

South Staffs Water: Test question assessment

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
Engaging customers	B	EC1	What is the quality of the company's customer engagement and participation and how well is it incorporated into the company's business plan and ongoing business operations?	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 evidence of 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 cases these meet best practice, as evidenced by assurance of its approach by the CCG. There is sufficient evidence of ongoing engagement with customers, although no extensive evidence prior to May 2017. There is convincing evidence of a clear two-way dialogue with customers and setting the context for customers through an online dashboard and the Water Smart Trial. The company demonstrates an understanding of different customer segments including hard to reach customers and those with a range of vulnerabilities. There is insufficient evidence of the use of customer engagement findings as part of setting outcome delivery incentive (ODI) rates. This has been reflected in poor scoring in the quality and use of customer engagement to appropriately inform its business plan.</p> <p>The company provides convincing evidence of its high quality approach to customer participation and convincing evidence of adopting the four FACE areas of action set out in the Tapped In report. This includes: its work on helping customers understand options for investment in Seedy Mill and Hampton Loade treatment works; engaging stakeholders on creating efficient homes and sustainable farming practices; the promotion of the 'Assure tariff'; engaging with hard to reach customers; and work to help increase customer ownership of water usage through installation of water meters. These projects were achieved through a range of customer participation techniques including: the use of the 'Community Hub' and media vehicle; online community panels; partnerships with external groups e.g. Walsall Housing Group, Cambridge City Council and Cambridge University; and behavioural economic techniques. However, achieving all elements of the Tapped In report is work in progress, with the company providing detail of pipeline projects which will build on its current achievements.</p> <p>Finally, the company demonstrates high quality engagement with its customers on longer-term issues, its ongoing operations and the requirements of future customers. These include but are not limited to: the set-up of the 'Young Innovator Panel' which involves workshops to discuss real life challenges and aims to change the way young people think about water; deep dives with a range of vulnerable customers on priorities and service expectations; and two-staged willingness to pay engagement. We note that the company used a top-down approach to ODI rates, meaning that customer views are not fully reflected in the business plan. 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>

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Addressing affordability and vulnerability	C	AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	B	<p>South Staffs Water provides sufficient and convincing evidence that its bills will be affordable and provide value for money from 2020-25.</p> <p>The company is proposing a real bill reduction of 11% over the 2020 to 2025 period. This is supported by high quality and convincing evidence of the engagement undertaken with customers, principally through questionnaires and focus groups, and evidence of how customer engagement has influenced its business plan. The plan provides evidence that customers support the bill profile chosen out of a choice of three including a profile that reduces in nominal terms in 2020/21 (in line with an RPI basis), noting that this may not be in line with customer bill preferences over a longer period (from 2020 to 2030). The CCG is supportive of its approach and believes it will deliver on its affordability requirements and commitments in the 2020 to 2025 period.</p> <p>The company has demonstrated innovation and ambition in part, for example by proposing flat nominal bills over the 2020 to 2025 period, trialling an industry leading behavioural based water efficiency metering and advice program and establishing a physical community hub to engage with hard to reach customers. However, no evidence was found that the company provides high quality common affordability measures such as flexible payment schemes.</p> <p>The company proposes to continue a PR14 performance commitment (PC) on value for money, however existing customer survey data suggests the 2025 target may not be stretching.</p> <p>The company also has a relatively efficient approach to providing overall affordability support to customers based on its level of growth in debt write-offs, the proportion of customers getting debt advice and the net benefits from water efficiency devices.</p> <p>However, on the whole the plan is not sufficiently innovative in the approach taken to improve affordability for all customers in the 2020 to 2025 period to be an exceptional plan.</p>
		AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?	D	<p>South Staffs Water falls significantly short of the required quality in its approach to addressing affordability of bills beyond 2025 and has provided little convincing evidence in this area. In particular, there is evidence that the company has not proposed the long-term bill profile that has the highest customer support and has not provided sufficient evidence on how it has considered the effects of inflation, ODIs and reconciliation adjustments in its long-term bill profile planning.</p>
		AV3	To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay?	C	<p>South Staffs Water falls short of high quality as it has provided insufficient and unconvincing evidence that it has appropriate assistance options in place for those struggling or at risk of struggling to pay. In particular, its social tariff is forecast to grow less than 50% over the 2020 to 2025 period.</p> <p>In addition, the company has not provided sufficient evidence for the impact of its affordability support and we do not consider its PC, which covers the overall package of affordability support, to be stretching when compared to targets set for similar PCs by other companies in the sector.</p> <p>While we consider its community engagement with customers who struggle to pay to be high-quality, in the round, it is not sufficient to mitigate against the low growth of its social tariffs and the lack evidence to support the impact of its affordability assistance.</p>
		AV4	To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable, including proposing a bespoke performance commitment related to vulnerability?	C	<p>South Staffs Water provides insufficient and unconvincing evidence of a high-quality approach to supporting customers in vulnerable circumstances. In particular, it is proposing to increase the reach of its priority services register to 2.5 % by 2024/25, which is insufficiently ambitious.</p> <p>In addition, we consider its PC is not high-quality or stretching, because its priority services register appears to include both vulnerable customers and customers who struggle to pay.</p> <p>Moreover, there is a lack of evidence of using data to understand or support vulnerable customers beyond using it to map customers in debt. Furthermore, whilst there is some narrative about third party partnerships, its approach lacks enough evidence to be considered high-quality.</p> <p>Finally, it has evidence of high-quality engagement with vulnerable customers, including both interviews and focus groups. However, in the round, we consider that South Staffordshire Water have provided insufficient evidence, given the low-quality PSR performance and PC.</p>

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Delivering outcomes for customers	C	OC1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?	B	<p>Overall, the evidence that South Staffs Water provides demonstrates that its PCs are appropriate, well-evidenced and stretching, which makes for a high-quality plan, although not sufficiently ambitious or innovative to be considered exceptional. There is one area of concern.</p> <p>We have confidence in the evidence that the company's PC service levels are stretching because:</p> <ul style="list-style-type: none"> the company is proposing a high level of stretch for leakage relative to its historic performance by using new technology; and we have not found any material issues with other PCs. <p>We note that although the company did not take account of all Customer Challenge Group (CCG) challenges and has not applied all the tests set out in the PR19 Final Methodology to set the service levels for bespoke PCs, this has not led to material issues.</p> <p>We have confidence in the evidence that the company's performance reporting structures are robust, ambitious and innovative because:</p> <ul style="list-style-type: none"> it provides sufficient and convincing evidence that it will report performance accurately; it proposes to publish a short PC/ ODIs summary and an Annual Performance Report (APR) summary; and it will include a monthly performance dashboard on the company website that includes latest performance figures for key PCs. <p>The area of concern is the company's compliance with proposing PCs in line with the PR19 Final Methodology requirements, because it is proposing to report the common PC mains repairs using a three-year average which is inconsistent with the common definition. We note that there are no major gaps in the coverage of the bespoke PC package.</p>

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		OC2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?	C	<p>The company's business plan falls short of high quality with insufficient evidence on how appropriate its package of ODIs is, although we note there are elements of high quality. We consider that the company uses an inappropriate approach to justifying its ODI rates, through use of top-down scaling factors, resulting in high ODI rates. Although the company makes limited use of caps, collars and deadbands, we have concern over the use of collars in some instances.</p> <p>The company's business plan falls significantly short of high quality and provides insufficient evidence to justify the company's proposed ODI rates because:</p> <ul style="list-style-type: none"> • The company does not provide sufficient evidence to justify the use of top-down scaling factors applied across its ODI rates. In particular, it applies an overall package scaling factor of 3x for outperformance payments, and 1.5x for underperformance payments, modifying the rates that would be formed from marginal costs and benefits alone. The company does not provide sufficient justification, aside from return on regulatory equity (RoRE) range considerations, that adequately justifies the application of this scaling factor which skews the package in favour of outperformance payments. • For leakage, the company provides insufficient evidence to justify the additional 3x multiplier applied to the standard outperformance and underperformance ODI rates. • For residential water consumption, the company does not provide sufficient evidence to justify the adjustment that reduces the ODI package value relative to leakage. • For compliance risk index and customer contacts about water quality, the company does not provide sufficient evidence to justify the adjustment to rebalance the ODI package towards customer contacts about water quality;- the company does not provide sufficient evidence to support the estimates or methodology used in its calculation of ODI rates for some PCs (residential water consumption, compliance risk index, extra care assistance, water treatment works delivery programme, and residential void properties and gap sites). • The company does not provide sufficient evidence to justify higher outperformance than underperformance ODI rates for leakage and unplanned outage. <p>We have concerns over the evidence to support its use of deadbands caps and collars because:</p> <ul style="list-style-type: none"> • it provides insufficient evidence of customer support for setting a collar for supply interruptions; and • insufficient evidence to support the collar for mains repairs which is lower than recent performance. <p>We note that the company makes limited use of caps, collars and deadbands.</p> <p>Overall, the company provides high quality evidence for its choice of ODI types. This is supported in many instances by evidence of customers' willingness to pay (WTP) for service improvements. However, there are minor concerns with the evidence for a few of the cases where the company proposes outperformance payments.</p>

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		OC3	How appropriate is the company's focus on service performance in its risk/return package?	C	<p>Overall, South Staffs Water's business plan falls short of high quality with insufficient evidence that it has applied an appropriate and high quality approach to its focus on service performance in its risk/reward package. The company does not sufficiently evidence that its approach to the timing of ODI payments reflects customer interests, or how its ODI package provides adequate incentives against poor performance. However, there is some evidence of high quality. The package is well-balanced and reflective of customer priorities and company challenges. The company also demonstrates it understands its asset health past performance challenges.</p> <p>The company does not meet our expectations for the overall ODI package because:</p> <ul style="list-style-type: none"> there is insufficient explanation of how its ODI package incentivises it, through better aligning the interests of management and shareholders with customers, to deliver on its PCs to customers; and there is insufficient evidence that its ODI package is supported by robust customer engagement and valuations. <p>We note that:</p> <ul style="list-style-type: none"> the ODI package is within the expected range; and the package is well-balanced and reflective of customer priorities and company challenges. <p>The company does not meet our expectations on bringing payments closer in time to the performance that generated them because there is insufficient evidence of whether end-of-period ODIs are in customers' interests:</p> <ul style="list-style-type: none"> the company has chosen end-of-period incentives for all its financial ODIs with insufficient justification at an individual level; and although it proposes end-of-period incentives to keep bills flat, it did not test the benefits of having in-period ODIs with customers. <p>The company does not meet our expectations for ODIs for its asset health PCs because:</p> <ul style="list-style-type: none"> we do not consider that the magnitude of the overall package of asset health ODIs, in terms of RoRE exposure, is sufficient to incentivise the company to meet its asset health challenges and protect customers. the company does not demonstrate customer support for its outperformance payments; and the CCG did not challenge the company's approach to asset health engagement. <p>We note that:</p> <ul style="list-style-type: none"> the company demonstrates that it understands and has addressed its asset health past performance challenges, as it has an appropriate PC and ODI on water quality contacts; and the company demonstrates high quality customer engagement on asset health. <p>The company does not meet our expectations for protecting customers against higher than expected ODI payments because:</p> <ul style="list-style-type: none"> the company has applied a cap to only one PC (main repairs) and does not evidence any customer engagement dependencies or re-investment policies; and the company has not outlined maximum allowed payments and does not fully explore other methods of reducing the volatility in bills than using end-of-period ODIs. <p>We note that the company has a relatively low RoRE range, which reduces the risk to customers.</p>

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Securing long-term resilience	D	LR1	How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its systems and services, and engaged effectively with customers on its assessment of these risks and consequences?	D	<p>South Staffs Water's business plan falls significantly short of high quality with little or no convincing evidence of how the company has assessed risks and consequences to its systems and services and its financial resilience.</p> <p>The company provides some evidence that it has undertaken a resilience assessment through its resilience framework, identifying a long list of risks to its resilience. It also provides sufficient evidence of customer engagement on its resilience planning, including challenge from its CCG on resilience issues. The company also provides evidence of considering the risks to the delivery of the plan.</p> <p>However, the company's resilience assessment falls short of high quality and provides insufficient evidence of an integrated and systems-based approach to resilience, where interdependencies or knock-on/cascading impacts of one system to another should be considered. There are also inconsistencies between the resilience maturity assessment prepared by Arup in May 2017 for the company and the final resilience assessment included in the business plan submission (resilience levels have increased substantially in some key areas such as asset health with limited justification).</p> <p>There is little convincing evidence of how the long list of resilience risks considered in the plan has been prioritised. While the company provides assurance of its approach to corporate resilience, 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. Additionally, although the company's plan accounts for a range of environmental risks, these have not been assessed using environmental valuation techniques that ensure the objective assessment of these risks to resilience.</p> <p>The company provides little evidence that the company will be financially resilient in the long term. The company's board assurance statement confirms that it has reviewed financial resilience in delivering the plan, including the prescribed scenarios. However, while the company references the Long Term Viability Statement set out in its Annual Performance Report, it has provided no information on the results of financial stress tests in its business plan submission.</p>
		LR2	How well has the company objectively assessed the full range of mitigation options and selected the solutions that represent the best value for money over the long term, and have support from customers?	C	<p>South Staffs Water's business plan falls short of high quality. It has assessed a sufficient range of mitigation options and has sufficient evidence of support from customers. However, the company provides insufficient or unconvincing evidence in some of the necessary areas.</p> <p>The company provides evidence that it has considered a wide range of options to mitigate the resilience risks identified in the plan and has demonstrated collaboration with farmers as part of its catchment management and wildlife protection schemes "Spring" and "Pebble" to increase environmental resilience. The company also provides sufficient evidence that it has engaged with customers to select its preferred resilience mitigation options, including through participatory approaches such as gamification.</p> <p>However, the company provides insufficient evidence that it has applied a systems-based approach to resilience and, as a consequence, there is insufficient and unconvincing evidence that the plan has taken account of interdependencies between systems to address resilience risks. In addition, the company has provided insufficient evidence of an assessment of risks in combination. We consider that the company provides little and unconvincing evidence that it has used environmental valuation techniques to ensure the objective assessment of nature-based solutions against more traditional options that would be needed in a high quality plan. Finally, the plan provides insufficient evidence of how the mitigation of risks to resilience is embedded in the oversight and decision-making processes across the organisation.</p> <p>There is insufficient evidence in the company's business plan that its strategy and target credit rating will allow it to maintain long term resilience. In particular there is insufficient evidence that the company has robustly considered the steps it will take to maintain financial resilience in specific circumstances. It does not provide sufficient assurance that it will be able to achieve and maintain a targeted credit rating in the context of financial ratios that would be affected by the company's plan for flat nominal billing in the period from 2020 to 2025, particularly within the context that a consultant's report for the company recommended the company seek additional assurance about the financeability of its plan in the context of declining interest cover ratios that are driven by its nominal bill profile.</p> <p>Mitigation measures are discussed only at a high level, referring to reduced gearing levels and the use of financial levers (PAYG and RCV run-off rates).</p>

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Targeted controls, markets and Innovation	C	CMI1	How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?	D	South Staffs Water's business plan is of substantial concern in terms of the company's capability to innovate. The plan falls significantly short of the required quality and has little or no evidence in many areas which we consider to be key drivers of innovation capability to demonstrate that the company has culture for innovation embedded in its systems, process and people to deliver results through innovation. The company provides a list of schemes and initiatives to support innovation in its proforma, but having assessed all of them, they appear to be innovation outputs rather than examples demonstrating innovation capability and are therefore not relevant to CMI1. Much of the information provided on processes and people which the company used as examples are general good practice in terms of efficiency but there are no examples of having a capacity for innovation. As a result of the lack of reference and/or evidence in many areas against what we consider to be the key drivers for innovation capability, we have insufficient information in the business plan or attachments to enable us to ascertain whether it has a culture or capacity for innovation.
		CMI2	How well does the company use and engage with markets to deliver greater efficiency and innovation and to enhance resilience in the provision of wholesale and retail water and wastewater services to secure value for customers, the environment and the wider economy; and to support ambitious performance for the 2020-25 period and over the longer term?	C	Overall, South Staffs Water's plan falls short of high quality in relation to this test question. Regarding the use of markets, catchment management and partnership working for delivery services for water network-plus, there is significantly insufficient evidence related to its use of markets. The company generally provides sufficient evidence related to its residential gap sites and voids, but it does not include details of forthcoming financial incentives for business premises. The company provides ambitious and innovative proposals related to monitoring the business retail market. For example, there are clear and credible plans to reform their residential retail activities.
		CM3	To what extent has the company set out a well evidenced long-term strategy for securing resilient and sustainable water resources, considering a twin track approach of supply-side and demand-side options and integrating third party options where appropriate, to meet the needs of customers and the environment in the 2020-25 period and over the longer term?	B	South Staffs Water provides a high quality plan on its long-term strategy for water resources incorporating the use of markets to this aim. Overall, the company is graded as a 'B'. The company provides sufficient and high quality evidence on effective use of third-party delivery options for both demand-side and supply-side solutions. On the supply side, the company has explored water imports from third parties as well as engagement with farmers and breweries to trade abstraction licenses. The company also has resilience-based water exports with Severn Trent Water. Demand options include the commercial application of an emerging leakage fix technology (TALR), which has potential for cost efficiencies for CSL fixes, and a 3,000-home development aiming to achieve 80l/hd/d PCC, significantly lower than current forecast PCC levels in the region. However, on the future deployment of bilateral markets the company does not go beyond providing the required business tables Wr6 and Wr7. The company provides good evidence on water resources long term strategy with only a minor issue remaining around PCC figures.
		CMI4	To what extent does the company have a well evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the 2020-25 period and over the longer term?	N/A	

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	C	CMI5	How appropriate is the company's proposed pre-2020 RCV allocation between water resources and water network plus - and, if relevant, between bioresources and wastewater plus - taking into account the guidance and/or feedback we have provided?	B	We issued guidance on RCV allocation for the purposes of separate price controls in early 2017. The company submitted draft RCV allocation proposals in January 2018. We issued generic feedback on the companies' approaches to draft RCV allocation proposals in early 2018. Taking into account the company's response to our initial guidance and our subsequent feedback on its draft proposals, the company's proposed RCV allocation appears appropriate.
		CMI6	To what extent has the company produced a company bid assessment framework for water resources, demand management and leakage services that demonstrates a clear commitment to the key procurement principles of transparency, equality/non-discrimination and proportionality and the best practice recommendations?	D	South Staffs Water has produced a bid assessment framework that falls significantly short of demonstrating the key principles of transparency, non-discrimination and proportionality. While the overall process is described, little detail is provided on what information third-parties would have to provide or what feedback they might expect to receive. To realise non-discrimination, the framework depends on the company Executive making the final decision in all cases to ensure consistency. It does not provide sufficient evidence of any appeals process in place, nor any process available to third parties on how commercially sensitive information will be handled. The relative lack of detail on the process makes it difficult to assess whether the process would be proportionate, notwithstanding favourable statements at points in the BAF (e.g. the indication that they would only want concise descriptions for new innovations or technologies).
		CMI7	To what extent has the company clearly demonstrated that it has considered, whether all relevant projects are technically suitable for direct procurement for customers? Where it has one or more technically suitable projects, to what extent has the company provided a well-reasoned and well-evidenced value for money assessment supporting its decision on whether or not to take forward each technically suitable project using direct procurement for customers?	C	<p>South Staffs Water provides evidence that it considered DPC as part of its business planning process. It assessed its schemes on whether they met the £100m threshold and carried out a technical analysis on potential schemes.</p> <p>In the appraisal of the company's DPC plan we took into account the following:</p> <ul style="list-style-type: none"> The company clearly identified that it had considered DPC in its business plans. It provided evidence of a process to identify schemes that met the threshold with support from an external provider. The company provided a technical assessment of two projects, Hampton Loade and Seedy Mill WTW upgrades. The process followed the guidance provided and was clearly evidenced with individual assessments against the criteria. The detail on how all the key project characteristics affect the suitability of the scheme for DPC was however supported by insufficient evidence in some areas resulting in an unconvincing case to exclude purely on technical grounds. <p>In summary, the company carried out a good DPC assessment but falls short of high quality because it provides insufficient convincing evidence to support its decisions to exclude projects on technical grounds.</p>
Securing cost efficiency	C	CE1	How well evidenced, efficient and challenging are the company's forecast of wholesale water expenditure, including water resources costs?	D	<p>In wholesale, South Staffs Water's costs are around 21% above our view of efficient costs.</p> <p>Its base costs are around 10% above our view of efficient costs.</p> <p>The company's supply-demand balance unit costs are more efficient than the industry benchmarks. The company is proposing to reduce leakage by more than 15% and we make an enhancement allowance for the proportion of its leakage reduction programme to go beyond 15% reduction. The main area of enhancement challenge is on the cost adjustment claim for treatment works upgrades where we consider a proportion of these costs will be within our base modelled allowance.</p>

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		CE2	How well evidenced, efficient and challenging are the company's forecast of wholesale wastewater expenditure, including bioresources costs?	N/A	
		CE3	How well evidenced, efficient and challenging are the company's forecast of retail expenditure, including bad debt costs?	B	South Staffs Water's retail costs are relatively efficient at 1% below our baseline.
		CE4	To what extent are cost adjustment claims used only where prudent and appropriate, and where they are used, are cost adjustments well evidenced, efficient and challenging?	A	South Staffs Water 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.
Aligning risk and return	C	RR1	Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-2025?	B	The company has provided sufficient and convincing evidence that it has based its business plan for 2020-25 on the cost of capital and retail margin caps set out as our PR19 Final Methodology 'early view'.
		RR2	To what extent has the company demonstrated a clear understanding and assessment of the potential risks in its RoRE assessment, including the effect of the risk management measures it will have in place, across each of the price controls?	C	While South Staffs Water's business plan demonstrates elements of high quality in its RoRE assessment, risk mitigations are stated at a high level with insufficient evidence of risk management in the RoRE scenarios and we also have concerns about the company's assessment of exposure to revenue risk. The company has assessed all of the scenarios relevant to its circumstances and identified risk mitigations for each scenario. The company has not requested any uncertainty mechanisms.

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	B	RR3	Has the Board provided a clear statement that its plan is financeable on both an actual and a notional basis? Is the statement appropriate and how robust is the supporting evidence?	C	<p>Overall, South Staffs Water's business plan falls short of providing convincing and high quality evidence to support the Board's statement that the company is financeable on the notional and its actual company structure.</p> <p>There are three main areas where the plan falls short of high quality:</p> <ul style="list-style-type: none"> • There is insufficient evidence of the steps taken to assess financeability or to provide assurance for the assessment. The company has provided a third party report in support of its assurance, however the report includes a recommendation to engage with investors in relation to deteriorating financial ratios and there is insufficient evidence that the board has acted accordingly. • There is insufficient evidence that the company has undertaken an adequate assessment that its proposed target credit rating of Baa2 (Moody's) is reasonable for the notional company in the context of the investment needs and the requirement to maintain long term financial resilience. Although the company has set out actions that could be taken to improve the rating, it has not set out the impact of these actions on financial ratios and the credit rating. • For the actual structure, the financial ratios decline steeply from 2020-21 to 2024-25 and certain ratios fall below the stated thresholds for the target credit rating of Baa1 (Moody's) for the last two years of the plan and there is insufficient evidence to support the company's assumption that this is temporary; while it is conceivable that 2020-25 is a period of comparatively high investment for the company, it has not provided sufficient evidence to support the expected financial ratios for 2025-30. <p>The company has not identified a financeability constraint on its notional or actual structure.</p>
		RR4	How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations both now and in the longer term	C	<p>Despite some aspects of South Staffs Water's business plan which are high quality, shortcomings in other aspects mean that it overall falls short of providing sufficient and convincing evidence to support its choice of PAYG and RCV run-off rates.</p> <p>The business plan does provide some evidence of high quality in specific areas:</p> <ul style="list-style-type: none"> • The company's PAYG rates are supported by sufficient and convincing evidence. <p>There are two main areas where the plan falls short of high quality:</p> <ul style="list-style-type: none"> • There is insufficient evidence to support the RCV run-off rates. The company does not set out how current cost depreciation or asset lives have been determined. • There is insufficient evidence that the bill profile is consistent with customer preferences. The company has set out evidence that customers prefer flat bills now and in the future and has proposed a flat nominal bill to 2025 accepting the risk that inflation is different to that forecast during the period. However, the company proposes the application of true-ups for inflation, revenue forecasting incentive and ODIs at PR24, in addition to other reconciliation adjustments (such as for totex and cost of debt). Therefore there is insufficient evidence that the company has considered the possible impact on the bill profile beyond 2025, or that the longer term bill profile is in line with that presented to customers.
Accounting for past delivery	B	PD1	How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology?	B	<p>South Staffs Water's plan demonstrates high quality with sufficient evidence to support the PR14 reconciliation adjustments overall.</p> <p>There is sufficient and convincing evidence to support the PR14 reconciliations in terms of both the rationale provided and the accuracy of the calculated adjustments. The deviation of the overall value of the adjustments from what we would expect using the data in the business plan is marginal (within 0.05% of the 2019-20 PR14 allowed revenue).</p> <p>The company has used the published versions of PR14 reconciliation models to calculate the proposed revenue and RCV adjustments.</p> <p>We have not found major data consistency issues between the submitted tables and populated reconciliation models. We have found minor consistency issues for residential retail.</p> <p>Reported actual performance and resulting underperformance and outperformance payments are consistent in the annual performance report document and our independent checks of the reported ODI underperformance and outperformance payments are identical to those reported by the company for all PCs apart for one where there is a trivial rounding error.</p> <p>For some areas, the forecast trajectory appears reasonable in light of actual performance and PR14 determination, but for two of the eight PCs, land sales, residential retail and wholesale revenue forecasting incentive mechanism there is insufficient evidence to provide confidence that the forecasts are appropriate or to support the forecast trajectories.</p>

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		PD2	How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?	B	<p>In the round we have no concerns with the evidence for deliverability of South Staffs Water 2020-25 plan.</p> <p>There is average outcomes performance as the company has or is forecast to deliver 71% of its PCs with financial ODIs in 2015-20. The company provides insufficient evidence that it understands the drivers of its performance and learnt lessons from that performance. For example there is insufficient evidence of lessons learned from drinking water complaints. However, the plan provides sufficient evidence that it includes appropriate measures to improve its performance. Taking into account the proposed level of stretch in the plan, we therefore we do not have concerns with the evidence for deliverability of outcomes.</p> <p>There is good performance on cost efficiency as the company's actual and forecast costs in line with cost allowances for 2015-20. The company provides insufficient evidence it understands the drivers of its performance and that it has learnt lessons from its performance. The company provides insufficient evidence that the plan includes appropriate measures to deliver the planned costs. However, taking into account the proposed level of stretch in the plan, we do not have concerns with the evidence for deliverability of the planned costs.</p> <p>The company has good performance on incidents, as it had no major incidents, prosecutions, undertakings or formal cautions. The company provided insufficient evidence it understands the drivers of its performance and has learnt lessons on major incidents. For example the company is not currently transparent about the causes of incidents, but it is planning to start publishing details of the root-cause analysis of incidents from 2020. The plan includes limited evidence on measures to ensure performance is maintained. However, the company's current performance provides sufficient confidence that incidents management performance will be maintained in 2020-25. We therefore do not have concerns with the evidence for deliverability of performance in relation to major incidents.</p> <p>The company is meeting CCWater's 2020 customer complaint target of resolving 95% of customer complaints at stage one and the proportion is increasing. It has a below average number of complaints per 10,000 connections in 2017-18 and this is declining. The company provides sufficient evidence it understood the drivers of its performance and learnt lessons. For example it has analysed errors made during the closure of the Cambridge contact centre and implemented rectifying actions, resulting in performance improvement. The plan provides sufficient evidence that it includes appropriate measures to improve its performance. For example increasing contact centre resources, and innovations in customer data analysis and technology. We therefore do not have concerns with the evidence for deliverability of customer complaints handling performance.</p>
Securing confidence and assurance	C	CA1	To what extent does the company's business plan contain evidence that its full Board has provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?	B	<p>South Staffs Water's business plan demonstrates sufficient evidence that its full Board provides comprehensive assurance to demonstrate that all the elements of its business plan add up to a plan that is high quality and deliverable, and that it has challenged management to ensure this is the case.</p> <p>High quality Board assurance statements include compliant statements as set out in the PR19 Methodology which, in general are supported by sufficient evidence that Boards have challenged management and satisfied themselves prior to making the statements. The company provides all sixteen compliant statements that are requested in the PR19 Final Methodology and a majority have sufficient supporting evidence.</p> <p>For statements on business planning, we request that Boards demonstrate how they challenged management and satisfied themselves prior to making their statements. The Board's assurance statement contains a list of topics discussed at Board meetings, during which the Board directly challenged management. However there is insufficient evidence that the four topics covered by the compliant statements have been challenged.</p> <p>For statements on the remaining topics, we request that Boards demonstrate how they satisfied themselves. The Board's assurance statement contains a list of topics discussed at Board meetings. This evidence sufficiently demonstrates how the Board satisfied itself prior to making nine of the compliant statements. There is insufficient evidence of how the Board satisfied itself prior to making its statements on whether the company's business plan has been informed by customers' views about managing resilience; and risk and return.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA2	To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?	C	<p>South Staffs Water's business plan falls short in providing sufficient and convincing evidence that its full Board has been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long-term.</p> <p>High quality assurance means that the Board provides a compliant statement, supported by suitable supporting evidence of how the Board satisfied itself.</p> <p>The Board's assurance statement advises that "The plan will deliver operational, financial and corporate resilience over the next control period and the long term through the company's governance and assurance processes, taking account of its track record of performance."</p> <p>This is a suitable statement of assurance, however the company provides insufficient evidence of how the Board satisfied itself.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA3	<p>To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?</p>	C	<p>Overall South Staffs Water's business plan falls short of providing sufficient evidence that the company's business plan will enable customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors and high levels of transparency and engagement on issues that matter to customers, such as its corporate and financial structures.</p> <p>South Staff Water's plan contains sufficient evidence that the company will commit to adopt two of the expectations set out in the 'Putting the sector in balance' position statement:</p> <ul style="list-style-type: none"> • The company proposes a base dividend yield of less than 5%. • On executive pay, the company sets out its current performance related policy of one-third of variable pay attributable to customer service, delivery incentive performance and financial performance. Bonuses are based upon a 'sliding scale', with bonus award in each category increasing with performance, up to a specified maximum award for excellent performance. The company states it proposes to continue with this structure and in addition states that maximum levels of bonus payments should only be awarded for performance that could be described as 'exceptional'. While the company does not clearly define 'exceptional', it confirms that the Board and the Remuneration Committee will calibrate the expected levels of performance based on the final determination. The company states it is committed to managing the policy in line with these targets, reviewing them each year to ensure they remain appropriate and publishing the results of these reviews as part of the annual reporting process. However, the company does not clearly reference how any changes and the underlying reasons for those changes will be set out clearly in its Annual Performance Reports <p>The company does not put forward proposals for a bespoke voluntary benefits sharing mechanism but is proposing shareholder contributions to social tariffs and hardship funds which we assess could have a value of £0.2m per year. We assess the value of the company's voluntary sharing proposals as high quality in the context of its size as a company.</p> <p>However the company's dividend policy and gearing benefits sharing proposals fall short of high quality.</p> <p>On dividends, the company's plan provides insufficient evidence that the company's proposed dividend policy for 2020-25 takes account of delivery of obligations and commitments to customers and other stakeholders over the period of the price control. However, there are elements of high quality. The company clearly sets out its proposed dividend policy and states a base dividend yield for the period 2020-25, though we note that this does not include dividends paid to enable inter-company debt to be serviced. The proposed dividend policy stated in the business plan refers to all of the required elements from the Putting the sector in balance position statement, and sufficient and convincing evidence is provided in some areas, on how the elements will be taken into account when determining dividends. The proposed policy states that dividends will depend on the extent to which customer expectations are met but no detail is provided on what measures will be considered. The company refers to providing dividend information in the company dashboard and APR. There is no specific reference to a commitment to publish details of dividend policy annually in the APR or to signal changes in dividend policy to stakeholders</p> <p>On gearing outperformance sharing the company's plan falls short of high quality. The company is currently highly geared and is forecasting gearing above 70% in 2024-25 under its definition of gearing and which exceeds 70% under the definition for the Annual Performance Report. The company proposes a variation of our default gearing outperformance sharing mechanism which will only trigger if gearing exceeds 70% on average over the period rather than in a particular year. The plan does not provide sufficient and convincing evidence that the alternative mechanism provides equivalent customer benefits to our default one.</p> <p>The company also falls short of our requirements of Board assurance. Its Board does not provide a statement of assurance that its plan will enable customers' trust and confidence through engagement on its corporate and financial structures. However, the company's business plan refers to its Annual Performance Report in which it provides sufficient evidence of transparency on its corporate and financial structures.</p>

Test area	Overall test area grade	TQ#	Test question	Test question grade	Test question summary assessment
		CA4	To what extent has the company's full Board provided comprehensive assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes (which should meet relevant statutory and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)?	C	<p>South Staffs Water's business plan falls short of demonstrating sufficient and convincing evidence that its full Board has provided comprehensive assurance to demonstrate that the business plan will deliver - and that the Board will monitor delivery of – its outcomes.</p> <p>The Board provides assurance that it will monitor delivery of its outcomes and PCs through the following compliant statement "The business plan will deliver - and that the Board will monitor delivery of - its outcomes and PCs." It does not provide information on how the Board will monitor outcome delivery.</p>
		CA5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?	C	<p>South Staffs Water falls short of sufficiently demonstrating a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality and our assessment of the company in the 2018 Company Monitoring Framework (not including the elements related to the PR19 business plans).</p> <p>While the company sufficiently describes its data assurance, governance and audit processes within its business plan, overall it falls short of high quality as:</p> <ul style="list-style-type: none"> • 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. • We identify minor inconsistencies between the performance and financial data reported in the company's business plan tables and previous data submissions in the areas of outcomes and cost assessment. We also identify omissions of actual data and unsupported assumptions in the affordability and vulnerability assessment for outcomes. • The company references its 'Targeted' status in the 2017 Company Monitoring Framework but does not describe any interventions to address the weaknesses identified.
		CA6	How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?	B	<p>Overall, South Staffs Water's business plan provides sufficient and convincing evidence that its PR19 business plan tables, including the allocation of costs between business units, information on corporation tax and the assurance and commentary provided are consistent, accurate and assured. We identify some issues within our assessment of the data tables in the policy areas of financial modelling, outcomes, and risk and return, but these do not materially affect our overall assessment.</p>