

## SCHEDULE 5.1

### CHARGES AND INVOICING

#### DEFINITIONS

In this Schedule, the following definitions shall apply:

<b>"Band"</b>	the relevant band for the Rate Card as set out in Part B, Annex 2;
<b>"Base Location"</b>	the Ofwat premises at which the Services will be principally performed by the relevant member of the Delivery Partner Personnel;
<b>"Capped Fee"</b>	the capped fee payable by Ofwat for delivery of the Services as set out in Part B, Annex 1 to this Schedule 5.1;
<b>"Charges"</b>	Means the charges for the Services set out in or otherwise calculated in accordance with this Schedule and which shall exclude any Reimbursable Expenses;
<b>"Day Rate"</b>	the relevant day rate as set out in the applicable Rate Card by Person Day;
<b>"Incentivisation Mechanism"</b>	The Incentivisation mechanism set out in Part A, Annex 1 of this Schedule;
<b>"Output Review"</b>	shall have the meaning given to it in Part A, Annex 1 of this Schedule;
<b>"Performance Fund"</b>	<b>Payment</b> shall have the meaning given to it in Part A, Annex 1 of this Schedule;
<b>"Performance Review"</b>	shall have the meaning given to it in Part A, Annex 1 of this Schedule;
<b>"Person Day"</b>	8 Person Hours, whether or not such hours are worked consecutively;
<b>"Person Hours"</b>	the hours spent by the Delivery Partner Personnel properly working on the Services including, if applicable, time spent travelling (other than to and from their usual city of work, or to and from their Base Location) but excluding lunch breaks;
<b>"RAG Methodology"</b>	shall have the meaning given to it in Part A, Annex 1 of this Schedule;
<b>"Rate Card"</b>	the rate card set out in Part B, Annex 2 by reference to Person Days which is fully inclusive of all costs and charges but excluding Reimbursable Expenses;
<b>"Reimbursable Expenses"</b>	reasonable out of pocket travel and subsistence (for example, hotel and food) expenses, properly and necessarily incurred in the performance of the Services, calculated in accordance with and at the lower of the rates set out in either Ofwat's or the Delivery Partner's expenses policy current from time to time, but not including:  (a) travel expenses incurred as a result of Delivery Partner Personnel travelling to and from their usual

place of work, or to and from their respective Base Location if in the same city as their usual place of work; and

- (b) subsistence expenses incurred by Delivery Partner Personnel whilst performing the Services at their usual place of work or at their respective Base Location, save for hotel expenses and dinner expenses if staying overnight in a different city from their usual place of work;

**Reimbursable Expenses Cap** the sum of £180,000 in respect of all Reimbursable Expenses incurred by Delivery Partner Personnel during the Term (which for the avoidance of doubt is included within the Capped Fee).

**"Success Payment"** shall have the meaning given to it in Part A, Annex 1 of this Schedule;

**"Success Payment Fund"** shall have the meaning given to it in Part A, Annex 1 of this Schedule;

**"Supporting Documentation"** sufficient information in writing to enable Ofwat reasonably to assess whether any element of the Charges, Reimbursable Expenses and/or any other sums due from Ofwat detailed in the information are properly payable.

## **PART A**

### **PAYMENT MECHANISM AND PRICING METHODOLOGY**

#### **1. INTRODUCTION**

- 1.1 Charges for the provision of the Services shall be calculated on the basis of the Rate Card as described in more detail in this Schedule 5.1 (Charges and Invoicing) but subject to the Capped Fee.

#### **2. CAPPED FEE**

- 2.1 The Delivery Partner will only be entitled to be paid more than the Capped Fee if:
- 2.1.1 it is required to support any appeals to the Competition and Markets Authority with respect to any Final Determination;
  - 2.1.2 the actual resource profile required to deliver the Services in accordance with the Statement of Requirements exceeds an average of twenty five (25) FTE over the Term and the utilisation of the additional FTE (above the average of twenty five (25) FTE) has been agreed by Ofwat in advance of the utilisation;
  - 2.1.3 it is otherwise agreed that services required by Ofwat fall outside the agreed Statement of Requirements; or
  - 2.1.4 it has, having first obtained the prior written consent of Ofwat to do so, incurred expenses in excess of the Reimbursable Expenses Cap in relation to the provision of additional support, resources or services pursuant to paragraphs 2.1.1 to 2.1.3 (inclusive) above.

Fees for such 'out of scope' areas will be calculated on the basis of the Rate Card.

#### **3. BREAKDOWN OF CHARGES**

- 3.1 The Delivery Partner shall, following a request from Ofwat, provide Ofwat with the following for a specific task or Deliverable falling within the Services, and shall then report against that price, which shall include a breakdown of number of days and day rates, as it delivers such task and/or Deliverable (provided always that any such pricing of individual tasks and/or Deliverables remains subject to the overall Capped Fee):-
- 3.1.1 A fixed price; or
  - 3.1.2 A capped price; or
  - 3.1.3 An estimated price.

#### **4. GENERAL CHARGING PRINCIPLES**

- 4.1 The general charging principles set out below shall apply.
- 4.2 The Capped Fee shall include all costs and expenses relating to the Services, any Deliverables and/or the Delivery Partner's performance under this Agreement and the Delivery Partner shall not be entitled to charge Ofwat any additional charges, costs or expenses not specifically agreed.
- 4.3 The Delivery Partner acknowledges and agrees that, save as expressly set out in this Agreement including with respect to Reimbursable Expenses, the rates set out in the Rate Card(s) are fully inclusive and include all charges, costs and expenses of the Delivery Partner in the provision of the Services. including, without limitation, all travel expenses.
- 4.4 The Rate Cards form the basis of charging for all Services provided under this Agreement.

- 4.5 The Parties agree that:-
- 4.5.1 the Day Rates are based on one Person Day which will be 8 hours;
  - 4.5.2 where less than 8 hours is incurred on any given day by any individual, the applicable Day Rate shall be applied on a pro rata basis; and
  - 4.5.3 no overtime shall be payable, i.e. if more than 8 hours is worked in any given day, the Day Rate only may be charged.
- 4.6 The Delivery Partner shall:-
- 4.6.1 only include time spent by Delivery Partner Personnel properly working on the Services, including time spent travelling (other than to and from their usual city of work or to and from their Base Location) provided that the Delivery Partner Personnel use reasonable endeavours to utilise such time in relation to the provision of the Services always having regard to security considerations, but excluding lunch breaks;
  - 4.6.2 only charge Ofwat for Reimbursable Expenses at cost price;
  - 4.6.3 only be entitled to be paid Charges and reimbursed for Reimbursable Expenses that have been properly and reasonably incurred, taking into account the Delivery Partner's obligation to deliver the Services in a proportionate and efficient manner and consistent with the Pricing Principles set out in Part B, Annex 3.
- 4.7 Ofwat shall not be liable to pay more than once for the same resource, for example where that resource is used in more than one capacity under a Workstream or is used under more than one Workstream. Accordingly, the Delivery Partner shall:
- 4.7.1 ensure that the Charges and Reimbursable Expenses applicable to any Workstream are reduced to reflect any such re-use of resource; and
  - 4.7.2 reimburse Ofwat where any resource has been re-used as described in this Paragraph 4.7 and the Delivery Partner has recovered the costs of that resource more than once.
- 4.8 The Delivery Partner shall keep records of Person Days properly worked by Delivery Partner Personnel (in the form of timesheets) and expenses incurred and submit a summary of the relevant records with each invoice. If Ofwat requests copies of such records, the Delivery Partner shall make them available to Ofwat within 10 Working Days of Ofwat's request.
5. **REIMBURSABLE EXPENSES**
- 5.1 The Delivery Partner shall be entitled to be reimbursed by Ofwat for Reimbursable Expenses (in addition to being paid the relevant Charges) up to the Reimbursable Expenses Cap, provided that such Reimbursable Expenses are supported by Supporting Documentation.
  - 5.2 Ofwat shall provide a copy of its current expenses policy from time to time to the Delivery Partner upon request.
6. **INCENTIVISATION MECHANISM**
- 6.1 The Parties agree that the Incentivisation Mechanism provisions set out in Part A, Annex 1 shall apply.
7. **TERMINATION OF THE AGREEMENT**
- 7.1 Subject to paragraphs 7.2 and 7.3, in the event of any termination of this Agreement for any reason whatsoever prior to the expiry of the Term, Ofwat will pay the Delivery Partner for the

Services actually performed by or on behalf of the Delivery Partner up to and including the date of such termination.

7.2 The Parties acknowledge and agree that, where the Agreement has been terminated for any reason whatsoever prior to the expiry of the Term, then the Delivery Partner shall not be entitled to:

7.2.1 subject to paragraph 7.3 below, receive payment of the Performance Payment (or any element of the Monthly Amount which has been retained in the Performance Payment Fund pursuant to the Incentivisation Mechanism);

7.2.2 receive payment of the Success Payment (or any element of the Monthly Amount which has been retained in the Success Payment Fund pursuant to the Incentivisation Mechanism); or

7.2.3 any payment or incentive in relation to budget management or spending as against the Capped Fee (as set out in paragraph 5 of Part A, Annex 1 of this Schedule or otherwise).

7.3 Where the Agreement has been terminated:

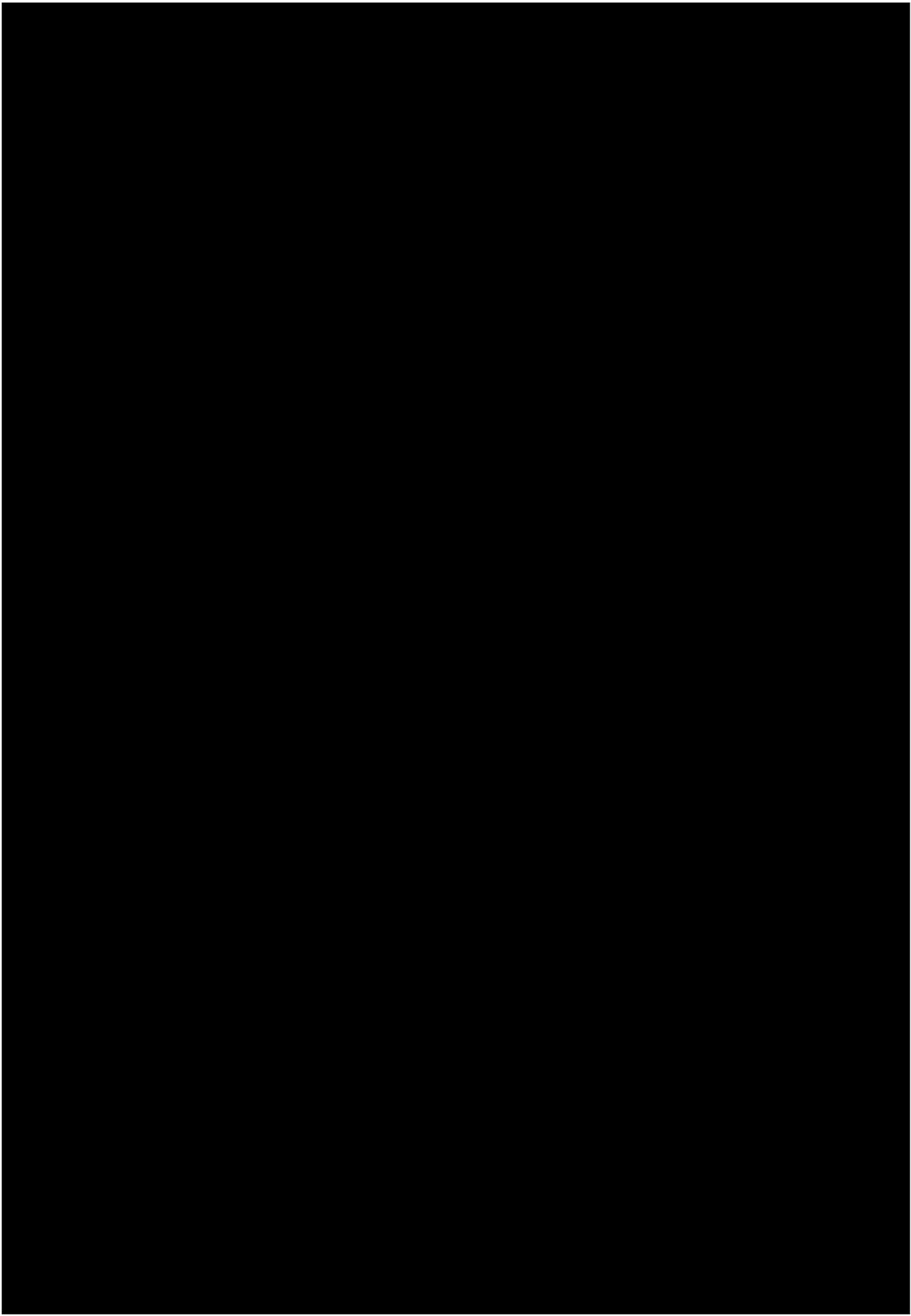
7.3.1 by Ofwat pursuant to Clauses 32.1.1(a), 32.1.1(c), 32.1.1(d) or 32.1.1(e) (Termination by Ofwat); or

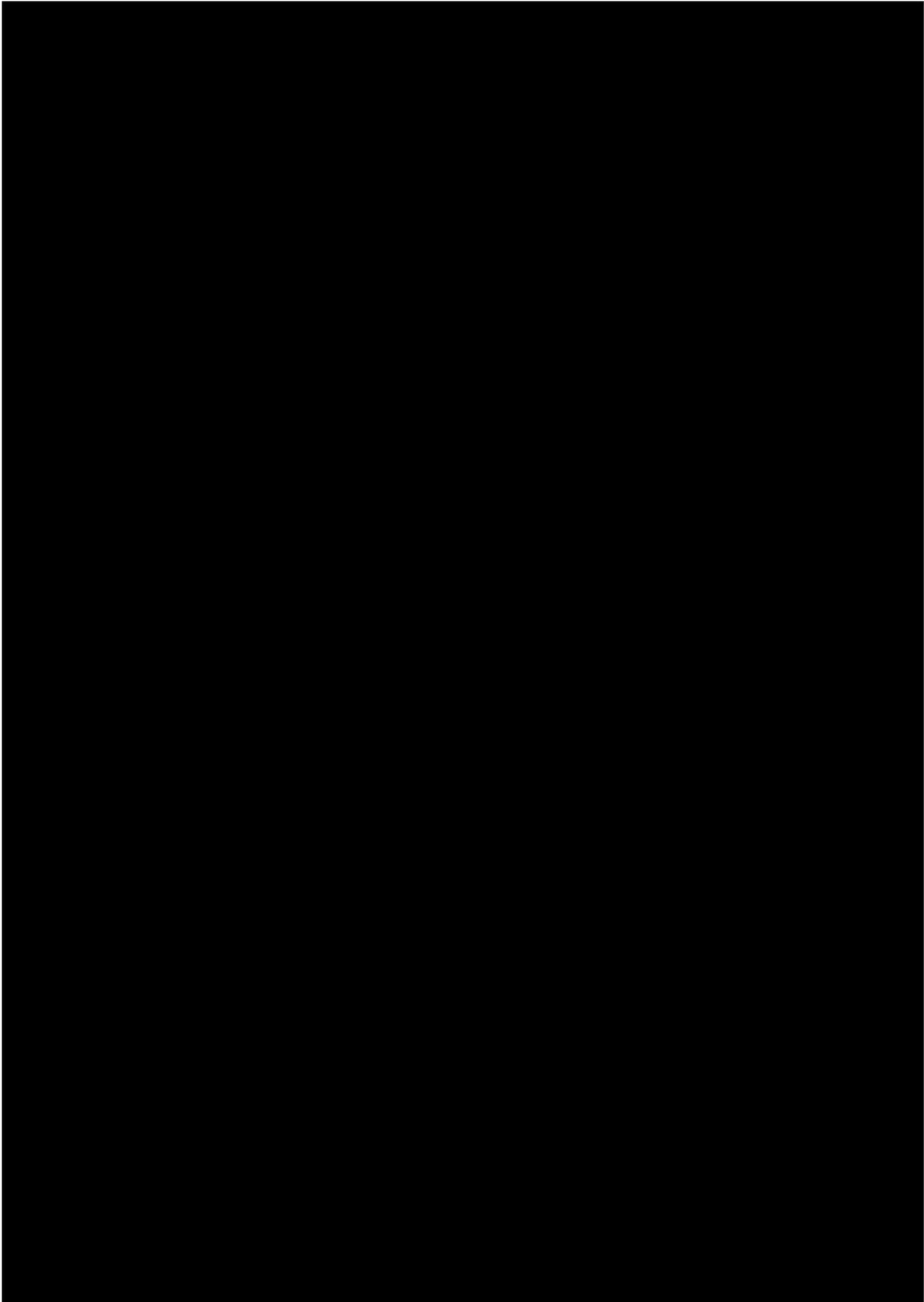
7.3.2 by the Delivery Partner pursuant to Clause 32.2 (Termination by the Delivery Partner),

then, to the extent that Charges and Reimbursable Expenses for any Services actually performed by or on behalf of the Delivery Partner up to and including the date of such termination have been retained in the Performance Payment Fund pursuant to the Incentivisation Mechanism, then such Charges and Reimbursable Expenses shall be payable to the Delivery Partner, with the actual amount of such payment to be calculated in accordance with paragraph 7.4 below,

7.4 Where Charges and Reimbursable Expenses are payable to the Delivery Partner from the Performance Payment Fund in accordance with paragraph 7.3 above, then the amount of Charges and Reimbursable Expenses payable shall be calculated in accordance with the performance payment mechanisms set out in paragraph 3, Part A, Annex 1 to this Schedule within thirty (30) days of termination and paid in accordance with the procedure for invoicing under paragraph 3.8.5 of Part A, Annex 1 to this Schedule. Where Ofwat is required to calculate the amount of Charges and Reimbursable Expenses which are payable from the Performance Payment Fund prior to one of the specified Performance Payment stages (i.e. the IAP Stage or the Final Determination Stage) then Ofwat shall refer to the aggregated scores achieved by the Delivery Partner in its Performance Reviews and Output Reviews up to and including the date of termination. In the event that a previous Performance Review and/or Output Review is not available, Ofwat at its sole discretion shall assess the Delivery Partner's performance as against the Performance Review criteria and the Output Review criteria as at the date of termination of the Agreement;







### RAG Methodology

- 3.4. The RAG Methodology is a means of assessing performance by allocation of a RAG Rating and score using the following system to assess each of the Assessed Elements in the Performance Review and the Output Review.

Rating	Assessment of Delivery Partner Performance	Score
Red	Unacceptable	1
Amber	Performance issues identified	2
Amber/Green	Generally satisfactory – some performance issues	3
Green	Satisfactory	4
Gold	Exceptional	5

- 3.5. The following is an example RAG Rating review card in respect of the monthly Performance Review:

Assessed elements	RAG ratings	Rationale
Quality of Service		
Timeliness of service		
Partnership working / relationship management		
Quality of remedial actions		

- 3.6. The following is an example RAG Rating review card in respect of the Output Review:

Assessed elements	RAG ratings	Rationale
Timeliness of achievement of agreed milestones		
Consistency of exercise of judgement		

Effectiveness of recording conclusions and documenting evidence		
Quality of written work more generally		

3.7. The Output Review will be recorded and then used to calculate the amount of Performance Payment 1 and Performance Payment 2 following completion of the relevant stages (as set out at paragraph 3.1 above).

3.8. To calculate the actual amount of Performance Payment:

3.8.1. the parties shall first calculate the maximum score available for (i) the Performance Reviews and (ii) the Output Reviews (the "**Maximum Available Score**") which will be calculated on a monthly basis as follows:

Number of Assessed Elements (4) x Maximum Available Score for each Assessed Element (4)\*

\* although the Delivery Partner can score "5" (Gold) for individual Assessed Elements of the Performance Review or the Output Review, in calculating the Maximum Available Score, it shall be assumed that the maximum score achievable for any Assessed Element shall be "4" (Green).

3.8.2. The amount of Performance Payment 1 and Performance Payment 2 will depend upon the percentage of the aggregated Maximum Available Scores achieved by the Delivery Partner for each of the Performance Reviews and Output Reviews preceding the relevant Performance Payment (i.e. Ofwat will calculate the percentage of the aggregated actual scores achieved by the Delivery Partner as against the aggregated Maximum Available Score in the period prior to the relevant Performance Payment stage (which, in respect of Performance Payment 1 shall be the period from the Effective Date and the date of calculation of Performance Payment 1 and which, in respect of Performance Payment 2 shall be the period commencing the month following the calculation of Performance Payment 1 and the date of calculation of Performance Payment 2)); and

3.8.3. To calculate the actual amount of Performance Payment 1 and Performance Payment 2 which is payable:

a) The percentage of the Maximum Available Score achieved by the Delivery Partner with respect to each of the Performance Review and the Output Review (as calculated in accordance with paragraph 3.8.2 above) will be multiplied by their respective weightings (the Performance Review Weighting and the Output Review Weighting respectively) to form the "Weighted Performance Percentage"; and

b) Available Fund 1 or Available Fund 2 or Available Fund 3 (as the case may be) shall be multiplied by the relevant Weighted Performance Percentage.

3.8.4. See Appendix 1 to this Schedule 5.1, Part A, Annex 1 for a worked example (included solely for illustrative purposes).

3.8.5. Each of Performance Payment 1 and Performance Payment 2 will be calculated within thirty (30) days of the Performance Payment stage to which it relates (i.e. IAP Stage or Final Determination Stage as per paragraph 3.1 above). Once calculated, Ofwat shall notify the Delivery Partner of the amount due in writing. Upon receipt of such notification, the Delivery Partner shall be entitled to raise an invoice for the payment of any such sums due, with such invoice to be raised in accordance with the invoicing requirements set out in Part B of this Schedule. Ofwat shall pay each such invoice in accordance with the payment terms set out in Part B of this Schedule.

#### 4. CALCULATION AND PAYMENT OF THE SUCCESS PAYMENT

- 4.1. The Success Payment (if any) shall be determined at the sole discretion of the Ofwat Board and shall be payable only following completion of the Final Determination Stage. In making such determination, Ofwat will have regard to the overall success of the Price Review and the extent to which the Delivery Partner has delivered truly exceptional performance which may include the following: excellence in the quality and timeliness of deliverables and inputs to Workstreams; going the extra mile to work with Ofwat as a genuine partner to deliver a price control that puts customers at the heart of the sector; and consistently demonstrating the Ofwat values, including in the way the contract has been managed.

#### 5. INCENTIVE FOR BUDGET MANAGEMENT

- 5.1. Within sixty (60) days of the 31 January 2020, Ofwat shall notify the Delivery Partner in writing of the amount (if any) of any Budget Management Incentive (calculated in accordance with paragraph 5.2 below) payable to the Delivery Partner.

- 5.2. The budget management incentive (if any) shall be equivalent to twenty percent (20%) of the difference between (i) the Net Capped Fee; and (ii) the Total Invoiced Amount (the "**Budget Management Incentive**").

- 5.3. For the purposes of paragraph 5.2:

- 5.3.1. **Net Capped Fee** shall be calculated as follows: **C – R**

Where:

**C** = the Capped Fee

**R** = the amount of the Incentive Payment Fund which is withheld and not paid to the Delivery Partner as a result of the reviews undertaken of the Delivery Partner's performance in accordance with paragraphs 2 - 4 (inclusive) above.

- 5.3.2. **Total Invoiced Amount** means the Charges and Reimbursable Expenses properly incurred by the Delivery Partner for the delivery of the Services and properly incurred by the Delivery Partner and invoiced to Ofwat in accordance with this Agreement.

- 5.4. Where, pursuant to paragraph 5.1 above, the Delivery Partner receives written notification from Ofwat that a Budget Management Incentive is payable then the Delivery Partner shall be entitled to raise an invoice for the payment of the relevant sum, with such invoice to be raised in accordance with the invoicing requirements set out in Part B of this Schedule. Ofwat shall pay such invoice in accordance with the payment terms set out in Part B of this Schedule.

PART A - ANNEX 1

APPENDIX 1

WORKED EXAMPLE

Example RAG Rating and scoring – Monthly Performance Review

Assessed Element	RAG Rating								
	Month 1	Month 2	Month 3	Month 4	Month 6	Month 6	Month 7	Month 8	Month 9
Quality of Services	Green 4	Green 4	Green 4	Amber 2	Amber/ Green 3	Amber/ Green 3	Green 4	Green 4	Gold 5
Timeliness of Services	Amber 2	Green 4	Green 4	Gold 5	Green 4	Amber/ Green 3	Green 4	Green 4	Green 4
Partnership Working / relationship management	Gold 5	Green 4	Amber 2	Amber 2	Amber/ Green 3	Green 4	Green 4	Green 4	Green 4
Quality of Remedial Actions	Green 4	Green 4	Green 4	Green 4	Amber 2	Amber/ Green 3	Amber 2	Green 4	Green

- Maximum Available Score based on performance of each Assessed Element (based on "Green" rating of 4) e.g. 36 x 4 = 144
- Aggregate Actual Score Achieved over 9 months - 3 Gold (3x5), 22 Green (22x4), 5 Amber/Green (5x3), 6 Amber (6x2) = 130
- Score = Actual Score Achieved (130) / Maximum Available Score (144) = 90%
- With Performance Review Weighting = 90% x 75% Weighting = 67%

### Example RAG Rating and scoring – Output Review

Assessed Element	RAG Rating
Achievement of Milestones	Green 4
Consistency of exercise of judgement	Green 4
Effectiveness of recording conclusions and documenting evidence	Gold 5
Quality of written work more generally	Green 4

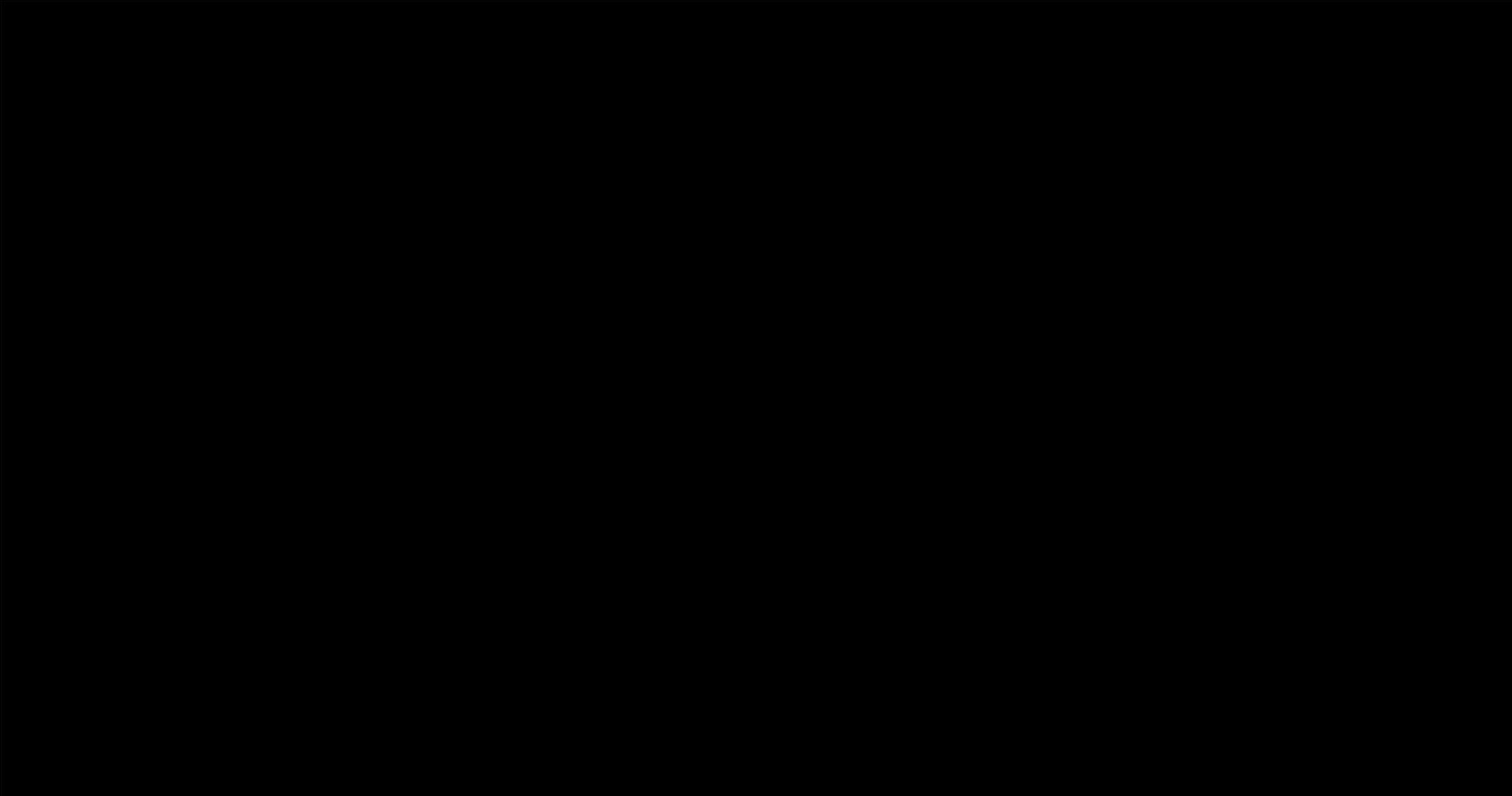
- Maximum Available Score based on performance of each Assessed Element (based on "Green" rating of 4) e.g.  $4 \times 4 = 16$
- Actual Score Achieved - 1 Gold (1x5), 3 Green (3x4) = 17
- Score = Actual Score Achieved (17) / Maximum Available Score (16) = 100%
- With Output Review Weighting =  $100\% \times 25\%$  Weighting = **25%**

### Example Success Payment (at discretion of Ofwat Board)

2.5% (out of a maximum of 5%)







## PART B

### INVOICING AND PAYMENT TERMS

#### 8. DELIVERY PARTNER INVOICES

- 8.1 The Delivery Partner shall prepare and provide to Ofwat for approval of the format, a template invoice within 10 Working Days of the Effective Date which shall include, as a minimum, the details set out in paragraph 8.2 together with such other information as Ofwat may reasonably require to assess whether the Charges and, where relevant, Reimbursable Expenses that will be detailed therein are properly payable. If the template invoice is not approved by Ofwat then the Delivery Partner shall make such amendments as may be reasonably required by Ofwat.
- 8.2 The Delivery Partner shall ensure that each invoice contains the following information:
- 8.2.1 the date of the invoice;
  - 8.2.2 a unique invoice number;
  - 8.2.3 the Service Period or other period(s) to which the relevant Charge(s) relate;
  - 8.2.4 the correct reference for this Agreement;
  - 8.2.5 the reference number of the purchase order to which it relates (if any);
  - 8.2.6 the dates between which the Services subject of each of the Charges and Reimbursable Expenses detailed on the invoice were performed;
  - 8.2.7 a description of the Services;
  - 8.2.8 the total Charges gross and net of any applicable deductions and, separately, the amount of any Reimbursable Expenses properly chargeable to Ofwat under the terms of this Agreement, and, separately, any VAT or other sales tax payable in respect of each of the same;
  - 8.2.9 reference to any reports required by Ofwat in respect of the Services to which the Charges detailed on the invoice relate (or in the case of reports issued by the Delivery Partner for validation by Ofwat, then to any such reports as are validated by Ofwat in respect of the Services);
  - 8.2.10 a contact name and telephone number of a responsible person in the Delivery Partner's finance department in the event of administrative queries; and
  - 8.2.11 the banking details for payment to the Delivery Partner via electronic transfer of funds (i.e. name and address of bank, sort code, account name and number).
- 8.3 The Delivery Partner shall invoice Ofwat in respect of Services in accordance with this Schedule 5.1. The Delivery Partner shall first submit to Ofwat a draft invoice setting out the Charges and (where applicable) the Reimbursable Expenses payable. The Parties shall endeavour to agree the draft invoice within 5 Working Days of its receipt by Ofwat, following which the Delivery Partner shall be entitled to submit its invoice in accordance with Part A, Annex 1, of this Schedule .
- 8.4 Each invoice shall at all times be accompanied by Supporting Documentation. Any assessment by Ofwat as to what constitutes Supporting Documentation shall not be conclusive and the Delivery Partner undertakes to provide to Ofwat any other documentation reasonably required by Ofwat from time to time to substantiate an invoice.

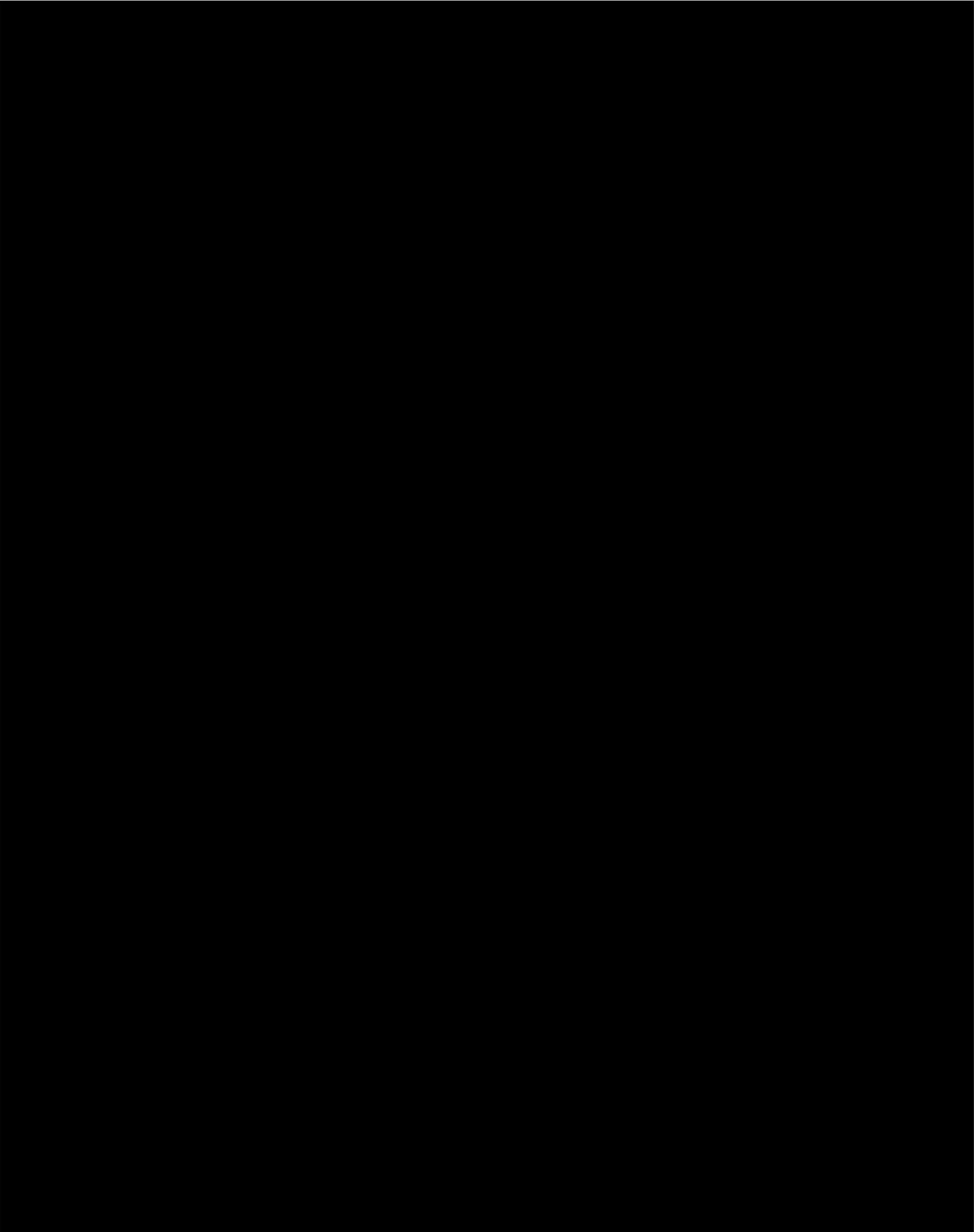
- 8.5 The Delivery Partner shall submit all invoices and Supporting Documentation to:  
  
Centre City Tower, 7 Hill Street, Birmingham, B54UA  
  
with a copy (again including any Supporting Documentation) to such other person and at such place as Ofwat may notify to the Delivery Partner from time to time.
- 8.6 All Delivery Partner invoices shall be expressed in sterling or such other currency as shall be permitted by Ofwat in writing.
- 8.7 Ofwat shall regard an invoice as valid only if it complies with the provisions of this Paragraph 8. Where any invoice does not conform to Ofwat's requirements set out in this Paragraph 8, Ofwat shall promptly return the disputed invoice to the Delivery Partner and the Delivery Partner shall promptly issue a replacement invoice which shall comply with such requirements.
- 8.8 If Ofwat fails to consider and verify an invoice in accordance with paragraph 8.7, the invoice shall be regarded as valid and undisputed for the purpose of paragraph 9.1 (Payment in 30 days) after a reasonable time has passed.

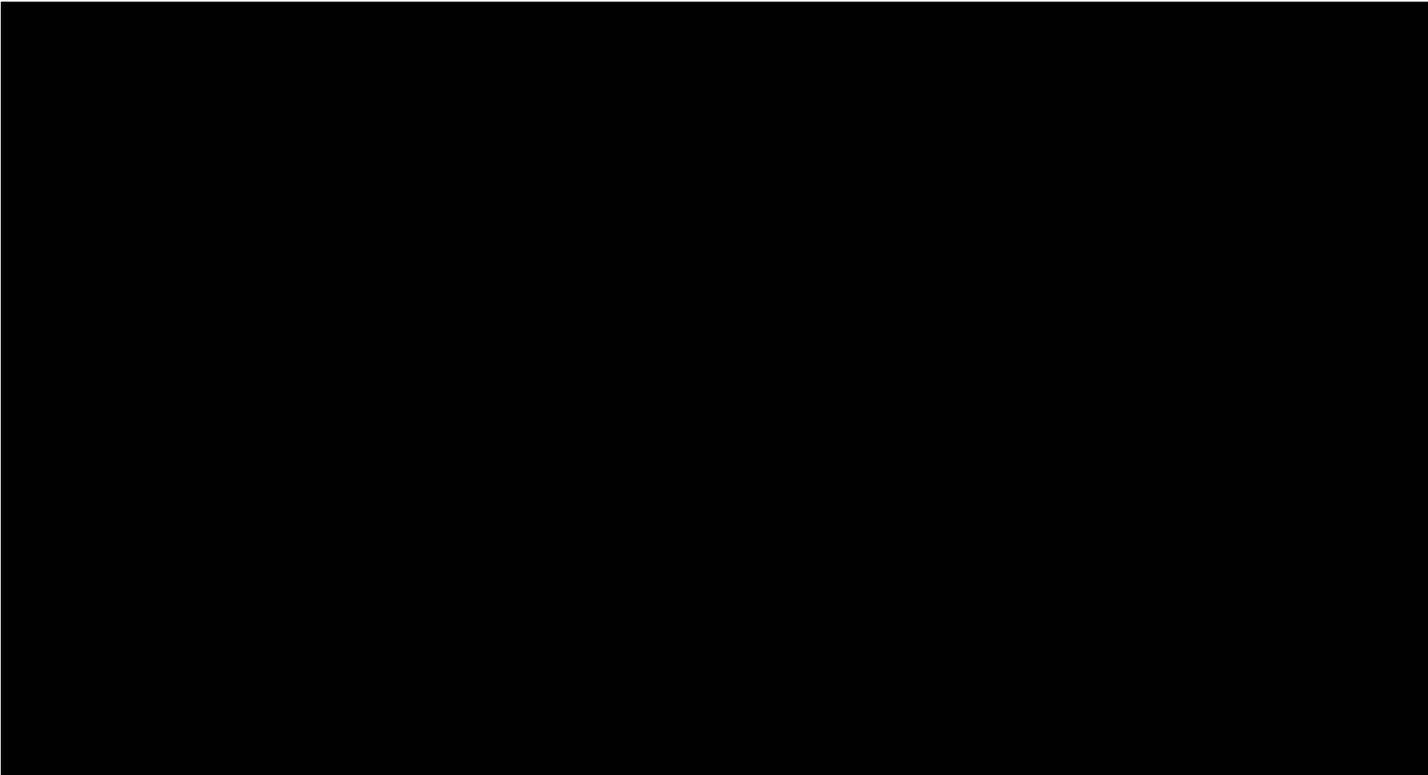
9. **PAYMENT TERMS**

- 9.1 Subject to the relevant provisions of this Schedule, Ofwat shall make payment to the Delivery Partner within 30 days of verifying that the invoice is valid and undisputed.
- 9.2 Unless the Parties agree otherwise in writing, all Delivery Partner invoices shall be paid in sterling by electronic transfer of funds to the bank account that the Delivery Partner has specified on its invoice.

**PART B**  
**ANNEX 1**  
**THE CAPPED FEE**

The sum of £7,844,625.00 which includes a sub-cap for Reimbursable Expenses of £180,000.





**PART B**

**ANNEX 3**

**PRICING PRINCIPLES**

**1. Introduction**

- 1.1 The Delivery Partner shall adhere to each of the pricing principles set out in this Part B, Annex 3 in calculating the Charges under this Agreement.

**2. Guiding Principles**

- 2.1 In relation to the Services and any Workstream, the Delivery Partner shall ensure that its proposed approach to resourcing and hence cost forecasting represents best value for money for Ofwat;
- 2.2 For equivalent quality of work, the lowest cost resource combination must be used. For example, where a service can be provided for an overall lower cost using a different grade or resource, then that option shall be recommended to Ofwat for consideration.
- 2.3 Where Ofwat can source any element of the solution at a preferable rate from an alternative source/sub-contractor rather than the Delivery Partner itself, then Ofwat may recommend that the Delivery Partner adopts and integrates this into its proposed solution.
- 2.4 The Delivery Partner shall consider Ofwat's available budget and timing and seek mechanisms to fit within any constraints.