



South Staffs Water



Cambridge Water



To help create a world where essential services and infrastructure deliver for customers, clients and our planet



Accounting separation methodology statement

South Staffordshire Water PLC
For the year ended 31 March 2025

Contents

1. Introduction.....

2. Preparing the annual performance report.....

3. Table 4J – base expenditure analysis water

4. Table 2C – cost analysis household retail

5. Fixed asset tables.....

6. Significant movements.....

7. Definition of terms.....

Appendix 1

Appendix 2

Appendix 3

2

3

8

10

11

12

13

14

17

18

1. Introduction

1.1 Purpose

Each year, we publish 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 our 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.
- 4J – Base expenditure analysis – water resources and water network+.

We can confirm that it has followed the principles and guidance set out in Ofwat's Regulatory Accounting Guidelines (RAGs). We believe 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 shared the cost allocation with our statutory financial auditor, Ernst & Young LLP, to audit the cost allocation data back to source for the annual accounts.

In FY17/18, our cost allocation methodology was subject to an external assurance audit by Jacobs U.K Limited (Jacobs) to ensure compliance with RAG 4.

The methodology for the year ended 31 March 2025 is broadly consistent with the methodology assured by Jacobs. Therefore, we are strongly of the opinion that the outputs of the assurance from FY17/18 remain valid, given changes to the RAGs for the cost allocation tables since then have been minimal.

1.3 Operating/capital expenditure

Costs were allocated between operating and capital expenditure in accordance with our accounting policies and applicable accounting standards.

The de minimis for capitalisation were £1,000 for minor purchases (for example, 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.

During the reporting year, collection targets have been maintained, and the policy has been applied with no overlay. As we report under FRS 102 and are not forward looking we have not included any overlay position for the cost-of-living crisis.

2. Preparing the annual performance report

2.1 Introduction

We used our Oracle financial system 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), we were able to identify the balance of direct capital expenditure (capex), operating Expenditure (opex) and infrastructure renewals expenditure (IRE). Finally, the TB was enriched with our 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 cost centre 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, our people attended an external training course on 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 us 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, our 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 companies training officer was £30,000 – each department would have received one-third of the salaried cost of the Training Officer (£10,000).

2.4 Departmental cost allocation

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

- Appointed cryptosporidium water treatment costs are collected within the Water Quality department by ACs. These costs need to be attributed wholly to WTM removal of the Innovation Fund costs, and not to be included in final balance as advised by Ofwat.
- Management and Executive Director bonus accrual is charged back to departments.
- Fleet cost centre costs have been allocated over our fleet list, which assigns vehicles to the appropriate department.

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 are coded as expenditure at a location, activity and spare code level on a job-by-job basis through our Maximo works management system. In this situation, the spare code was used to identify who was completing the works – Customer Liaison Officers (CLOs) 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 code. 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 CLO running costs

First, CLO running costs were 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 3.

The remaining costs required allocation. 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 Street works departments. This data was obtained from our Maximo system, which is used by the CLOs to book their time to jobs. These activities were wholly attributable to one price control meaning no further allocation was required.

2.8 Control, automation and development (CAD)

Maximo captures the time spent by members of the CAD department on an asset-by-asset basis. As each asset within our business can be directly attributable to a price control, we 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 reporting year control splits. This information was extracted from Maximo.

2.9 Pumping groups and treatment works

Pumping Group East (PGE) serves our Cambridge region via 86 supply sites. Each supply site has its individual LC, which has 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 LC (106). These costs required allocation back to the supply sites. Pumping Group North (PGN) and South (PGS) serve our South Staffs region and comprise four general running costs LCs and 211 supply site LCs. As with PGE, PGS and PGN coded costs to the individual location's 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') serve the South Staffs region and have been 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 FY23/24 average pumping head (APH) at each site, which is an audited cost driver and in line with prior year methodology.

The remaining costs are allocated on gross modern equivalent asset (MEA) values on a per site basis.

2.10 Finance and billing

Costs for the Sales Ledger team were collected within the Finance cost centre using the Y05 LC. These costs were wholly attributed to treated water distribution. Finance was allocated to price controls using the FY24/25 full-time equivalent (FTE) percentage as a general and support department.

2.11 Waterboard

Adjustments made to the Waterboard cost centre are summarized in the table below.

Cost	Allocation methodology
I/C Cross charges out	Echo Building – Retail
Cumulo Rates	Split on Gross 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>Material Damage/Business Interruption – MEA per business unit.</p> <p>Combined Liability/Excess Layer - 100% treated water distribution.</p> <p>Employer's Liability – based on FTEs.</p> <p>Trustees Liability – WCPS members per business unit.</p> <p>MD/BI Terrorism/Crime/Engineering Inspection – MEA per business unit.</p> <p>Chlorine Leakage (SUD) – 100% water treatment.</p> <p>Contract Works, Machinery Movement and Hired in Plant – Percentage of plant hire spend within each business unit.</p> <p>Motor Trade – No of vehicles per business unit.</p> <p>Broker Fees – 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</p>

Cost	Allocation methodology
	department using the number of vehicles and was therefore allocated to the business units along with the other costs of the department.)
Insurance Excess	100% Distribution,
All other costs	FTE.

2.12 Site central

Site Central comprises costs for our Green Lane offices (SST) and Fulbourn Road offices (CAM), which could be identified using the location code. Green Lane is split into the following areas using the approximate 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:

- Echo – 100% Retail
- Fleet – No of vehicles in each unit
- Group – FTE
- IWS - TWD
- Restaurant – FTE
- Stores – Material Spend without chemicals in each business unit.
- Water Company – FTE

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

2.13 Procurement and 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.

2.14 Communications and Marketing

Communications and marketing is a cost centre within the business, which is responsible for the management of our websites, publications, and internal communications. The team also spends a large proportion of their time supporting the Customer Service team with advertising and customer communications. For example, in FY24/25 they have supported in the production of the company's TV advertisement 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 the cost driver table for latest assumptions.

2.15 Central administration/Executive Director

The central administration cost centre primarily contains centralised administration costs for all departments across the business and the employment costs of the Executive Director's personal assistants (PAs). As such, the company has allocated this cost centre in line with Executive Director cost splits.

2.16 FTE allocation

Health and Safety, Human Resources (HR), Security and Social Club are examples of departments which were allocated using the FY24/25 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 our 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 FTEs were excluded from the calculations. As noted from the OWC notes above, some departments costs 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.

2.17 Cost drivers

Cost driver	WRE	RWS	RWD	WTM	TWD	Retail
Full business FTE	10.50%	0.00%	2.03%	10.27%	66.18%	11.02%
Wholesale FTE	11.90%	0.00%	2.31%	11.41%	74.38%	n/a
Gross MEA equivalent	29.50%	0.00%	15.80%	19.70%	35.00%	n/a
Total material spend	1.42%	0.00%	0.00%	86.52%	11.42%	0.64%
Total material spend, excluding chemicals	5.78%	0.00%	0.00%	44.79%	46.79%	2.64%
Control, automation and development	31.79%	0.00%	0.11%	49.40%	18.70%	0.00%
APH – SSC	16.14%	0.00%	12.72%	1.17%	69.97%	0.00%
Communications and marketing – management estimate	75% (allocated to PC on WHS FTE)					25%

3. Table 4J – base expenditure analysis water

3.1 Ofwat defined cost categories

At this stage, all costs were allocated to price controls; however, they still remain in our income statement cost categories. The table below identifies how costs have been directly allocated to Ofwat Table 4J.

Income statement category	Table 4J 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
Provision 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 consents were wholly attributed to Water Treatment.

3.2.1 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. We used the Table 4D Water Resources and Water Treatment cost splits for the respective water companies who supplied us with bulk supplies in FY 2024/25 to allocate the cost.

3.3 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.
- Standpipe hire.
- Bulk supplies.

These costs have been removed from the expenditure lines and classified as third party operating expenditure, as per the Ofwat Table. Where salaried employees work on third party operating expenditure, their proportion of time is reallocated to third party operating expenditure. The remaining costs have been identified from allocations.

3.4 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.

3.5 Wholesale upstream services

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

3.5.1 Water resources

Water resources is a summation of abstraction licenses and raw water abstraction activities which have been identified from the company's accounting separation tables.

3.5.2 Raw water transport and storage

Raw water transport: this was the total Raw Water costs taken from the companies Accounting Separation tables less the costs of raw water 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.

3.5.3 Water treatment

This was the total water treatment costs taken from our accounting separation.

3.5.4 Treated water distribution

This was the total treated water distribution costs taken from our accounting separation.

4. Table 2C – cost analysis household retail

4.1 Introduction

No allocation is made between Non-Household (NHH) and Household (HH) customers as the company only manage HH customers.

For Tables 2C, 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, Retail related activity costs derived from retail activities undertaken by CLO's or Contractors and Aptumo (our replacement for Rimilia and Rapid, also a software as a service (SaaS) system).

4.2 Cost category allocation

Echo provides a detailed breakdown of the contract costs, allowing the direct allocation into Table 2C 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 and street works. This was feasible due to our work management system mapping specific activities to specific activity codes which in turn map into Ofwat defined categories.

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. All of these assets are allocated to household we exited the non-household market.

We confirm that we followed the principal use rules set out in RAGs. 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.

6. Significant movements

6.1 2C total operating expenditure, excluding third party services

Total operating expenditure excluding third party services has increased during the year primarily due to:

- increases relating to manpower costs, including national living wage c10% increase, headcount growth through higher inbound customer contact and additional heads – £0.38 million;
- postage costs have increased year on year, with a 15% rate increase. Underlying volumes were also higher, due to increased debt campaigning, voids a new connections work and process refinements – £0.26 million;
- increases in debt collection services for debt chasing activity – £0.25 million;
- increased spend on professional services driven by inflation, and services provided by external consultancy regarding opportunities to improve debt collection - £0.12 million; and
- Reduction in meter reading costs as a number of Meter Reading Vehicles have been fully depreciated - £0.02 million.

6.2 4J.4 renewals expensed in year (infrastructure)

Renewals expensed in year (infrastructure) increased from the previous year by £1.257 million due to increased activity in relation to HS2.

6.3 4J.9 other abstraction charges/discharge consents

Abstraction charges have fallen by £0.811 million from the previous year. In FY 2023/24, our abstraction charges had been updated to reflect higher costs of which a proportion related to the FY 2022/23.

7. Definition of terms

SSW – South Staffordshire Water, a group company of South Staffordshire Plc.

CAM – Cambridge region.

SST – South Staffs region

SOFP – Statement of Financial Position, previously known as the balance sheet.

Oracle – Our financial management system.

Maximo – Our 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 our business units with accompanying price controls can be found in appendix 1.

Account combination – Our account structure is a combination of 5 codes creating a 15-digit account number. The 5 combinations are as follows.

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

Company code (CC) – two-digit code which identifies the company in which the posting relates.

Location code (LC) – three-digit code which identifies the physical location where the cost/revenue was incurred/earnt.

Activity code (AC) – three-digit code which identifies the activity in which has generated such cost/revenue.

Subjective code (SC) – four-digit code which identifies the type of cost/revenue and allows for Income Statement categorisation.

Spare code – A spare three-digit code that allows for further enrichment of cost/revenue data.

WCPS – water company pension scheme.

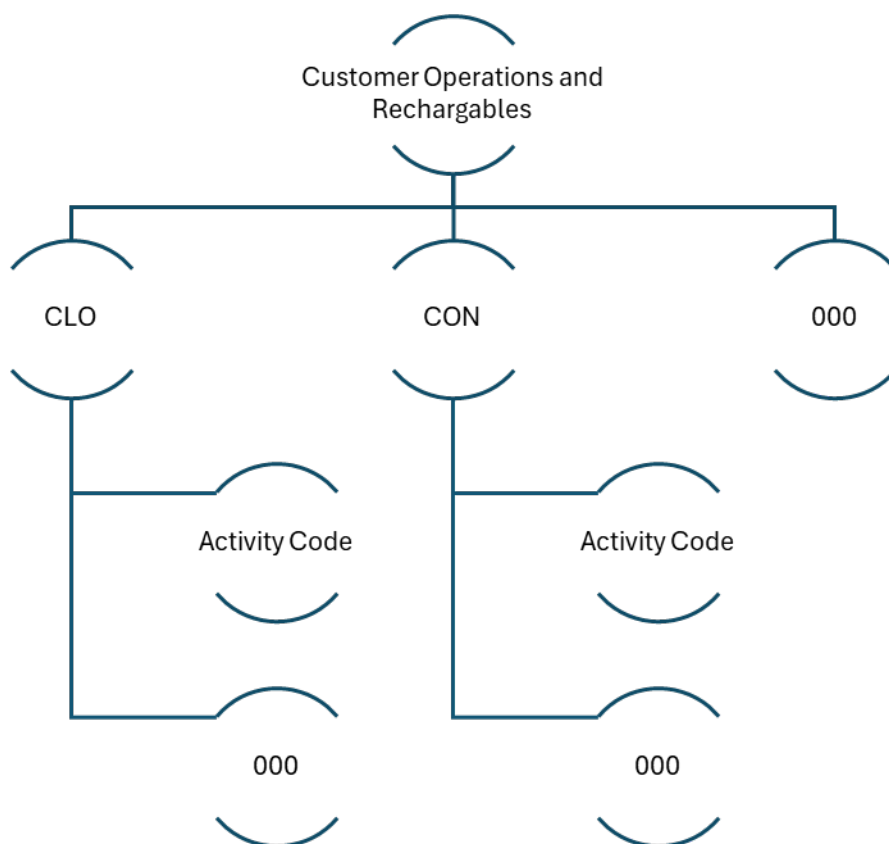
Appendix 1

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 R&D Fradley Depot Leakage Operations Leakage Strategy Mains Rehab Major Capital Projects Network Engineering Network Modelling Network Performance Power generation Service Development Technical Department Tipton Department Water Quality Water Regulations Water Supply	Treater Water Distribution
Blithfield Education Centre Blithfield Project Water Resources Water Strategy	Water Resources

Department name	Price control/cost allocation methodology
Appointed Crypto Chemicals Fluoride Water Treatment	Activity Allocations
Capital Investment Delivery Over Ground Asset Management	Capital addition in the year
Building Health and Safety Training Site Maintenance Training and Development	Activity Support Allocation
Regulation	Equal split over Water Only Price Controls
Estates	Equal split between WRE and TWD
Site Central	Floor Space
Finance Health and Safety HR Restaurant Security Social Club Unallocated Water Board Central Admin	FTE
Creative Studio	Management judgement of time
Procurement	Materials Spend
Stores	Materials Spend, excluding chemicals
Control, Automation and Development	Maximo Allocation
Fleet Services	Number of Vehicles

Department name	Price control/cost allocation methodology
Hampton Loade/Northern Treatment Works Pumping Group East, North and South	Pumping Groups and Treatment Works
Production Strategy	Average Pumping Head

Appendix 2



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

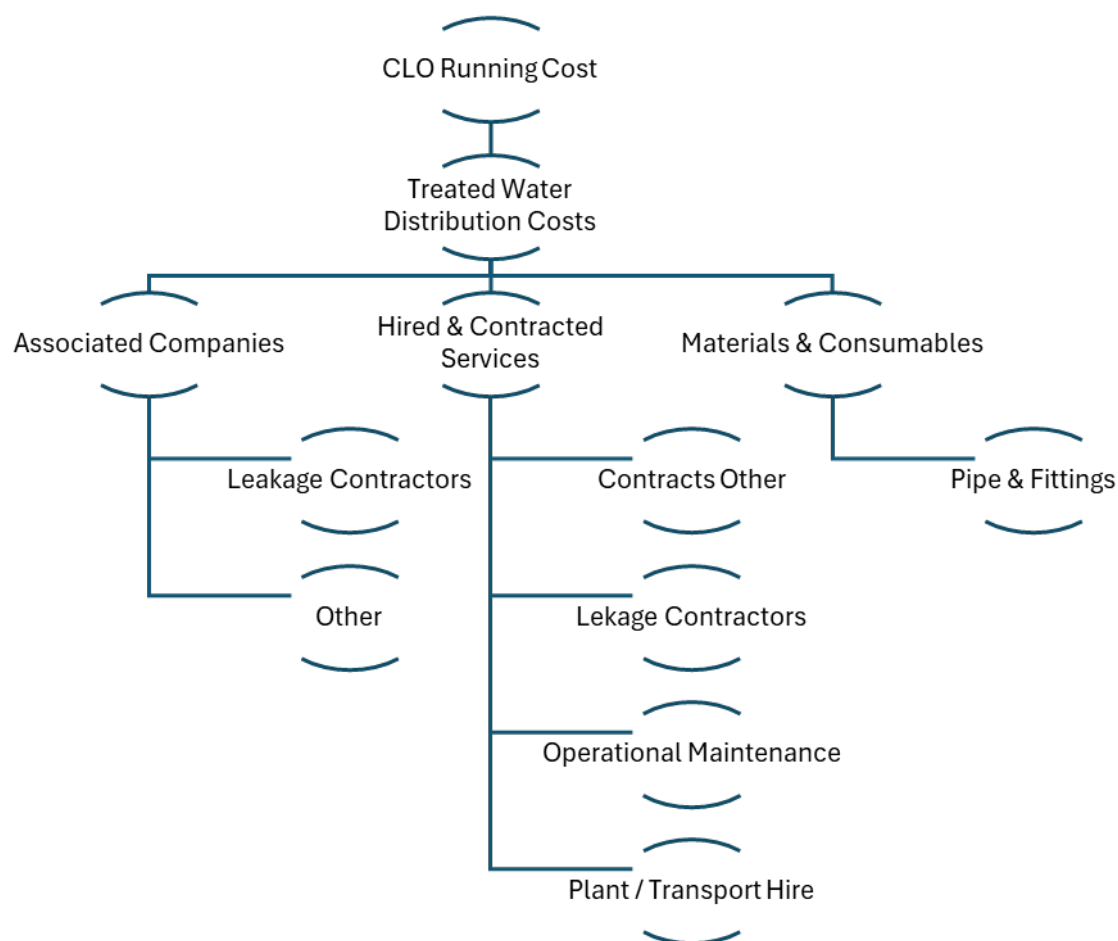
$$000 \times (CLO / (CLO + CON))$$

$$000 \times (CON / (CLO + CON))$$

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

$$000 \times (Activity\ 1 / (Sum\ of\ All\ Activities\ excl.\ 000))\ 000 \times (Activity\ 2 / (Sum\ of\ All\ Activities\ excl.\ 000))\ 000 \times (Activity\ 3 / (Sum\ of\ All\ Activities\ excl.\ 000))$$

Appendix 3





South Staffs Water



Cambridge Water

To help create a world where essential services and
infrastructure deliver for customers, clients and our planet

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