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## Our Monitoring and reporting approach for new appointees – a consultation

Leep Networks (Water) Ltd (LNWL) response

We write in response to the above consultation and are pleased to provide our feedback below.

Q1: *Do you agree with the purpose and objectives we have set out? Should we consider other factors when developing our monitoring and reporting approach?*

LNWL appreciates that as the NAV market grows and some NAVs approach the turnover limit for consideration as a Small Company, then new approaches to reporting may be required to ensure that stakeholders have confidence that new appointees remain capable of delivering and maintaining customer services in line with their licence conditions and their responsibilities as statutory undertakers. We therefore agree with the proposal to review and, where necessary, make changes to the current reporting requirements, whilst maintaining a proportionate approach to the level of detail required.

Q2: *To support our purpose and objectives, do you agree with the principle of strengthening reporting requirements for all new appointees that are distinct from those for incumbents?*

We agree that there is a clear need to consider how reporting of new appointees is to be developed in the light of the growth in the NAV market and that it is right to be considering how best to continue to monitor performance, whilst maintaining a rational level of required detail.

Q3: *Do you agree with the principle of introducing proportionate reporting requirements that are based on a 'tiered' approach? What should be the basis of these tiers?*

We support the introduction of a tiered approach and the suggested £5m benchmark between tiers does not seem unreasonable.

We agree that removing the absolute dividing line between small and large companies, determined solely by turnover, is a rational step in this process and that it acknowledges the difficulties that would be inherent in 'energising' Condition B of new appointees' licences.

Q4: *Do you have any comments on how we should approach the information we collect from new appointees?*

New appointees' performance is generally reported on a site-by-site basis. We are not sure that reporting the performance of new appointees in this way would necessarily accord with that of the large companies and we would like to understand further what format such reporting would use. For example, per capita consumption may vary significantly between sites as it is based on an assumed rate of occupancy for a relatively small data set. A further example would be supply interruptions. The overwhelming source of the low number of interruptions is due to the failure of the supply upstream of the bulk meter/s and reporting these as an apparent failure of the NAV network could provide a wholly misleading impression of the operational effectiveness of the company.

If new appointees' performance is to be compared with that of larger companies, some consideration should be given to reducing assessment by site and instead amalgamating data from across the new appointee's areas and, also, to restricting or minimising the reporting to items which are wholly or largely within the control of the appointee. This may go some way towards aligning the outputs with those of regional companies.

Q5: *What are your views on how the quality and transparency of financial information in small company returns could be improved? How could this vary by tier?*

We consider the current level of financial detail required in our annual report to be adequate for the purposes of assessment of our performance against projections. We have strong reservations about releasing more granular levels of financial detail. New appointees operate in both the statutory and commercial environments and our funding and approach to new business is naturally aligned with commercial reality, in a way that is not applicable to price-controlled companies. The provision of certain types of financial data could provide commercially sensitive information to the market. In addition, it is debateable whether or not all stakeholders, but perhaps in particular our customers, fully understand the NAV market and hence we consider that the additional information may lead to misinterpretation of our effective performance. We would be keen to discuss this in more detail, perhaps in conjunction with other NAV companies.

Q6: *Do you agree with our proposal to introduce an annual narrative requirement for new appointees subject to a company-based assessment? Should further information be included in the small company return?*

We generally support this proposal.

Q7: *Do you agree with the principle of a consolidated annual performance report that is accessible to all relevant stakeholders? For some measures, may another format be more appropriate?*

Q8: *What should the annual performance report include as a minimum and which existing performance measures may be relevant to include?*

Q9: *How may reporting requirements differ between new appointees and at what level should performance information be reported?*

We support this proposal but would go further. We believe a consolidated annual performance report would be an opportunity to align the current licensing process more closely with the current annual performance report. Although not within the scope of this consultation, we suggest that there is a need for a wider consideration of the role of the company-based assessment within the licensing process. The company-based assessment is primarily focussed on the financial elements of an application for a new appointment. In our

opinion, the potential value of the assessment lies in encompassing not just the financials, but also the manifold requirements around the 'no worse off' principle, such as customer services, codes of practice, approach to vulnerable customer etc. At present, new appointees are required to submit duplicate and repetitive statements with each submission for a variation. We strongly believe that providing these items on a national basis annually, aligned with improvement in the technical aspects of the Ofwat portal, would significantly reduce the time involved in both preparing and assessing an application. Furthermore, the scrutiny that would append to the submission of such documents would align with Ofwat's stated aims of improving transparency and governance.

We would suggest that those companies that have sought and been granted a company-based assessment should be able to benefit from an improved service thereby encouraging new entrants to seek similar certification and thus drive improvement across the NAV market.

Q10: *What should our approach be for ensuring there is sufficient assurance relating to the information provided by new appointees in their annual returns?*

Q11: *What should our approach be in terms of the board leadership, transparency and governance of new appointees?*

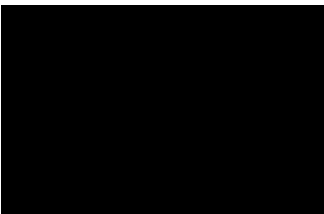
We agree that larger NAVs may be required to provide additional assurance, confirming that their service provision is sufficiently well-resourced, though we would be interested in further detailed discussions on the nature and extent of this information.

The potential for interactions between related companies within the same group ownership brings with it an increased requirement for clarity and transparency of governance. We agree that improving oversight of new appointees that service provision is being provided in a manner consistent with the terms of an appointee's licence will lead to increased confidence for customers, developers and other stakeholders in the NAV market.

Q12: *Do you have views on how and when changes to reporting requirements for new appointees should be implemented?*

We suggest that the additional reporting requirements, as presently considered, may benefit from being applied in stages between reporting years 2021 – 22 and 2022 – 23 to allow an interim review of the efficacy of the changes. This would be in line with the stated intention of evolving the framework over time.

Yours sincerely,



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for Leep Networks (Water) Ltd