

**SCHEDULE 2.1**  
**SERVICES DESCRIPTION**

**1. OVERVIEW OF THE REQUIREMENT**

- 1.1 Ofwat is the economic regulator of the water and wastewater sectors in England and Wales. It has procured a Delivery Partner to work collaboratively with Ofwat in support of the delivery of the Price Review.
- 1.2 The Delivery Partner will provide resource on a flexible basis to work with Ofwat on a collaborative basis in support of the Price Review. The majority of work will be collaborative, with Delivery Partner Personnel working alongside Ofwat staff within multiple policy Workstreams as broadly described in paragraphs 2.18-2.23 below. Paragraphs 2.11, 2.12 and 2.13 of this Schedule 2.1 provide indicative total resource levels required of the Delivery Partner.
- 1.3 The Delivery Partner will be asked to undertake certain discrete tasks in accordance with Paragraph 2.20 of this Schedule 2.1.
- 1.4 The Delivery Partner will provide the Services in return for the Capped Fee with Charges based on a Day Rate, with the potential for fixed pricing for discrete tasks referred to in paragraph 2.20 of this Schedule 2.1 (with the price for any such fixed price tasks to be subject to the overall Capped Fee).
- 1.5 The Delivery Partner Personnel shall possess relevant regulatory knowledge and key competencies, as detailed in Paragraphs 2.14, 2.15, 2.16 and 2.17 of this Schedule 2.1.
- 1.6 The engagement shall commence on the Effective Date and shall, unless terminated by either Ofwat or the Delivery Partner in accordance with the Agreement, expire at the end of the Term. The Delivery Partner may need to support Ofwat in the event of any appeals to the Competition and Markets Authority ("**CMA**"), which will be agreed between the Parties (acting reasonably) at the relevant time and shall be outside the Capped Fee.
- 1.7 The Delivery Partner will bear an element of risk for the delivery of a successful Price Review, as detailed in Schedule 5.1 (Charges and Invoicing) of this Agreement.
- 1.8 The nature of the Price Review, and Ofwat's proposed approach, means the exact scale of the work is in stages, and many of the individual activities or Workstreams will not be known until later in the Price Review. For example, Ofwat will not know how many of the Companies' business plans will be classified in each of the exceptional, fast track, slow track, and significant scrutiny categories until the conclusion of the Initial Assessment of Plans process. The scale of analytical work necessary will also depend on the quality and complexity of the Company

business plans which Ofwat receives. The nature and scope of the individual activities or Workstreams may change as the Price Review progresses.

- 1.9 These uncertainties and the potential for change could affect both the total scale of the Delivery Partner's work and the balance of work between individual Workstreams. The balance of work required by the Delivery Partner will also be affected by the extent to which Ofwat is able to deploy internal resources to the relevant Workstreams.
- 1.10 The Delivery Partner shall have robust arrangements to manage actual or potential conflicts of interest as set out in the Agreement, as well as security arrangements which meet Ofwat's security requirements, as detailed in Schedule 2.3 (Security Management).

## 2. THE REQUIREMENT

- 2.1 To assist Ofwat in meeting the resourcing requirement for the Price Review, Ofwat requires support from a Delivery Partner which is a flexible and efficient resourcing solution, capable of being adapted to respond to changing requirements throughout the Term, and is able to successfully integrate the supply of additional resource into Ofwat's extensive internal delivery effort.
- 2.2 The Delivery Partner Personnel will form part of an integrated team working alongside Ofwat staff, reporting through to the Ofwat director in each work area, and be responsible for the successful co-delivery of the Price Review. This will form the majority of the resource requirement.
- 2.3 There will also be a smaller number of discrete tasks that Ofwat will ask the Delivery Partner to undertake, for example, requiring the Delivery Partner to produce and publish reports under their own name, and an indicative set of such tasks is detailed at Paragraph 2.20 of this Schedule 2.1.
- 2.4 Ofwat requires the Delivery Partner to work with Ofwat to ensure high quality delivery of the Price Review and facilitate an environment of shared learning, the exchange of skills and knowledge between Ofwat and the Delivery Partner and to partner with Ofwat as one seamless team within Ofwat, in a way consistent with Ofwat's ways of working.
- 2.5 Ofwat requires a Delivery Partner whose organisational values and vision accord with its own (see further in Section 3).
- 2.6 The Delivery Partner shall show the same commitment to a successful delivery of the Price Review as Ofwat, and this is reflected in the incentive mechanism set out in Part A, Annex 1 of Schedule 5.1 and the assessments made under it.
- 2.7 The Price Review will conclude in December 2019, when Ofwat will publish the Final Determinations. The work required to be carried out for the Price Review, for example scrutinising business plans, producing Draft and Final Determinations, requires a peak of resource within Ofwat, both in terms of absolute numbers and specific skillsets.
- 2.8 The Delivery Partner shall support Ofwat to deliver the key phases of the Price Review, in accordance with the following indicative timetable (with additional detail of these phases provided in the [PR19 final methodology published on 13 December](#)):

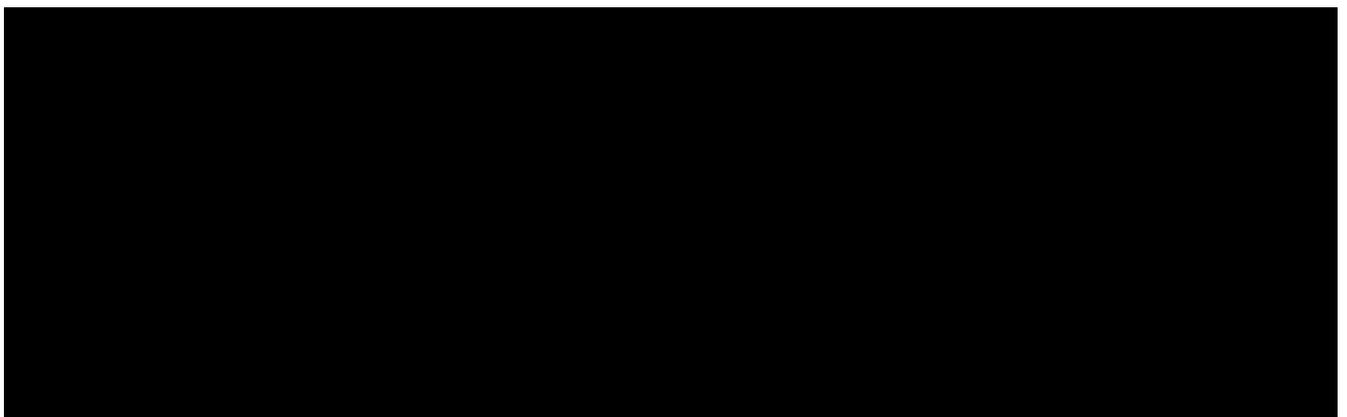
| Date               | Action and key tasks  |
|--------------------|---|
| June - August 2018 | <b>Stage 1:</b> Preparation for initial assessment of business plans (IAP), mobilisation, review and further development of detailed methodology for initial assessment tests (including in light of lessons learned from the red |

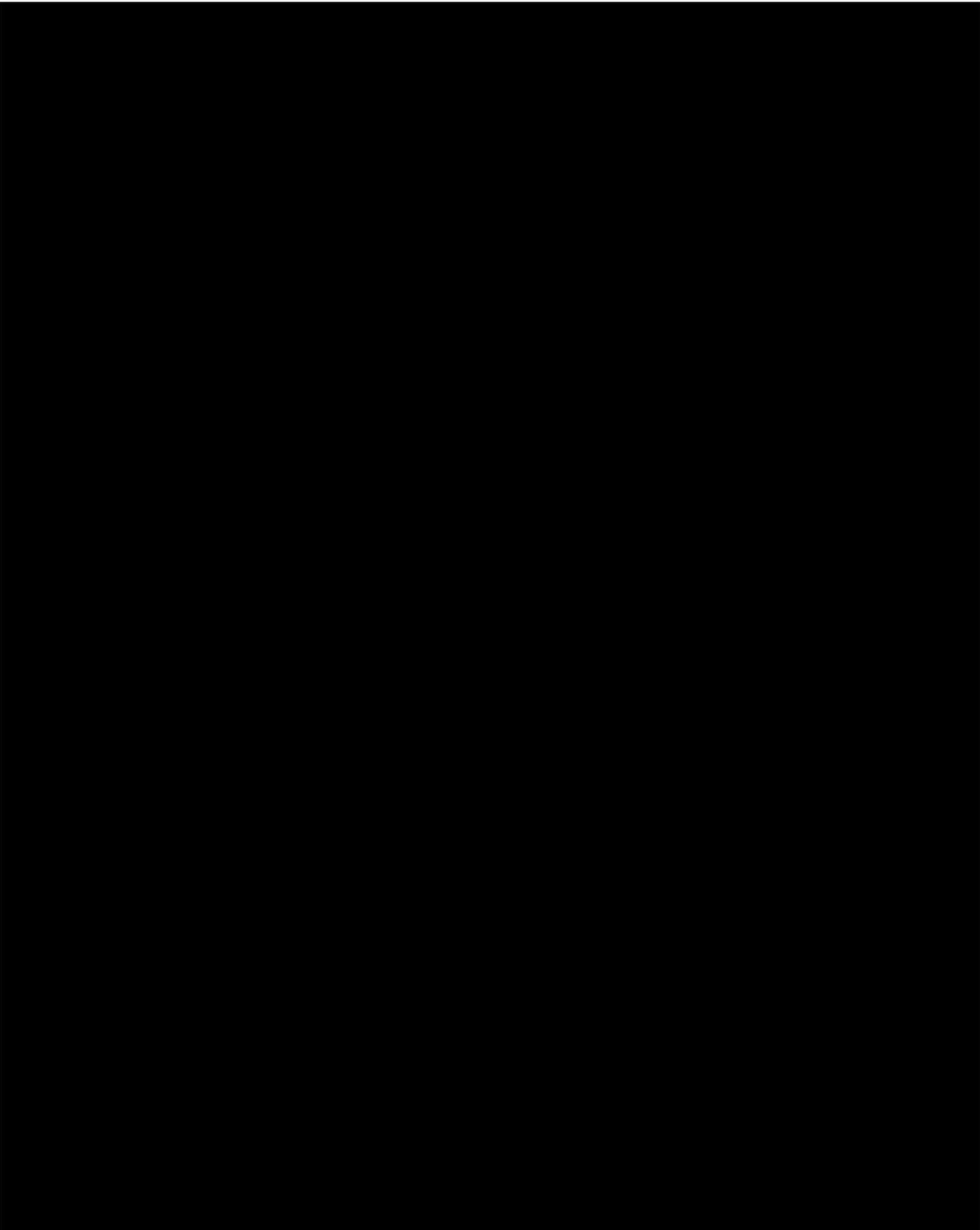
|                  |   |
|------------------|---|
|                  | run), review and if necessary further development of assurance processes. To support the early assessment of elements of the initial assessment such as special cost factor claims and PR14 reconciliation.   |
| 3 September 2018 | Submission of Company business plans.   |
|                  | <b>Stage 2:</b> Undertake initial assessment of Company business plans. Assessment of each Company's business plan against the initial assessment tests. Identify scale of interventions required in each area. Categorisation of Company business plans.                                   |
| January 2019     | Publish initial assessment and categorisation of Company business plans.  |
|                  | <b>Stage 3:</b> Draft determinations for Companies with exceptional and fast track business plans. This includes setting price/revenue limits for each control and the service and incentive package for each Company, reflecting interventions in Company plans, where appropriate.        |
| March/April 2019 | Publish draft determinations for Companies with exceptional and fast track business plans.  |
|                  | <b>Stage 4:</b> Draft determinations for Companies with slow-track and significant scrutiny plans. Following resubmission of plans or elements of plans in April 2019, the assessment of revised proposals and the development of draft determinations for each Company concerned.          |
| July 2019        | Publish draft determinations for Companies with slow track and significant scrutiny business plans.   |
|                  | <b>Stage 5:</b> Development of final determinations. Following the receipt of consultation responses, the assessment of these responses, making appropriate adjustments to Company determinations (including for new information) and development of final determinations for each Company. |
| December 2019    | Publish final determinations for all Companies.   |

2.9 Elements of knowledge sharing and/or knowledge transfer required under the Agreement may continue to be provided for a short period after Final Determinations.

2.10 Within two months of publication, water companies can refer their final determinations to the Competition and Markets Authority for a re-determination. If there is an appeal, Ofwat is likely to require the Delivery Partner to provide support to Ofwat through the CMA appeal process, which shall be outside the scope of the Capped Fee, but shall be at the same Day Rates (and on the same basis) as set out in the Agreement and Schedule 5.1 (Charges and Invoicing).

## THE SCALE OF THE RESOURCE REQUIREMENT





**THE DELIVERY PARTNER SKILLS**

2.14 Delivery Partner Personnel shall possess knowledge of:

2.14.1 Ofwat's methodology and business planning expectations for the Price Review;

2.14.2 Ofwat's strategic policy goals; and

2.14.3 The strategic policy statements of the UK Government and the Welsh Assembly and the expectations of key stakeholders for the 2019 price review, including the Environment Agency, Natural England, the Drinking Water Inspectorate and Natural Resources Wales.

2.15 Delivery Partner Personnel must have knowledge and experience of:

2.15.1 Business planning and price review processes in regulated utility environments;

2.15.2 The core economic concepts that underpin regulatory price controls; and

2.15.3 Overarching price review processes, including the management of assessment processes to achieve consistent and coherent decision-making across companies.

## **KEY COMPETENCIES**

2.16 The Key Competencies required of the Delivery Partner shall include:

2.16.1 Qualifications and experience relevant to their core discipline;

2.16.2 Sound knowledge of their relevant discipline;

2.16.3 Broad understanding of current regulatory environment and regulatory developments and issues;

2.16.4 Good interpersonal and strong communication skills, both written and verbal and capability in expressing economic ideas clearly and simply to non-experts;

2.16.5 High levels of literacy and ability to deliver high quality professional documents to tight timescales;

2.16.6 A high level of initiative and commitment;

2.16.7 Ability to understand and analyse highly complex issues and information; and

2.16.8 Ability to support or manage the delivery of complex and inter-related projects and work packages.

2.17 Ofwat's requirements can be described in terms of the following specialisms, and relevant specific knowledge and skills that relate to these:

| Discipline   | Specific knowledge and skills   |
|--|---|
| <p><b>Corporate finance and tax</b> - Ofwat will need to examine and analyse Company business plans, financial statements and forecasts, financial models, financial structures and accounting policies. This will include understanding corporate finance, the financial positions of companies, tax, and how to assess financial stability and resilience (particularly of monopoly infrastructure companies).</p>   | <ul style="list-style-type: none"> <li>• Understanding of the factors which influence the cost of capital which regulated Companies face.</li> <li>• Understanding of Company and group structures, how Companies raise finance and the types of finance that are available to them.</li> <li>• Developing and using financial indicators to monitor the performance and financial stability and resilience of Companies including their use by credit rating agencies, debt analysts and equity analysts.</li> <li>• Understanding, explaining and interpreting financial data and statements.</li> <li>• Understanding of treatment and approach to tax.</li> </ul>   |
| <p><b>Engineering, water resources and operations</b> – Ofwat will need to assess Company business plans for resilience and innovation, as well as understanding of the full range of options for maintenance and enhancement of services. This could include large and complex engineering projects under direct procurement, as well as the effectiveness and efficiency of asset maintenance, both now and in the longer term. Ofwat will need engineering knowledge and expertise to help understand the design of performance commitments, the level of stretch that Companies can achieve and appropriate outcome delivery incentives. Understanding of role of natural environment and impact on environment of water and wastewater companies.</p> | <ul style="list-style-type: none"> <li>• Significant practical experience of the water or wastewater industries such as capital programme delivery, demand side measures/lowering per capita water consumption, network planning, management and optimisation, meeting environmental obligations, reducing leakage, business planning or water/wastewater business operation or management;</li> <li>• Knowledge of the assessment of risks to operational resilience and the appropriate mitigation of risks to operational resilience;</li> <li>• Knowledge of risk based asset management approaches, engineering techniques and solutions, systems approach and options appraisal;</li> <li>• Awareness and good understanding of Company approaches to investment and asset management;</li> <li>• Awareness and understanding of risks to drinking water quality and how to effectively and efficiently mitigate risks;</li> <li>• Assessment and analysis of efficient operation and management of water and wastewater network and resource businesses;</li> <li>• Understanding of operation and management of sludge treatment, transport and disposal; and</li> <li>• Knowledge and expertise in assessing impact on natural environment, biodiversity, catchment management and natural capital.</li> </ul> |

| Discipline  | Specific knowledge and skills  |
|---|--|
| <p><b>Economics</b> – apply economic insight and techniques to real world problems to ensure that monopoly companies deliver what customers want – now, and in the longer term. The Delivery Partner must understand how the price control incentives interact; and apply regulatory and financial economics techniques to ensure that customers are protected and companies are efficient. The challenges range from detailed design and operation of individual incentives to the development of economic and econometric models.</p> | <ul style="list-style-type: none"> <li>• Experience of applying techniques to economic regulation, including one or more of the following: <ul style="list-style-type: none"> <li>- Cost assessment and econometric modelling;</li> <li>- Incentive design and the allocation of risk;</li> <li>- Setting the cost of capital and margins;</li> <li>- Mechanisms to facilitate third party delivery of infrastructure;</li> <li>- Appropriate allocation of risk between companies and customers;</li> <li>- Assessing customer support and valuation for outcome performance commitments and delivery incentives;</li> <li>- Assessing affordability of Company business plans;</li> <li>- Environmental economics and valuation of natural capital; and</li> <li>- Cost benefit analysis.</li> </ul> </li> <li>• Experience of providing strong intellectual leadership on regulatory policy issues based on sound knowledge of relevant economic theory and quantitative techniques; and</li> <li>• In-depth practical knowledge of microeconomics and its application to economic regulation.</li> </ul> |
| <p><b>Financial Modelling and information and data</b><br/>Ofwat will need to develop robust financial and other models and implement appropriate procedures to ensure accuracy of data flow through these models.</p> <p>Ofwat will need to manage large quantities of complex information to reach robust decisions, and publish its results, and Ofwat needs to be confident that this has been done correctly. Ofwat will need to develop and operate a quality assurance processes</p>   | <ul style="list-style-type: none"> <li>• Strong financial modelling skills with in depth knowledge of the FAST modelling standard;</li> <li>• Strong Excel skills;</li> <li>• Experience of rapidly adding functionality to existing models;</li> <li>• Experience of developing or using price control financial models;</li> <li>• Experience of using Monte Carlo analysis and sensitivity analysis in financial models;</li> <li>• ACA, ACCA, CIMA, CFA qualified or equivalent/qualified by experience;</li> <li>• Experience of leading the development of tools and processes for information management and/or analysis;</li> <li>• Experience of investigating operational needs and problems, and implementing improvements in process and automation;</li> <li>• Experience of leading the development</li> </ul>   |

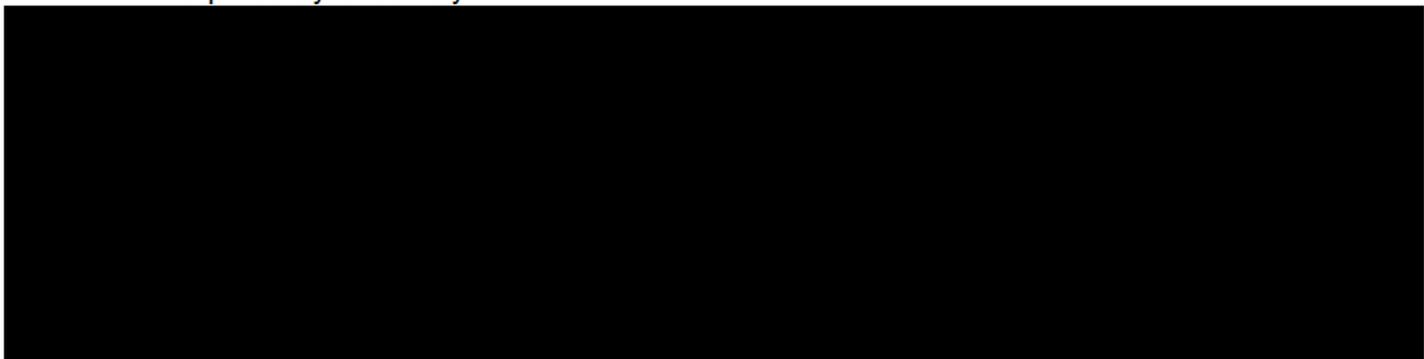
| Discipline  | Specific knowledge and skills   |
|---|---|
|   | <p>and implementation of quality assurance processes and user acceptance testing;</p> <ul style="list-style-type: none"> <li>• An in-depth understanding of data modelling, data cleansing, data management, optimisation of data flows and data enrichment techniques; and</li> <li>• Experience of handling, storing and disseminating information efficiently and securely.</li> </ul> |
| <p><b>Regulatory policy advice</b> – Ofwat will need to think strategically about the impact of its decisions on customers, companies, other stakeholders and the long term resilience of the sector. Experience with managing relationships, high quality drafting and the ability to present complex information clearly is important. Ofwat requires people with understanding of customer perspectives, outcomes, resilience, assurance, and the role of innovation in delivering better solutions for customers, whether this is via technology, policy thinking, or planning.</p> | <ul style="list-style-type: none"> <li>• In-depth understanding of economic regulation, particularly price reviews, from a regulatory industry or regulatory body perspective, and being able to apply this across the board in a way that is insightful, well-structured and accessible.</li> </ul>  |

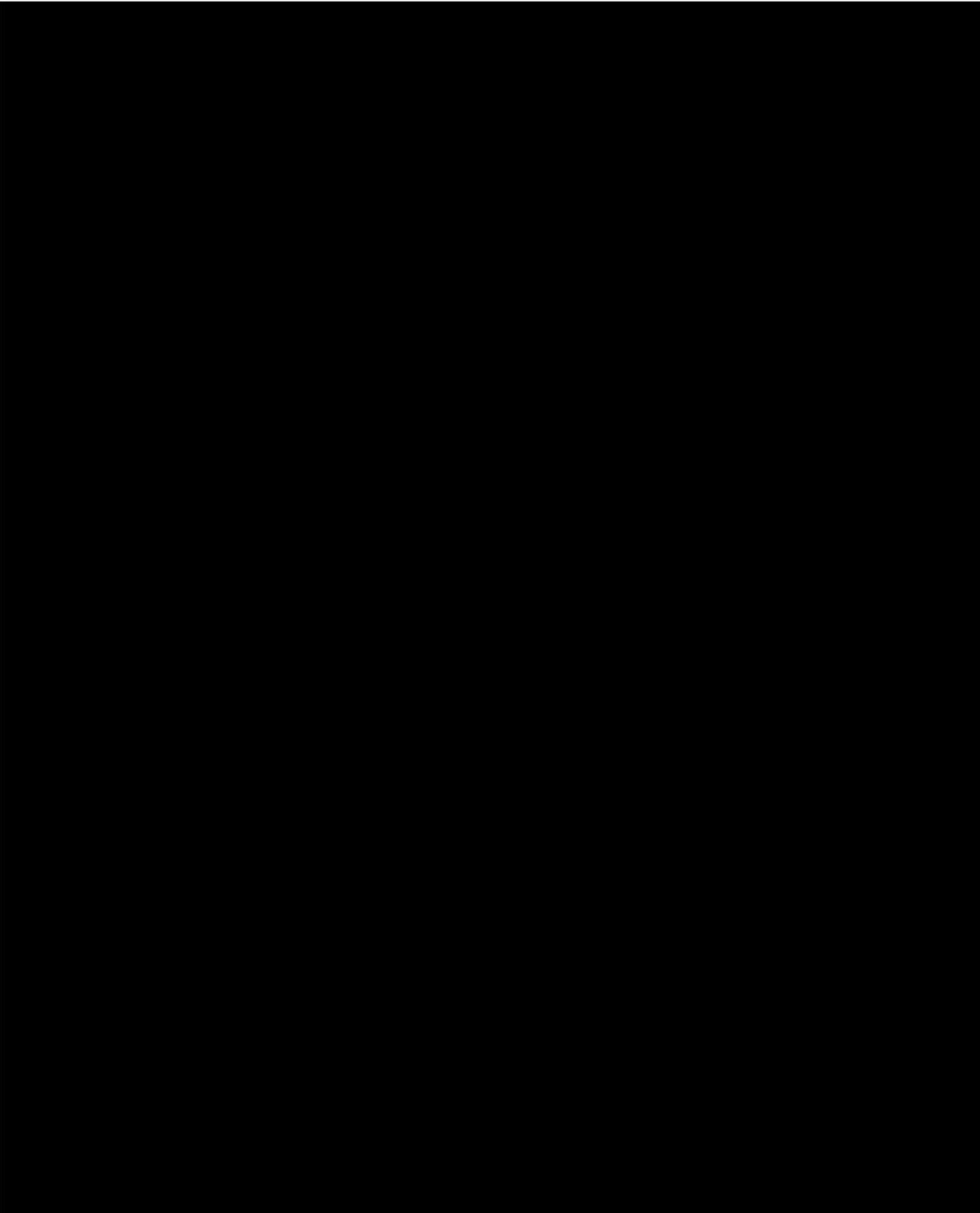
## WORK AREAS REQUIRED OF THE DELIVERY PARTNER

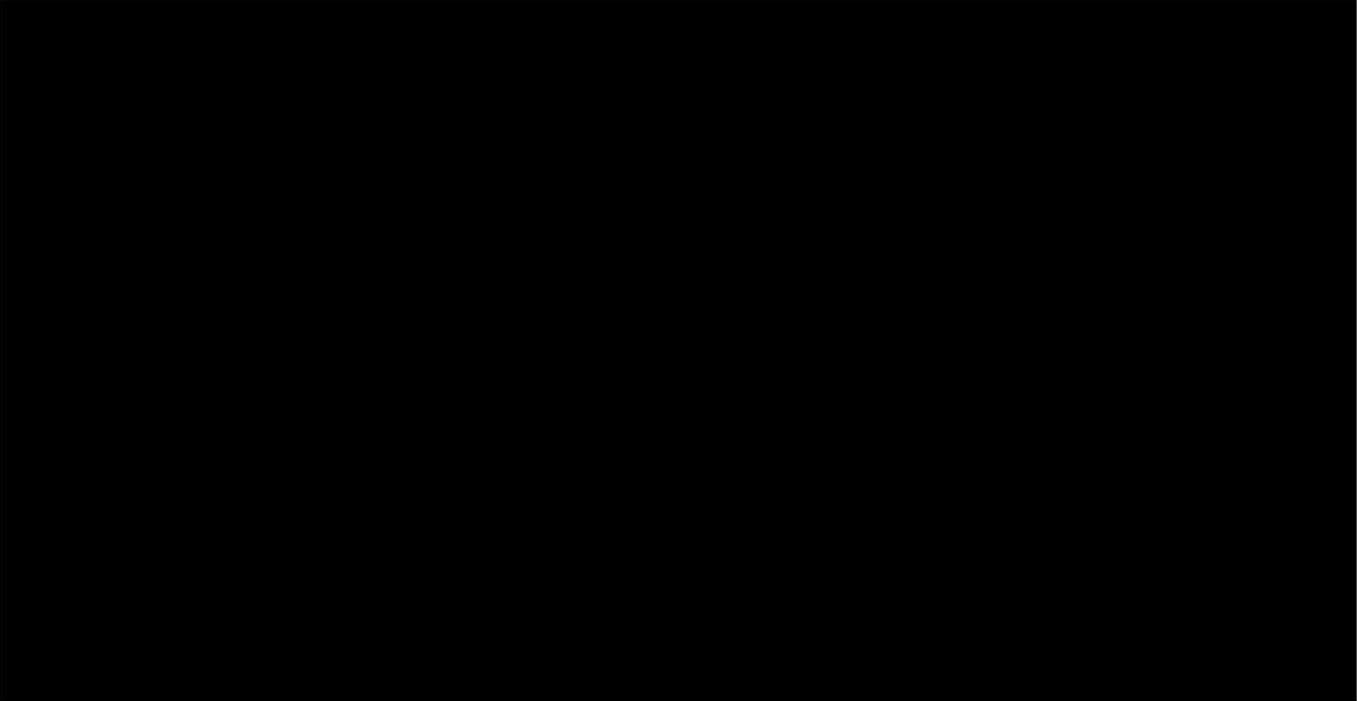
2.18 Ofwat has identified the Workstreams expected to be covered, and the Delivery Partner shall provide flexible support across all Workstreams and within individual Workstreams as required to ensure the successful delivery of the Price Review.

2.19 Ofwat and the Delivery Partner will need to react to the content of Company business plans submitted in September 2018, as the content of these will strongly influence the areas which will need the highest levels of scrutiny through the Price Review.

2.20 The following table provides a high-level summary of the Workstreams where Ofwat would expect the Delivery Partner to support the delivery of the Price Review. In each area where support is required, the Delivery Partner shall report into the overall Ofwat lead for the area and be part of a joint Ofwat and Delivery Partner project team to deliver the required output. The areas in bold are those discrete areas where Ofwat expects the Delivery Partner to have sole responsibility for delivery:







2.21 The nature of the Price Review, and Ofwat's proposed approach, means the exact scale of the work in some of the stages, and in many of the individual Workstreams, will not be known until later in the Price Review. These uncertainties could affect both the total scale of the Delivery Partner's work and the balance of work between individual Workstreams.

2.22 Ofwat will not know how many Company business plans will be classified in each of the exceptional, fast track, slow track, and significant scrutiny categories until the conclusion of the IAP Stage. In addition, as issues arise there may be a need for additional discrete deliverables from the Delivery Partner, for example a review of the case for individual investment schemes. The scale of analytical work necessary will also depend on the quality and complexity of the Company business plans. The precise nature and scope of work may change as Ofwat further develops the Price Review.

2.23 The balance of work to be undertaken by the Delivery Partner will be affected by the extent to which Ofwat is able to deploy internal resources to the relevant Workstreams. Ofwat may be able to cover discrete areas above in their entirety.

2.24 Where the Parties agree that a particular activity or Deliverable would benefit from clear acceptance criteria (including but not limited to time and quality criteria), the Parties will discuss and agree such criteria. Any agreed criteria will be documented and this will act as a point of reference in understanding Ofwat's requirements for the relevant activity or Deliverable. It is acknowledged that acceptance criteria will be agreed on an 'exception only' basis, and will not be relevant in relation to delivery of the majority of the Services.

## **OUT OF SCOPE WORK FOR THE DELIVERY PARTNER**

2.25 In addition to retaining accountability for all of the outputs in the Price Review, and providing leadership and staffing for the joint Ofwat and Delivery Partner teams on each of the Workstreams described in Paragraph 2.20 above, Ofwat will retain responsibility for other supporting and concluding processes associated with delivering the Price Review. We do not envisage requiring the Delivery Partner to support the following matters in particular:

2.25.1 overall programme management of the Price Review;

2.25.2 managing the process for decision-making in relation to policy, the initial assessment of Companies' business plans and draft and final determinations;

2.25.3 policy decisions;

2.25.4 communicating Ofwat's processes and decisions; and

2.25.5 external stakeholder management.

## **INTERACTION BETWEEN OFWAT AND THE DELIVERY PARTNER**

2.26 Close co-operation and co-ordination around the supporting and concluding processes will require resource from the Delivery Partner, in particular for seamless programme management.

2.27 Ofwat will:

2.27.1 be responsible and accountable for delivering the Price Review;

2.27.2 deliver strategic direction to the Price Review;

2.27.3 deliver the Workstreams with support from the Delivery Partner;

2.27.4 direct and manage the Workstreams;

2.27.5 sign off all key documents;

2.27.6 make key decisions in accordance with Ofwat's governance framework; and

2.27.7 work with the Delivery Partner in line with Ofwat's values.

2.28 The Delivery Partner will:

2.28.1 work collaboratively in line with Ofwat's values;

2.28.2 work closely and seamlessly with Ofwat staff;

2.28.3 provide flexible resourcing across a variety of defined disciplines;

2.28.4 support the delivery of work-streams, as set out in this Schedule;

2.28.5 provide assurance at a senior level to the PR19 SROs on the Delivery Partner's input to the price review process; and

2.28.6 be responsible for delivering advice on specific requirements.

### 3. WAYS OF WORKING IN THE PRICE REVIEW - COLLABORATION

3.1 This Paragraph 3 details Ofwat's requirements with respect to how the Delivery Partner will work with Ofwat.

#### COLLABORATIVE WORKING

3.2 The Delivery Partner acknowledges that it is vital to Ofwat that it supports Ofwat's values and Ofwat's vision for Ofwat as an organisation “to be working at the leading edge, trusted and respected, challenging ourselves and others to build trust and confidence in water”, and that it shall reflect this in the work the Delivery Partner undertakes with Ofwat.

3.3 Ofwat requires a Delivery Partner whose values are aligned to its SAILOR values, which are based around the following 6 key behaviours:

## We are Ofwat

### We aspire to act in line with our values in everything we do



3.4 The Delivery Partner will demonstrate:

3.4.1 that Ofwat's values are reflected in the values of their own organisation and in the way it works with Ofwat;

3.4.2 the specific activities it will carry out to ensure the supply of resource is adequately embedded within Ofwat and its governance structures; and

3.4.3 that the resource contribution is consistent with Ofwat's values.

3.5 To maintain the level of engagement with Ofwat, Ofwat requires the Delivery Partner to work seamlessly with Ofwat's internal team, which shall mean working within Ofwat ways of working, flexibly and at both Ofwat offices. Ofwat staff work across two offices (base locations) at:

- Centre City Tower, 7 Hill Street, Birmingham, B5 4UA; and
- Bloomsbury House, 21 Bloomsbury Street, London, WC1B 3HF

3.6 The Delivery Partner will be expected to work on site for the majority of their time at either the Birmingham or London office with travel between the locations as required. The majority of Delivery Partner Personnel must be based in the Birmingham office. There may be instances (for example, in undertaking the financial modelling requirement) where Ofwat may specify an office location for specific tasks within the Agreement.

3.7 Ofwat will aim to provide the Delivery Partner staff desks in both locations, with a greater proportion of desk space available in Birmingham during the Term. The work space will include a monitor, keyboard and mouse on each desk. The Delivery Partner's staff will be expected to use their own mobile phones, and to provide their numbers to Ofwat staff for calls during established work hours. Access to printing and Wi-Fi will be made available. The Delivery Partner will be required to use their own laptops/computers to remotely access Ofwat's working directories, apart from where Ofwat hardware will be required for access to specific systems (for example, Ofwat's Fountain database).

3.8 The Delivery Partner Personnel will be required to wear identification when at Ofwat's offices, and will be required to undertake an induction with regards to Health & Safety in the workplace, Ofwat's standard Security Induction and any other relevant training that is required to work safely and securely in Ofwat premises.

3.9 Access to meeting spaces will be provided and bookable through Ofwat's Business Support function or the Office Manager in London.

3.10 Ofwat currently holds information classified at OFFICIAL level and is connected to the PSN (Public Services Network). Any individuals to be given access to Ofwat's assets (defined as premises, systems, information or data) will be subject to the following: HMG Baseline Personnel Security Standard (BPSS), the HMG Security Policy Framework and all Ofwat's security policies from time to time.

3.11 The Delivery Partner shall reflect Ofwat's values and behaviours. In particular, Ofwat requires that:

3.11.1 the Delivery Partner will identify an individual or point of contact responsible for day to day contract management and resolving day to day issues;

3.11.2 the Delivery Partner will identify a senior sponsor whose role will be to:

- lead on the development of the partnership;
- bring forward ideas for how the partnership can be improved;
- participate in the governance of the project and ensure that work is pushed forward; and
- act as a senior point of escalation to resolve any issues Ofwat encounters which cannot be resolved by normal day to day contact.

3.12 Ofwat requires the Delivery Partner to be innovative in delivery, but respectful of Ofwat's need to comply with rules and process as a Government body.

## **KNOWLEDGE SHARING**

3.13 The Delivery Partner shall be committed to transferring skills and knowledge throughout the Term in order that Ofwat is better placed to deliver going forwards.

3.14 Ofwat's approach to learning and development is to provide people with opportunities to learn, develop and grow.

3.15 Ofwat's staff are organised into resource pools, which reflect the skill set each of them primarily brings to Ofwat. Ofwat selects people from different resource pools to work on programmes and projects, and uses external people and specialists as needed. Ofwat continually seeks opportunities to share knowledge from and with specialists. The Delivery Partner will provide skills/knowledge transfer during the Term, including specific deliverables in the areas of skills transfer and knowledge sharing as set out in Schedule 4.1 (Delivery Partner Solution).

3.16 The Delivery Partner shall be able to demonstrate its commitment to sharing knowledge through various methods. In particular, the Delivery Partner shall:

3.16.1 Capture key lessons throughout the Agreement and feed this back into the Price Review, and wider Ofwat;

3.16.2 Share experience of different ways of delivery, including techniques, in a collaborative way to encourage a two-way flow of learning between Ofwat and the Delivery Partner;

3.16.3 Share know-how such as regularly making available free of charge (including, but not limited to) printed publications, e-briefings, webinars, and invitations to briefings, seminars, etc. relevant to the Price Review;

3.16.4 Facilitate a knowledge transfer at the end of each phase of the Agreement, including preparation and supply of physical/electronic document briefings; and

3.16.5 Provide free training throughout the cycle of the Agreement. This training may be bespoke or from the Delivery Partner's current portfolio of training and may be provided through various media.