

South Staffs Water: Test area assessment

All company test area grades								
Engaging customers	Addressing affordability and vulnerability	Delivering outcomes for customers	Securing long-term resilience	Targeted controls markets and innovation	Securing cost efficiency	Aligning risk and return	Accounting for past delivery	Securing confidence and assurance
B	C	C	D	C	C	C	B	C

South Staffs Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Engaging customers	B	<p>Overall South Staffs Water's business plan is high quality with convincing evidence in the areas set out below, but not sufficiently ambitious or innovative to be considered exceptional.</p> <p>The company provides sufficient evidence of a high quality approach in the following areas:</p> <ul style="list-style-type: none"> A clear two-way dialogue with customers and setting the context for customers through an online dashboard and the Water Smart Trial. demonstration of an understanding of different customer segments including hard to reach customers and those with a range of vulnerabilities. Approach to customer participation and convincing evidence of adopting the four areas of action set out in the Tapped In report including use of a range of techniques such as: the use of the 'Community Hub' and media vehicle; online community panels; partnerships with external groups; and behavioural economic techniques. Engagement with its customers on longer-term issues, its ongoing operations and the requirements of future customers, including the 'Young Innovator Panel' which involves workshops to discuss real life challenges, deep dives with a range of vulnerable customers on priorities and service expectations; and two-staged willingness to pay engagement. The company provides evidence of innovation through its use of creativity in engaging customers on longer term issues through 'in the moment' bill impacts, 'Top Trump' style games to test supply vs demand, voice overs, video content and interactive sliders to show the direct impact of bill changes. <p>However, the business plan falls short of high quality with insufficient evidence, in the following area:</p> <ul style="list-style-type: none"> while the company shows the effective use of a wide range of customer engagement techniques (both on triangulation and segmentation) including in-depth interviews, focus groups, workshops, online/telephone surveys and role-playing exercises, in many instances meeting best practice, the company used a top-down approach to setting of ODI rates, meaning that customer views are not fully reflected in the business plan. 	EC1	B
			Addressing affordability and vulnerability	C
AV2	D			
AV3	C			

South Staffs Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
		<ul style="list-style-type: none"> The company proposes a low quality approach to helping customers who cannot afford to pay their bills. The growth in its social tariff is weak compared to other companies, and the level of cross-subsidy available has yet to be established. The company proposes a low quality approach to addressing vulnerability, including insufficiently ambitious reach for its Priority Services Register. The company's approach does not seem to distinguish between financial and non-financial vulnerability. 	AV4	C
Delivering outcomes for customers	C	Overall, across the delivering outcomes for customers test area, the evidence South Staffs Water provides to support its proposed performance commitments (PC) and outcome delivery incentives (ODI) falls short of high quality and the evidence is insufficient or unconvincing in some areas.	OC1	B
		The plan provides evidence of a high-quality approach to its PCs and appropriately stretching service levels. In particular it proposes stretching performance for leakage to be achieved by 2025.	OC2	C
		However, the evidence it provides to support its package of ODIs is insufficient and unconvincing that it has a sufficient focus on appropriate service delivery within its overall risk and return package.	OC3	C
Securing long-term resilience	D	Overall, South Staffs Water's business plan falls significantly short of high quality and in some areas there is little or no evidence that convincingly demonstrates a commitment to resilience in the round. In particular, we have significant concerns over the company's evidence presented in relation to securing long term financial resilience.	LR1	D
		<p>The company provides sufficient evidence that it has undertaken a holistic resilience assessment through its resilience framework, identifying a long list of risks to its resilience. The company provides some evidence that it considers a wide range of options to mitigate the resilience risks identified in the plan. The plan demonstrates collaboration with farmers as part of their catchment management and wildlife protection schemes, 'Spring' and 'Pebble', to increase environmental resilience.</p> <p>However, we consider that the company plan does not provide sufficient and convincing evidence of a commitment to resilience in the round in the following areas:</p> <ul style="list-style-type: none"> The plan provides little evidence that the company will be financially resilient in the long term: <ul style="list-style-type: none"> Despite a clear statement from the board that it considers the company will be financially resilient, the company has not provided sufficient assurance that it will be able to achieve and maintain its target credit rating in the context of relatively high gearing and its declining financial ratios in the period from 2020 to 2025; The board statement refers to the prescribed financial resilience scenarios that the company says it has assessed, but no information on the results has been included in the business plan. The company provides little evidence of an integrated and systems-based approach to resilience, where interdependencies or cascading impacts of one system to another are considered. The company does not provide evidence to reconcile the differences between its final resilience assessment and the maturity assessment prepared by Arup in May 2017. In some areas resilience levels have increased with limited justification. The company provides limited evidence of how the long list of resilience risks considered in the plan have been quantified, assessed and prioritised; the plan provides little convincing evidence that the identification and assessment of risks to resilience is embedded in the oversight and decision-making processes across the organisation. The company provides little convincing evidence that it is using environmental valuation techniques to ensure the objective assessment of environmental risks identified in the resilience framework. 	LR2	C

South Staffs Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Targeted controls, markets and Innovation	C	<p>Overall, despite some areas of high quality, South Staffs Water's plan falls short of high quality across the Targeted Controls, Markets and Innovation test area and evidence is insufficient and/or unconvincing in some areas.</p> <p>The plan includes ambitious and innovative proposals related to monitoring and incorporating learnings from the business retail market. For RCV Allocation the evidence is complete. On water resources, the company includes evidence of engagement with third parties and consideration of trades, which can provide efficiencies for customers. Most issues identified by Ofwat with the company's draft WRMP are addressed.</p> <p>The company only convincingly demonstrates a commitment to using market led solutions in certain aspects of its plan. Information on bilateral markets is limited. On water network plus, there is significantly insufficient evidence related to its use of markets. In relation to all areas of innovation the company's plan falls significantly short of the required quality and provides little or no evidence. It emphasises putting processes in place which appear to be good business practice, rather than linked more specifically to an innovative culture. The examples the company cites are not relevant to innovation capability and culture and instead focus mainly on outputs. The company has provided evidence related to considering DPC schemes in its plan which is proportionate to the scale of the projects and investments they believe are needed. However, there is insufficient evidence for the exclusion of these schemes on technical grounds. The company's Bid Assessment Framework falls significantly short of demonstrating the key principles of transparency, non-discrimination and proportionality.</p>	CMI1	D
			CMI2	C
			CMI3	B
			CMI4	N/A
			CMI5	B
			CMI6	D
			CMI7	C
Securing cost efficiency	C	<p>Overall, we consider South Staffs Water's costs are not efficient when compared to our baselines. At the company level its costs are around 18% above our view of efficient costs. This is driven by both inefficient base and enhancement costs. Its retail costs are slightly below our view of efficient costs.</p> <p>In wholesale water, the company's costs are around 21% above our view of efficient costs. Its base costs are around 10% above our view of efficient costs.</p> <p>The company's supply-demand balance unit costs are more marginally efficient than the industry benchmark. The company plans to reduce leakage by more than 15% so we make an allowance for this additional enhancement at the company unit rate.</p> <p>The company proposes one cost adjustment claim which receives a partial pass. This gives the company a score of A for its cost claims as the claim is of a reasonable quality, with high quality evidence of the need for investment.</p>	CE1	D
			CE2	N/A
			CE3	B
			CE4	A
Aligning risk and return	C	<p>Despite some aspects of South Staffs Water's plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing convincing and high quality evidence to support its approach in the area of aligning risk and return.</p> <p>The following areas of the plan are high quality:</p> <ul style="list-style-type: none"> It is based on our Final Methodology 'early view' cost of capital and retail margins. There is convincing evidence to support the company's choice of PAYG rates. <p>There are five main areas where the plan falls short of high quality. It does not provide sufficient and convincing evidence:</p> <ul style="list-style-type: none"> To support the choice of target credit rating for the notional structure (Baa2 Moody's), in the context of the investment programme and debt raising needs. That the plan is consistent with achieving the proposed target credit rating on its actual structure, in the context of credit metrics which exhibit a declining trend over 2020-25. To support its choice of RCV run-off rates, in particular the determination of current cost depreciation and asset lives. That its proposal for flat bills in cash terms over 2020-25 is consistent with customer preferences for flat bills over 2020-30, given inflationary costs which would be carried over to 2025-30. In respect of risk and risk mitigation measures in the RoRE assessment for the notional company and we have concerns about the assumptions of exposure to revenue risk. 	RR1	B
			RR2	C
			RR3	C
			RR4	C

South Staffs Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
Accounting for past delivery	B	<p>Overall, South Staffs Water's business plan demonstrates high quality accounting for past delivery, with sufficient and convincing evidence both in support of PR14 reconciliations and on deliverability of the 2020-25 plan given past performance.</p> <p>In the round, we do not have concerns with the evidence for deliverability for the 2020-25 plan.</p> <p>The plan is high quality for deliverability in the following areas.</p> <ul style="list-style-type: none"> The company has or is forecast to deliver 71% of its PCs in 2015-20. While the company's understanding of the drivers of outcomes past performance is less than we would expect, the plan includes appropriate measures to meet future PCs. We therefore do not have concerns with the evidence for deliverability for outcomes. The company is forecast to spend in line with its cost allowance for 2015-20. We therefore do not have concerns with the evidence for deliverability for the planned costs. We do not have concerns with the evidence for deliverability of performance in relation to major incidents. The company is already meeting CCWater's 2020 household customer complaints target of resolving 95% of customer complaints at stage one and has a low and falling number of household customer complaints. We therefore do not have concerns with the evidence for deliverability for customer complaints handling. <p>There is sufficient and convincing evidence for seven out of eight PR14 reconciliation areas and insufficient evidence for wholesale revenue forecasting incentive mechanism. There is only a marginal difference (within 0.05% of 2019-20 revenue) between expected and proposed reconciliations. In the round we consider that this supports the accounting for past delivery test area score.</p>	PD1	B
			PD2	B
Securing confidence and assurance	C	<p>Overall, South Staffs Water's business plan falls short of providing sufficient evidence to demonstrate high quality in the securing confidence and assurance test area.</p> <p>The company's business plan provides some evidence of high quality:</p> <p>The company's Board provides compliant statements of assurance in the vast majority of areas to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable, most of which are supported by sufficient evidence of the Board's challenge and assurance process.</p> <p>The company's business plan provides sufficient and convincing evidence that overall, its business plan tables and the assurance and commentary provided are consistent, accurate and assured.</p> <p>The company's plan falls short of high quality in the following areas:</p> <p>On demonstrating evidence of a fair balance between customers and investors:</p> <ul style="list-style-type: none"> On executive pay, the company demonstrates sufficient evidence of its intention to meet the expectations set out in the 'Putting the sector in balance' position statement, but we require a clear commitment to publish the final policy and evidence of how changes will be signalled to customers. The company does not put forward proposals for a bespoke voluntary sharing mechanism but is proposing donations to social tariffs and hardship funds which we assess could have a value of £0.2m per year. In the round, we consider the company's proposals are high quality in terms of voluntary sharing, when considering its size as a company. On gearing outperformance sharing, the company is forecasting gearing above 70% under its definition of gearing at the end of the 2020-25 price control period (and gearing would be higher under the definition used for the Annual Performance Report) and is proposing a mechanism that offers fewer benefits to customers than our default. On dividend policy, there is insufficient evidence of the company's intention to meet the expectations set out in the 'Putting the sector in balance' position statement. There is no clear Board commitment to publish detail on dividend policies annually and to signal changes to stakeholders. Also there is insufficient evidence of 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. 	CA1	B
			CA2	C
			CA3	C
			CA4	C

South Staffs Water - test area results				
Test area	Overall test area grade	Overall test area summary assessment and rationale	TQ#	Test question grade
	C	<ul style="list-style-type: none"> The company provides sufficient evidence of transparency on its corporate and financial structures and how these relate to its resilience however its Board does not provide a compliant statement of assurance that its plan will enable trust and confidence through high levels of transparency and engagement with its customers on these matters. <p>The company's Board provides a compliant statement of assurance to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term. However, the company provides insufficient evidence to support this statement.</p> <p>The company's Board provides a compliant statement of assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes. However, the company provides insufficient evidence to support this statement.</p> <p>Additionally, in our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans) while the company exceeds expectations in 1 area and meets expectations in 5 areas, it has minor concerns in 2 areas and has serious concerns in 1 area.</p>	CA5	C
			CA6	B