



South Staffs Water



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# PR19 blind year reconciliation commentary

South Staffordshire Water PLC

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# Introduction

This document sets out the reconciliation of the 2020-25 performance updated for actual performance in 2024-25. Our Final Determination, published in December 2024, used forecast information for 2024-25. Any differences between actual and forecast performance are reconciled as part of a 'blind year' adjustment.

We have followed the guidance set out in **Information Notice IN 25/01'Expectations for PR19 blind year reconciliation'**.

Below sets out a summary of the data tables and reconciliation models and the update status. Ofwat have confirmed that certain reconciliations are not required to be updated.

Reconciliation models	Past delivery data tables	Update
RCV adjustment feeder model	PD11 – RCV midnight adjustment	Reflects all updates for 24/25 actuals
Revenue adjustment feeder model	PD12 – PR19 reconciliation adjustments	Reflects all updates for 24/25 actuals
Totex (including Green Recovery)	PD8 - Totex analysis, PD9 – Totex performance, WS1 – Totex analysis PD7/7a, SUP4/5/10	Reflects all updates for 24/25 actuals
Green Recovery cost adjustment and recovery time value of money		As our Green Recovery scheme was fully delivered, there are no changes to these models.
Transition programme	CW12 – Transition expenditure	Reflects all updates for 24/25 actuals
ODI performance model, ODI differences model and in-period adjustments mode.		24/25 model updated for actuals including 2024-25 PCC adjustment
C-Mex		Not required. This is an industry comparative measure. Ofwat will update in their blind year draft determination in September 2025.
D-Mex		Not required. This is an industry comparative measure. Ofwat will update in their blind year draft determination in September 2025.
Residential retail reconciliation model	RET 2 – Residential retail	Reflects all updates for 24/25 actuals
Revenue forecasting incentive model	PD5 – Revenue reconciliation - wholesale	Reflects all updates for 24/25 actuals
Developer services revenue adjustment model	DS4 – Developer services new connections, properties and mains	Reflects all updates for 24/25 actuals
Cost of new debt reconciliation model		Reflects all updates for 24/25 actuals
Gearing outperformance sharing mechanism		This is no longer being applied as per Final Determination so has not been submitted
Tax reconciliation	PD10 – Capital allowance super deductions	Reflects all updates for 24/25 actuals including updating the PR19 financial model

Reconciliation models	Past delivery data tables	Update
RPI-CPIH wedge reconciliation model		Revised model published by Ofwat in May 2025 has been used. Reflects all updates for 24/25 actuals
WINEP/NEP reconciliation model		Not updated as outside the scope of the blind year reconciliations
Land sales	PD4 – Land sales	We had no land sales in 2024-25 and so the model is unchanged from the Final Determination.
Strategic regional water resources	Strategic regional water resources: Blind year process data template	Revised model published by Ofwat in May 2025 has been used. Reflects all updates for 24/25 actuals
Other adjustments model		There are no changes from the Final Determination.

To help track changes from the Final Determination, we have highlighted updates in the feeder models in red.

We have only made changes to update 2024-25 to reflect actual performance. **We confirm that we have not made any changes to the data in our Final Determination for the 2020-24 period.**

The overall impact from updating 2024-25 performance is a reduction in revenue of £4.8m and a reduction in RCV of £1.3m.

There is a reduction in wholesale revenues from our ODI performance of £2.1m and this will be reflected in the charges we set for 2026-27. The total of all other wholesale revenue adjustments of £1.2m will be phased across the 2026-30 period.

The reduction in retail revenue of £1.4m will be reflected at PR29 along with the total reduction in RCV of £1.3m.

## Assurance

We have considered the required assurance as per our [assurance plan](#). The only changes from the Draft Determination are to update 2024/25 for actual performance where required.

The likelihood score (that the data may contain an error) we score as 2 reflecting that the majority of data is taken from our assured 2024/25 Annual Performance Report.

The Impact score (in relation to customer, competition and financial) we also score as 2 reflecting that the updates from the Final Determination are relatively small.

The overall score is below and as per our framework the level of risk is low.

Likelihood Score	Impact Score	Total Risk Score	Assurance Risk Category
2	2	4	Low

This resulting score indicates that internal peer review would be sufficient. However, noting that in IN25/01, there is a requirement for third party assurance, we have used Jacobs to undertake assurance on the most significant reconciliations. Their report is included as an appendix on page 9.

Our ODIs are assured as part of the APR technical audit. The outcome of this assurance can be found on page in our 2025 APR.

In addition to Jacobs's assurance, the Board reviewed and approved the submission at a meeting on 25 June 2025.

# Summary of changes

Below, we set out a summary of the updated 2020-25 reconciliations compared to PR24 Final Determination. These are split between revenue adjustments and RCV adjustments.

## Summary of revenue adjustments

£m 2022-23 FYA CPIH deflated prices	Final determination	PR19 blind year update	Difference
Revenue Forecasting Incentive(RFI)	3.558	6.315	2.757
Residential retail	(1.672)	(3.087)	(1.414)
Developer services	10.031	6.703	(3.328)
Cost of new debt	1.928	1.951	0.024
Tax	(0.804)	(0.804)	0.000
ODIs	(6.278)	(8.421)	(2.143)
Totex costs	(7.069)	(6.904)	0.165
RPI-CPIH wedge	2.964	2.214	(0.750)
Strategic regional water resources	13.986	13.871	(0.115)
Other	13.459	13.459	0.000
<b>Total</b>	<b>30.103</b>	<b>25.298</b>	<b>(4.805)</b>

**Note:** As clarified with Ofwat, C-Mex and D-Mex are not required to be updated and are not included in the above table.

## RCV adjustments

£m 2022-23 FYA CPIH deflated prices	Final determination	PR19 blind year update	Difference
Land sales	(0.883)	(0.883)	0.000
Green recovery	9.769	9.769	0.000
Totex costs	(3.597)	(3.417)	0.179
Transition programme	0.207	0.141	(0.066)
RPI-CPIH wedge	6.118	4.762	(1.356)
Strategic regional water resources	7.968	7.903	(0.066)
<b>Total</b>	<b>19.583</b>	<b>18.275</b>	<b>(1.309)</b>

**Note:** The output table in the RCV reconciliation model excludes transition programme.

The subsequent sections in this document provide commentary on the material changes to each reconciliation.

# Totex reconciliation

In our Final Determination, the value of the PR19 totex adjustment was as follows.

Reconciliation (17/18 prices)	(Under)/Over spend (£m)	Cost sharing rate (%)	Adjustment (£m)	RCV (£m)	Revenue (£m)
Totex subject to cost sharing	(8.914)	55%	(4.897)	(1.782)	(3.115)
Rates and Abstraction	(2.616)	75%	(1.962)	(0.719)	(1.242)
Wages	(2.573)	100%	(2.573)	(0.943)	(1.630)
Green Recovery	0.884	45%	0.398	0.398	-
<b>Total</b>	<b>(13.218)</b>		<b>(9.033)</b>	<b>(3.046)</b>	<b>(5.987)</b>

The reconciliation has been updated for 24/25 actual expenditure and this gives the following updated position.

Reconciliation (17/18 prices)	(Under)/Over spend (£m)	Cost sharing rate (%)	Adjustment (£m)	RCV (£m)	Revenue (£m)
Totex subject to cost sharing	(7.652)	55%	(4.204)	(1.527)	(2.676)
Rates and Abstraction	(3.242)	75%	(2.432)	(0.891)	(1.541)
Wages	(2.573)	100%	(2.573)	(0.943)	(1.630)
Green Recovery	1.036	45%	0.466	0.466	
<b>Total</b>	<b>(12.431)</b>		<b>(8.742)</b>	<b>(2.895)</b>	<b>(5.847)</b>

The overall position shows a marginal reduction in the outperformance true-up compared to the Final Determination of £0.1m for the revenue adjustment and £0.1m for the RCV adjustment. For the whole AMP 7 period, we have outperformed our totex allowance subject to cost sharing by 1.4%.

There have been no updates from the Office of National Statistics (ONS) in relation to the Annual Survey of Hours and Earnings (ASHE) index. We have therefore left the wage growth projection for 2024-25 as per the forecast in the Final Determination.

## ODI performance 2024/25

We have updated the forecast for in-period ODIs in 2024/25. There is an overall penalty of £2.2m compared to £0.3m projected in our Draft Determination response.

In our Draft Determination representation submitted in August 2024, we projected an underperformance of £0.3m reflecting a penalty on CRI of £0.8m offset by a reward of £0.3m on both supply interruptions and unplanned outages.

We have previously been one of the best performers in the water sector for supply interruptions. But a small number of significant bursts in our South Staffs region in early November has had a negative impact on our performance. This caused us to substantially miss our target for the year, resulting in us exceeding the penalty collar for the first time and incurring the maximum penalty for this measure of £1.5m.



During 2024, we experienced failures for turbidity, coliforms and odour at several sites across our Cambridge and South Staffs regions.

These compliance failures have caused us to significantly miss our CRI target of zero, putting us in a penalty position of £1.2m for the reporting year. We have taken steps to address these issues, including carrying out tank cleaning and maintenance at our sites and replacing sample points. We have also recruited a Network Scientist within our water quality team to enhance our water quality monitoring

More details on our ODI performance are set out in our 2025 Annual Performance Report.

As per the guidance set out in IN 15/01 and IN15/02, we have not made any adjustments to the impact of Covid-19 on PCC compared to that allowed in our Final Determination.

## **Compliance Risk Index (CRI) restatement of 2023/24 reported value**

In our 2023/24 APR table 3A we reported the CRI score of 10.90 from which an underperformance penalty of £1.816m was incurred. This was based on the draft internal calculations of CRI score using our best available data at that time, as is the case every year before we receive agreed DWI scoring.

Prior to APR publication DWI released final scores which were amended from our draft value, however this was overlooked and therefore our table 3A value was not updated. We did not detect this error until recently whilst preparing this year's APR submission.

The correct value for 2023/24 is 8.40, resulting in an underperformance penalty of £1.709m. This is a reduction in penalty of £0.107m.

We have included this figure as a correction in the ODI in-period adjustments model for 2024/25, by adding £0.107m into line IPD04\_CO\_IN\_32 (Other bespoke adjustments, water network plus).

## **Residential retail reconciliation**

Residential retail revenue for 2024-25 was £15.1m compared to £13.6m forecast in our Final Determination. This is offset by an under recovery of wholesale revenues during the year.

## **Revenue forecasting incentive reconciliation**

Compared to the Final Determination, we under recovered wholesale revenues by £2.8m. This was partly offset by an over recovery of residential retail revenues of £1.4m. The remaining difference is predominantly driven by lower developer contributions as a result of lower activity than expected during the year. This lower activity also impacts on the developer services reconciliation as set out in section 1.8.

# Developer services revenue adjustment

The number of new connections in 2024-25 was lower than we had forecast (4,290 actual v 6,271 forecast). There has been a significant slowdown in housebuilding activity over the last 12-18 months, both regionally and nationally. This is driven by a number of factors.

- **Build cost inflation** – There has been a significant increase in the cost of construction.
- **Mortgage costs** – Mortgage rates increased from 0.1% in 2021 to 5.25% in August 2023. Although rates have fallen back to 4.25% as of May 2025, the persistently high rates have now started to impact consumers with their affordability to buy a new property.
- **Planning delays** – The time taken for planning approval has increased, with more applications but a system which is heavily dependent on paper documents.

As a result of the above factors, we have seen developers deciding to build within smaller parcels of land at a time rather than a whole development.

This lower number of new connections than expected reduces the overall true-up by £3.3m from the Final Determination.

## Taxation

We have updated the taxation reconciliation model, including the PR19 financial model for the actual cost of debt for 2024-25. Following the update, there are no changes to the value of the reconciliation compared to the Final Determination.

### Tax adjustment for surrendered losses

In the PR24 Final Determination, Ofwat set out the potential tax adjustment for surrendered losses for South Staffs Water of £1.22m (table 10 of Aligning risk and return appendix).

Our latest view on losses surrendered are set out below.

Year	Latest update for losses surrendered (nominal £m)	Latest update for losses surrendered (2022/23 prices £m)	Tax rate	Tax adjustment for surrendered losses (2022/23 prices £m)
2020/21	0.00	0.00	19%	0.00
2021/22	5.93	6.44	19%	1.22
2022/23	0.00	0.00	19%	0.00
2023/24	0.00	0.00	25%	0.00
2024/25	0.00	0.00	25%	0.00
<b>Total adjustment</b>				<b>1.22</b>



We are not expecting to surrender any losses for 2023/24 or 2024/25 and so the adjustment in our Final Determination remains unchanged.

# RPI/CPIH wedge reconciliation

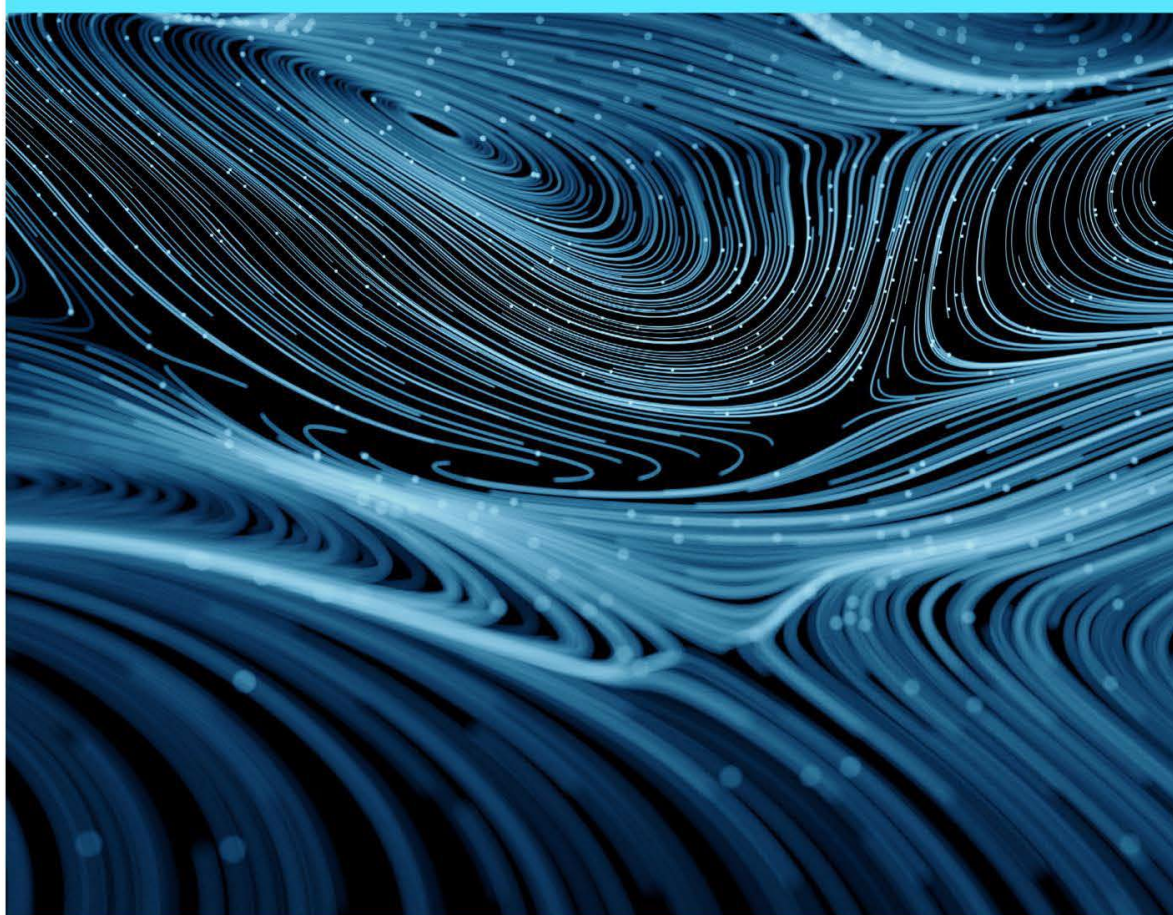
This true up corrects for the difference between the forecast difference in CPIH/RPI assumed by Ofwat at PR19 and the actual difference. Post the PR24 Final Determination, Ofwat identified that part of their reconciliation model was using Ofwat's PR19 assumptions for inflation rather than actual inflation. An updated RPI/CPIH wedge reconciliation model (v5.7) was published on the 31 May. The model changes result in £0.8m lower revenue and £1.4m lower RCV.

# Strategic regional water resources

We have updated the reconciliation to reflect our final outturn costs. Overall, there is a small underspend of £0.114m compared to the allowances in our Final Determination. This is set out in the SRO blind year process data template included with our submission. We have adjusted the outturn against additional allowances figures in rows 143 and 147 of the InputsR1 tab of the model in the same 68% (water resources) to 32% (Network plus) proportions as used in the Final Determination model.

# PR19 reconciliation tables assurance

See following pages.



# PR19 Reconciliation Tables Assurance

Independent Assurance Report

Revision: 3  
South Staffordshire Water  
PR19 Reconciliation Tables Assurance

11 July 2025



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## PR19 Reconciliation Tables Assurance

**Client name:** South Staffordshire Water **Project no:** B2443000

**Project name:** PR19 Reconciliation Tables Assurance **Project manager:** Trudy Maddock

**Revision:** 3

**Date:** 11 July 2025

## Document history and status

Revision	Date	Description	Author	Checked	Reviewed	Approved
1.0	20/06/2025	First Draft	HKC	VK	SH	TM
2.0	23/06/2025	Final	HKC	VK	SH	TM
3.0	11/07/2025	Final update post EY audit completion	HKC	VK	SH	YZ

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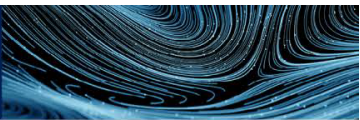
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Attention: South Staffordshire Water Board

## 1. Introduction

This letter provides an overview of our assurance activity relating to your submission of updated PR19 blind year reconciliation information as specified in information notes IN 25/01 and IN 25/02.

We performed a similar audit on your early submission of data for PR19 reconciliation models in July 2023.

## 2. Assurance Standards Applied

We conducted our limited assurance in accordance with the International Standard on Assurance Engagements (UK) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information ("ISAE (UK) 3000 revised"). The Standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion.

Our scope and approach are set out in Section 3. We have formed an opinion on the adequacy of the methods adopted by South Staffs to report the data in scope in accordance with the appropriate definitions, and checked that the source data supports the figures reported.

## 3. Scope of Work and Approach

This assurance report provides the conclusions from the work specified in our Statement of Work, PR19 Reconciliation Assurance issued on 16 May 2025.

The assurance work was undertaken using a risk-based sampling approach through a series of audits conducted over MS Teams.

We have completed assurance for the data tables and PR19 reconciliation model inputs provided to us by yourselves via email on 14 June and 9 July 2025. Our initial scope identified ten models to be audited however, at your request, we have reduced our assurance to cover the models where you have updated Ofwat's initial assumptions. These are outlined below:

- Blind-Year-2025-Data-Tables-May-2025
- PR24-BY-PD05-Revenue-forecasting-incentive model
- PR24-BY-PD08-Residential-Retail-Reconciliation
- PR24-BY-PD10-Developer-services
- PR24-BY-PD14-Cost-sharing-reconciliation
- PR24-BY-PD18-Strategic-regional-water-resources-model
- PR24-BY-PD24-RCV-adjustments-model
- PR24-BY-PD25-Revenue-adjustments-model

We traced the model and data table inputs back to their original sources: the Annual Performance Report 2025 (APR25) data tables and the Office for National Statistics (ONS) CPIH inflation figures. We also reviewed your commentary to ensure it aligned with the data presented in your reported tables and the model outputs.

An initial audit meeting was held via Microsoft Teams on 17 June. Following this, we conducted offline data checks on your tables and supporting documentation. In reviewing your figures, we examined all inputs you identified as updated from Ofwat's initial assumptions.

We provided your teams with detailed feedback that explained our assessment of the risk associated with the reported figures and listed any actions.

## 4. Summary of Key Findings

At the time of our initial audit, the team noted that Ernst & Young (EY) was still in the process of auditing the APR25 data tables related to revenue and expenditure. Once EY completed their review, updated versions of the models were provided to us. You indicated that the adjustments made by EY to Totex were not material. However, you highlighted a £0.5 million increase in revenue recognition, which was considered a more material change to the models we had previously reviewed. We traced all changes to Totex and revenue back through the PR19 models and did not identify any further issues.

We identified no material issues with the data reported in your past delivery tables and inputted into your PR19 reconciliation models, but we have made some improvement recommendations. We confirm that we consider your approach to be compliant with the reporting guidance. We also consider your commentary to be consistent with the outputs from the reconciliation models audited.

## 5. Conclusion

Overall, based on our scope of work and the limited assurance undertaken, we consider that;

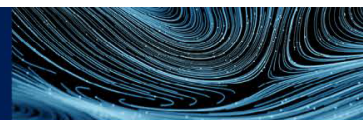
- the reported data presented in the past performance tables is in line with Ofwat's guidance.
- the PR19 reconciliation models within scope have been populated correctly
- the data reported in the accompanying commentary is consistent with the outputs of the PR19 reconciliation models.



Sajid Hussain

Head of Water Strategy and Regulation





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