stream lines and requiring being passed to Scottish Water. This saw circa 14,000 of unloggable calls being received by Business Stream.

Due to the higher volume of calls the calls answered in 30 seconds performance decreased from 98.90% in previous report year to 98.21% this report year. However, calls abandoned continue to remain low at 0.78%.

Scottish Water Business Stream 2007-08 Section E Tables – Operating Costs and Efficiency

General Comments

The Activity Based Costing Tables E1 and E2 were prepared using reports from the corporate finance system, in a format consistent with the Commissions reporting requirements.

Scottish Water Business Stream (SWBS) did not use Activity Based Management (ABM) software to allocate costs to WIC activities. Instead, information from the SWBS general ledger, combined with non-financial data from the billing system has been used to allocate and apportion costs to WIC activities and between water and wastewater services.

The coding structure in the general ledger and the reporting capabilities of the billing system are being continuously reviewed to ensure greater accuracy in cost allocation.

SWBS's activities relate solely to the provision of Customer Service to retail customers (in terms of E table activities), therefore only cells E1.11 & E2.10, E1.15 & E2.14, E1.16 & E2.15, E1.19 & E2.18 and E1.27 & E2.26 have been populated.

Allocation to Water & Wastewater Services

SWBS's costing strategy entails two main elements:

1. Direct coding of expenditure to Water and Wastewater services in the General Ledger

Peoplesoft 8.9, SWBS's General Ledger system records information in chart fields. Chart fields are the individual fields in the accounting structure which hold financial information. SWBS predominantly uses two main chart fields: account and department ID. The account chart field is used to classify costs by cost type and the department ID chart field is used to allocate costs to specific areas of the business. The total expenditure for the financial period is the total balance of all profit and loss accounts and all department IDs.

SWBS's General Ledger is the primary tool for recording financial information; the allocation of costs to water and wastewater services was therefore primarily determined using the account field information held there.

The table below illustrates how the account code information was used to determine whether costs were allocated to water or wastewater activities:

Account	Account Description	Water £m	Waste £m
5001	Wholesale Charge - Unmeasured Water	9.72	-
5005	Wholesale Charge - Unmeasured Waste	-	15.52

Where the account code information does not enable the easy identification of water and wastewater activities some method of apportionment has been employed to allocate costs.

The table below shows the total costs that were allocated to water and wastewater activities directly from the Ledger and the amount of residual costs that were apportioned using an appropriate activity driver.

	Water		Waste	
	£	%	£	%
Costs allocated directly from GL	114.87	94%	201.88	94%
Residual costs apportioned to W & WW	7.69	6%	11.78	6%
Total Costs	122.55	100%	213.66	100%

2. Apportionment of residual costs to water and wastewater services using information from the billing system

The residual element of costs (which could not be allocated direct from the Ledger) was apportioned to each service, using an appropriate activity driver.

As a retailer of water and wastewater services, SWBS's primary activity is billing. The number of bills issued by service therefore provides a robust activity driver to allocate costs between water and wastewater services. Of the total number of bill lines raised in the 12 months to 31 March 2008, 39% were related to water services and 61% were related to wastewater services. The residual costs that could not be specifically allocated to each service were allocated on this basis.

The table below shows the number of bills issued by service and the percentages used to allocate residual costs to each service.

Service Type	No. of bills issued	% of residual costs allocated to W & WW
Water Services	966,129	39%
Wastewater Services	1,492,959	61%
	2,459,088	100%

Total Operating Costs in 2007/08

The table below reconciles the total operating costs reported in the E tables to the Statutory Accounts for the twelve months to 31 March 2008:-

	2007-08
	£m
Statutory cost of sales	316.9
Statutory administrative expenses	19.4
Costs per statutory accounts	336.3
Costs per E1	122.6
Costs per E2	213.7
Costs per E tables	336.3

Tables E1 and E2 - Activity Based Costing

Cells E1.11 and E2.10 Customer Services, E1.15 and E2.14 Local Authority Rates, E1.16 and E2.15 Doubtful Debts, E1.19 and E2.18 Third Party Services - Opex and E1.27 and E2.26 Business Activities Depreciation Charge are populated.

Overview

Total operating costs (including cost of sales) were £6.8m higher than budgeted in the twelve months to 31 March 2008. This was due to higher than budgeted wholesale charges associated with increased revenue in the year (£5.5m), combined with unbudgeted expenditure associated with preparation for market opening, IT and Marketing campaigns. Profit before tax was, however £1.8m higher than budget.

2007-08 was Business Stream's first full year of trading so no like for like comparison can be made between the 2006-07 E tables and the 2007-08 E tables. The commentary below therefore concentrates on the method of cost allocation rather than reasons for the significant movements in costs.

A high level analytical reconciliation between the 2006-07 costs is provided below for information. This illustrates how the different length of trading periods impacts on costs.

	Actual costs 2006-07 £m	Analytical projection if trading period had been 12 months long 2006-07 £m	Inflationary increase assumed at 2.5% 2006-07 £m	Analytical Projected Business Stream costs for 12 months 2006-07 £m	Actual costs 2007-08 £m	Variance
Total costs	134.1	321.8	8.0	329.9	336.3	6.4

Cost Allocation Overview

The allocation of operating costs between water and wastewater services was primarily driven by costs captured directly in the General Ledger. The residual costs were apportioned based on the number of bills raised by service.

The table below shows the percentage of costs captured directly in the Ledger.

	Water		Waste	
	£	%	£	%
Costs allocated directly from GL	114.87	94%	201.88	94%
Residual costs apportioned to W & WW	7.69	6%	11.78	6%
Total Costs	122.55	100%	213.66	100%

E1.11 and E2.11 - Customer Service Costs

The allocation of customer service costs between water and wastewater was primarily driven by costs captured directly in the General Ledger. The residual costs were apportioned based on the number of bills raised by service.

E1.15 and E2.14 – Local Authority Rates

The total costs of local authority rates were captured directly in the General Ledger. The allocation between water and wastewater was based on the number of bills raised.

E1.16 and E2.16 – Doubtful Debts

Bad debt costs were £0.2m higher than budget at £4.7m as a result of the increased provision made for debt associated with the revenue maximisation project.

Aged debt reduced in the period to £13.7m, with debt greater than a year old reducing to £1.1m, the lowest level ever recorded.

Bad debt costs were allocated to water and wastewater based on the number of bills raised by service.

E1.19 and E2.18 – Third Party Services Opex

Third Party Services opex included all costs associated with the Business Solutions team, who were transferred to Business Stream at 1 March 2008.

Third party services opex costs were coded directly against the Business Solutions cost centre in the Ledger and were allocated to water and wastewater based on the number of bills raised.

E1.27 and E2.27 - Capital Maintenance

Total depreciation was £947k in the period. This included depreciation on assets inherited from SW and depreciation on new capital additions.

Depreciation costs were allocated to water and wastewater based on the number of bills raised by service in the absence of a more appropriate cost driver.

Table E11 - Management and General

Cells E11.3, E11.5, E11.16, E11.18 and E11.19 are populated.

E11.3 - Employee Numbers

The employee numbers reported in E11 reflect the average number of employees on SWBS payroll throughout the year. The employee numbers have been allocated to water and wastewater services based on the total costs by service allocated to tables E1 and E2.

E11.5 and E11.16- Number and Area of Offices

SWBS rents office space from SW at Fairmilehead and a satellite office in Bullion House. The floor area of the space occupied is 3100m². This information was provided by SW's Facilities department.

In addition, SWBS also privately rents an office for our Business Solutions Department and our Glasgow based Key Customer Managers in Hillington, Glasgow. The space occupied here is 100m².

The number of offices and the area of those offices have been allocated to water and wastewater services based on the total costs by service allocated to tables E1 and E2.

E11.18 and E11.19 - Information Systems

The numbers of workstations and PCs have been calculated using the SA charging information provided by SW. The number of workstations and number of PCs have been allocated to water and wastewater services based on the total costs by service allocated to tables E1 and E2.