

Information notice

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Service incentive mechanism – auditing, scoring and levels of service reporting

In 'Putting water consumers first – how can we challenge monopoly companies to improve?', which we published in March 2010, we set out a new approach for challenging the monopoly water and sewerage and water only companies in England and Wales to improve the services they offer to their customers.

The service incentive mechanism (SIM), which came into force on 1 April 2010, will help the companies to focus on:

- identifying and meeting their customers' expectations;
- getting things right first time; and
- reducing the number of complaints they receive by improving their services overall.

We plan to publish league tables setting out information about each company's performance against the SIM. The companies will also have a financial incentive to improve. In this way, each company has an incentive to do well.

Auditing the companies

We currently collect information on aspects of each company's

customer service performance in their main annual regulatory submission (the 'June return'). The information has allowed us to make consistent comparisons between the companies and decide on any action we need to take as a result.

As part of our approach to collecting the information, we require the water company-appointed independent consultant engineers (the 'company reporter') to examine, test and give their opinion on the information and the processes the companies use to collect it.

This provides assurance that the companies are complying with our detailed information requirements. The aim of this is to give stakeholders confidence that the SIM results are founded on robust and consistent data.

In line with our new risk-based approach to securing compliance, which we set out in 'IN 10/01, Regulatory compliance – introducing a risk-based approach' (December 2010), we intend to move to a more focused audit of how the companies collect information for the SIM.

The new audit arrangements will mean that we appoint a single entity to provide assurance on the SIM measures across all companies. They will produce one report for the whole sector, which will highlight areas of risk, inconsistency and best practice.

This will:

- improve consistency; and
- help identify best practice.

With the help of the SIM working group, consisting of representatives from the water companies and the Consumer Council for Water, we will identify, appoint and oversee a single audit contract. This will be drawn up with the same duty of care emphasis as the current reporter appointments.

SIM scoring mechanism

While we have set our broad approach to the SIM, we have not previously provided detailed information on:

- how the scoring mechanism will work; or
- how we will use the overall SIM score to decide the financial

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

incentive each company receives.

Details, including a worked example of the scoring mechanism, are available in the [supporting information](#) to this notice. This is also available on our website.

To develop the scoring mechanism, we met with industry representatives on 17 November. We invited comments on the key principles involved and preferences for calculation methods. We have taken account

of the range of views expressed on the day and in earlier correspondence.

Levels of service reporting

The water companies are required to report their performance against a number of performance indicators ('levels of service') in their June return each year.

As part of our risk-based approach to securing compliance, we intend to reduce the level of monitoring we carry out. We will do this where we can see that the

SIM is providing an appropriate incentive to companies to improve their performance.

So, from 2012 we will not be asking the companies to report on:

- Billing contacts not responded to (within five working days) (DG6); and
- Bills not based on meter readings (DG8).

Similarly, there will be no requirement from us for any reporter scrutiny of these areas.

For the moment, the companies will need to continue to report on the levels of service indicators that feed into the analysis of [serviceability](#) and on the [guaranteed standards scheme](#). We are reviewing the information requirements in both areas.

If you have any questions or want to know more about the SIM, please contact Stephen Beddoes at stephen.beddoes@ofwat.gsi.gov.uk.

More information

Supporting information

'Getting it right for customers – How can we make monopoly water and sewerage companies more accountable?', Ofwat's focus report on our risk-based approach to regulatory compliance

June return data

For details of our future regulation programme, go to www.ofwat.gov.uk/future



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