

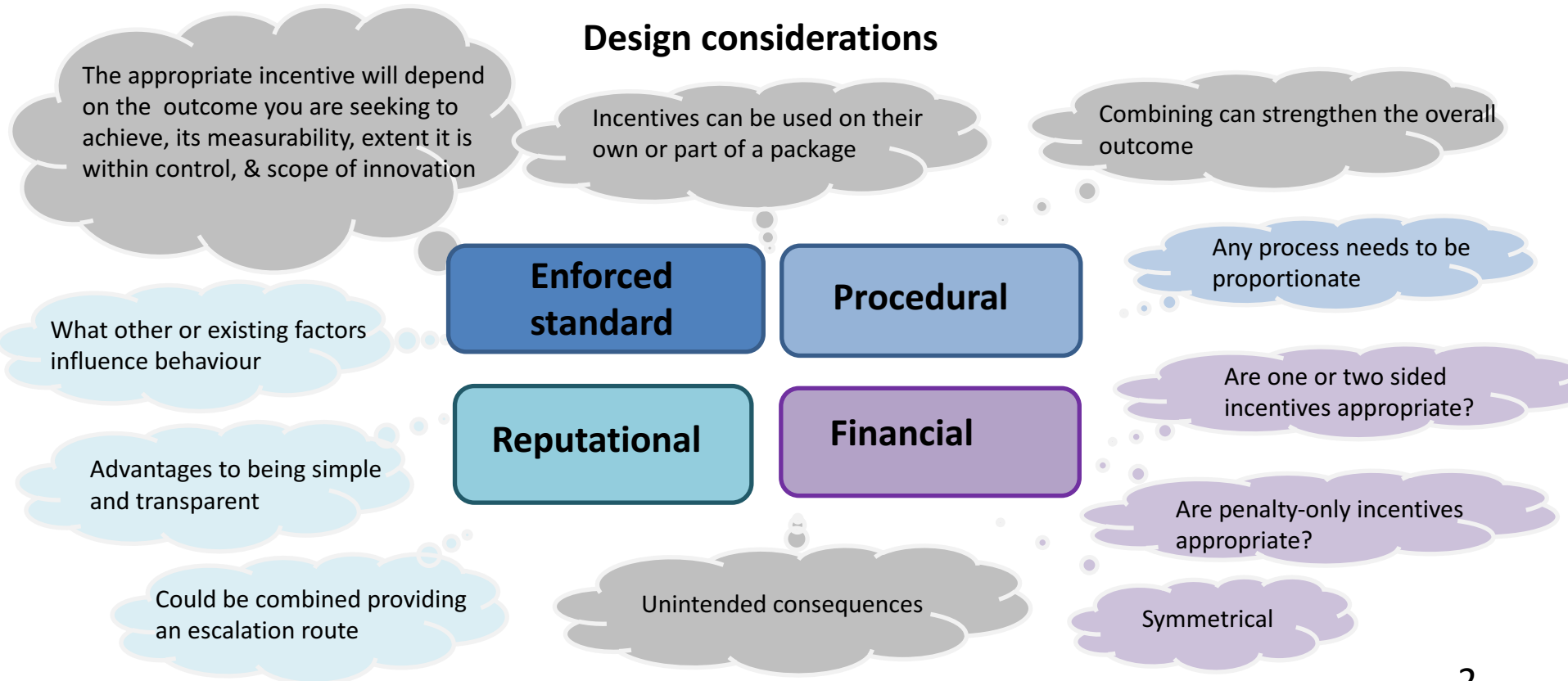
## **Examples of incentives from different sectors**

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- This represents some initial research looking at examples of incentives in other sectors. It is not a comprehensive review and does not provide a view on the effectiveness of the incentives included.
- It simply provides examples of different techniques , when they are used, and why.
- We encourage PAC to look at examples from energy and other sectors to develop an incentive framework that best delivers the outcomes and objectives it wants to achieve.

## Design considerations



# Incentive Examples

Technique	What is it?	Why is it used	Examples
<b>Procedural</b>			
Audit	Review of evidence that obligations have been complied with. Large population sampling techniques are used.	Financial not proportionate or practical Outcome is not in full control of organisation but want to ensure processes are in place to mitigate likelihood of issues	Financial – tax compliance HMRC’s HRCP programme
Reporting depends on performance	Activity focuses on those that are a compliance risk or particularly large/important. Some type of classification/criteria needs to be used.	Focus on those that pose the greatest risk (compliance or due to impact on market.	HMRC - HRCP programme FCA supervisory framework
<b>Financial</b>			
Two way	Financial reward and penalty for exceeding obligation or fine for underperformance. Can be symmetric or reflective of value.	Importance of meeting standard & encourage innovation/outstanding performance Outperformance sets new baseline standard	Water - outcome commitments related to leakage and waste.
Downside only (penalty)	Financial fine for not meeting specified level of performance.	Emphasise importance of meeting standard Limited benefits from exceeding standards and innovation opportunities are limited.	Coms – service standards
Re-distributional Benchmarking /scaling factors	Financial reward or penalty is based on industry performance. Can be sharing mechanism or comparative performance.	Incentivising a market level improvement rather than just individual performance. If sharing mechanism incentivise industry to work together	Rail - Route Efficiency Benefit Sharing Mechanism
<b>Reputational/comparison based incentives</b>			
Management responsibility	Named person responsible for submitting truthful reports	High consumer value Embedding cultural responsibility through an organisations	Financial - tax reporting compliance. FCA Senior Managers Regime.
League table/ underperformers published	Listing of companies or order of performance, Naming companies publically that have failed to meet standard or comply.	High customer value Reputational driver to outperform competitors	FCA compliance reports publish the individuals and organisations which compliance actions was taken

Sector	Useful information	Link
Water - OFWAT	Performance methods considered as part of PR14	<a href="http://www.ofwat.gov.uk/regulated-companies/price-review/price-review-2014/">http://www.ofwat.gov.uk/regulated-companies/price-review/price-review-2014/</a>
Rail - ORR	Regulation of network rail -route level efficiency benefit sharing mechanism. Incentivising industry to work together to identify efficiencies.	<a href="http://www.orr.gov.uk/rail/economic-regulation/regulation-of-network-rail/monitoring-performance/route-level-efficiency-benefit-sharing">http://www.orr.gov.uk/rail/economic-regulation/regulation-of-network-rail/monitoring-performance/route-level-efficiency-benefit-sharing</a>
Comms – OFCOM	Service levels – performance incentives	<a href="https://www.ofcom.org.uk/consultations-and-statements/category-2/slg">https://www.ofcom.org.uk/consultations-and-statements/category-2/slg</a>
Finance - FCA/HMRC	<p>FCA - Senior Managers and certification Regime.</p> <p>FCA – Compliance reports</p> <p>FCA – Supervision framework</p> <p>HMRC - HRCP programme</p>	<p><a href="https://www.fca.org.uk/firms/senior-managers-certification-regime">https://www.fca.org.uk/firms/senior-managers-certification-regime</a></p> <p><a href="http://www.fca.org.uk/documents/corporate/annual-report-14-15">www.fca.org.uk/documents/corporate/annual-report-14-15</a></p> <p><a href="http://www.fca.org.uk/static/fca/documents/factsheet.pdf">www.fca.org.uk/static/fca/documents/factsheet.pdf</a></p> <p><a href="http://www.gov.uk/large-business-the-high-risk-corporates-programme">www.gov.uk/large-business-the-high-risk-corporates-programme</a></p>
Cross-cutting	UKRN	<a href="http://www.ukrn.org.uk/">http://www.ukrn.org.uk/</a>

# Recommendations

- This is a high level overview but a more comprehensive review might be useful once PAC has undertaken further work on the issues.
- Lessons learnt from PAB and the outputs from the review working group should provide useful insights.
- In addition to PAB there might be other energy sector examples that might provide useful examples or principles.
- It will be important to identify what existing arrangements may impact, inform or interact with the performance assurance framework - AUGGE/theft incentive arrangements

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**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**