

South Staffs Water: Actions summary table

Actions guidance

Company actions

We categorise actions that slow-track and significant scrutiny companies need to do as the following:

- **required actions** for companies which in general are required so that we can make draft determinations (or final determinations for some aspects of past delivery); and
- **advised actions** for companies to do by a specific date but that are not required for our draft determinations.

Each action has a unique reference. The prefix 'SSC' denotes the company South Staffs Water. The central acronym references the test area where the action has been identified, please see the 'PR19 initial assessment of plans: Glossary' for a key of these acronyms. Actions whose numbers are preceded with an 'A' denote required actions and actions whose numbers are preceded with a 'B' denote advised actions.

Timings and required response

- **Required actions:** Slow-track and significant scrutiny companies should address all **required actions** by the date shown in the 'date required' column in the table below (the majority of these are by 10am on 1 April 2019). The response to actions should be set out by companies in their resubmitted business plans and data tables. The template action tracker should be completed with a short description of the response and relevant business plan and/or data table references and should be submitted by 10 am on 1 April 2019. We will review the response to these actions in our assessment of company submissions ahead of determinations.
- **Advised actions:** Slow-track and significant scrutiny companies should set out their response to their **advised actions** by the date shown in the 'date required' column in the table below. For advised actions due on 1 April 2019 companies should include details of their response in their actions tracker.
- **Actions tracker:** Each company must complete and submit the template action tracker by 10 am on 1 April 2019 for review. For additional guidance, please see the cover page of the template action tracker.
- **Assurance:**
 - Assurance must be provided where requested as part of an action.
 - Companies must indicate the assurance that they have undertaken for all changes to data tables.
 - Where Customer Challenge Groups (CCGs) have provided assurance this should be indicated. In some instances, we have stated where we expect companies to work with CCGs as part of their re-submission of (parts of) their business plans. Please use our PR19 methodology as the guide for where their assurance of the quality of engagement with customers may be required.
 - If additional assurance is not required, companies may still provide it if they deem it appropriate.

For all the detailed actions documents referenced in the table below, the template action tracker and glossary, please see the [initial assessment of plans webpage](#).

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Test area	Action reference	Action type	Action	Date required
Engaging customers	N/A	N/A	None.	N/A
Addressing affordability and vulnerability	SSC.AV.A1	Required	<p>South Staffs Water has included neutral responses from customers in its results for acceptability and affordability testing.</p> <p>South Staffs Water should provide sufficient and convincing evidence to justify including neutral responses from customers in the affirmative in its reporting of bill support results for the 2020 to 2025 period or remove them from its reporting.</p>	1 April 2019
	SSC.AV.A2	Required	<p>South Staffs Water has tested multiple bill profiles with customers beyond 2025 but has not chosen the bill profile with the most customer support.</p> <p>For the 2025-30 period, South Staffs Water should choose the profile that is most acceptable to customers or provide sufficient evidence to clearly justify why it has not chosen this bill profile.</p>	1 April 2019
	SSC.AV.A3	Required	<p>Following challenge by CCWater, South Staffs Water has committed to carrying out further stand-alone social tariff research separately from PR19 research, although it is unclear if this has been completed to date. CCWater were concerned that South Staffs Water only received 61% support for the £3 cross subsidy that South Staffs Water has stated that customers will contribute to the social tariff by 2019/2020. This level of cross-subsidy is also not clearly articulated throughout the plan, so we require confirmation from South Staffs Water that this is the level of cross-subsidy for the 2020 to 2025 period.</p> <p>South Staffs Water is to engage with customers on different levels of social tariff cross-subsidies and outline the relevant support levels for each of the levels tested. It should also provide sufficient evidence to confirm that customers will contribute a social tariff cross-subsidy of £3 per year during the 2020 to 2025 period.</p>	1 April 2019
	SSC.AV.A4	Required	<p>South Staffs Water has not proposed a performance commitment on Priority Services Register (PSR) growth. It is proposing to increase its PSR reach from 1.7% in 2019/20 to 2.5% of customers in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has only checked 38.6% of PSR data over the past two years.</p> <p>We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): South Staffs Water should include a Performance Commitment which involves increasing its PSR reach to at least 7% of its customer base (measured by households) by 2024/25 and committing to checking at least 90% of its PSR data every two years.</p> <p>For further information on the performance commitment definition, and reporting guidelines, please refer to 'Common performance commitment outline for the Priority Service Register ("PSR")', published on the initial assessment of plans webpage.</p>	1 April 2019
	Advised actions	Advised	No Affordability and Vulnerability actions are advised.	N/A

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Test area	Action reference	Action type	Action	Date required
Delivering outcomes for customers	SSC.OC.A1-57	Required	The company has a number of actions in relation to its performance commitments, outcome delivery incentives and ODI risk/return package. Please see 'South Staffs Water: Delivering outcomes for customers detailed actions'.	Please see dates in 'South Staffs Water: Delivering outcomes for customers detailed actions'
	Advised actions	Advised	No advised actions	N/A
Securing long-term resilience	SSC.LR.A1	Required	The company should ensure that its common and bespoke performance commitments associated with operational resilience are clearly defined, sufficiently demanding for AMP7 and the long term, and supported by the right incentives. We expect the company to satisfy the relevant actions set out in relation in the outcomes areas ensuring a line of sight between risks to resilience and package of outcomes.	1 April 2019
	SSC.LR.A2	Required	The company should provide a commitment that it will, by 22 August 2019, prepare and provide to us an action plan to develop and implement a systems based approach to resilience in the round and ensure that the company can demonstrate in the future an integrated resilience framework that underpins the company's operations and future plans showing a line of sight between risks to resilience, planned mitigations, package of outcomes and corporate governance framework.	1 April 2019
	SSC.LR.A3	Required	The company should provide a commitment to work with the sector to develop robust forward looking asset health metrics and provide greater transparency of how its asset health indicators influence its operational decision making.	1 April 2019
	SSC.LR.A4	Required	The company has not presented the results of any financial resilience stress testing in its business plan. The company should demonstrate how the Board has assured itself that it will remain financially resilient in the long term, with specific reference to the results of financial stress tests, including impacts on key financial metrics, declining financial ratios (in the context of the company's proposals for flat nominal billing), and targeted credit ratings for the period from 2020 to 2025.	1 April 2019
	SSC.LR.A5	Required	The company should carry out an assessment of its financial resilience for the period beyond 2025, highlighting the key challenges that the company might face and how it intends to manage and mitigate these.	1 April 2019
	SSC.LR.A6	Required	The company has not demonstrated that it has assessed financial resilience beyond 2025 in its plan. The company should commit to demonstrating that its assessment of financial resilience extends beyond 2025 in its next Long Term Viability Statement.	1 April 2019

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Test area	Action reference	Action type	Action	Date required
	Advised actions	Advised	No advised actions.	N/A
Controls, markets and innovation	SSC.CMI.A1	Required	The company should revise its bid assessment framework to detail the information requirements for bidders and the process for providing feedback.	15 July 2019
	Advised actions	Advised	No advised actions.	N/A
Cost efficiency	SSC.CE.A1	Required	We provide our view of efficient costs for the company along with our reasoning. We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan. Where appropriate, we expect it to withdraw investment proposals if either: <ul style="list-style-type: none"> the need for investment is not compelling; or there is no need for a cost adjustment claim beyond our existing cost baseline. 	1 April 2019
	SSC.CE.A2	Required	We note the company's exclusion of 9 Amber WINEP schemes (cf 10 (9 SST +1 CAM) by our count) on account of uncertainty over need, scope and solution and the implication that the company will bear the risk of a need for investment prior to PR24 without recourse to customers. Should the company's continuing engagement with the Environment Agency result in revisions to its plan, we expect the company to advise us of these in its April submission.	1 April 2019
	SSC.CE.A3	Required	There may be significant impacts in terms of investment or type of investment as a result of the metaldehyde ban. The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans. Significant changes and uncertainty may require an outcome delivery incentive to protect customers in the instance of expenditure not being required. Should the company propose a performance commitment and outcome delivery incentive, the company should provide evidence to justify the level of the performance commitment and the outcome delivery incentive rates proposed, in line with our Final Methodology. We expect to receive evidence of customer support for outperformance payments, where proposed, and that the incentive rates proposed are reflective of customer valuations.	1 April 2019
	Advised actions	Advised	No advised actions	N/A
Aligning risk and return	SSC.RR.A1	Required	The company's appointee WACC is 0.01% higher than our 'early view'. It should alter its business plan table inputs to derive the required 5.47% nominal figure.	1 April 2019
	SSC.RR.A2	Required	The company should revise its assessment of revenue risk in its RoRE analysis, or provide convincing evidence that its exposure to revenue variation is as wide as its analysis suggests, particularly given the revenue forecasting incentive mechanism set out in the PR19 methodology.	1 April 2019
	SSC.RR.A3	Required	The company should set out the steps taken and the assurance obtained by the board in order to assess financeability of the business plan. In particular the consideration given, and the action taken, to the recommendation of the third party report to engage with investors in relation to their deteriorating financial ratios.	1 April 2019

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Test area	Action reference	Action type	Action	Date required
	SSC.RR.A4	Required	The company has targeted a credit rating for the notional company that is one notch above the minimum investment grade and lower than the target for its actual structure. The company should provide evidence to support its view that this is reasonable for the long term financeability of the notional company or provide appropriate sensitivities to the actions set out in the business plan that could be taken to secure the long term financeability of the notional company.	1 April 2019
	SSC.RR.A5	Required	The company should provide further evidence that the plan is financeable on its actual structure, in particular to support its view that the weak financial ratios are temporary and will be reversed at PR24.	1 April 2019
	SSC.RR.A6	Required	The company should provide further evidence to support the calculation of RCV run-off rates and demonstrate that the rates are consistent with the approach set out in the business plan.	1 April 2019
	SSC.RR.A7	Required	The company should provide further evidence that the bill profile over 2020-25 and beyond is consistent with customer preferences given the uncertainty over proposed reconciliation adjustments at PR24.	1 April 2019
	SSC.RR.B1	Advised	The company should provide a clearer link between its internal risk management and mitigation procedures and its RoRE analysis.	1 April 2019
Accounting for past delivery	SSC.PD.A1-6	Required	The company has a number of actions in relation to the detail in some of its PR14 reconciliations. Please see 'South Staffs Water: Accounting for past delivery detailed actions'.	Please see dates in 'South Staffs Water: Accounting for past delivery detailed actions'
	Advised actions	Advised	No advised actions.	N/A
Confidence and assurance	SSC.CA.A1	Required	On gearing benefits sharing the company forecasts gearing above 70% in 2024-25; it should incorporate our default sharing mechanism from our 'Putting the sector in balance' position statement into its plan so that customers will receive bill reductions if gearing in any year is above the 70% threshold. It should provide convincing evidence to explain why its view that covenanted gearing rather than gearing defined in the regulatory accounting guidelines is the most appropriate measure for the mechanism, taking account of the interests of customers.	1 April 2019
	SSC.CA.A2	Required	On dividend policy the company is required to confirm that it is committed to adopt the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance' to include: <ul style="list-style-type: none"> • clear Board commitment to publish detail on dividend policies in the APR and to signal changes to stakeholders; and • commitment to transparency about how the dividend policy in 2020-25 takes account of obligations and commitments to customers for the dividend policy that is applied in 2020-25 and when determining dividends. <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019

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	SSC.CA.A3	Required	<p>On executive pay the company is required to confirm that it is committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance' to include:</p> <ul style="list-style-type: none"> • commitment to report how changes, including the underlying reasons, are signalled to customers; and • commitment to publish the executive pay policy for 2020-25 once it has been finalised. <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019
	SSC.CA.A4-SSC.CA.A7	Required	The company is required to provide a revised financial model and data tables on 1 April 2019 and complete actions regarding its outcomes and risk and return data. Please see 'South Staffs Water: Securing confidence and assurance detailed actions.'	1 April 2019
	SSC.CA.B1	Advised	The company has an advisory action regarding its financial model and associated data tables. Please see 'South Staffs Water: Securing confidence and assurance detailed actions.'	1 April 2019

Securing cost efficiency

The tables below set out your performance on cost at different services and for different cost types. Costs are in £m of 2017-18. We index wholesale controls with consumer price inflation (CPIH). We do not index retail controls.

Costs by control

Costs	Water resources	Network + (water)	Residential retail	Company level
Business plan totex (£m)	54.2	546.2	59.5	659.9
Our view of totex (£m)	49.7	447.7	60.3	557.6
Efficiency challenge (£m)	4.6	98.5	-0.8	102.3
Efficiency challenge (%)	8.4%	18.0%	-1.3%	15.5%

Costs by residential retail and water

Costs	Residential retail	Wholesale water	Company level
Business plan totex (£m)	59.5	600.4	659.9
Our view of totex (£m)	60.3	497.3	557.6
Efficiency challenge (£m)	-0.8	103.1	102.3
Efficiency challenge (%)	-1.3%	17.2%	15.5%

Costs by base, enhancement and residential retail

Costs	Wholesale base costs	Enhancement costs	Residential retail	Company level
Business plan base/enhancement costs (£m)	403.8	196.6	59.5	659.9
Our view of base/enhancement costs (£m)	368.6	128.7	60.3	557.6
Efficiency challenge (£m)	35.2	67.8	-0.8	102.3
Efficiency challenge (%)	8.7%	34.5%	-1.3%	15.5%

Efficiency challenge (%) = efficiency challenge (£m) divided by business plan totex.

Note, the costs in the tables do not include pension deficit repair costs (for which we make an allowance in accordance with our policy set out in Information Notice 13/17) and third party costs. The costs are gross of grants and contributions.

Key areas where we disallow enhancement costs.

- **Wholesale water:** New development and growth -£33m; and improving taste odour and colour - £23m.