



South Staffs Water



# Accounting separation methodology statement



## Contents

Contents.....	2
1. Introduction .....	4
1.1 Purpose.....	4
1.2 Assurance .....	4
1.3 Operating / Capital Expenditure .....	4
1.4 Provisions .....	5
2. Preparing the Annual Performance Report .....	6
2.1 Introduction.....	6
2.2 Own Work Capitalised (OWC) .....	6
2.3 Activity Driven Support Departments .....	6
2.4 Departmental Cost Re-allocations .....	7
2.5 Direct Departments.....	7
2.6 Customer Operations and Rechargeable .....	7
2.7 Planning and Streetworks .....	8
2.8 CLO Running Costs.....	8
2.9 Control, Automation & Development (CAD).....	9
2.10 Pumping Groups and Treatment Works .....	9
2.11 Finance & Billing.....	9
2.12 Waterboard .....	9
2.13 Site Central .....	11
2.14 Procurement & Stores.....	11
2.15 Creative Studio .....	12
2.16 Central Admin / Executive Directors.....	12
2.17 Full Time Equivalent (FTE) Allocation.....	13

2.18 Cost Drivers .....	14
3. Table 4D – Wholesale Totex Analysis Water .....	15
3.1 Ofwat defined cost categories .....	15
3.2 Abstraction Charges / Discharge Consents .....	16
3.3 Bulk Supplies .....	16
3.4 Third Party Services.....	16
3.5 Infrastructure Renewals.....	16
3.6 Wholesale Upstream Services.....	17
4. Table 4F – Cost Analysis Household Retail .....	18
4.1 Introduction.....	18
4.2 Cost Category Allocation .....	18
4.3 Measured / Unmeasured Allocation .....	19
4.4 Demand Side Water Efficiency.....	20
4.5 Customer Side Leak Repairs .....	21
5. Fixed Asset Tables.....	22
6. Analysis of Significant Movements .....	23
6.1 Table 4D.....	23
6.2 Table 4F .....	24
7. Definition of Terms .....	26
8. Appendix 1 .....	27
9. Appendix 2 .....	30
10. Appendix 3 .....	31
11. Appendix 4.....	32

## 1. Introduction

### 1.1 Purpose

Each year, the Company publishes an Annual Performance Report (APR) which contains various tables of regulatory information across price control units (APR section 2) and Retail and Wholesale upstream services (APR section 4). This document sets out the Company's methodology for the allocation of costs contained within the following APR tables:

- 2A – Segmental income statement
- 2B – Totex analysis – Wholesale
- 2C – Operating cost analysis – Retail
- 2D – Historic analysis of fixed assets
- 4D – Wholesale Totex analysis
- 4F – Operating cost analysis – Household retail

The Company can confirm that it has followed the principles and guidance set out in Regulatory Accounting Guideline (RAG) 4.08. The Company believes that in preparing its Accounting Separation information, appropriate allocations and cost drivers have been used and where possible we used costs drivers suggested by Ofwat. The allocations and costs drivers are reviewed each year, and our accounting separation methodology has been enhanced to reflect these changes and systems have been modified to capture additional information.

### 1.2 Assurance

We have continued to use our statutory financial auditor, Deloitte LLP, to audit the cost allocation data back to source for the annual accounts.

In FY17/18, the company's cost allocation methodology was subject to an external assurance audit by Jacobs U.K Limited (Jacobs) to ensure compliance with Ofwat's Regulatory Accounting Guideline 4 (RAGs).

The methodology for FY19/20 is broadly consistent with the methodology assured by Jacobs, therefore the company is strongly of the opinion the outputs of the assurance from FY17/18 remain valid.

Assurance comments from Deloitte LLP can be found in the Independent Auditors Report section, within the company's published annual reports.

### 1.3 Operating / Capital Expenditure

Costs were allocated between operating and capital expenditure in accordance with the company's accounting policies and applicable accounting standards.

The deminimis for capitalisation were £1,000 for minor purchases (e.g. Office Equipment) and £5,000 for Buildings expenditure.

## 1.4 Provisions

The only provision included in operating costs was for the purposes of bad debts, where the debts identified as being irrecoverable had not yet been physically written off in the billing file. This was consistent with previous years.

The level of bad debt provision was calculated on a formula basis and reviewed by Deloitte LLP to ensure that it was appropriate. In addition, because of the current economic circumstances a further adjustment has been provided for the impact of the Covid-19 outbreak based on our best estimate of the impact of the pandemic on the debt book and to cover any deterioration in collection rates linked to this.

## 2. Preparing the Annual Performance Report

### 2.1 Introduction

The company used its financial system, Oracle, to download a Trial Balance (TB). The downloaded TB detailed all actual revenue and expenditure for the given time period, at an account combination level. Recharges to the non-appointed business are processed first, using the Company Code (CC) from the account combination; actuals relating to non-appointed business streams were excluded. Furthermore, using the Activity Code (AC), the company was able to identify the balance of direct Capital Expenditure (Capex), Operating Expenditure (Opex) and Infrastructure Renewal Expenditure (IRE). Finally, the TB was enriched with the company's departmental structure and reconciled back to the statutory TB.

### 2.2 Own Work Capitalised (OWC)

Due to the nature of business, multiple costs incurred should be capitalised directly or indirectly to projects. Examples of the types of cost which require capitalisation are the employment costs of salaried employees who have managed capital works.

As a result of this, the OWC balance had to be netted back against the original costs Centre's / categories to reflect the appointed operating cost in each cost category. The required adjustments were identified and calculated via a detailed review of the general ledger entries and the original capitalisation journal back up.

### 2.3 Activity Driven Support Departments

Training, Health and Safety training, Buildings and Site maintenance departments directly support all departments in the appointed business. Costs are collected via activity codes and the department in which it is supporting is retained from location codes (LC).

Using Training as an in-depth example, employees of the company attended an external training course on the new GDPR legislation. When coded into Oracle, a training AC was used along with the LCs of the course attendees. For management accounting purposes, the training activity code allowed the company to report all training costs within a training and development budget. For APR purposes, this method of coding allowed Training and development costs to be returned to the departments which incurred them, where they would be treated under the individual department's allocation methodology.

Of the cost in these Direct Allocation Departments the majority was therefore allocated directly, however a small value of expenditure related to general running costs. Examples of the type of expenditure that would fall into this category included the cost of mobile phones, salaries of management and vehicle costs; as these could not be directly attributed

to one LC or AC. As such, this expenditure was allocated back over the locations that had incurred the directly attributable costs.

Following on with the Training example above, the company's Training Officer was a salaried role that could not be directly attributed to one price control. As such, we allocated this cost over the LCs that incurred training costs. Simplistically, if Finance, HR and Operations all incurred £10,000 of training and the cost of the company's training officer was £30,000 – each department would have received a third of the salaried cost of the Training Officer, £10,000.

## 2.4 Departmental Cost Re-allocations

There were a number of adjustments that were required in order to bring the management accounting departmental structure in line with OFWAT RAG's. Many of these adjustments were as a result of costs being held centrally for a variety of reasons.

- Fluoridation Management Fee Adjustment – Costs from Procurement, Finance and Chemicals move into Fluoride Department to account for the management of the fluoride contract
- Reallocation of employees between departments due to change in activities undertaken in FY19/20. This was reflected by only one customer service team member and a proportion of executive director's time being allocated to regulation
- Appointed Crypto water treatment costs are collected within the Water Quality department by activity codes. These costs need to be attributed wholly to WTM.

## 2.5 Direct Departments

The departments that wholly attributable to one price control are then taken direct. The residual departments are those which required allocation over multiple price controls. A full list of these departments can be found in Appendix 1.

## 2.6 Customer Operations and Rechargeable

Customer operations and rechargeable departments coded expenditure at a Location, Activity and Spare Code level on a job by job basis through the company's work management system, Maximo. In this situation, the spare code was used to identify who was completing the works; Direct Labour Operatives (DLO's), Customer Liaison officers (CLO's) or Contractors.

As with the activity driven support departments, a small proportion of expenditure could not be directly attributed to one Spare and/or Activity. For further detail on how this was allocated please refer to appendix 2. Once all expenditure was on a Spare and Activity code, we combined both to identify the price control in which it related to. These Activity and Spare combinations are reviewed annually with operational employees to ensure the accuracy of cost allocation between price controls.

## 2.7 Planning and Streetworks

Planning and Streetworks can be seen as a support department specifically for our CLO's, DLO's and Contractors completing works on our behalf. The team structure in both regions means that there was an equal split of resources allocated to support CLOs, DLOs and Contractors. In the Cambridge region, the team only supported CLOs and Contractors due to the business not operating a DLO Team however the support split remained equal. This was reflected in the allocation methodology.

Using the CC we split the departmental costs by region. In SST the costs were equally split over CLOs, DLOs and Contractors. In Cambridge, the costs were split equally between CLO and CON. In the coding structure we allocated to the spare code in order retain the remaining account combinations of costs.

Planning & Streetworks costs were not coded at an activity level and therefore required allocation to activity codes. Balances on CLO and DLO were allocated to activity codes by the Customer Operations and Rechargeable department Direct Wages spend. For the CON spare balance, we used contractor spend as the nature of contractors means they are not paid via the company's payroll system. Please see appendix 3 for a visual representation.

## 2.8 CLO Running Costs

Firstly, CLO running costs was reported within the management accounts as CLO Running Costs CAM and SST. Within both, some costs were wholly attributable to TWD. For a full list of these costs please refer to appendix 4.

The remaining costs required allocation. In SST, the costs were allocated to activity codes based on the percentage of direct wage spend of CLOs of the Customer Operations, Rechargeable and Planning and Streetworks departments. In Cambridge, a legacy system means that the time spent by CLOs was not recorded on activity basis. We therefore allocated to activities using the next best alternative, number of jobs in FY19/20 categorised job type. This was obtained from Waterworks, the Cambridge Region Works Management System. These activities were wholly attributable to one price control meaning no further allocation was required. At the time of writing, the company remains committed to its project (Ewow) to align and implement an upgraded works management system across both regions. This will lead to consistent allocation methodologies between regional departments of the same nature in future years.

## 2.9 Control, Automation & Development (CAD)

Maximo captures the time spent by members of the CAD department on an asset by asset basis. As each asset within the company can be directly attributable to a price control, the company directly allocated CAD departmental costs based on the actual level of activity within the year. Please refer to the cost driver table for details of the FY19/20 price control splits. This information was extracted from the company's works management systems

## 2.10 Pumping Groups and Treatment Works

Pumping Group East (PGE) served the Cambridge region of SSW via 86 supply sites. Each supply site had its individual location code (LC) which allowed costs to be coded at the location which they were incurred. General running costs however were not directly attributable to one supply site and therefore have a general location code (106). These costs required allocation back to the supply sites. Pumping Group north and south serve the South Staffordshire region and consists of 4 general running costs locations codes and 211 supply site locations codes. As with PGE, PGS and PGN coded costs to the individual locations codes, with general running costs coded centrally. Hampton Loade Treatment Works (HLTW) and Seedy Mill Treatment Works (SMTW – also referred to as Northern Treatment Works) served the South Staffs region and were allocated in line with the PGN and PGS Methodologies.

The general running costs were pro-rated over the total spend at each location within the respective pumping group, resulting in all costs sitting on a pumping group site. The power costs at each site were allocated to price controls based on the FY19/20 Average Pumping Head at each site. The remaining costs are allocated on Gross Modern Equivalent Asset (MEA) values on a per site basis.

## 2.11 Finance & Billing

Costs for sales ledger team were collected within the Finance cost centre using the location code (Y05). These costs were wholly attributed to Treated Water Distribution. Finance was allocated to price controls using the FY19/20 FTE percentage as a general and support department.

## 2.12 Waterboard

The Additional Superannuation pension payment in FY19/20 required a specific allocation methodology. Firstly, this cost was transferred within Waterboard from management fees to the correct cost line within employment costs, additional superannuation. Secondly, the element relating to the Retail Non-household market (3%) was charged out. Subsequently, the residual balance was allocated on the PR14 Ofwat Information Note Guidance of 17% into Retail Household with the remaining balance being allocated within the wholesale price

controls on the FTEs per price control in FY11/12 when the scheme was closed. The remaining adjustments are summarized in the table below.

Cost	Allocation Methodology
Executive Team members and other Senior managers (residual)	Residual balance of Exec employment cost is allocated on management judgment between wholesale and retail, 80/20 respectively and then to wholesale price controls over wholesale FTE.
I/C Cross charges out	Echo Building – Retail
Water UK costs	Split equally over business units
Cumulo Rates	Split on Gross Modern Equivalent Asset (MEA) Valuation of business units. All rates costs are included within the Local authority rates lines.
Insurance Premiums	<p>The insurance premium was allocated based on the individual elements as follows:</p> <p><b>Material Damage/Business Interruption</b> – MEA per business unit</p> <p><b>Combined Liability / Excess Layer</b> - 100% Treated Water Distribution</p> <p><b>Employer’s Liability</b> – based on FTE’s</p> <p><b>Trustees Liability</b> – WCPS members per business unit</p> <p><b>MD/BI Terrorism / Crime / Engineering Inspection</b> – MEA per business unit</p> <p><b>Chlorine Leakage (SUD)</b> – 100% Water Treatment</p> <p><b>Contract Works, Machinery Movement and Hired in Plant</b> – Percentage of plant hire spend within each business unit</p> <p><b>Motor Trade</b> – No of vehicles per business unit</p> <p><b>Broker Fees</b> – allocated to each business unit based on the total splits above plus Motor Fleet insurance split by number of vehicles per business unit. (The actual Motor Fleet insurance premium was charged to each individual department using the number of vehicles and was therefore allocated to the business units along with the other costs of the department).</p>
Insurance Excess	100% Distribution
All other costs	FTE

## 2.13 Site Central

Site Central was composed of costs for Green Lane offices (SSW) and Fulbourn Road offices (CAM), which could be identified using the location code. Green Lane was split into the following areas using the approximate m2:

- Childcare facilities– 86 m2
- Echo – 2,574 m2
- Fleet – 853 m2
- Group – 650 m2
- IWS – 1,858 m2
- Restaurant – 347 m2
- Stores – 1,821 m2
- Water Company – 3,044 m2

Echo provides customer contact, billing and debt collection for South Staffs Water. IWS (Integrated Water Services provide pump refurbishment activity for South Staffs Water).

Based on the actual running costs for Green Lane a cost per m2 was calculated. The costs for Site Central were allocated to these areas using floor space multiplied by the m2 unit rate. The cost in each area was then allocated to the business units based on the following cost drivers:

- Busy Bees – FTE
- Echo – 100% Retail
- Fleet – No of vehicles in each unit
- Group – FTE
- IWS - Percentage of spend with IWS in each business unit
- Restaurant – FTE
- Stores – Material Spend without chemicals in each business unit
- Water Company – FTE

Rates for the Echo building and Fleet Services building were charged direct, therefore no rates allocation had been made to Echo (100% Retail) or Fleet (allocated on the number of vehicles in each unit)

Site Central Fulbourn Road was allocated by FTE. This is a minor methodology change from prior year where we allocated on FTE at Fulbourn Road. As Site Central Fulbourn Road office supports the entire business, it is of the company's opinion using the Full business FTE is results in a fairer and more cost reflective allocation.

## 2.14 Procurement & Stores

Procurement and Stores cost centres are allocated on the total material spend and total material spends excluding chemicals respectively. We use total material spend for Procurement as they manage the procurement of all materials from contract to order to

delivery. This is the same with stores however as chemicals are delivered straight to the required site we exclude this type of spend. Due to the cost driver, this is one of the final allocations to price controls.

## 2.15 Creative Studio

Creative Studio is a cost centre within the company who are responsible for the management of our websites, publications, and internal communications. They also spend a large proportion of their time supporting the Customer Service team with advertising and customer communications. For example, in FY19/20 they have continued support of the community hub and its promotion. As such, the costs incurred within this cost centre have been apportioned to price controls based on a management judgement of time. Please see cost driver table for latest assumptions.

## 2.16 Central Admin / Executive Directors

The Central admin cost centre primarily contains centralised admin costs for all departments across the business and the employment costs of the executive director's personal assistants (PA's). As such, the company has allocated this cost centre in line with executive directors cost splits.

Please refer to the cost driver table for the splits used in FY19/20.

## 2.17 Full Time Equivalent (FTE) Allocation

Childcare, Health & Safety, Human Resources (HR), Merlot, Security and Social Club are examples of departments which were allocated using the FY19/20 FTE Cost Driver. In addition, an element of cost from the Finance and Waterboard departments was allocated using the FTE Cost Driver, however adjustments were required first. Please refer to the Finance and Waterboard sections within 'Preparing the Annual Performance Report' Chapter for further explanation.

The FTE cost driver was calculated using payroll and HR system data and the company's departmental structure. This allowed the direct FTE to be taken to each price control, and the indirect departments that require allocation to be allocated in line with the cost allocation methodology.

Where department costs were allocated by FTE, their FTE's were excluded from the calculations. As noted from the OWC notes above, some departments cost were capitalised through OWC and where this was the case, the company adjusted the costs to reflect only the operating element. For consistency this approach was replicated in the FTE calculation. In addition, where employment costs were recharged to non-appointed activities in the cost allocation model, this was replicated in the FTE calculations for those individuals.

This resulted in an Appointed Operating FTE % per price control.

## 2.18 Cost Drivers

FY1920 Cost Driver	WRE	RWD	WTM	TWD	Retail
Full Business FTE	5.08%	1.33%	11.39%	73.41%	8.79%
Wholesale FTE	5.57%	1.46%	12.49%	80.48%	0%
Number of Vehicles	5.30%	0.40%	11.90%	76.70%	5.70%
Directors Time	80.00%				20.00%
Gross Modern Equivalent Asset (MEA) Values	2.99%	3.80%	6.83%	85.15%	1.23%
Total Material Spend	0.42%	0.00%	78.68%	19.83%	1.07%
Total Material Spend excluding Chemicals	1.70%	0.00%	13.86%	80.06%	4.38%
Control, Automation & Development	32.85%	0.37%	42.86%	23.92%	0.00%
Wholesale WCPS Members in FY11/12*	8.53%	0.04%	13.92%	77.51%	0.00%
% of Spend with IWS	0.00%	0.00%	0.00%	98.80%	1.20%
Creative Studio – Management Estimate	25% ( allocated to PC on WHS FTE)				75%

\*FY11/12 used as this was the year the Water Company Pension Scheme (WCPS) closed.

### 3. Table 4D – Wholesale Totex Analysis Water

#### 3.1 Ofwat defined cost categories

At this stage all costs were allocated to price controls, however they still remain in SSW's Income statement cost categories. The below table identifies how costs have been directly allocated to Ofwat Table 4D table.

Income Statement Category	Table 4D Category
Associated Companies	Other operating expenditure - excluding renewals
Employment Costs	Other operating expenditure - excluding renewals
Hired and Contracted Services	Other operating expenditure - excluding renewals
Infrastructure Renewals (IRE)	Other operating expenditure - renewals expensed in year (Non-Infrastructure)
Infrastructure Renewals (IRE)	Other operating expenditure - renewals expensed in year (Infrastructure)
Intercompany Costs	Other operating expenditure - excluding renewals
Local Authority Rates	Local Authority and Cumulo Rates
Materials and Consumables	Other operating expenditure - excluding renewals
Other Direct Costs	Other operating expenditure - excluding renewals
Power	Power
Provisions and Charges	Other operating expenditure - excluding renewals

## 3.2 Abstraction Charges / Discharge Consents

These costs were identified using the coding in the final TB as a result of these activities having their own specific subjective Codes (1700 and 3190 respectively). Abstraction Charges were wholly attributed to Abstraction Licenses within Water Resources. Discharge Contents were wholly attributed to Water Treatment.

## 3.3 Bulk Supplies

Costs relating to Bulk Supplies could also be directly identified using the coding in the final TB. As SSW imports potable water only, an allocation between WR and WT was required. The company used the Table 4D Water Resources and Water Treatment cost splits for the respective water companies who supplied SSW with Bulks in FY19/20 to allocate the cost.

## 3.4 Third Party Services

Costs attributable to this category were derived from multiple activities at SSW, which could be identified using the account combinations in the final TB. This includes the following:

- Fluoridation
- Customer Rechargeable works
- Distribution Rechargeable works
- Supply Pipe Repairs
- Leakage Operations work on Supply Pipes
- Customer Liaison Officers work on Supply Pipes
- Direct Labour Operatives work on Supply Pipes
- Bulk Supplies

These costs have been removed from the expenditure lines and classified as 3rd Party operating expenditure, as per the Ofwat Table. Where salaried employees work on 3rd party operating expenditure, their proportion of time is reallocated to third party operating expenditure. This approach occasionally results in third party costs exceeding third party income. This is in line with expectations. For example, as a result of a business decision to offer our customers free leak repairs on their supply pipes. Whilst investing in our customers directly, it also emphasizes the company's commitment to reduce leakage and improve our resilience.

## 3.5 Infrastructure Renewals

Infrastructure Renewals (IRE) was reported gross within the tables and was directly allocated between Infrastructure and Non-infrastructure. Using Ofwat Guidance, IRE expenditure was directly classified between the two categories allowing for direct allocation.

## 3.6 Wholesale Upstream Services

This section sets out how the company allocated costs between Water resources and Network+. The company's methodology statement above has been used as a basis for separating these costs.

### 3.6.1 Water Resources

Abstraction License - Abstraction License was directly coded to this activity and had been identified in the final TB and moved to this Price Control.

Raw Water Abstraction - This was the total Water Resources Costs from the company's Accounting Separation less Abstraction License costs as outlined above.

### 3.6.2 Raw water Transport and Storage

Raw water storage - This was the cost of operating and maintaining the company's raw water storage Reservoirs. This is only Chelmarsh as Blithfield is filled by catchment and thus classified as in WRE. These costs were identified using the location code in the final TB for these reservoirs.

Raw Water Transport - This was the total Raw Water costs taken from the company's Accounting Separation tables less the costs of raw water storage

### 3.6.3 Water Treatment

This was the total Water Treatment costs taken from the company's Accounting Separation.

### 3.6.4 Treated Water Distribution

This was the total Treated Water Distribution costs taken from the company's Accounting Separation.

## 4. Table 4F – Cost Analysis Household Retail

### 4.1 Introduction

Following SSW's exit from the eligible (Non-Household) market, the company's retail costs relate to only Household Customers. No allocation is made between NHH and HH customers as in prior years.

For Tables 2C and 4F, the retail price control must be allocated from Income Statement categories into Ofwat defined lines and from a Retail total into Measured HH and Unmeasured HH Elements. The retail costs mainly comprised of: The Echo Contract, Bad Debt Provision, Customer Services Retail Departmental costs and Retail related activity costs derived from retail activities undertaken by CLO's, DLOs or Contractors.

### 4.2 Cost Category Allocation

Echo provides a detailed breakdown of the contract costs, allowing the direct allocation into Table 4F categories. The bad debt provision was by nature wholly attributable to Doubtful Debts. Based upon the responsibilities of the Customer Service Retail Team, the remaining costs in this cost centre are wholly attributed to General and Support Expenditure. Finally, the activity driven element of retail costs was directly allocated to the relevant lines dependent upon the activity code. This balance was derived from the Retail elements of CLO Running Costs, Customer Operations and planning & Streetworks. This was feasible due to the company's work management system mapping specific activities to specific activity codes which in turn map into Ofwat defined categories.

### 4.3 Measured / Unmeasured Allocation

The cost drivers used to split Ofwat defined categories between Measured and Unmeasured customers are compiled below:

Previous Table 4F Categories	Allocation Methodology	Table 4F Categories
Billing	Number of Bills	Customer services
Payment, Remittance and cash handling	Number of Payments	Customer services
Debt management	HH Debt > 90 Days Split Measured / Unmeasured	Debt management
Doubtful debts	Measured / Unmeasured Debt Charge	Doubtful debts
Charitable trust donations	Customers given Grant	Customer services
Vulnerable customer schemes	Social Tariff Customers	Customer services
Non-network enquiries and complaints	Number of non-network Contacts	Customer services
Meter reading	Measured	Meter reading
Network enquiries and complaints	Number of network Contacts	Customer services
Other direct costs, General & support, Other Business activities & Local Authority Rates	Number of Customers	Other Operating Expenditure
Third party services	Number of Customers	Third party services

## 4.3.1 Measured / Unmeasured Cost Drivers

FY1920 Cost Driver	Measured	Unmeasured
Number of bills	63.12%	36.88%
Number of Payments	51.34%	48.66%
HH Debt > 90 Days Split Measured / Unmeasured	32.92%	67.08%
Measured / Unmeasured Debt Charge	38.55%	61.45%
Customers given Grant	37.21%	62.79%
Social Tariff Customers	19.54%	80.46%
Number of network Contacts	42.86%	57.14%
Number of non-network Contacts	53.26%	46.74%
Number of Customers	46.96%	53.04%

## 4.4 Demand Side Water Efficiency

In addition to our normal demand side efficiency schemes, our Education Outreach Officer implemented demand side water efficiency initiatives within local schools to promote water efficiency and water awareness. A proportion of this employee's time, as well as an element of management time, was allocated to Demand side water efficiency using time based drivers.

## 4.5 Customer Side Leak Repairs

Customer Side leak repairs were collected in the Customer Leakage cost centre, allowing SSW to easily identify expenditure incurred on Customer Side Leak Repairs. As a result, the departmental cost was wholly attributed to this cost category. The expenditure is 100% funded by the Wholesale price controls due to a business decision to target Leakage as one of the company's ODIs.

## 5. Fixed Asset Tables

The fixed assets and depreciation in the cost allocation tables used historical cost information. With all fixed asset information taken directly from the fixed asset register within Oracle. Each asset was coded directly to a department which identified the price control it was used in, with the exception of Water Resources. Water Resources assets were identified by taking the balance sheet figures for boreholes and assets for Blithfield. These were identified from the fixed asset register for South Staffs Region. For the Cambridge Region all assets with the description “Boreholes” were extracted from the fixed asset register.

All retail fixed assets were coded directly to one department and therefore could be identified separately to wholesale assets. These assets were then allocated between households and non-household based on the number of customers.

The Company confirms that it followed the principle use rules set out in RAG 4.08. Shared assets between wholesale and retail were wholly recorded in the business unit of principal use. All shared assets identified were principally used by wholesale and a proportion of the depreciation cost was recharged between wholesale and retail.

The recharge from wholesale to retail in the year of £0.035m related to the use by retail of the Company’s Works Management System. Around 10% of the system use was in relation to customer contact, customer appointments and updating the Company’s billing system, RAPID.

## Analysis of Significant Movements

### 5.1 Table 4D

#### 5.1.1 Bulk Supply

This is mainly due to reduced volumes of water through bulk supply imports and is immaterial

#### 5.1.2 Other operating expenditure renewals expensed in the year (Infra-Infrastructure)

Works on the A14 are now complete, with the majority being undertaken in prior years, which is the main reason for this reduction.

#### 5.1.3 Other operating expenditure renewals expensed in the year (Non-Infrastructure)

The movement in this cost is a result of an alignment in reporting policies and has been reclassified as Other operating expenditure renewals expensed in the year (Non-Infrastructure).

#### 5.1.4 Capital Expenditure (Section b)

In total, gross wholesale capital expenditure in the year increased by 4% on 2018/19, thus no significant movements to report.

## 5.2 Table 4F

### 5.2.1 Customer Services

Customer service costs movements have mainly been driven by rising postage costs due to price increases and payments processing costs (Paypoint). Use of third party data for occupancy details and billing have also contributed to the overall increase.

### 5.2.2 Debt Management

Increased manpower costs as a result of changes in the allocation, to ensure the correct use of resources are more accurately reflected to the relevant service and delays to the debt system implementation.

In the final quarter of 2018/19 the company implement a new debt collection system, which has meant a full year charge for 2019/20

### 5.2.3 Doubtful Debts

Delays to the implementation of the new debt system in 2018/19 impacted forecast improvements in collections performance during the year and has resulted in an increase to the bad debt provision. In addition, because of the current economic circumstances a further adjustment has been provided for the impact of the Covid-19 outbreak based on our best estimate of the impact of the pandemic on the debt book and to cover any deterioration in collection rates linked to this.

### 5.2.4 Other operating Expenditure

Reduced manpower costs as a result of changes in the allocation, to ensure the correct use of resources are more accurately reflected to the relevant service type.

IT maintenance has been reviewed, to ensure the correct maintenance is more accurately reflected to the relevant service.

### 5.2.5 Depreciation – tangible fixed assets (on assets existing at 31 March 2015)

A number of retail assets have finished depreciating in the year resulting in a reduced retail depreciation charge compared to prior year.

### 5.2.6 Depreciation – tangible fixed assets (on assets acquired since 1 April 2015)

A number of new retail assets have started depreciating in the year resulting in an increased retail depreciation charge compared to prior year.

### 5.2.7 Capital Expenditure

The decrease in capital expenditure is as due to a number of projects completing in the current year, with the majority of spend being in the prior year

## 6. Definition of Terms

**SSW** – South Staffordshire Water, a group company of South Staffordshire PLC.

**CAM** – Cambridge Region

**SST** – South Staffordshire Region

**SOFP** – Statement of Financial Position, previously known as the Balance Sheet

**Oracle** – The Company’s Financial Management System

**Maximo** – The Company’s works management system

**Measured** – A water customer whose bill was calculated based on volumetric usage measured by a water meter

**Unmeasured** – A water customer whose bill was calculated based on a schedule of rates, regardless of usage

**RAGs** – Regulatory Accounting Guidelines issued by Ofwat.

**Price Controls** – Wholesale and Retail markets as defined by OFWAT. Retail price control splits into non-household (NHH) and Household (HH) business units while Wholesale price control splits into Treated Water Distribution (TWD), Raw Water Distribution (RWD), Water Resources (WR) and Water Treatment (WT) business units

**Departments** – functions of the business where costs are charged for management accounting purposes. A Full list of SSW’s business units with accompanying price controls can be found on page 4-5

**Account Combination** – At SSW our account structure is a combination of 5 codes creating a 15-digit account number. The 5 combinations are as follows:

Company Code	Location Code	Activity Code	Subjective Code	Spare Code
XX	XXX	XXX	XXXX	XXX

**Company Code (CC)** – 2 digit code which identifies the company in which the posting relates

**Location Code (LC)** – 3 digit code which identifies the physical location where the cost / revenue was incurred / earned

**Activity Code (AC)** – 3 digit code which identifies the activity in which has generated such cost / revenue

**Subjective Code (SC)** - 4 digit code which identifies the type of cost / revenue and allows for Income Statement categorisation

**Spare Code** – A spare 3 digit code that allows for further enrichment of cost / revenue data.

**WCPS** – Water Company Pension Scheme

## 7. Appendix 1

Department Name	Price Control / Cost Allocation Methodology
Customer Services Retail	Retail
AIS Asset Management Planning-WHS Cambridge Depots Computer Development Customer Leakage Customer Services Developer Services Distribution Rechargeable DLS DMA DLS Mains DLS R&D DLS Rehab DLS Reinstatement Team DLS Running Costs Fradley Depot Leakage Operations Leakage Strategy Mains Rehab Major Capital Projects Network Engineering Network Modeling Network Performance Power generation	Treated Water Distribution

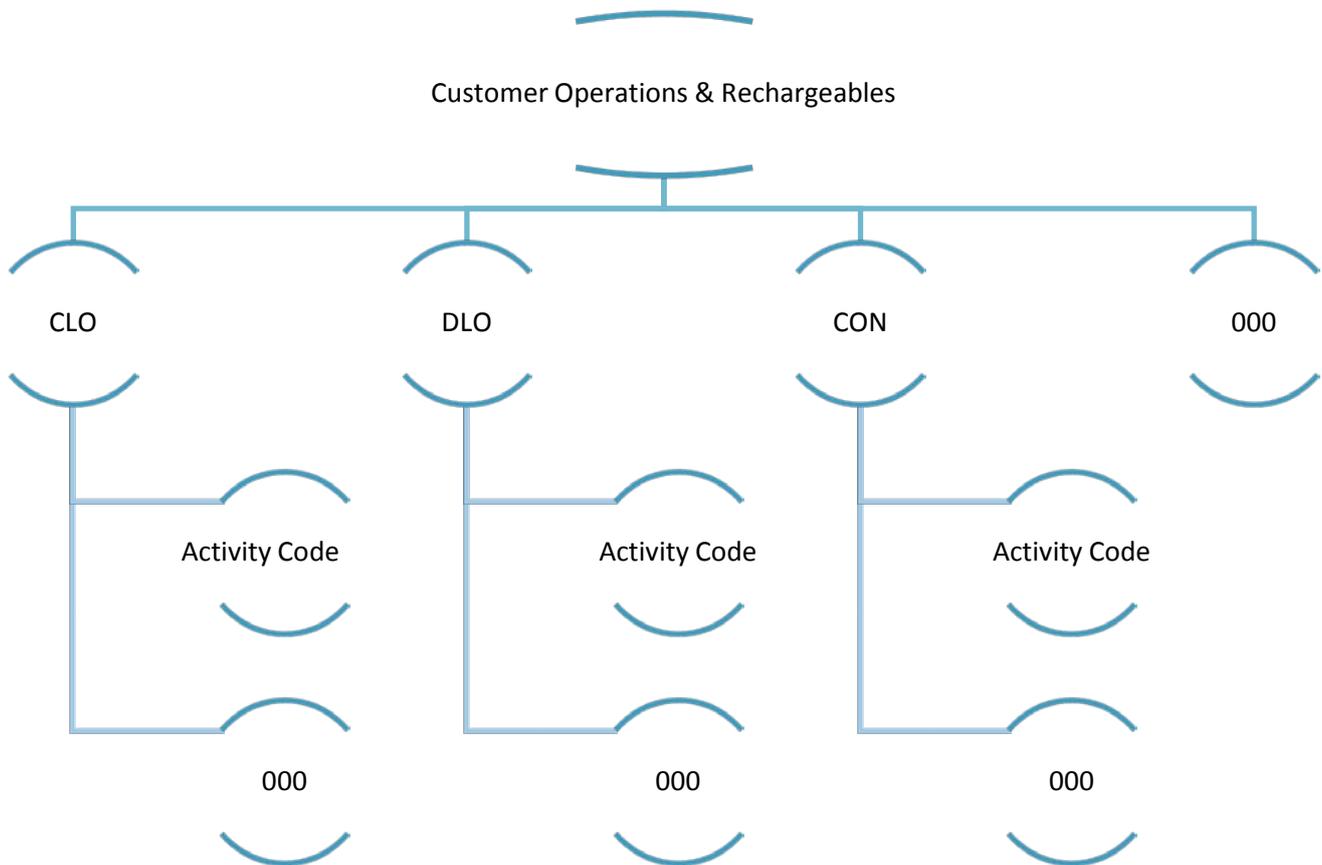
Accounting Separation Methodology Statement

<p>Production Strategy</p> <p>Service Development</p> <p>Technical Department</p> <p>Tipton Department</p> <p>Water Quality</p> <p>Water Regulations</p>	
<p>Blithfield Education Centre</p> <p>Blithfield Project</p> <p>Operational Maintenance</p> <p>Water Resources</p> <p>Water Strategy</p>	<p>Water Resources</p>
<p>Appointed Crypto</p> <p>Chemicals</p> <p>Fluoride</p> <p>Water Supply</p> <p>Water Treatment</p>	<p>Water Treatment</p>
<p>CLO Running Costs</p> <p>Customer Rechargeable</p> <p>Customer Operations</p> <p>Streetworks</p>	<p>Activity Allocation</p>
<p>Capital Investment Delivery</p> <p>Over ground Asset Management</p>	<p>Capital addition in the year</p>
<p>Building</p> <p>Health &amp; Safety Training</p> <p>Site Maintenance</p> <p>Training &amp; Development</p>	<p>Activity Support Allocation</p>

Accounting Separation Methodology Statement

Regulation	Equal split over Water Only Price Controls
Estates	Equal split between WRE and TWD
Site Central	Floor Space
Childcare Finance Health & Safety HR Merlot Restaurant Security Social Club Unallocated Water Board	FTE
Central Admin	Waterboard Directors Time
Creative Studio	Management Judgement of time
Procurement	Materials Spend
Stores	Materials Spend exclusive of chemicals
Control, Automation & Development	Maximo Allocation
Fleet Services	Number of Vehicles
Hampton Loade / Northern Treatment Works Pumping Group East, North and South	Pumping Groups and Treatment Works

## 8. Appendix 2



Expenditure is split by the Spare Code. In the South Staffordshire Region, any balance on 000 is allocated back across CLO, DLO and CON based on Spend as follows:

$$000 \times ( \text{CLO} / ( \text{CLO} + \text{DLO} + \text{CON} ) )$$

$$000 \times ( \text{DLO} / ( \text{CLO} + \text{DLO} + \text{CON} ) )$$

$$000 \times ( \text{CON} / ( \text{CLO} + \text{DLO} + \text{CON} ) )$$

In the Cambridge Region however, it is only prorated over CLO and CON due to the company not operating a DLO team in Cambridge.

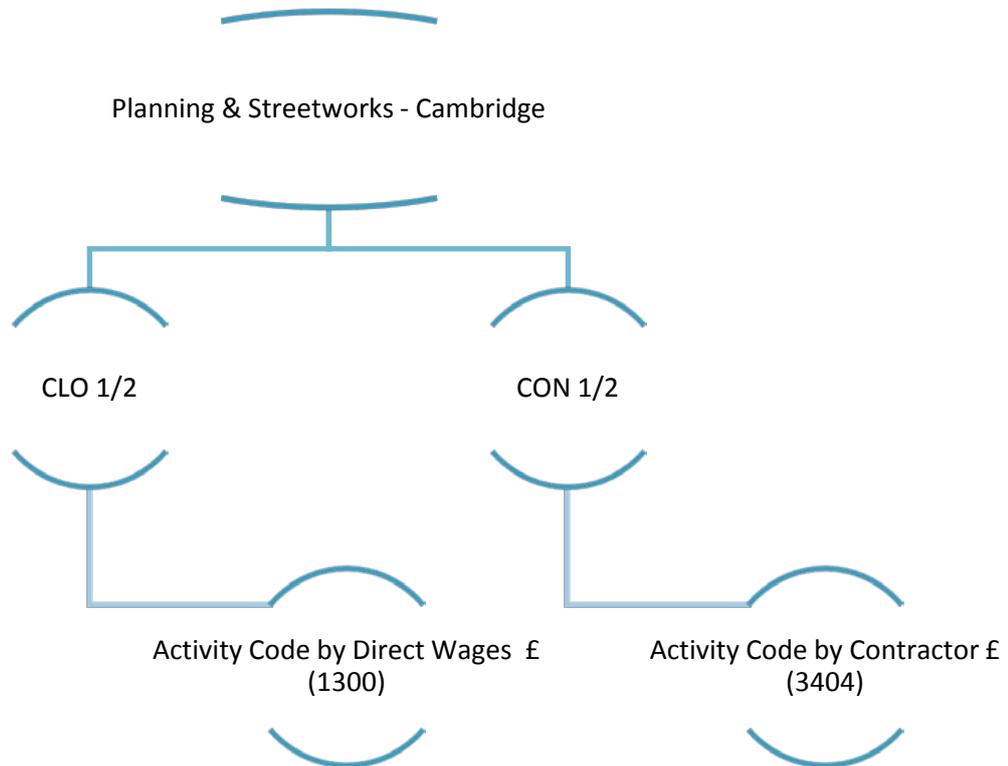
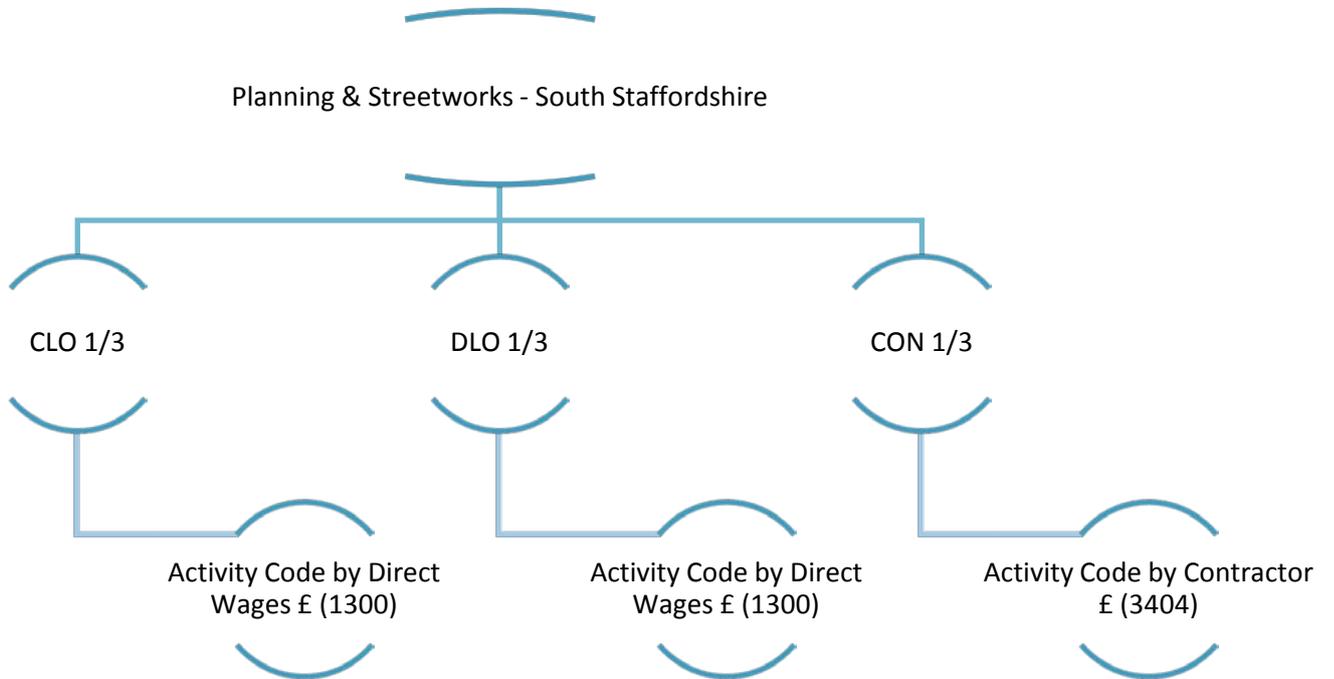
Secondly, CLO, DLO and CON balances are split out by the Activity Codes. Any Balance on 000 is allocated over the Activities based on Spend.

$$000 \times ( \text{Activity 1} / ( \text{Sum of All Activities excl. 000} ) )$$

$$000 \times ( \text{Activity 2} / ( \text{Sum of All Activities excl. 000} ) )$$

$$000 \times ( \text{Activity 3} / ( \text{Sum of All Activities excl. 000} ) )$$

## 9. Appendix 3



## 10. Appendix 4

