

November 2021

Final determination of South Staffs Water's in-period outcome delivery incentives for 2020-21

About this document

This document provides our final decision on adjustments to South Staffs Water's price controls for the company's performance for the 2020-21 Charging Year, under Part 3A of condition B of the company's licence (Performance Measure Adjustments, referred to in this document as 'in-period' determinations). The specific changes, and our reasons for these, are set out in this document and ['Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21'](#).

We also publish models related to our final determinations on our [website](#).

Executive summary

This section sets out the results of our 2020-21 in-period outcome delivery incentive (ODI) assessment for South Staffs Water. ODIs are the financial or reputational consequences for companies of outperformance or underperformance against their performance commitments. Performance commitments are the pledges companies made to their customers and stakeholders at the 2019 price review (PR19) about service levels to make progress towards their outcomes.

'In-period' ODIs bring ODI payments closer in time to when customers experience a given level of performance. We do this through an annual reconciliation process between July and November following the relevant reporting year, in this case 2020-21. The results of our assessment for 2020-21 will affect South Staffs Water's customers' bills in the 2022-23 Charging Year.

For 2020-21 South Staffs Water reported net underperformance payments of £0.423m against its performance commitments with in-period outcome delivery incentives, excluding C-MeX and D-MeX. We assessed the company's performance against its performance commitments and, in October 2021, consulted on our [draft determinations](#) for companies' in-period ODIs for 2020-21.

Having considered the responses and conducted further analysis, in our final determination, we are intervening on the following performance commitments:

- Education activities – we are intervening to change the company's outperformance of £0.008m to an underperformance of £0.086m, to ensure performance payments align with the requirements of the performance commitment definition.
- Leakage – we are deferring the company's outperformance of £0.042m due to concerns around the potential materiality of non-compliant components of the company's Cambridge Water leakage methodology. This is a change to our draft decisions, where we

proposed deferring £0.258m of payments for both the South Staffs region and the Cambridge Water region.

- Per capita consumption (PCC) – in line with our decision following our PCC consultation, we are deferring our determination of payments for performance against this performance commitment for the 2020-21 Charging Year.
- C-MeX and D-MeX – we are including a C-MeX underperformance payment of £0.080m and a D-MeX underperformance payment of £0.073m, based on assessment of 2020-21 company performance.

We also include additional funding of £0.538m arising from our decisions on the green recovery. This is through a revenue adjustment related to a new performance commitment with in-period ODI payments introduced for South Staffs Water as part of our green recovery decisions.

Our final determination is that the amount of revenue the company can recover from its customers in 2022-23, as a result of its performance against its performance commitments with in-period ODIs in 2020-21, is increased by £1.321m. This figure includes C-MeX and D-MeX payments as well as bespoke adjustments but is before adjustments for inflation, tax and other relevant factors.

Further details regarding the responses we received, our final decisions and the adjustments that we have made are presented in sections 2 and 3, and ['Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21'](#).

Contents

1. Introduction	4
1.1 Background	4
2. Results of our assessment	5
2.1 Reported performance	5
2.2 Key interventions	5
2.2.1 Education activity	5
2.2.2 C-MeX and D-MeX	8
2.3 Payment deferrals and abatements	9
2.3.1 Leakage	9
2.3.2 Per capita consumption (PCC)	11
2.4 Green recovery	11
3. Impact of 2020-21 in-period ODI assessment on price controls	13
3.1 Our final determination	13

1. Introduction

1.1 Background

South Staffs Water's performance commitments for the 2020-25 period are set out in [PR19 final determinations: South Staffs Water – Outcomes performance commitment appendix](#).¹ Most of the company's performance commitments have financial incentives which are paid 'in-period'. This brings ODI payments closer in time to when customers experience a given level of performance. The remaining incentives are end of period.

South Staffs Water reported its performance against these performance commitments in its annual performance report (APR) in July 2021. We considered this information and, where relevant, further information from companies' answers to our queries. In October 2021, we consulted on our draft determination for South Staffs Water's in-period ODIs for 2020-21. We have considered the responses we have received relating to our draft determination.

Our final determination sets out the adjustments to the company's price controls and will affect South Staffs Water's customers' bills from the 2022-23 Charging Year.

¹ We take account of performance commitments as set out in the PR19 definitions adjusted, if relevant, by the annex 2 process. Annex 2 of the company's performance commitment appendix provides for changes and corrections to be made to its performance commitment definitions during the 2020-25 period in certain circumstances. An overview of changes and corrections made to companies' performance commitment appendices can be found at [PR19 Outcomes performance commitments: changes and corrections](#).

2. Results of our assessment

2.1 Reported performance

South Staffs Water's reported performance for 2020-21 against its performance commitments with financial in-period ODIs is set out in table 3.1 below. The company's largest individual underperformance payment is £1.352m for its per capita consumption performance commitment. The company's largest individual outperformance payment is £0.383m for its water supply interruptions performance commitment.

2.2 Key interventions

2.2.1 Education activity

Our draft decision

South Staffs Water requested that we abate its reported outperformance of £0.008m on its education activity performance commitment. In its "Supplementary information to the APR for sections 3 4A 5A and 6" the company states that "We have made every effort to continue to provide schools with education material (including virtual delivery), guidance and support. Overall, this has led to a far greater count of engagement than originally proposed in our PR19 target of 6,000 pupils however the activity has not always met the original requirement for a minimum duration and class size which is to be expected under these circumstances. To reflect this deviation from original scope we propose to fully abate the ODI reward of £0.008m shown in table 3A for our education activity ODI in 2020/21."

We set out our approach to assessing company requests for abatements and deferrals due to the impact of Covid-19 in our 'Sector overview: Draft determinations of in-period outcome delivery incentives for 2020-21'. We understand that South Staffs Water's ability to carry out education activities has been affected by the Covid-19 lockdown, and we note that the company has adapted by including a range of quizzes and videos, teaching support and learning resources in its reported performance.

The specific performance commitment sets out "the number of people who have received the company's education services each year. The focus of the education activities provided by the company will be related to increasing awareness of the value of water as well as water efficiency and demand reduction. Education services will be delivered through a variety of routes including assemblies and more detailed workshops. Education services will be cross curricular and targeted to the specific age group and ability concerned. In order to ensure quality of engagement, the company will only claim a maximum of 30 individuals per session.

Each individual will receive a minimum of 60 minutes receiving education in sessions. Each assembly and workshop will include a range of introductory and follow up activities so that teachers can choose the work that best suits their class. The company will also provide facilitation handbooks and a 'how to' delivery guide to enable future delivery by staff and teachers."

In arriving at our decision, we considered the extent to which the delivery methods used by the company provide the intended quality of engagement. The requirements of this performance commitment limit the number of people engaged to 30 per session. The purpose of a session of this size is to ensure interactivity with participants, which has greater success of increasing awareness of the value of water as well as water efficiency and demand reduction. We also considered the nature of assemblies and detailed workshops, which make it clear that the purpose of the performance commitment is to provide an interactive, face to face, experience to meet the intended quality of education.

In our query, we asked the company to confirm "the total number of people – in groups of a maximum of 30 individuals – to whom the company delivered education services face to face or via webinar (i.e. live virtual teaching) for at least 60 minutes during 2020-21". The company confirmed in its response to our query that the total number of people who met this definition is 297 against the performance commitment level of 6,000 for 2020-21. We considered that 297 is the actual performance against this performance commitment because the live, interactive experience of sessions run by company representatives is fundamental to delivering the company's intended quality of education. As a result, we did not accept the company's request to abate its outperformance payment of £0.008m but instead intervened to impose an underperformance payment of £0.086m. In arriving at this decision, we also considered whether the performance commitment could still be met under Covid-19 conditions and consider that moving to online delivery would have still allowed the scope to deliver educational activities to groups of no greater than 30 for a minimum of 60 minutes.

In our draft determination we intervened to change the company's outperformance of £0.008m to an underperformance of £0.086m. This intervention was required to ensure performance payments align with the requirements of the performance commitment definition.

Stakeholders' responses

In its response, South Staffs Water asks Ofwat to reconsider its decision and remove the underperformance payment we have applied to its education performance commitment.

South Staffs Water recognises that, in adapting its education programme, it did not meet the stated requirements of the definition and explains that this was why it elected to abate any outperformance payment in its annual performance report submission. The company describes the barriers and constraints which prevented it from entering schools and the

challenges of virtual delivery. The company considers that it is inappropriate to apply an underperformance payment due to these exceptional extenuating circumstances.

South Staffs Water states that within its PR19 final determination, we defined 'quality engagement' as delivery of at least 60 minutes of material to group sizes of a maximum of 30, and that its intended programme, before Covid, was designed as a face-to-face initiative, using extensive hands-on, practical activities aimed primarily at primary-school-aged children. The company notes that Ofwat has applied an underperformance payment to its education performance commitment because the company's activity in 2020-21 did not meet the requirements for 'quality' as originally defined at PR19.

South Staffs Water states that it does not agree with our statement that moving to online delivery would still have allowed the scope to deliver educational activities to groups of no greater than 30 for a minimum of 60 minutes.

South Staffs Water disagrees with our decision and considers that the further reasoning and supporting evidence in its response shows:

- That a high proportion of the school year (at least five months) was out of commission due to national restrictions.
- The constraints schools were having to deal with during the year and why this led to cancelled bookings and difficulty in securing bookings.
- The difficulties involved with delivering its content virtually.
- How it adapted, communicated with schools, and ensured that it was delivering a service that they wanted, and could work with alongside all of the other logistical constraints, over the year.

Consideration of responses and final decision

We understand that South Staffs Water's ability to carry out education and engagement activities with children / students has been affected by the Covid-19 lockdown and that the company has adapted and responded to the challenge. We also acknowledge feedback received from schools on the quality of its education delivery.

However, we are retaining our draft determination because the company's actual performance of 297 people is in line with PR19 definitions as set out in the requirement of this performance commitment. We consider this accurately reflects the purpose of this performance commitment.

The company has not met the requirements for quality because its offerings were significantly reduced in scale and ambition in comparison with its PR19 definition. Whilst we acknowledge its challenges, and that the company adapted the delivery of its educational service, for example using digital or virtual channels, the PR19 definition is clear about the maximum number of students and a minimum session length for the sessions. These

requirements are designed to provide a fully interactive, high quality experience. Our broader policy on the impact of Covid-19 is set out in our '[Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21](#)'.

South Staffs Water comments that in response to the impacts of Covid, we had already made some policy decisions. The company refers to the performance commitment which measures customer water use and efficiency initiatives which has been adjusted to be an end-of-period incentive. South Staffs Water states that despite clear impacts from Covid, we have not allowed adjustments to some other sector performance commitments. We note that, although the timing of the customer water use performance commitment (PCC) has changed into an end of period incentive, we have not changed the basis on how this performance commitment should be reported. Should South Staffs Water want to request a change to its performance commitment definition (for example to make this an end of period ODI), it will need to meet the requirements set out in annex 2 of [PR19-final-determinations-South-Staffs-Water---Outcomes-performance-commitment-appendix.pdf \(ofwat.gov.uk\)](#)

Whilst we understand the challenges presented by Covid-19, it is not uncommon for exogenous factors to affect company performance. It should not be our goal to insulate water companies from the effects of a pandemic that has such wide-reaching consequences, including for those companies' customers. In such cases we consider whether, in the circumstances, intervening would be in customers' interests. We do not consider this is the case here and retain our draft decisions to apply the underperformance payments in our final determinations.

Having considered stakeholder responses, our final decision on the company's performance payment for this performance commitment is as stated in our draft decision, and we do not consider the changes proposed by the company are consistent with the allocation of risk assumed within the regulatory framework.

2.2.2 C-MeX and D-MeX

Our draft decision

Our draft determination included a C-MeX underperformance payment of £0.080m and a D-MeX underperformance payment of £0.073m, based on assessment of 2020-21 company performance in our draft determinations.

We have taken the data from the company's APR submissions and compared this against the recorded data from our survey agent, Accent.

Further details on C-MeX and D-MeX can be found on the [Customer and Developer Services experience](#) pages of the Ofwat website and in the published C-MeX and D-MeX models.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final decision

Our final decision is unchanged from our draft determination, as stated above.

2.3 Payment deferrals and abatements

As set out in our [PR19 Reconciliation Rulebook: Guidance Document](#), companies can ask us to defer outperformance or underperformance payments, or abate outperformance payments on individual performance commitments. A deferral results in us delaying when the adjustment will be made to companies' revenue. An abatement results in no adjustment to the company's revenues in relation to the relevant performance commitment in the subsequent charging year.

In its APR submission the company asked that we abate its reported outperformance of £0.008m on its education activity performance commitment because the reported value did not align with the PR19 definitions. We describe our policy in relation to this topic in section 2.2 and we do not apply any payment abatements in our final determination.

2.3.1 Leakage

Our draft decision

In our draft determination, we said we expected that all companies would have been compliant with our [PR19 common performance commitment definitions](#) when reporting 2020-21 leakage performance. In IN21/01 we said that "If the data submitted is not based on a fully converged methodology then companies should clearly state this and demonstrate that not being fully compliant does not have a material impact on the reported performance. If the move to convergence affects baselines for any performance commitments then companies should also show this clearly."

However, we noted that for leakage and per capita consumption reporting South Staffs Water had not achieved full compliance with this methodology. We said that South Staffs Water confirmed that the impact of not achieving full compliance could be material in both of its operating areas. The company had reported an outperformance payment of £0.042m for its Cambridge region and an outperformance payment of £0.216m for its South Staffs region for 2020-21. The company proposed to defer the outperformance payment for its Cambridge region, but not for its South Staffs region. Because we considered there could be a material impact in the South Staffordshire region as well, we intervened in our draft determination to

defer our decisions on the payments for both regions to 2022. We said this will enable us to make a decision based on more robust data for both of its regions.

Stakeholders' responses

In its response regarding leakage performance commitment South Staffs Water disagrees with our draft determination decision for its South Staffs region. The company states it is the only company to have its leakage reward deferred and believes this is because of the way we have interpreted its query response, rather than a material impact of non-compliance. The company states its only area of non-compliance is the non-household night use component and goes on to clarify in detail that its reported performance was based on its old model (updated and adjusted for Covid). This was because its new model is incomplete and non-statistically significant. The company states that its consultant supports the company's view that further work is needed on the new model and shows that the non-household night use value was on the lower side of the industry data and therefore means it has almost certainly understated non-household consumption and therefore probably overstated reported leakage.

We did not receive any specific comments on the company's leakage performance commitment for its Cambridge region.

Consideration of responses and final decision

The company's assessment, in addition to its response to our previous leakage queries, of the impact of non-compliance on reported performance satisfies us that the impact of the elements of non-compliance with reporting guidance for this performance commitment has no material impact on reported performance for its South Staffs region.

After considering the information we have received, our final determination on the company's performance is to include the outperformance payment for South Staffs Water's leakage performance in its South Staffs region for 2020-21. However, consistent with the company's proposal, we retain our draft determination approach and defer the outperformance payment for leakage in its Cambridge region because the impact of not achieving full compliance could be material. This means that we are now deferring £0.042m outperformance rather than the £0.258m as proposed in our draft determination.

As we explained in our draft determination, it is our expectation that there should not be any components of the company's leakage and per capita consumption methodology that are not fully compliant when reporting 2021-22 performance. We will closely assess any non-compliant elements in the 2021-22 APR submissions and will consider what interventions might be appropriate in light of our findings. Should any leakage information be revised or restated, we will take account of adjustments we have made to the relevant price control in relation to the leakage performance commitment in making future in-period determinations.

We note that when deferring payments to the following year, we apply a time value of money adjustment. As set out in the PR19 reconciliation rulebook, we use the wholesale allowed return for payments relating to wholesale controls. For the final determination we apply South Staffs Water's wholesale allowed return from its December 2019 PR19 final determination, reflecting the company-specific uplift we applied to this company.

2.3.2 Per capita consumption (PCC)

Our draft decision

In line with our July consultation proposals, we proposed changing the timing of payments for this performance commitment to end of period.

South Staffs Water also asked us to defer underperformance payments for its per capita consumption performance commitment for 2020-21. In our [July 2021 consultation](#) on changing the timing of our determination of the value of ODI payments for per capita consumption performance commitments, we proposed that this should be end of period for all companies. Prior to our July 2021 consultation, we had asked relevant companies to include ODI payments arising from their per capita consumption performance commitments in the deferrals function of the in-period adjustments model. We now consider it would be more appropriate to reflect this proposed treatment through the ODI performance model, ensuring consistency with our policy proposals and ensuring that all ODI payments accrued during the 2020-25 period can be applied at PR24, when we will make our final decisions.

Stakeholders' responses

We did not receive any specific comments on this issue.

Consideration of responses and final decision

Our consultation on moving the timing of the per capita consumption performance commitment to the end of the 2020-25 period has [concluded](#). After carefully considering the responses to that consultation, we have confirmed that ODI payments for per capita consumption performance commitments will be determined at the end of the period for all years within the 2020-25 price control period. Consequently, we have not included any adjustment in relation to this performance commitment in our final determination.

2.4 Green recovery

As part of our final decisions on the [green recovery](#), published in July 2021, we agreed to allow South Staffs Water additional funding during the current (2020-25) price control period. South Staffs Water receives this additional funding through a new performance commitment

with in-period ODI payments (PR19SSC_GR), introduced through a licence [modification](#) that came into effect on 1 September 2021.

The company has met the requirement for a revenue adjustment for the 2022-23 charging year by accepting our green recovery final decision by 8 August 2021 and we therefore include a positive revenue adjustment of £0.538m. We apply this through the in-period adjustments model, with relevant adjustments as set out in the overview document.

3. Impact of 2020-21 in-period ODI assessment on price controls

3.1 Our final determination

In this section we outline the financial impacts of our final decisions. First, we set out our view compared to the company's requested ODI payments in table 3.1.

Table 3.2 sets out the C-MeX and D-MeX payments included in our final determination.

Table 3.3 summarises the overall ODI payments, after other payments and relevant adjustments, that the company is due based on its performance in 2020-21.

Table 3.4 sets out our final decisions on deferrals and abatements and how we propose that these payments should be applied in 2022-23.

Table 3.5 sets out the changes that we are determining to the company's relevant price controls because of those decisions.

Unless otherwise stated all values are £m in 2017-18 FYA CPIH prices.

Table 3.1: In-period ODI payments for 2020-21 by price control (excluding C-MeX and D-MeX)

This table sets out the in-period ODI payments requested by South Staffs Water for 2020-21, by price control, and our final determination on these payments after any interventions.

Further detail on how these overall numbers have been derived is set out in the ODI performance model, which we have published on our website as part of the final determinations. Where we have applied interventions, this is set out in "Ofwat_PC_Interventions" in the ODI performance model for this company.

Price control	Company's reported payments (£m)	Our draft decisions after interventions (£m)	Our final decisions after interventions (£m)
Water resources	0.052	0.044	0.044
Water network plus	-0.474	0.934	0.934
Residential retail	0.000	0.000	0.000
Total payments	-0.423	0.978	0.978

See section 2 for details of our interventions on the company's performance commitments.

Table 3.2: C-MeX and D-MeX payments

Our final determinations include the following C-MeX and D-MeX payments for this company:

Price control	C-MeX payments (£m)	D-MeX payments (£m)
Residential retail	-0.080	n/a
Water network plus	n/a	-0.073
Total payments	-0.080	-0.073

See section 2.2.2 for further details on C-MeX and D-MeX.

Table 3.3: ODI payments including C-MeX, D-MeX, bespoke adjustments and deferrals from 2019-20 (before 2020-21 deferrals and abatements)

This table sets out the composition of total ODI payments, including C-MeX and D-MeX, brought forward deferrals and bespoke adjustments where relevant, but before our final decisions on 2020-21 deferrals and abatements.

Price control	Ofwat view of in-period ODI payments (£m)	C-MeX and D-MeX payments (£m)	ODI payments deferred from 2019-20 (£m)	Bespoke adjustments (£m)	Total ODI payments (£m, before 2020-21 abatements and deferrals)
Water resources	0.044	0.000	0.000	0.000	0.044
Water network plus	0.934	-0.073	0.000	0.538	1.399
Residential retail	0.000	-0.080	0.000	0.000	-0.080
Total	0.978	-0.153	0.000	0.538	1.363

See section 2.4 for details of the bespoke adjustments we have applied for this company.

Table 3.4: 2020-21 ODI payments after deferrals and abatements

This table sets out our final decisions on the ODI payments to be applied, after deferrals and abatements, as set out in the in-period adjustments model published on our website for this company.

Price control	Total ODI payments (£m, before 2020-21 deferrals and abatements)	Ofwat final deferrals (£m)	Ofwat final abatements (£m)	Total ODI payments to be applied in 2022-23 (£m)
Water resources	0.044	0.000	0.000	0.044
Water network plus	1.399	0.042	0.000	1.357
Residential retail	-0.080	0.000	0.000	-0.080
Total	1.363	0.042	0.000	1.321

See section 2.3 for our decisions relating to deferrals and abatements for this company.

Table 3.5: Changes to price controls (final determinations)

This table sets out the changes to the level of the company's price controls that we are determining for the Charging Years beginning on 1 April 2022 and 1 April 2023. The details for other charging years are included for completeness and ease of reference. The in-period adjustments model published on our website shows how these changes reflect the impact of our final decisions. See '[Sector overview: Final determinations of in-period outcome delivery incentives for 2020-21](#)' for how we have applied adjustments for tax and inflation.

Price control		2021-22	2022-23	2023-24	2024-25
Water resources (K factors)	Last determination	1.56	3.94	2.25	-2.01
	Final determination	1.56	4.55	1.68	-2.01
Water network plus (K factors)	Last determination	-0.61	-1.25	-6.11	-1.23
	Final determination	-0.61	0.42	-7.61	-1.23
Residential retail (total revenue, TR _t – £m, nominal prices)	Last determination	13.998	14.155	14.321	14.484
	Final determination	13.998	14.045	14.321	14.484

We have based South Staffs Water's final determination on the data and commentary provided to us by South Staffs Water (and, where relevant, other water companies). Should any of this information be revised or restated in future years, we will take account of adjustments we have made to the relevant price control in relation to the performance commitment(s) in question in making future in-period determinations.

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