November 2021

Service delivery report 2020-21

Ofwat

Introduction

Water companies provide essential services; we want these services to be the very best for customers and communities and to protect the environment. The 2019 price review enabled and encouraged companies to provide more of what matters to customers during 2020-25. It set companies stretching but achievable performance commitments while also challenging them to improve cost efficiency. We will build on this at the 2024 price review to address the considerable and urgent challenges of climate change, population growth and rising customer expectations.

The service delivery report monitors the performance of the 17 largest companies in England and Wales[1] on key components of outcome delivery and expenditure that are of enduring importance to customers. The report is based on information reported by companies in their annual performance reports (APRs; sometimes this is revised in response to our queries or interventions)[2] and, unless otherwise stated, measured from 1 April 2020 to 31 March 2021. This information helps us – and stakeholders such as customer groups, environmental groups and investors – to hold companies to account now and longer-term.

This year's report considers performance in 2020-21, which is the first year of the 2020-25 price control. Specifically, we:

- demonstrate companies' performance in 2020-21 against associated targets;
- demonstrate progress towards targets for the end of the price control period; and
- categorise companies' performance on the extent to which they are delivering services.

[1] Unless otherwise stated, performance for Northumbrian Water includes the company's Northumbrian and Essex and Suffolk regions and performance for South Staffs Water includes the company's South Staffordshire and Cambridge regions.
[2] In November 2021 we and the Environment Agency launched an investigation into companies' compliance with environmental permits. The investigation will explore whether companies are treating the required volumes of sewage at wastewater treatment works and whether, as a result, there are unpermitted discharges to the environment. If so, we will consider for each company, as a minimum, whether performance figures require revision and money must be returned to customers. We will investigate potential impacts on all relevant performance commitments, including pollution incidents and treatment works compliance which are featured in this report.

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Key messages

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At the 2019 price review, we set stretching but achievable targets for company performance during 2020-25. We are pleased to see most companies stepping up to this challenge during 2020-21

Anglian Water, Severn Trent Water and Portsmouth Water lead the sector in a large number of key common areas

We are concerned that Southern Water, Thames Water, Bristol Water, South East Water and SES Water are lagging behind and are not yet delivering for customers across a large number of these areas

Companies have provided continuity of services despite the challenges posed by Covid-19

The sector continues to reduce leakage after many years of stagnation

13 companies achieve their 2020-21 targets. Some are making considerable progress towards their 2024-25 targets but others have much more work to do

Even in the first year of the price control, some companies demonstrate that 2024-25 targets are achievable

For the priority services register, water supply interruptions, internal sewer flooding and pollution incidents at least one company exceeds 2024-25 targets on each measure

Performance in wastewater requires improvement

Only three companies achieve their 2020-21 internal sewer flooding target and, although just over half of companies achieve their pollution incidents target, the performance of many has stagnated or deteriorated in recent years

Companies are spending in excess of their wholesale cost allowances by 1% on average, partly due to early investment to improve outcome delivery

This is in contrast to the first years of the 2015-20 price control period when average expenditure was 6% less than allowances

Our assessment of companies' performance

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We have considered company performance across common and directly comparable areas of outcome delivery (performance commitments) and total expenditure (in each of the wholesale controls and household retail) which are key to the service package during 2020-25 and which we expect to endure during future price controls.

For each performance commitment we assess whether each company has achieved or fallen short of its target (the performance commitment level). For some – specifically customer satisfaction, leakage, per capita consumption, supply interruptions, internal sewer flooding and pollution incidents - we consider that comparative assessment can drive improvements among the very best performers and so we distinguish 'top performers' among companies that achieve their target. For expenditure in the household retail and wholesale water and wastewater price controls we assess whether each company is spending within or exceeding its cost allowance for 2020-21.

We have grouped companies into three categories: sector leading, average and lagging. This categorisation is based on our assessments across outcomes and, to a lesser extent expenditure, and the extent to which we consider that this demonstrates that companies are delivering services for customers and the environment:

- **Anglian Water**, **Severn Trent Water**, and **Portsmouth Water** lead the sector. These companies achieve a high proportion of key common outcomes measures while demonstrating emerging evidence of cost efficiency.
- **Southern Water**, **Thames Water**, **Bristol Water**, **South East Water** and **SES Water** lag behind other companies in delivering for their customers. These companies achieve only a small proportion of key common outcomes measures.
- The remaining companies have stepped up to the challenge set in the PR19 final determination and achieve most of their outcomes measures but demonstrate scope for improvement to deliver the high level of service and cost efficiency customers deserve. In particular, there remains scope for **South West Water** to make significant improvements on pollution incidents and consider whether reinvestment of efficiencies realised in its wastewater business can deliver the level of service its customers deserve and better outcomes for the environment.

The assessments and categorisation we make in this year's report should be compared cautiously to those in previous service delivery reports. During the previous price control period, which ran from 2015-20, companies had a set of broadly comparable outcomes measures with similar, but not identical, definitions. We therefore assessed companies' performance on each measure, and overall, relative to each other. The 2020-25 price control includes outcomes measures which are directly comparable and have targets set on a consistent basis. From 2020-21, we use this new information to make objective assessments of companies' service delivery for customers and the environment.

Water and wastewater companies in England and Wales

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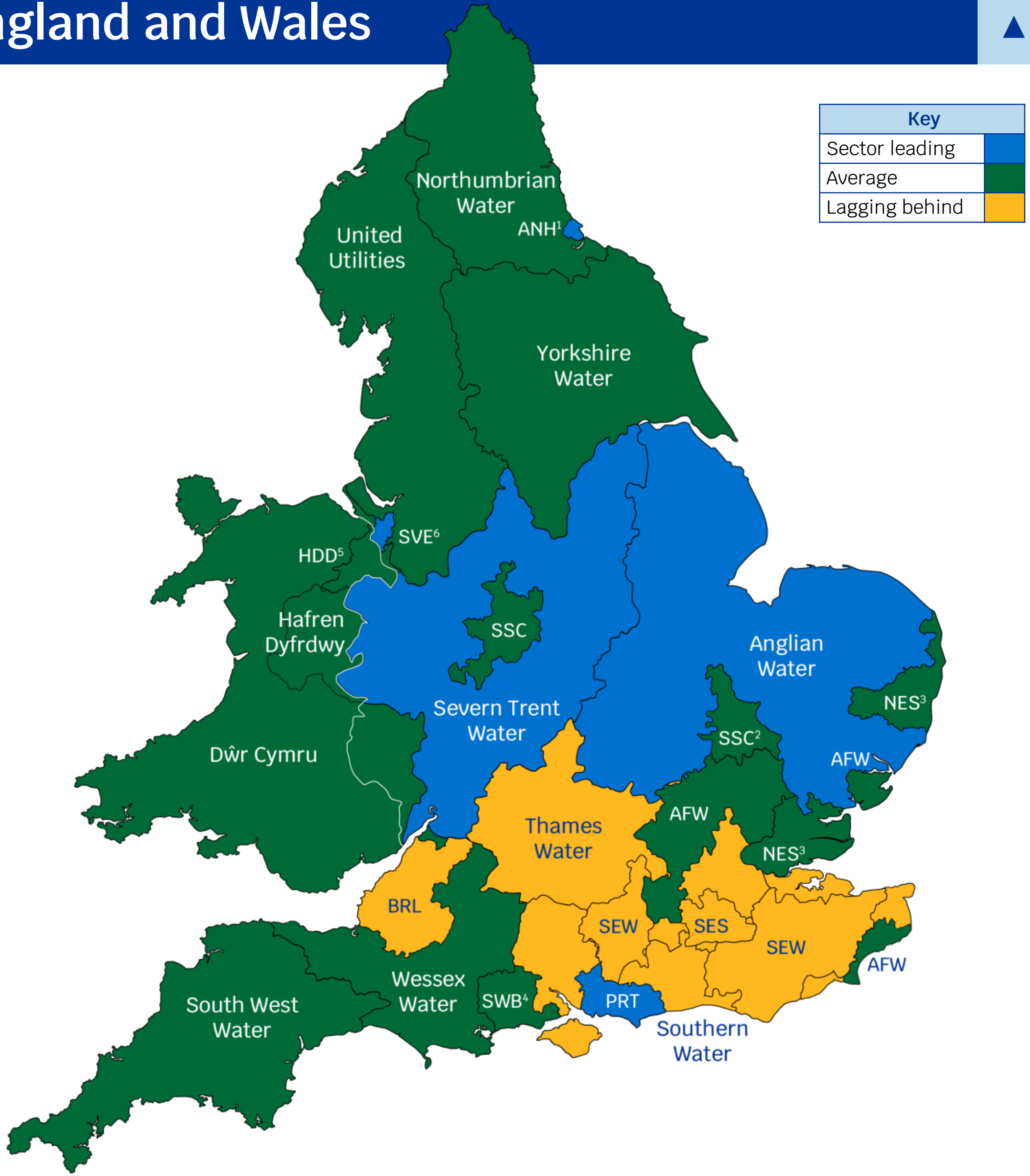
Water and wastewater companies

Anglian Water	ANH
Dŵr Cymru	WSH
Hafren Dyfrdwy	HDD
Northumbrian Water	NES
Severn Trent Water	SVE
South West Water	SWB
Southern Water	SRN
Thames Water	TMS
United Utilities	UUW
Wessex Water	WSX
Yorkshire Water	YKY

Water only companies (wastewater provider/s)

Affinity Water	AFW (ANH/TMS/SRN)
Bristol Water	BRL (WSX)
Portsmouth Water	PRT (SRN)
South East Water	SEW (TMS/SRN)
South Staffs Water	SSC (SVE)
SES Water	SES (TMS/SRN)

1. Water services provided under the Hartlepool Water name.
2. Water services provided under the Cambridge Water name.
3. Water services provided under the Essex & Suffolk Water name.
4. Water services provided under the Bournemouth Water name.
5. Hafren Dyfrdwy provides water services only in this area.
6. Severn Trent Water provides water services only in the area.



Overall categorisation of service delivery

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Company	Outcomes												Expenditure		
	Customer satisfaction[1]	Priority services	Leakage[1]	Household water use[1]	Supply interruptions[1]	Water quality[2]	Mains repairs	Unplanned outage	Sewer flooding[1]	Pollution incidents[1]	Sewer collapses	Treatment works compliance[2]	Retail	Water	Wastewater
Sector leading															
Anglian Water	At or better than target	At or better than target	Top performers	Poorer than target	At or better than target	At or better than target	At or better than target	At or better than target	Top performers	Poorer than target	Poorer than target	At or better than target	Greater than allowance	Greater than allowance	At or below allowance
Severn Trent Water	At or better than target	At or better than target	At or better than target	Poorer than target	Poorer than target	At or better than target	At or better than target	At or better than target	Poorer than target	Top performers	At or better than target	At or better than target	Greater than allowance	Greater than allowance	At or below allowance
Portsmouth Water	At or better than target	At or better than target	Top performers	Poorer than target	Top performers	At or better than target	Poorer than target	At or better than target	–	–	–	–	Greater than allowance	At or below allowance	–
Average															
Dŵr Cymru	At or better than target	At or better than target	At or better than target	Poorer than target	Poorer than target	Poorer than target	Poorer than target	At or better than target	Poorer than target	At or better than target	Poorer than target	At or better than target	Greater than allowance	Greater than allowance	Greater than allowance
Hafren Dyfrdwy	Poorer than target	At or better than target	At or better than target	Poorer than target	Poorer than target	At or better than target	At or better than target	At or better than target	Poorer than target	At or better than target	Poorer than target	At or better than target	At or below allowance	Greater than allowance	Greater than allowance
Northumbrian Water	At or better than target	Poorer than target	Poorer than target	Poorer than target	Top performers	Poorer than target	At or better than target	At or better than target	Poorer than target	Top performers	At or better than target	At or better than target	Greater than allowance	At or below allowance	At or below allowance
South West Water	Poorer than target	At or better than target	Poorer than target	Poorer than target	At or better than target	Poorer than target	At or better than target	At or better than target	Top performers	Poorer than target	At or better than target	At or better than target	At or below allowance	At or below allowance	At or below allowance
United Utilities	At or better than target	At or better than target	At or better than target	Poorer than target	Top performers	Poorer than target	At or better than target	At or better than target	Poorer than target	Top performers	At or better than target	At or better than target	Greater than allowance	Greater than allowance	Greater than allowance
Wessex Water	At or better than target	Poorer than target	Top performers	Poorer than target	Top performers	At or better than target	Poorer than target	At or better than target	Top performers	Poorer than target	At or better than target	At or better than target	Greater than allowance	At or below allowance	At or below allowance
Yorkshire Water	At or better than target	Poorer than target	At or better than target	Poorer than target	Poorer than target	Poorer than target	Poorer than target	At or better than target	Poorer than target	At or better than target	At or better than target	At or better than target	Greater than allowance	Greater than allowance	Greater than allowance
Affinity Water	Poorer than target	At or better than target	Poorer than target	Poorer than target	At or better than target	At or better than target	Poorer than target	At or better than target	–	–	–	–	Greater than allowance	Greater than allowance	–
South Staffs Water	Poorer than target	Poorer than target	At or better than target	Poorer than target	Top performers	At or better than target	Poorer than target	At or better than target	–	–	–	–	Greater than allowance	At or below allowance	–
Lagging behind															
Southern Water	Poorer than target	Poorer than target	Poorer than target	Poorer than target	Poorer than target	Poorer than target	Poorer than target	At or better than target	Poorer than target	Poorer than target	Poorer than target	Poorer than target	Greater than allowance	Greater than allowance	Greater than allowance
Thames Water	Poorer than target	At or better than target	At or better than target	Poorer than target	Poorer than target	Poorer than target	Poorer than target	At or better than target	Poorer than target	Poorer than target	At or better than target	At or better than target	Greater than allowance	At or below allowance	At or below allowance
Bristol Water	At or better than target	Poorer than target	Top performers	Poorer than target	Poorer than target	Poorer than target	Poorer than target	At or better than target	–	–	–	–	Greater than allowance	Greater than allowance	–
South East Water	Poorer than target	At or better than target	At or better than target	Poorer than target	Poorer than target	Poorer than target	Poorer than target	At or better than target	–	–	–	–	Greater than allowance	Greater than allowance	–
SES Water	Poorer than target	Poorer than target	At or better than target	Poorer than target	Poorer than target	Poorer than target	At or better than target	At or better than target	–	–	–	–	Greater than allowance	Greater than allowance	–

[1] For these measures we consider that comparative assessment can drive improvements among the very best performers. We therefore identify 'top performers' as the top 25% of companies that achieve their target.
[2] For these measures we assess performance relative to the performance commitment deadband within which companies do not incur underperformance payments.

Key			
Outcomes		Expenditure	
Top performers	(blue)	–	–
At or better than target	(dark green)	At or below allowance	(light green)
Poorer than target	(orange)	Greater than allowance	(pale yellow)

Outcome delivery incentives in 2020-21

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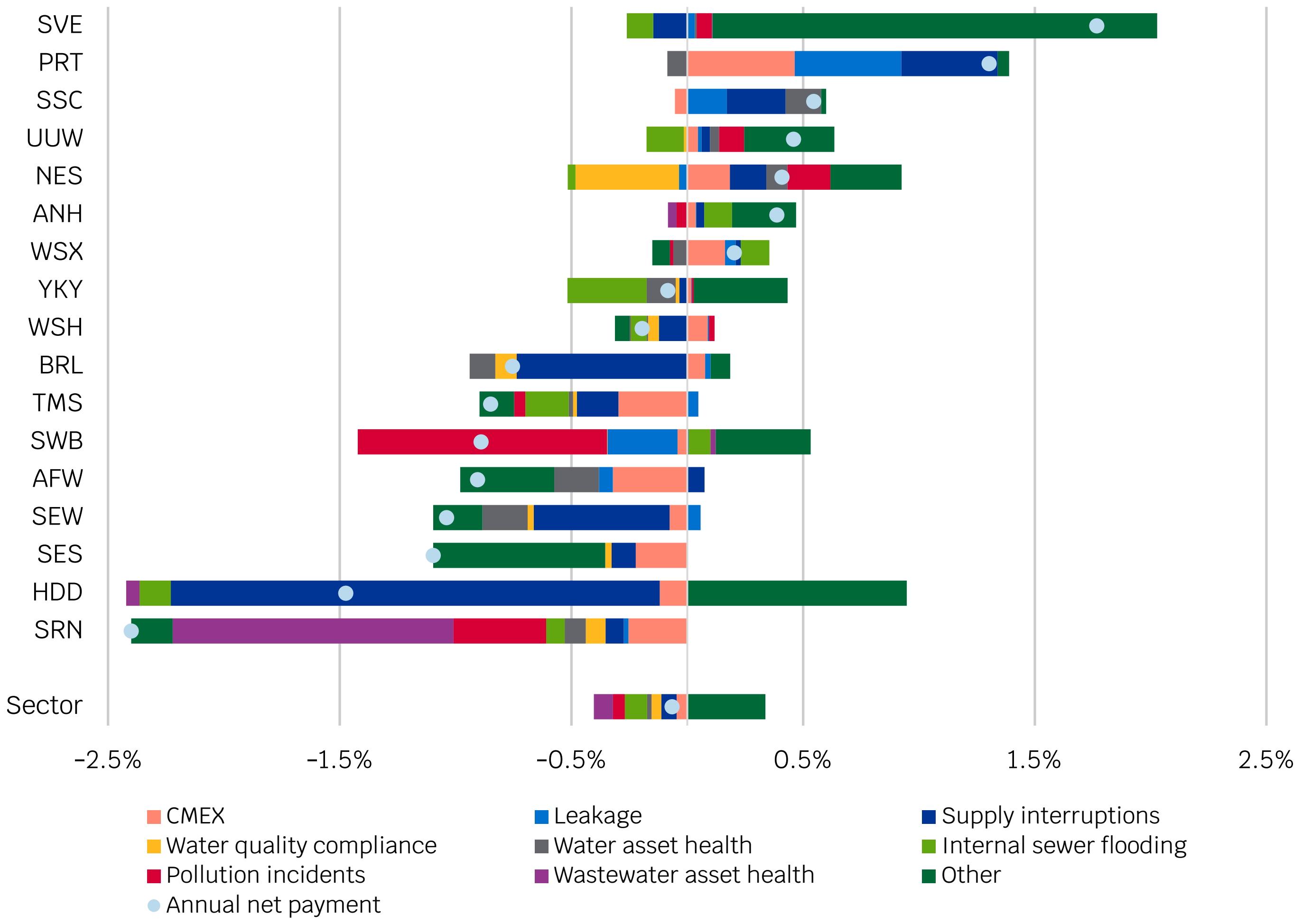
ODI payments by key performance commitments in 2020-21 as a % of regulated equity



The outcomes framework drives companies to focus on delivering the objectives that matter to customers. At the 2019 price review, companies made pledges (performance commitments) about the levels of service they will deliver. Delivery of, and in some instances beyond, their pledges is encouraged through outcome delivery incentives. Most outcome delivery incentives are financial, although some are reputational. If companies exceed the performance commitment level (the target) they can earn outperformance payments – which are recovered from customers - but if they fall short then they incur underperformance payments – which are returned to customers.

The chart demonstrates outcome delivery incentive payments for performance on: 1) each of the common performance commitments considered in this report and 2) companies' bespoke performance commitments, which represent each company's individual circumstances and customer preferences. The payments are normalised by regulatory equity to account for companies' size as well as their performance. During 2020-21 the sector incurred net underperformance payments equivalent to < 1% of regulatory equity or £19 million[1]. This is primarily due to net underperformance of around £117 million incurred for performance on common performance commitments – in particular for supply interruptions, internal sewer flooding and pollution incidents – offset by net outperformance of around £98 million for delivery of bespoke performance commitments.

Seven companies achieve net outperformance payments in 2020-21 of between 0.2 and 1.8% of regulatory equity all. Of these companies, all except **Severn Trent Water** achieve net outperformance on their common performance commitments. The remaining ten companies incur underperformance of between < 0.1% and 2.4% of regulatory equity.

[1] Figure includes both payments made in-period and those accrued to be applied at end of period, excluding payments for per capita consumption. Owing to changes in household water use during 2020-21 and the uncertainty of the impact of Covid-19, we are proposing that the value of PCC payments should be determined at the end of the price control. See 'Per capita consumption performance in 2020-21'.

C-MeX performance in 2020-21

Company	C-MeX score	Categorisation of performance
Anglian Water	83.1	
Dŵr Cymru	85.2	
Hafren Dyfrdwy	81.4	
Northumbrian Water	85.8	
Severn Trent Water	82.3	
South West Water	81.0	
Southern Water	74.6	
Thames Water	72.9	
United Utilities	83.6	
Wessex Water	86.1	
Yorkshire Water	82.8	
Affinity Water	77.9	
Bristol Water	83.3	
Portsmouth Water	86.2	
South East Water	80.7	
South Staffs Water	81.9	
SES Water	79.0	

Key	
Top performers[1]	
At or better than target	
Poorer than target	

[1] We do not assign any company to the 'top performers' category since none achieved higher performance payments in 2020-21.

Customer satisfaction, as measured by the customer measure of experience (C-MeX), is an important measure of how customers feel about the services companies provide across their retail and wholesale businesses. Companies do not have performance commitment levels for C-MeX. Instead, out or underperformance is determined in comparison to the median company's score. In addition, the three best performing companies can earn higher performance payments when they have lower than average complaints and a C-Mex score in the top 25% of the UK Customer Satisfaction Index (UKCSI).

The table shows whether a company's C-Mex score is less than, or greater than or equal to, the median score in 2020-21. No company achieved higher performance payments since all fell short of placing within the top 25% of companies on the UKCSI, demonstrating that the water sector has further to go in order to deliver the high standards of customer service provided by other sectors. As a result, we do not identify 'top performers' in 2020-21. **Portsmouth Water** is the best performing company in 2020-21, however its score fell three points short of the threshold for higher performance payments. The company has maintained its position among the top three companies and improved its score by four points between 2019-20 and 2020-21.

Thames Water, **Southern Water**, **Affinity Water** and **SES Water** remain the four poorest performers for a second consecutive year. All have made improvements to their score during 2020-21. Affinity Water's is equivalent to the sector's average improvement while Thames Water, Southern Water and SES Water make improvements that are greater. Thames Water exceeds the average improvement by around 5 percentage points. All four companies report that they are putting plans in place to improve their C-MeX performance, for example: improving complaints handling; digitising customer service channels; improving billing systems, their understanding of customer priorities; and customers' awareness of services.

We also encourage companies to provide better services to developers – for example property developers requesting a connection – and other third parties through the **developer services measure of experience (D-MeX)**.

In 2020-21, **Severn Trent Water**, **Wessex Water**, **Portsmouth Water** and **Hafren Dyfrdwy** achieved the sector's highest D-MeX score, while **SES Water** and **Yorkshire Water** had the poorest.

Priority services register performance in 2020-21

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Company	2020-21 PSR reach target %	2020-21 actual PSR reach %	Categorisation of performance (met all 3 PSR targets)
Anglian Water	1.8	6.0	
Dŵr Cymru	4.3	5.5	
Hafren Dyfrdwy	1.0	2.2	
Northumbrian Water	7.6	2.3	
Severn Trent Water	2.1	2.6	
South West Water	2.5	4.6	
Southern Water	2.0	1.9	
Thames Water	3.0	3.5	
United Utilities	4.0	4.1	
Wessex Water	2.8	2.5	
Yorkshire Water	4.0	3.5	
Affinity Water	2.6	4.7	
Bristol Water	3.1	2.6	
Portsmouth Water	2.0	10.6	
South East Water	3.2	3.3	
South Staffs Water	6.1	5.8	
SES Water[1]	3.5	4.5	
Sector	-	**3.8**	-

Key	
At or better than target	
Poorer than target	

All companies have a common performance commitment to increase the size and accuracy of their priority services registers. Priority services registers are a record of customers who require additional support or services, for example due to a health condition or life circumstance.
The performance commitment is made up of three elements. The performance commitment level measures the percentage of households on each company's register (the reach). Each year companies should also ensure their register is appropriately maintained by:

- attempting to contact a proportion of registered households; and
- obtaining confirmation from a subset of those households that they still require priority services.

If any one element of the performance commitment is not achieved then the company has not achieved the performance commitment.

The table categorises companies' performance on whether they have achieved all three elements of their performance commitment and provides detail on performance against reach targets. We do not identify 'top performers' for this measure; companies have a common reach target of at least 7% by 2024-25 and the extent to which they should exceed this will depend on the needs of their customers.

Ten companies have achieved all three components of the performance commitment in 2020-21. **SES Water** achieves its reach target but fails to achieve the associated register maintenance requirements. The remaining six companies fail to achieve their reach target, including **Yorkshire Water** which also failed to confirm a sufficient proportion of customers on its register still required priority services.

Progress towards 2024-25 priority services register reach targets

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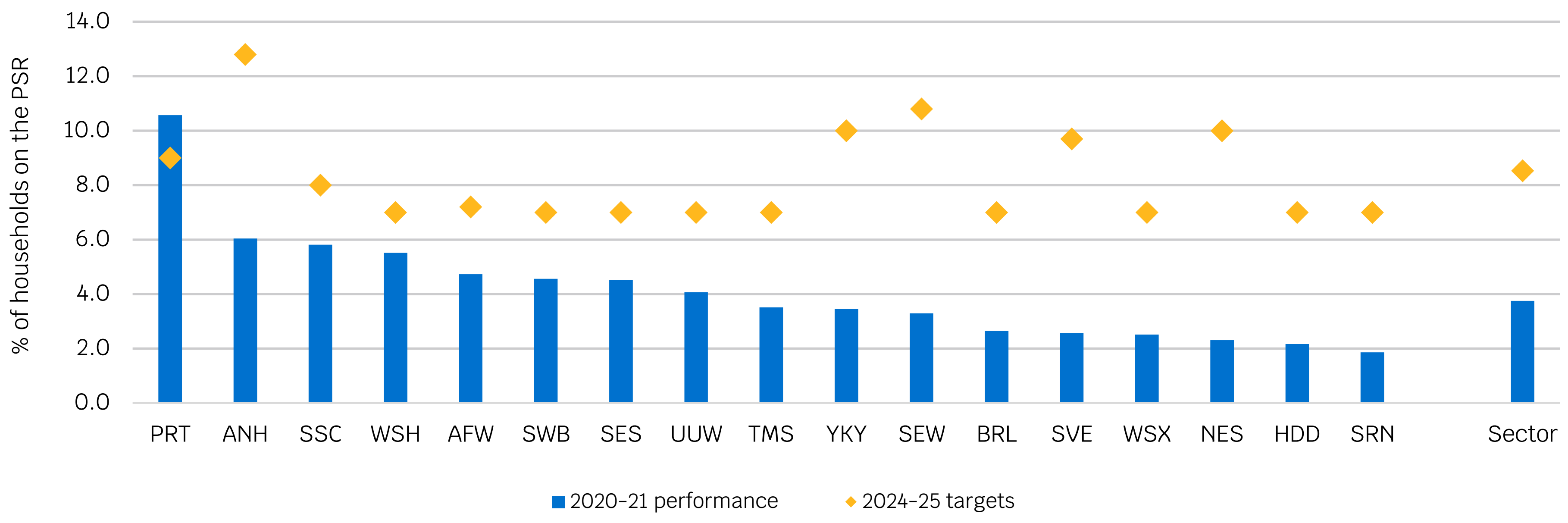
% of households on the priority services register (PSR reach) in 2020-21 compared to the 2024-25 targets



Many companies have made very strong progress towards their 2024-25 priority services performance commitment target. While also achieving register maintenance requirements: relative to other companies, **Anglian Water** has committed to delivering priority services to the largest proportion of its customers by 2024-25 and has achieved around half of this to date; **Dŵr Cymru** has delivered approximately 75% of its 2024-25 target while **Affinity Water** and **South West Water** have delivered around two thirds of their respective targets. **South Staffs** reports that the proportion of customers on its priority services register more than doubled during 2020-21 and, although it fell short of its 2020-21 target, it has delivered in excess of 70% of its 2024-25 target.

Portsmouth Water's performance currently exceeds its 2024-25 target, having delivered a large increase in households on its register during 2020-21. Where companies have seen significant increases in priority services register reach, we expect them to maintain high standards of accuracy and data protection in growing and maintaining their registers. As reach increases, companies should continue to challenge themselves to find the 'hardest to reach' customers who require additional support. Similarly, we expect all companies to put in place the right systems and processes to ensure that their commitments to customers on their priority services registers can be met.

Leakage performance in 2020-21

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Company	Target (megalitres/ day)	Performance (megalitres/ day)	Categorisation of performance
Anglian Water	191.4	191.1	
Dŵr Cymru	170.7	169.9	
Hafren Dyfrdwy	15.0	14.2	
Northumbrian Water[1]	133.5 ; 64.4	136.2 ; 64.9	
Severn Trent Water	418.2	414.6	
South West Water	120.5	126.8	
Southern Water[3]	97.0	98.5	
Thames Water	644.3	635.6	
United Utilities	443.5	438.8	
Wessex Water	72.1	69.5	
Yorkshire Water	304.6	304.2	
Affinity Water	183.7	185.5	
Bristol Water	38.2	37.9	
Portsmouth Water	27.5	25.4	
South East Water	94.9	94.1	
South Staffs Water[1,2]	67.8 ; 14.1	66.7 ; 13.9	
SES Water	24.9	24.9	
Sector	-	**3,112.7**	-

Key	
Top performers	
At or better than target	
Poorer than target	

Leakage is water that is lost through burst and cracked pipes and joints within water distribution networks. Lower leakage means that more water is retained in the environment and less energy is used in treatment and distribution. Companies reducing leakage is often seen as a prerequisite for customers taking steps to reduce their consumption.

The table compares companies' three-year-average leakage performance up to and including 2020-21 with their associated performance commitment targets, which challenge companies to deliver a reduction from the 2019-20 baseline year. Companies that achieve their target and are among the top 25% of performers when leakage is normalised by both kilometres of water main and connected properties are classified as 'top performers'.

During 2020-21 higher demand for water and cold winter weather increased the number of leaks and made leakage management more challenging. Thirteen companies achieved their targets and we identify **Anglian Water**, **Wessex Water**, **Bristol Water** and **Portsmouth Water** as top performers. Companies are using a range of techniques to reduce leakage. For example, continuing to increase operatives to find and fix leaks, supported by technology such as acoustic loggers and satellite imagery which can identify leaks more quickly and with greater accuracy.

Companies also have incentives to reduce mains repairs, including renewals. To deliver on leakage and mains repairs targets they must reduce the risk and severity of burst mains using effective management and optimisation of assets; and target investment in mains renewal where it will deliver the greatest benefits. In 2020-21, **Anglian Water** and **United Utilities** delivered year-on-year reductions in leakage which are sufficient to meet their leakage performance commitment targets while also achieving their mains repairs targets (see 'Mains repairs performance in 2020-21'). They demonstrate that leakage reductions are not reliant on large numbers of mains repairs.

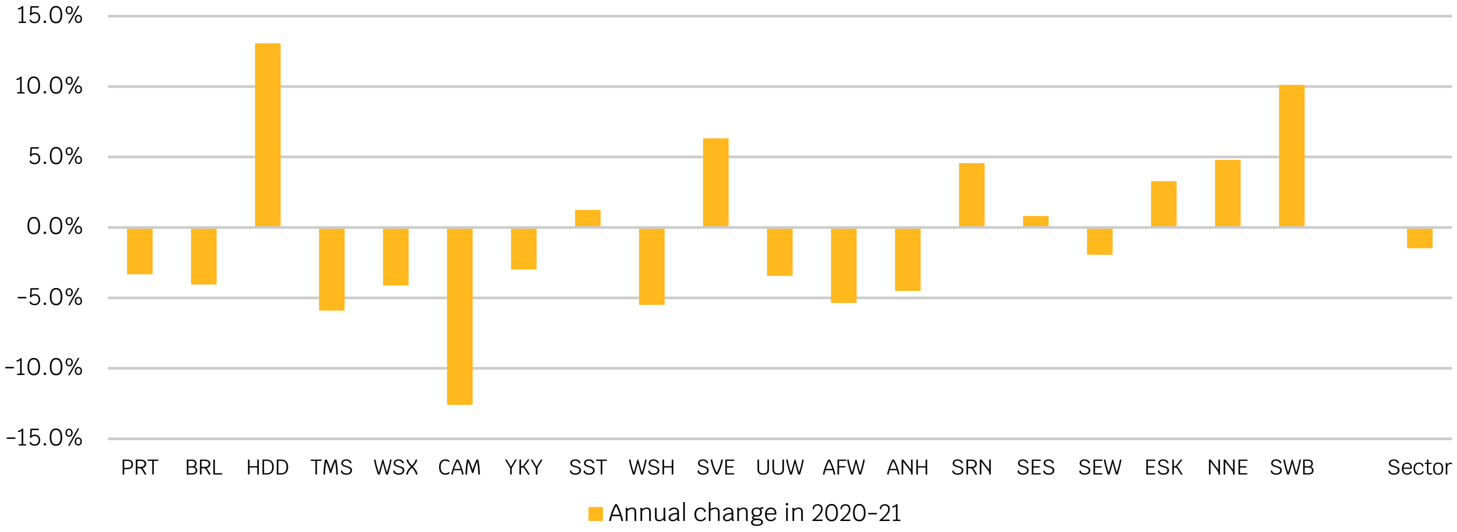
[1] Northumbrian Water and South Staffs Water each have two leakage performance commitments, one for each of their operating regions. Northumbrian Water's performance in its Northern and Essex and Suffolk regions respectively is separated by a semi-colon, as is performance in South Staffs' South Staffordshire and Cambridge regions.

[2] When reporting 2020-21 data we expected all companies to be compliant with the common performance commitment definition for leakage. South Staffs Water considers that its non-compliance with the definition could have a material impact on its reported performance in its Cambridge region. We have deferred our determination of the associated ODI payment until the company demonstrates the impact of its non-compliance.

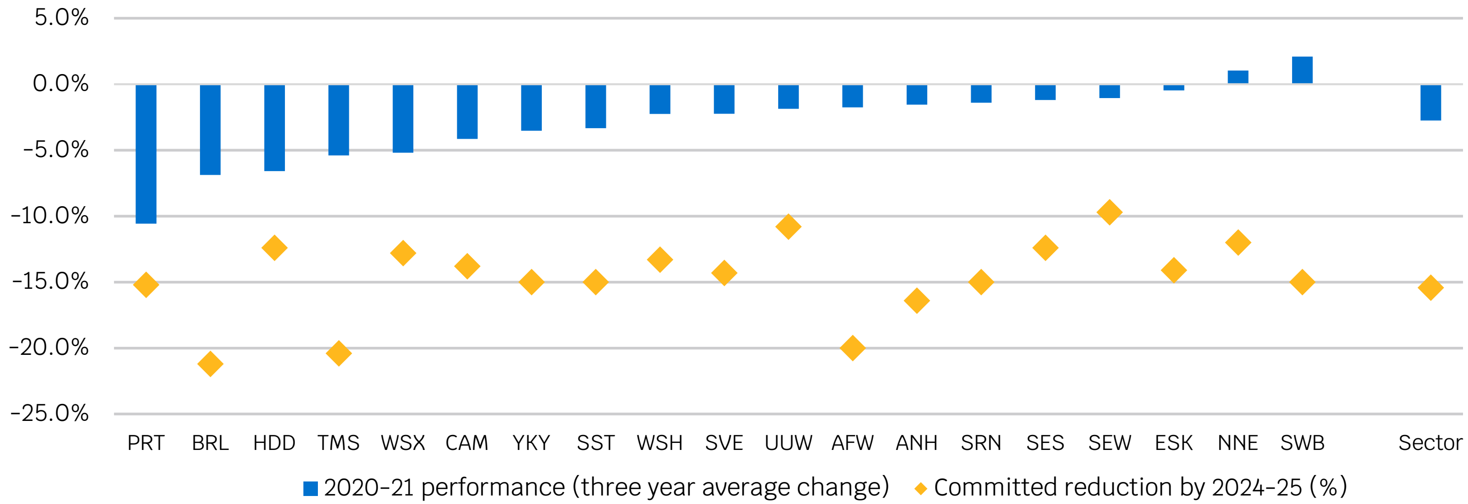
[3] Southern Water updated elements of its leakage data during 2020-21. We will be working with the company in the next year to understand what the updates mean for its leakage performance commitment levels and have deferred our determination of the value of the company's ODI payment.

Progress towards 2024-25 leakage targets

% change in annual leakage in 2020-21



% change in three year average leakage in 2020-21 compared to the 2024-25 targets



Of the 13 companies that achieved their targeted three year average reduction in leakage, nine[1] did so while also delivering a year-on-year reduction in annual leakage between 2019-20 and 2020-21 and so have continued to make progress towards achieving their 2024-25 targets. On a three-year-average basis, **Portsmouth Water**, **Wessex Water** and **Bristol Water** have made considerable progress having delivered 69%, 41% and 32% of the reduction each has committed to by 2024-25. These companies also delivered some of the largest leakage reductions during the 2015-20 price control period and we are pleased to see their continued good progress.

Hafren Dyfrdwy, **Severn Trent Water**, **South Staffs Water** in its South Staffordshire region and SES Water have achieved their targeted three year average reduction due to relatively large reductions delivered in 2018-19 and/or 2019-20 which more than offset deterioration in their performance during 2020-21.

Future reductions will be more challenging to achieve for these companies and for **Northumbrian Water**, **Southern Water**, **South West Water** and **Affinity Water** which all failed to achieve their 2020-21 targets. South West Water's and, in its northern region, Northumbrian Water's three year average leakage is higher than in the baseline year and requires significant reduction.

[1] We exclude South Staffs Water which reports it achieved targets in both of its regions but only delivered an annual reduction in its Cambridge region.

Companies also have leakage – and customer consumption targets - in their **water resources management plans** (WRMPs) which, in combination with enhancing water supplies, ensure that the supply-demand balance is secure now and longer term without damaging the environment.

Companies that have failed to reduce leakage during the year are not delivering on their WRMPs. Our annual review of companies' progress on delivering all components of their WRMPs highlighted the need for companies to provide more information on their delivery of supply-side enhancements to demonstrate that they are addressing medium to longer-term supply risks that impact customers and the environment.

Per capita consumption performance in 2020-21

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Company	Target (litres/ head/ day)	Performance (litres/ head/ day)	Categorisation of performance
Anglian Water	133.0	138.1	
Dŵr Cymru	153.6	163.3	
Hafren Dyfrdwy	132.3	139.5	
Northumbrian Water[1]	149.4	156.3	
Severn Trent Water	128.2	133.4	
South West Water	144.4	144.9	
Southern Water [3]	126.6	131.7	
Thames Water	144.2	148.0	
United Utilities	142.1	146.5	
Wessex Water	137.7	143.1	
Yorkshire Water	125.1	132.5	
Affinity Water	152.5	161.8	
Bristol Water	147.0	152.9	
Portsmouth Water	147.4	157.2	
South East Water	142.4	151.4	
South Staffs Water [1,2]	129.7 ; 134.1	137.7 ; 139.8	
SES Water	147.5	154.5	
Sector	-	**145.1**	-

Key	
Top performers	
At or better than target	
Poorer than target	

Per capita consumption (PCC) measures water use by the household population. Lower PCC means less water is taken from the environment and fewer resources are required to extract, distribute and treat it. The table compares companies' three-year-average PCC performance up to and including 2020-21 with their associated performance commitment targets, which challenge companies to deliver a reduction from the 2019-20 baseline year. Companies that achieve their target and are among the top 25% of performers on a litres per head per day basis would be considered 'top performers'.

No company achieved its target in 2020-21. During the year, measures introduced to combat the spread of Covid-19 – such as increased working from home, closure of schools and the leisure and hospitality sectors – impacted how much and when customers used water. To varying degrees, companies saw non-household water use decrease and household water use increase; long periods of hot and dry weather during spring 2020 also increased demand; and companies' ability to enter customers' homes to offer water saving support and install meters was restricted.

In the face of these challenges, companies should continue to have the strongest incentives possible to reduce demand. Having carefully considered the situation, we will make decisions on incentive payments for per capita consumption at the 2024-25 price review once we, and the sector, better understand the impact of measures to combat Covid-19 and any enduring effects. We expect companies to strive to achieve their targets and we are encouraged that some companies have adapted quickly to attempt to manage demand. For example, rather than cease home water audits, **Northumbrian Water** and **Affinity Water** offered customers the same service via video call. Affinity Water also conducted a localised trial in which it challenged customers to commit to reducing their water use in return for donations to charity; the company reports that it saved up to 0.7 Ml/d as a result. We expect the sector to identify what more can be done and to take collaborative and sustained action to reduce household demand.

When we make decisions on financial incentives at the 2024-25 price review we will consider the specific steps taken by companies to manage demand for water, including experimental interventions such as behavioural science thinking and randomised control trials. We also consider there is a need for companies to share learning from their individual efforts and to take collaborative and sustained action, for example through delivering an effective and sustained multi-channel water efficiency campaign.

[1] South Staffs Water has two per capita consumption performance commitments, one for each of the company's operating regions. Performance in the South Staffordshire and Cambridge regions is separated by a semi-colon.
[2] When reporting 2020-21 data we expected all companies to be compliant with the common performance commitment definition for PCC. South Staffs Water considers that its non-compliance with the definition could have a material impact on its reported performance in its Cambridge region.
[3] Southern Water updated elements of its PCC data this year. We will be working with the company in the next year to understand what the updates mean for its per capita performance against its targets.

Progress towards 2024-25 per capita consumption targets

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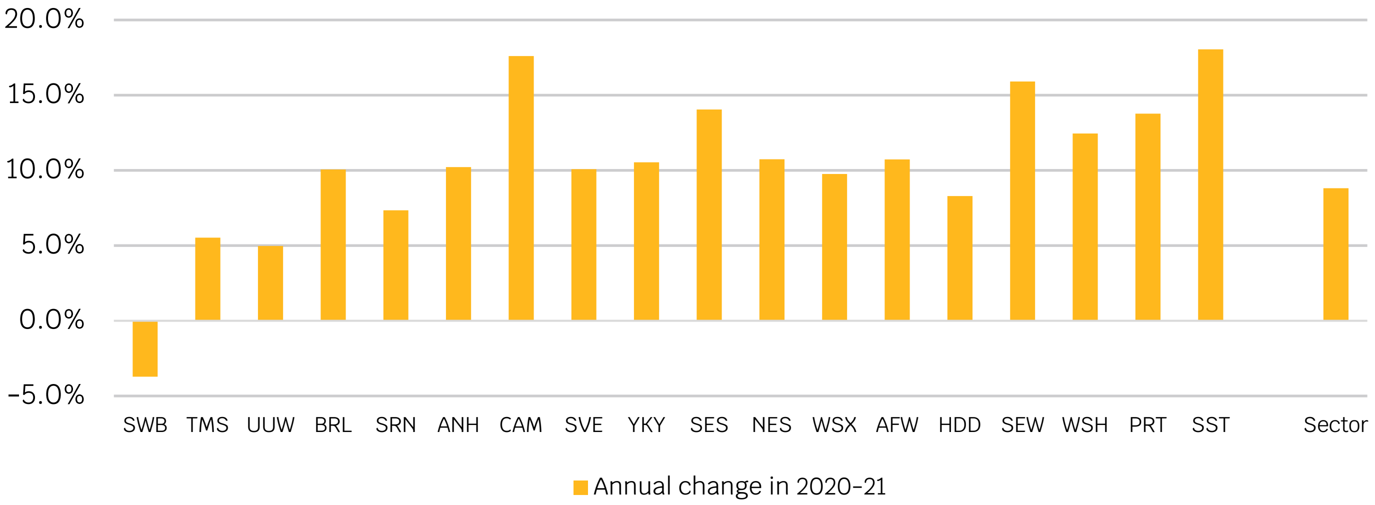
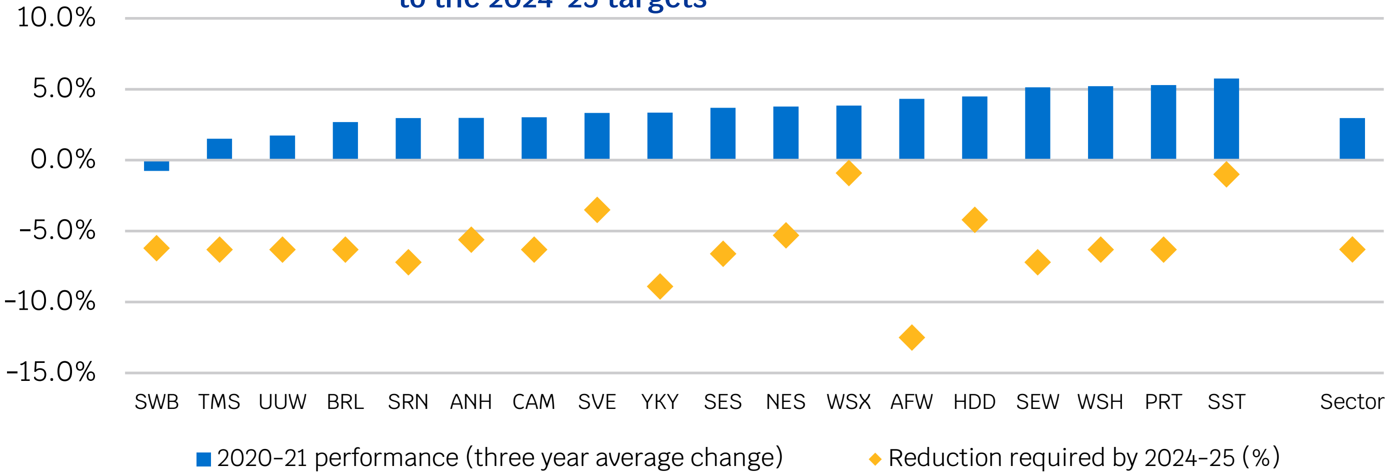
% change in annual per capita consumption in 2020-21



% change in three year average per capita consumption in 2020-21 compared to the 2024-25 targets



During 2020-21, per capita consumption increased by 9% on average. Increases ranged from 5 to 18% and only **South West Water** reported that consumption decreased[1].

The extent to which household demand has changed may be company specific, for example associated with extent to which customers in a company's area have worked from home.

Regardless of the extent of any change in their region, we expect companies to redouble their efforts to reduce household demand for water. We have been encouraged to see Water UK reiterating to the Secretary of State for Environment, Food and Rural Affairs[2] companies' commitment to reduce household consumption by 2025. Continued commitment is essential because in England the government proposes a personal water use target of 110 l/h/d by 2050[3] and companies in England and Wales are working to this planning assumption[4].

[1] During 2020-21 South West Water reviewed its household population figure, for example to account for instances where it considers second homes became main residences. The company identified additional population which decreased its reported performance from 144 l/h/d in 2019-20 to 139 l/h/d in 2020-21. Excluding the additional household population, PCC increased by 8% to 156 l/h/d. The company has committed to performing further analysis of changing population and underlying consumption and adjusting its reporting as necessary.
[2] Letter to the Secretary of State – leakage
[3] The English Government's strategic priorities for Ofwat (2021 draft consultation)
[4] As agreed by the national water resources framework senior steering group comprising representatives from England and Wales (meeting our future water needs: a national framework for water resources)

Water supply interruptions performance in 2020-21

▲ Contents

Company	Target (minutes/ property)	Performance (minutes/ property)	Categorisation of performance
Anglian Water	00:06:30	00:05:02	
Dŵr Cymru	00:06:30	00:11:05	
Hafren Dyfrdwy	00:06:30	01:08:31	
Northumbrian Water	00:06:30	00:04:04	
Severn Trent Water	00:06:30	00:11:21	
South West Water	00:06:30	00:05:38	
Southern Water	00:06:30	00:12:43	
Thames Water	00:06:30	00:13:39	
United Utilities	00:06:30	00:04:46	
Wessex Water	00:06:30	00:04:34	
Yorkshire Water	00:06:30	00:07:14	
Affinity Water	00:06:30	00:05:49	
Bristol Water	00:06:30	00:30:17	
Portsmouth Water	00:06:30	00:02:49	
South East Water	00:06:30	00:31:27	
South Staffs Water	00:06:30	00:04:33	
SES Water	00:06:30	00:07:22	
Sector	-	**00:09:43**	-

Key	
Top performers	
At or better than target	
Poorer than target	

Reducing the number and duration of water supply interruptions improves the reliability of customers' supply. The table compares companies' water supply interruptions performance in 2020-21 with their performance commitment target. Companies that achieve their target and are among the top 25% of performers on supply interruptions minutes per property are considered 'top performers'.

Eight companies have achieved the target in 2020-21 and we identify **Northumbrian Water**, **United Utilities**, **Wessex Water**, **Portsmouth Water** and **South Staffs Water** as top performers, with the latter two companies achieving their target for the sixth consecutive year.

Water supply interruptions are caused primarily by large mains bursts. Nine companies did not achieve the target for supply interruptions and for six of those – **Hafren Dyfrdwy**, **Southern Water**, **Thames Water**, **Yorkshire Water**, **Bristol Water**, **SES Water** – report that one or more major bursts contributed significantly to their underperformance of the target. High demand for water during spring 2020 exceeded some companies' capacity to supply customers and resulted in additional interruptions to supply. These factors contribute to some of the poorest supply interruption figures since the freeze-thaw event in 2017-18.

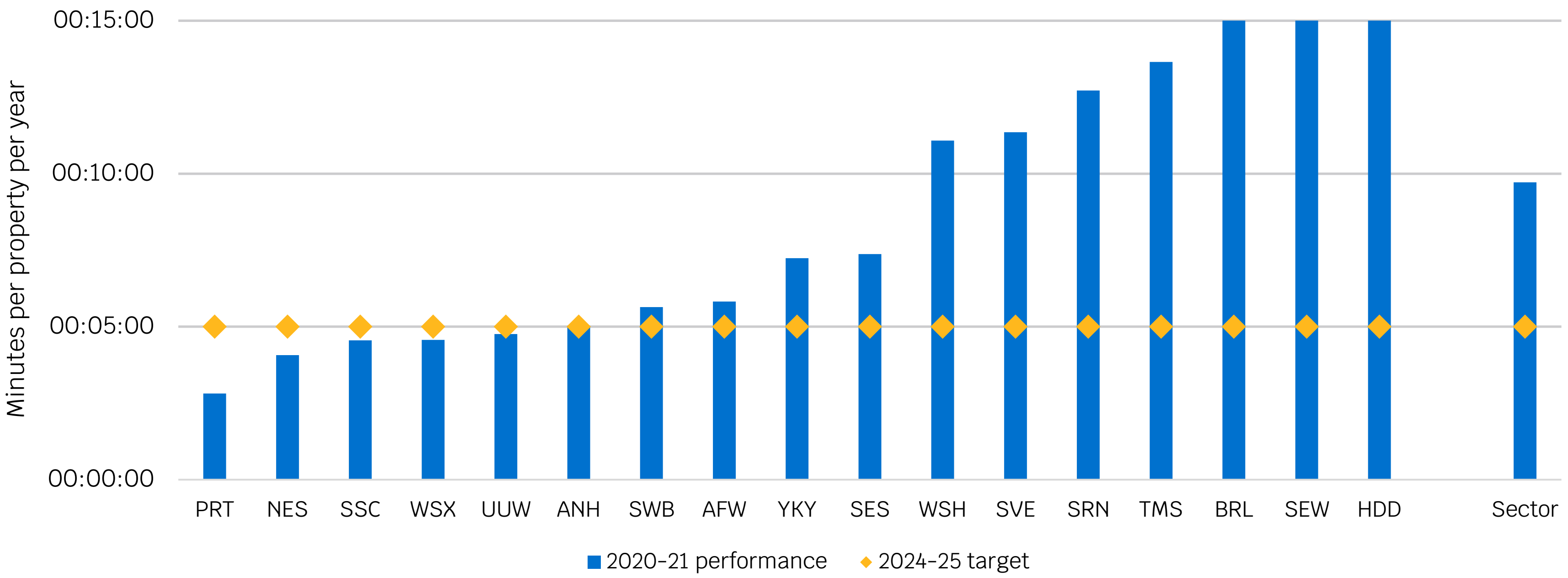
Performance in comparison to the target is mixed during 2020-21, however most companies report that their performance has improved in comparison to 2019-20. Companies are increasing real-time monitoring of their networks in order to detect issues quickly and, while they are being resolved, they are providing supplies from other parts of their network.

Companies are also seeking to avoid interrupting supplies by adopting new techniques which allow them to work on live mains. **United Utilities** reports that use of this technology during 2020-21 avoided a significant supply interruption for 30,000 customers which would have added over 3 minutes per property to its reported performance.

Progress towards 2024-25 water supply interruptions targets

▲ Contents

Supply interruptions (greater than or equal to 3 hours) in 2020-21 compared to the 2024-25 target



Companies have a common water supply interruptions target to reduce water supply interruptions to 5 minutes per property per year by 2024-25; the graph compares performance in 2020-21 to that target. The performance of five companies during 2020-21 – **Portsmouth Water**, **Northumbrian Water**, **South Staffs Water**, **Wessex Water** and **United Utilities** – is better than the 2024-25 target. While this is promising, performance can vary significantly year-on-year and thorough understanding and monitoring plus fast incident response times are required to deliver consistently good performance.

Drinking water quality compliance in 2020

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Company	Deadband[1] (score)	Performance (score)	Categorisation of performance
Anglian Water	2.00	1.98	
Dŵr Cymru	2.00	4.17	
Hafren Dyfrdwy	2.00	0.08	
Northumbrian Water	2.00	7.11	
Severn Trent Water	2.00	1.53	
South West Water	2.00	2.06	
Southern Water	2.00	4.62	
Thames Water	2.00	2.42	
United Utilities	2.00	2.58	
Wessex Water	2.00	1.61	
Yorkshire Water	2.00	2.34	
Affinity Water	2.00	1.31	
Bristol Water	2.00	3.02	
Portsmouth Water	2.00	0.57	
South East Water	2.00	2.26	
South Staffs Water	2.00	1.09	
SES Water	2.00	2.16	
Sector	-	**2.62**[3]	-

Key	
At or better than deadband	
Poorer than deadband	

The compliance risk index (CRI) illustrates the risk arising from failures to meet drinking water standards throughout the supply system, including at customers' taps. The index is defined, calculated and reported by the Drinking Water Inspectorate. It is measured over a calendar year and assigns a value to the significance of the failing water quality parameter, the proportion of the population potentially affected and an assessment of the company's response. The table shows whether companies' performance in 2020 is better or worse than the performance commitment deadband[1], we do not identify 'top performers' for this measure of compliance with statutory obligations.

Demand for water rose considerably during 2020 associated with government imposed restrictions to control transmission of Covid-19 and, at some times, restrictions prevented entry into customers' homes for sampling. The Drinking Water Inspectorate has commended companies for supplying water of high standard during this time and adopting alternative solutions to meet sampling requirements, for example sampling at staff homes, commercial premises or company property and, when these options were unavailable, surrogate samples at service reservoirs.

The performance of only seven companies is better than the deadband. **Anglian Water**, **Hafren Dyfrdwy**, **Wessex Water**, **Affinity Water** and **Portsmouth Water** perform within the deadband for a second consecutive year. **Severn Trent Water** and **South Staffs Water** have made significant reductions in comparison to 2019 to bring their score within the deadband and are commended by the Drinking Water Inspectorate for their efforts[2]. Severn Trent Water in particular has halved its CRI score in each year since 2018 which it attributes to having invested to improve the majority of its service reservoir assets and empowered its teams to work together effectively to deliver safe water. The company has been subject to a DWI 'transformation programme' since 2015; having completed the majority of required actions it is now reaching the end of this enforcement action.

Of the ten companies that do not achieve a CRI score of 2.00 or less, **Dŵr Cymru**, **Northumbrian Water**, **Southern Water** and **Bristol Water** have scores which exceed industry wide median score[3] and, the performance of each company except Southern Water deteriorated in 2020.

[1] The performance commitment level for CRI is 0.00 which reflects statutory requirements to supply drinking water that is 100% compliant with quality standards. While drinking water quality is extremely high, we use the performance commitment deadband as the target for this assessment to allow for some fluctuation of performance within which no underperformance payments are applicable.
[2] The Chief Inspector's report for drinking water in England.
[3] Includes all companies in England and Wales and not only the 17 large companies included in the service delivery report.

Water asset health performance in 2020-21

	Anglian Water	Dŵr Cymru	Hafren Dyfrdwy	North-umbrian Water	Severn Trent Water	South West Water	South-ern Water	Thames Water	United Utilities	Wessex Water	York-shire Water	Affinity Water	Bristol Water	Ports-mouth Water	South East Water	South Staffs Water	SES Water	Sector
Mains repairs (number per 1,000 km of main)																		
Target	140.1	138.9	121.0	141.9	123.5	152.3	129.1	265.9	119.9	161.4	186.1	150.7	138.4	73.8	173.9	129.6	66.5	-
Performance	130.6	140.2	108.0	127.0	122.0	151.8	150.0	269.6	106.6	177.7	215.8	158.9	154.2	76.0	188.6	130.0	64.7	**154.0**
Categorisation of performance																		-
Unplanned outage (outage as a % of peak week production)																		
Target	2.34	2.34	2.34	6.37	2.34	2.34	9.44	6.00	3.56	2.34	5.12	2.34	2.34	2.34	4.23	2.34	2.34	-
Performance	1.14	0.73	1.03	5.69	1.05	1.01	9.21	1.76	1.88	0.57	3.87	1.65	0.20	1.25	3.09	0.57	0.95	**2.21**
Categorisation of performance																		-

Key	
At or better than target	
Poorer than target	

Mains repairs and unplanned outage measure asset performance in the wholesale water price controls. Mains repairs represents the number of repairs conducted as a result of a customer reporting, or the company detecting, a burst and includes mains renewals. Unplanned outage measures the availability of water abstraction and treatment assets. Lower mains repairs and unplanned outage indicate that companies are maintaining and improving the condition of their assets appropriately to ensure continuity of services for customers. The table shows whether companies' performance in 2020-21 is better or worse than the associated performance commitment level. We do not identify 'top performers' for these measures of good asset stewardship.

Seven companies achieved their mains repairs targets during 2020-21. Companies report that cold weather during early 2021 drove a higher than usual number of burst mains and associated repairs. Targeted investment in mains renewal and replacement alongside effective system operation can lower the need to conduct mains repairs generally and allow headroom to conduct additional repairs if required during times of cold weather or changing ground conditions, when there is increased risk of bursts.

All 17 companies achieved their unplanned outage performance commitment demonstrating their readiness to meet increased demand from customers, particularly during spring 2020.

Internal sewer flooding performance in 2020-21

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Company	Target (incidents/ 10,000 properties)	Performance (incidents/ 10,000 properties)	Categorisation of performance
Anglian Water	1.68	1.33	
Dŵr Cymru	1.68	2.05	
Hafren Dyfrdwy	1.68	2.81	
Northumbrian Water	1.68	1.89	
Severn Trent Water	1.68	1.86	
South West Water	1.68	1.34	
Southern Water	1.68	1.96	
Thames Water	1.68	2.31	
United Utilities	1.68	4.47	
Wessex Water	1.68	1.41	
Yorkshire Water	1.68	3.34	
Sector	-	2.37	-

Key	
Top performers	
At or better than target	
Poorer than target	

Internal sewer flooding occurs when sewage enters a building due to a blockage or collapse of a sewer, a lack of capacity in a sewer or the failure of a sewage pumping station. Sewer flooding is extremely unpleasant and companies are expected to minimise incidents, even during heavy rainfall.

The table demonstrates whether companies' performance on internal sewer flooding in 2020-21 is better or worse than the performance commitment target. Companies that achieve their target and which are in the top 25% of performers on an incidents per 10,000 properties basis are considered 'top performers'.

Only three companies achieved their internal sewer flooding targets in 2020-21, **Anglian Water**, **South West Water** and **Wessex Water**. Customers of the poorest performing companies – **Hafren Dyfrdwy**, **United Utilities** and **Yorkshire Water** – experience at least twice as many incidents per 10,000 properties than those of the best performing company, **Anglian Water**.

Companies consider that intense storms during summer 2020 and prolonged wet weather during winter 2021 contributed to an increase in the number of incidents. Companies can reduce the risk of sewer flooding by:

- improving their understanding and monitoring the sewerage network;
- identifying and clearing blockages; and
- improving response times to incidents.

Progress towards 2024-25 internal sewer flooding targets

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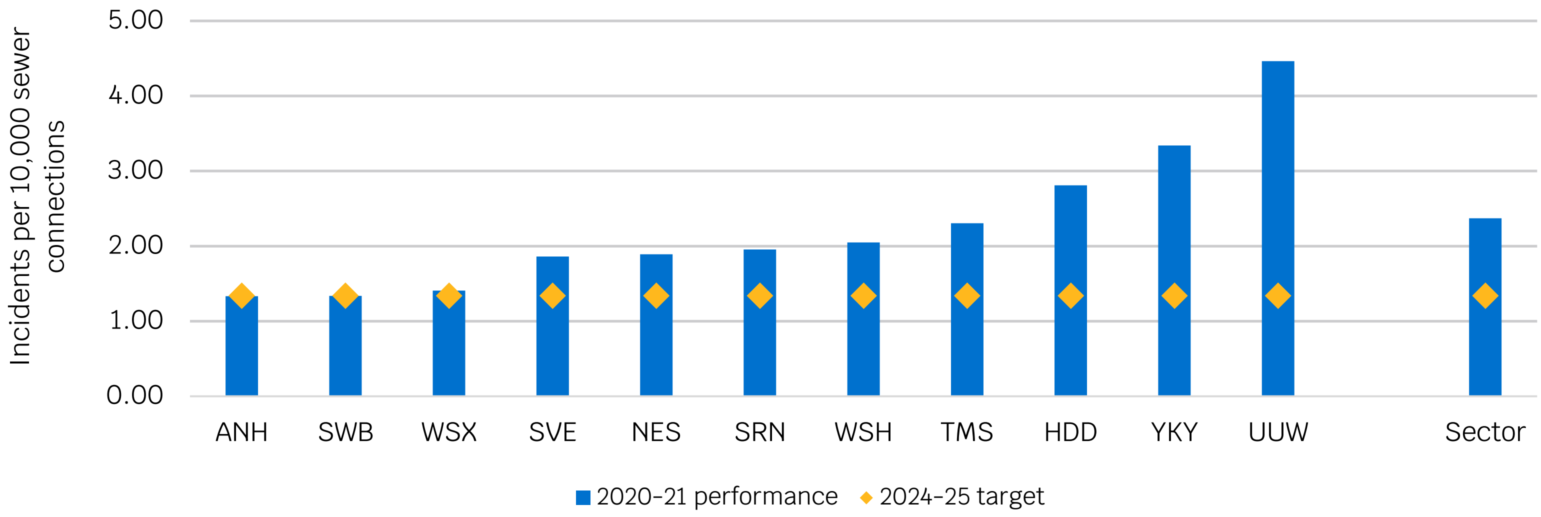
Internal sewer flooding incidents in 2020-21 compared to the 2024-25 target



Companies have a common target to reduce internal sewer flooding to 1.34 incidents per 10,000 properties by 2024-25; the graph compares performance in 2020-21 to that target. The performance of two companies in 2020-21 – **Anglian Water** and **South West Water** – is better than the 2024-25 target. To achieve the 2024-25 target of 1.37 incidents per 10,000 sewer connections, **United Utilities** and **Yorkshire Water** must reduce incidents by 70 and 60% respectively. Both companies have improvement plans in place to support reductions. If performance remains at the level each company reports in 2020-21 for the duration of the price control period then United Utilities would be required to return £61m for its performance during the price control period while Yorkshire Water would be required to return £69m.

Pollution incidents performance in 2020

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Company	Target (incidents/ 10,000 km of sewer)	Performance (incidents/ 10,000 km of sewer)	Categorisation of performance
Anglian Water	24.51	27.65	
Dŵr Cymru	24.51	21.46	
Hafren Dyfrdwy[1]	138.00	98.81	
Northumbrian Water	24.51	14.61	
Severn Trent Water	24.51	20.60	
South West Water	24.51	144.30	
Southern Water	24.51	101.52	
Thames Water	24.51	26.67	
United Utilities	24.50	18.10	
Wessex Water	24.51	25.18	
Yorkshire Water	24.51	24.00	
Sector	-	**31.91**	-

Key	
Top performers	
At or better than target	
Poorer than target	

Annually the **Environment Agency** and **Natural Resources Wales** assess the environmental performance of water and sewerage companies in England and Wales respectively based on six measures, including pollution incidents. In 2020, for the first time, just over half of companies achieved the highest rating of 'industry leading, four stars'. Only **Southern Water** and **South West Water** were considered to be falling short of expected standards achieving 'below average, two star' status. South West Water has a bespoke performance commitment on its EPA star rating, it was expected to achieve 'good, three star' status in 2020-21 and returns £1 million to customers for underperformance.

Pollution incidents are discharge or escape of contaminants such as sewage or chemicals which affect the water environment. During each calendar year companies report incidents to the Environment Agency (in England) or Natural Resources Wales (in Wales) which categorise the impact. A category 1 incident has a serious, extensive or persistent impact. Category 2 incidents have a lesser, yet significant, impact. Category 3 incidents have a minor impact.

We include pollution incidents figures reported by companies. The table demonstrates whether companies' reported performance on category 1-3 pollution incidents in 2020 is better or worse than the performance commitment target. Companies that report they have achieved their target and are among the top 25% of performers on a pollution incidents per 10,000 km of sewer basis are considered to be 'top performers'.

Just over half of companies, six, report that they achieved their pollution incidents target during 2020, including **Northumbrian Water**, **Severn Trent Water** and **United Utilities** which are identified as 'top performers' in our assessment. Of the five companies that report that they do not achieve their target; **South West Water's** performance is extremely poor for the tenth consecutive year and **Southern Water's** performance is extremely poor for the second consecutive year. These two companies are responsible for over a third of the incidents reported by the sector, which is disproportionate to the size of their operations. For their underperformance on pollution incidents, South West Water will return £13.8 million to customers while Southern Water will return £7.7 million.

The Environment Agency and Natural Resources Wales also set companies targets for reducing serious pollution incidents. In 2020, only **Dŵr Cymru**, **Hafren Dyfrdwy**, **Northumbrian Water**, **Severn Trent Water** and **United Utilities** reported achieving those targets.

[1] With the exception of Hafren Dyfrdwy, companies' target is the forecast upper quartile of 24.5 incidents per 10,000 km of sewer. At PR19 we considered it inappropriate to set Hafren Dyfrdwy's target at the forecast upper quartile level because this would require the company to have very low numbers of category 3 incidents in absolute terms due to the small size of its sewerage system.

Progress towards 2024-25 pollution incidents targets

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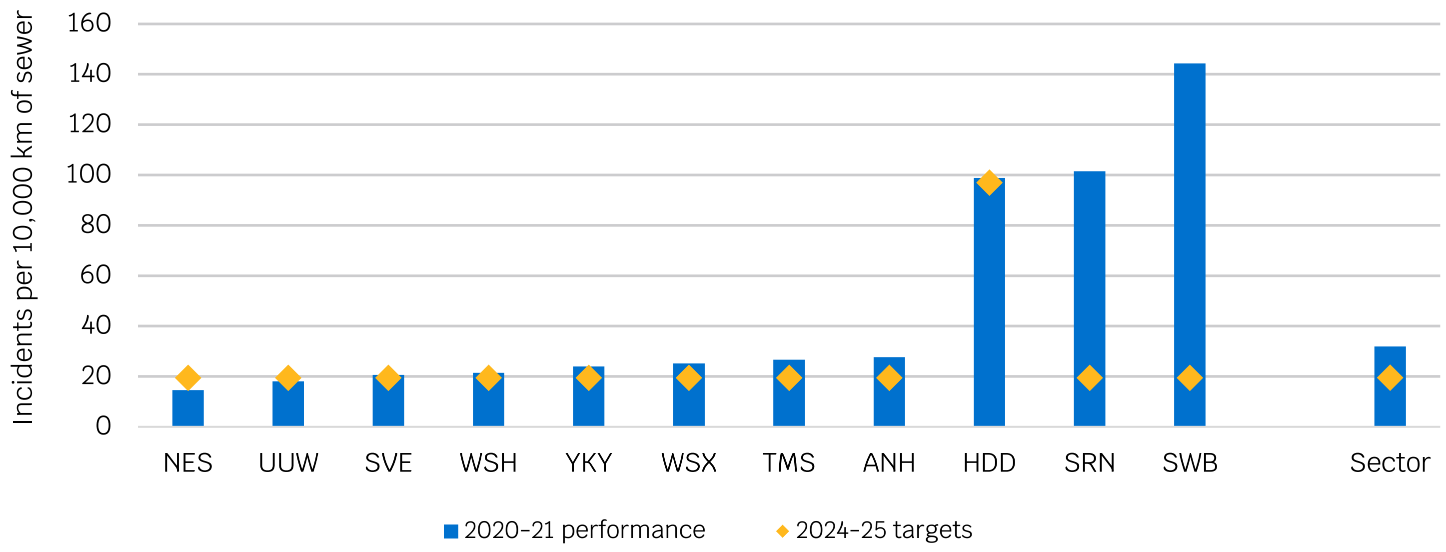
Pollution incidents in 2020-21 compared to the 2024-25 targets



The **Environment Agency** set the expectation that by 2020 companies in England would reduce pollution incidents by at least a third in comparison to 2012. The average performance of companies operating wholly or mainly in England fell short of this target. To better incentivise companies to reduce pollution incidents, targets for performance commitments and the Environment Agency's and Natural Resources Wales' environmental performance assessments are aligned for the 2020-25 period.

The graph demonstrates companies' reported pollution incidents performance during 2020-21 in comparison to their 2024-25 target[1]. The reported performance of two companies – **Northumbrian Water** and **United Utilities** – is better than the 2024-25 target. To support sustained reductions, the Environment Agency instructed companies in England to publish pollution incident reduction plans which are intended to improve companies' understanding of risk and implementation of interventions to reduce incidents. Having produced their plans, companies report increased focus on targeted investment, internal and external awareness of risk and cultures which allow employees to raise concerns about potential incidents.

[1] With the exception of Hafren Dyfrdwy, companies' target is the forecast upper quartile of 19.5 incidents per 10,000 km of sewer. At PR19 we considered it inappropriate to set Hafren Dyfrdwy's target at the forecast upper quartile level because this would require the company to have very low numbers of category 3 incidents in absolute terms due to the small size of its sewerage system. Category 3 incidents have a minor or minimal impact on the environment.

Wastewater asset health performance in 2020-21

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	Anglian Water	Dŵr Cymru	Hafren Dyfrdwy	North-umbrian Water	Severn Trent Water	South West Water	Southern Water	Thames Water	United Utilities	Wessex Water	Yorkshire Water	Sector
Sewer collapses (number per 1,000 km of sewer network)												
Target	5.60	7.20	5.37	10.69	8.00	17.06	5.72	4.00	15.51	6.33	18.26	-
Performance	6.09	7.69	16.33	9.82	7.74	9.76	7.91	3.96	14.61	6.12	15.67	**8.57**
Categorisation of performance												-
Treatment works compliance (% compliance)												
Deadband[1]	99.00	99.00	97.90	99.00	99.00	99.00	99.00	99.00	99.00	99.00	99.00	-
Performance	99.29	99.66	100.00	99.51	99.60	99.04	97.06	99.74	99.75	99.08	99.04	**99.27**
Categorisation of performance												-

Key	
Sewer collapses	
At or better than target	
Poorer than target	
Treatment works compliance	
At or better than deadband	
Poorer than deadband	

Sewer collapses and treatment works compliance measure asset performance in the wholesale wastewater price controls primarily. Sewer collapses measure structural failures that have an impact on customers or the environment. Treatment works compliance measures the proportion of assets which treat effluent effectively. Lower sewer collapses and higher treatment works compliance indicates that companies are maintaining and improving the condition of their assets appropriately to ensure continuity of services for customers and reduce their impact on the environment.

The table shows whether companies' performance in 2020-21 for sewer collapses, and 2020 for treatment works compliance, is better or worse than the associated performance commitment level for sewer collapses or the performance commitment deadband for treatment works compliance[1]. We include treatment works compliance figures as reported by companies. We do not identify 'top performers' for these performance commitments which assess good asset stewardship and compliance with statutory obligations respectively.

Most companies, seven, have achieved their sewer collapses target during 2020-21.

Reported treatment works compliance is at its highest since 2016. Only **Southern Water's** reported performance falls short of the performance commitment deadband. It is also the only company to reporta deterioration in performance in comparison to its performance in 2019. The treatment works compliance measure primarily reflects performance of sewage treatment works, although it also includes a relatively small proportion of water treatment assets. In England, the Environment Agency is concerned that water treatment works compliance is far lower than reported compliance at wastewater treatment works[2]. In Wales[3], **Hafren Dyfrdwy** reports 100% compliance for a fourth consecutive year and **Dŵr Cymru** reports a noticeable improvement, which exceeds Natural Resources Wales' target of 99% for the first time since 2016.

[1] The performance commitment level for treatment works compliance is 100% which reflects statutory requirements to comply with discharge permits. However, we use the performance commitment deadband as the target for this assessment to allow for some fluctuation in performance within which companies do not incur underperformance.

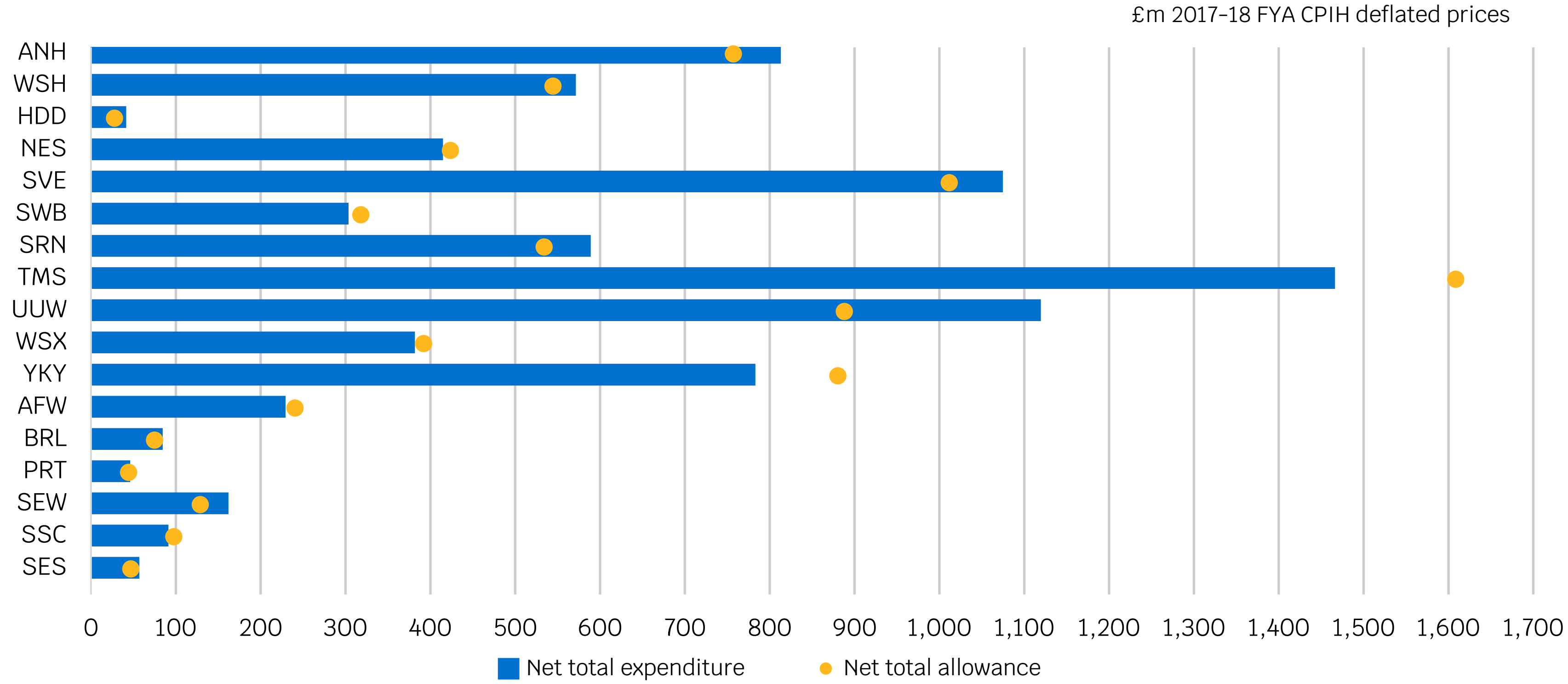
[2] Water and sewerage companies in England: environmental performance report for 2020

[3] See Natural Resources Wales' 2020 annual performance reports for Dŵr Cymru and Hafren Dyfrdwy

Wholesale expenditure in 2020-21

▲ Contents

Variances from wholesale cost allowances in 2020-21 (before timing adjustments)



At the 2019 price review we set efficient wholesale expenditure allowances for the 2020-25 period. In combination with the outcomes package, the expenditure allowances incentivise companies to efficiently deliver improvements in the services they provide to customers. The graph demonstrates expenditure in comparison to wholesale cost allowances.

In the wholesale price controls, companies are not required to spend in line with their annual cost allowances and may reprofile their expenditure across the five year price control. At the end of the price control, net outperformance (expenditure greater than the allowance) or underperformance (expenditure lower than the allowance) is shared between customers and the company. Expenditure against wholesale allowances in the first year of the price control is not a reliable indicator of whether a company is likely to out or underperform its total cost allowance.

In the first year of the 2015-20 price control, the vast majority of companies spent considerably less than their allowances then increased expenditure year-on-year. Average expenditure during the five year price control period exceeded cumulative allowances by 1%[1]. In 2020-21, nine companies have spent above their allowances and average expenditure exceeded allowances by 1.3% on average.

[1] As stated in the key messages of the Service Delivery report 2019-20.

Wholesale water total expenditure in 2020-21

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2017-18 FYA CPIH deflated base year prices	Anglian Water	Dŵr Cymru	Hafren Dyfrdwy	North-umbrian Water	Severn Trent Water	South West Water	South-ern Water	Thames Water	United Utilities	Wessex Water	York-shire Water	Affinity Water	Bristol Water	Ports-mouth Water	South East Water	South Staffs Water	SES Water	Sector
Performance against allowance (£m)																		
Net water allowance	332	262	23	262	448	134	182	877	408	104	315	240	75	44	129	98	47	**3,980**
Net water expenditure	361	274	30	250	533	142	196	837	516	123	341	223	78	40	156	85	50	**4,234**
Expenditure variance from allowance (%)																		
Total variance	9%	5%	30%	-4%	19%	6%	8%	-5%	27%	18%	8%	-7%	4%	-11%	21%	-13%	8%	**6%**
Variance excluding timing of expenditure	3%	7%	18%	0%	19%	-7%	17%	0%	1%	0%	5%	3%	3%	-2%	8%	0%	7%	**5%**

Key	
Expenditure at or below allowance	(green)
Expenditure greater than allowance	(yellow)

The table shows companies' expenditure in wholesale water in 2020-21 against cost allowances. Negative variances indicate a company has spent less than its allowance. Positive variances indicate a company has spent in excess of its allowance. We have categorised companies' performance after excluding the impact of any expenditure brought forward from, or pushed back to, later years of the price control.

Companies' total expenditure on wholesale water exceeded cost allowances by 6% on average. Companies report that this was primarily the result of incurring additional or higher costs than were included in the final determination allowance – by 5% on average - and, to a lesser extent, investment brought forward from future years. For example companies report acceleration of expenditure to achieve leakage targets of around 1%. During 2020-21, following the introduction of government imposed restrictions to stop the spread of Covid-19, companies reported higher demand for water from customers and increased power, chemical and bulk supply costs to meet this demand. Companies also avoided costs during this time; **Anglian Water** reports avoided costs on travel and expenses which more than offset the cost increases it incurred to meet higher demand.

Once timing of expenditure is excluded, eleven companies incur costs that are in excess of allowances. Some of these companies, such as **Southern Water** which exceeded its allowance by 17%, are not delivering planned investments within the efficient level we set in the final determination. Others, such as **Severn Trent Water** and **United Utilities**, are making additional investments – for example in sensors and predictive analytics – in anticipation of producing future efficiencies. Six companies spent in-line with or below our view of efficient expenditure, with **South West Water** spending less than its allowance by around 7%.

Wholesale wastewater total expenditure in 2020-21

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2017-18 FYA CPIH deflated base year prices	Anglian Water	Dŵr Cymru	Hafren Dyfrdwy	North-umbrian Water	Severn Trent Water	South West Water	South-ern Water	Thames Water	United Utilities	Wessex Water	York-shire Water	Sector
Performance against allowance (£m)												
Net water allowance	426	282	5	162	563	184	352	731	480	288	566	4,037
Net water expenditure	446	291	5	158	536	155	386	623	597	252	436	3,885
Expenditure variance from allowance (%)												
Total variance	5%	3%	10%	-2%	-5%	-16%	10%	-15%	24%	-12%	-23%	-4%
Variance excluding timing of expenditure	-1%	6%	10%	-8%	-12%	-29%	12%	0%	5%	0%	7%	0%

Key	
Expenditure at or below allowance	(green)
Expenditure greater than allowance	(yellow)

The table shows companies' expenditure in wholesale wastewater in 2020-21 against cost allowances. Negative variances indicate a company has spent less than its allowance. Positive variances indicate a company has spent in excess of its allowance. We have categorised companies' performance after excluding the impact of any expenditure brought forward from, or pushed back to, later years of the price control.

Companies have reported an average underspend of 4% in 2020-21, which is almost entirely due to deferring delivery of investment in comparison to the profile assumed in final determinations. For example **Thames Water** defers significant expenditure while it moves to a new supply chain and **Yorkshire Water** has deferred significant investment on its environment programme while it identifies what it considers to be the best and most efficient solutions for delivering its obligations within its final determination allowance. Excluding timing of expenditure, average spend was broadly in line with cost allowances; this is despite companies reporting additional costs for power, reactive maintenance and tankering to maintain services during wet winter weather.

Efficiencies can allow companies to deliver more for customers and the environment now and in the future, for example **Severn Trent Water** is reinvesting its efficiencies to improve services in its water business. We are concerned that while **South West Water** appears to have generated significant efficiencies it is an extremely poor performer on pollution incidents and we encourage the company to consider whether additional investment in its wastewater business can deliver the level of service its customers deserve and better outcomes for the environment.

Retail expenditure in 2020-21

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Company	Allowed expenditure (£m)	Actual expenditure (£m)	Categorisation of performance (variance from allowance)
Anglian Water	74	78	6%
Dŵr Cymru	38	61	58%
Hafren Dyfrdwy	3	3	-7%
Northumbrian Water	46	58	26%
Severn Trent Water	91	110	21%
South West Water	27	25	-8%
Southern Water	48	73	53%
Thames Water	138	204	49%
United Utilities	91	103	13%
Wessex Water	26	33	30%
Yorkshire Water	60	73	22%
Affinity Water	26	28	11%
Bristol Water	9	12	30%
Portsmouth Water	4	4	8%
South East Water	17	18	9%
South Staffs Water	11	12	8%
SES Water	5	8	67%
Sector	**712**	**904**	**27%**

Key	
Expenditure at or below allowance	(green)
Expenditure greater than allowance	(yellow)

The table demonstrates companies', and the sector's average, expenditure against cost allowances in the retail price control. In this control, companies receive an allowance per customer and retain all outperformance or incur all underperformance.

Only **Hafren Dyfrdwy** and **South West Water** have spent less than their allowances, by 7% and 8% respectively. The remaining companies have spent in excess of their allowance by 6 to 67%.

Retail expenditure includes a charge for household bad debt, which represents the change in the total value of the bad debt provision in the year. The bad debt provision should reflect the revenue that the company considers it may not recover from customers and incremental changes are included annually in reported costs. During 2019-20 many companies increased their provision in anticipation that some customers could find it difficult to pay their bill due to the economic consequences of the Covid-19 pandemic. During 2020-21, most companies report that cash collection remained strong but that they maintained or further increased their bad debt provisions in anticipation that revenue collection could weaken once the government furlough scheme ended.

Reported total provisions for the impact of Covid-19 to date vary from 4% to 44% of cost allowances. The variability reflects the companies' views of the risk that some customers might struggle to pay, offset by any actions the company is taking to manage bad debt. **Dŵr Cymru**, **Hafren Dyfrdwy** and **Severn Trent Water** report that they have increased debt management activities in order to minimise the size of their provision. **Southern Water** has the largest provision as a proportion of its retail cost allowance while also reporting that it suspended bad debt management activities.

The extent to which the provisions made for Covid-19 will be required is uncertain. Removing the incremental change in the provisions during 2020-21 from our analysis reduces average excess expenditure to 21% of allowances. The majority of companies have much more work to do during the next four years of the price control in order to improve the efficiency of their retail businesses.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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