

February 2021

Our monitoring and reporting approach for new appointees – a consultation

About this document

New appointments and variations (**NAVs**) are an important element of our strategic goal to transform water companies' performance, encouraging markets where they can bring the biggest benefits to customers while improving their effectiveness.

The success of the new appointments and variations market in recent years has led to rapid growth in the size of some new appointees and the number of customers that they serve, with further growth expected in the coming years.

We want to ensure the potential of this market is unlocked, customers are protected and our regulations are proportionate – as such we are examining how our monitoring and reporting approach for new appointees could evolve to secure the future success of this market.

This consultation sets out our proposals and invites views from stakeholders on how the monitoring and reporting approach for new appointees could evolve for the 2021-22 reporting year and beyond.

Because the new appointments and variations framework applies to both England and Wales, this consultation relates to companies wholly or mainly in England (**English companies**) and companies wholly or mainly in Wales (**Welsh companies**).

Responding to this consultation

We would welcome any comments on this document. Please email them to NAVpolicy@ofwat.gov.uk. We are unable to receive responses by post.

The closing date for this consultation is **26 April 2021**. If you wish to discuss any aspect of this consultation, or to arrange a conversation on the issues we have raised, please contact us at NAVpolicy@ofwat.gov.uk.

We intend to publish responses to this document on our website at www.ofwat.gov.uk. Subject to the following, by providing a response you are deemed to consent to its publication. If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response which we will consider when deciding what information to publish. As a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this document, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws. Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal with, among other things, obligations of confidence. If we receive a request for disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

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1. Background

1.1 New appointments and variations framework

The new appointments and variations framework was introduced in the 1990s and enables a company to replace an existing company as the provider of water and/or sewerage services in a specific geographic area. New entrants to the sector or existing companies can seek to replace an existing company for a specific site by applying to Ofwat.

Once granted an appointment or a variation of its existing appointment by Ofwat, the new company becomes the monopoly provider of water and/or wastewater services for residential and business customers for that area. New entrant companies (which we refer to as **'new appointees'** in this document) have the same statutory obligations as the large regional companies they replace (**incumbents**).

Under the legal framework, we choose whether to grant a new appointment or variation on a site-specific basis. When making this decision we apply our [new appointments and variations policy](#) and [application guidance](#), which include a requirement for customers on the site to be 'no worse off' than if they had been served by the previous incumbent company. New appointees are constrained by a 'relative price control' in their licence which means they cannot set charges to end customers that are higher than those of the incumbent they have replaced.

Most new appointees compete with incumbents and other providers (such as self-lay providers) to provide developer services to new housing developments. This competition can provide a number of benefits for society, customers and property developers, such as serving sites at a lower cost and facilitating greater innovation, multi-utility developer services, and more sustainable developments. If a new appointee is chosen by the property developer, it will usually apply to us to serve the site through a new appointment or a variation of its existing appointment.

In most cases, new appointees will negotiate a bulk supply of water and/or discharge of sewerage with the local incumbent at the boundary of the site – and so, once they are appointed, they will primarily provide retail services and 'last-mile' wholesale services directly to end customers on the site. In some cases, new appointees may own and operate their own resources or treatment works without the need for a bulk agreement.

1.2 Our strategy and priorities

A well-functioning new appointments and variations market can deliver benefits for customers in terms of increased choice, efficiency and innovation, as well as improved outcomes for the environment and wider society.

The new appointments and variations framework is consistent with our wider approach to promoting the targeted use of markets to benefit customers. As we set out in our strategy ([‘Time to act, together’](#)), competition and markets can deliver significant benefits for the water sector by bringing about cost efficiencies and encouraging higher service levels, while also incentivising innovation.

New appointments and variations can help to deliver our strategic goals. By continuing to examine ways to evolve this market, we aim to:

- **transform companies’ performance** – by facilitating effective monitoring and enabling the development of markets where they can bring the biggest benefits to customers, supporting greater innovation and better value for money for customers;
- **meet long-term challenges** – by promoting collaboration and partnership between stakeholders, supporting improved sustainability and the delivery of environmental and nature-based solutions; and
- **provide greater public value** – by holding companies to account for the services they deliver, encouraging better value for money and that all market participants deliver more for customers, society and the environment.

In line with the strategic priorities and objectives statements from the [UK Government](#) and the [Welsh Government](#), the new appointments and variations framework has the potential to improve resilience, innovation, and the sustainable and efficient use of water resources and wastewater systems. It should also support key priorities relating to housebuilding and sustainable development.

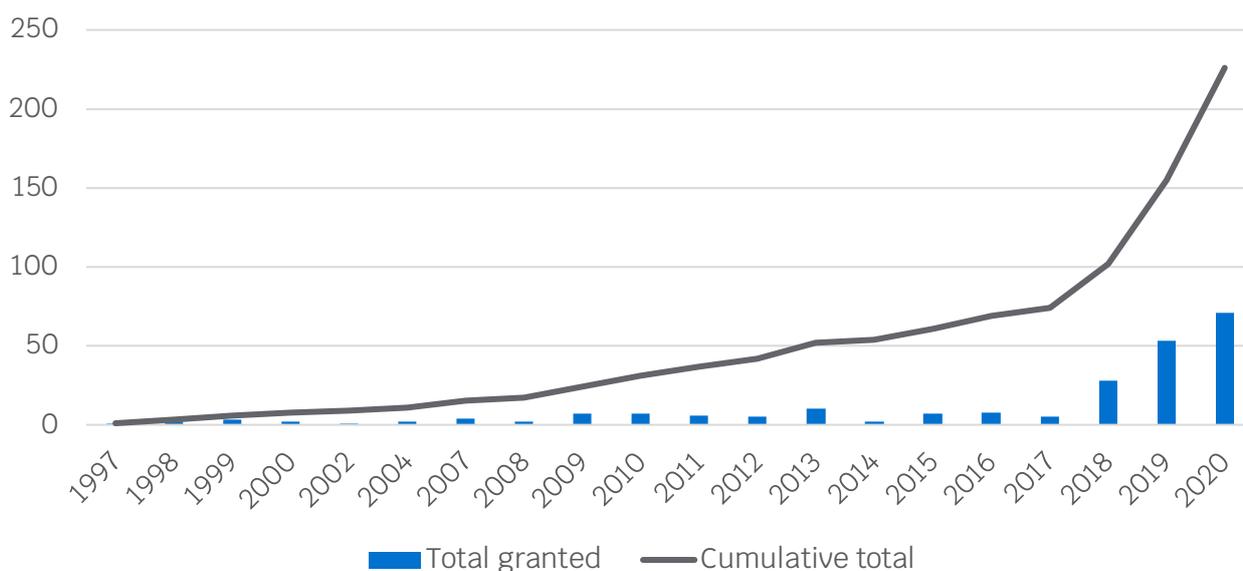
An effective approach to monitoring the performance of new appointees should also ensure that customers, including those in vulnerable circumstances, are protected and facilitate rising performance standards across the sector.

1.3 Recent growth

We have seen rapid growth in the number of new appointments and variations in recent years since the [2017 review](#) by Frontier Economics, as well as key policy changes such as to our policy approach to [bulk charges in England and Wales](#), [new connections charges in England](#) and improvements to our licensing approach.

As figure 1.1 shows, from an average of 3–4 per year over 1997 to 2007, we have since granted 28 new appointments or variations in 2018, 53 in 2019 and 71 in 2020.

Figure 1.1 – Number of appointments and variations since 1997



As of 31 March 2020, there were eight new appointees serving 97 sites with a total of around 42,000 residential properties and 1,000 business properties according to the 2019–20 small company returns as submitted by new appointees.¹ This equates to around 100,000 individuals being served by new appointees in England and Wales.

The regulated turnover of new appointees has also risen as existing sites have expanded and new sites have been granted. The small company returns for 2019–20 and information submitted to Companies House indicate that two new appointees have at least £5 million in annual turnover and are approaching our threshold for small company reporting, above which our full reporting requirements would apply (more detail in section 1.4). At the same time, four new appointees have under £1 million in annual turnover which indicates a proportionate approach is required.

Based on the number of variations we have made over the last year, we expect further growth in turnover and customer numbers in the near future.

1.4 Existing approach

Incumbent companies publish annual performance reports which include their regulatory accounts, their service performance and information required to reconcile the price controls we set for them at [previous price reviews](#). Due to their smaller size, and because they are not subject to full price controls, new appointees instead submit a ‘small company return’.

¹ The merger and consolidation of sites served by Leep Networks (Water) Limited (formerly **SSE Water Limited**) and **Leep Water Networks Limited** into a single regulated company [came into effect on 1 October 2020](#). In this document we have combined the property numbers and turnover for both regulated companies as of 31 March 2020 for the purposes of providing a useful comparison and estimate of future growth.

Our detailed approach to annual reporting for new appointees is set out in our Regulatory Accounting Guidelines. Since 2016, the threshold below which companies are to provide a small company return is £10.2m in annual turnover.² As indicated in section 1.3, we expect some new appointees to overtake this threshold in the coming years leading to full reporting requirements which are unlikely to be appropriate or proportionate.

In 2020 we consulted and concluded on a revised approach to the small company return as part of our [consultation on the Regulatory Accounting Guidelines](#) – with the result that from July 2021 new appointees are to publish on their websites:

- their small company returns in an accessible format;
- a set of financial accounts to a March year end;
- a customer-focused performance summary, to include as a minimum narrative on how the company has complied with the ‘no worse off’ principle and a summary of incidents and payments made to customers under the statutory [guaranteed standards scheme](#);
- site-specific leakage and per capita consumption data; and
- a statement confirming that the company maintains sufficient financial security.

Licence conditions that apply to all regulated companies and provisions in the Water Industry Act 1991 also require companies to make and provide certain statements such as a certificate of adequacy, which confirms there are adequate financial and managerial resources in place to continue to provide services to customers, and statements on the company’s approach to executive pay and dividends. New appointees currently provide this directly to Ofwat.

In response to our [consultation on the 2020-21 Regulatory Accounting Guidelines](#), a number of stakeholders expressed interest in this area and some suggested additional measures that could be included. When we published [our decisions](#) in November 2020, we said we would engage further with relevant stakeholders on how the reporting framework for new appointees could evolve for the 2021-22 reporting year and beyond.

As part of the licence application process, well-established new appointees can ask us to consider assessing its future applications on the basis of a ‘company-based assessment’ whereby we consider the financial position of the new appointee as a whole and the impact on the whole regulated company of adding a new site. Where we use this risk-based approach, we do not undertake detailed site-specific analysis for new applications unless we consider the site poses material risks. If a new appointee wants to be considered for a company-based assessment, our [application guidance for new appointments and variations](#) sets out the process and the information that should be provided to enable us to consider if a company-based assessment would be appropriate.

Where we have agreed to use a company-based assessment, we reassess this decision every year, following receipt of the new appointee’s latest small company return, to satisfy ourselves that its use is still appropriate. Our reassessment includes a comparison of the new

² This is based on thresholds for defining a small entity as set out in the Companies Act 2006.

appointee's actual reported financial performance with the financial forecasts it provided in seeking a company-based assessment. To enable us to carry out this reassessment we ask the relevant new appointee to provide data comparisons with accompanying narrative and updated financial projections alongside its small company return.

In addition to the formal reporting process, as part of our wider monitoring approach we also engage with new appointees on a regular basis to discuss their ongoing applications to serve new sites, expansions plans, performance and relevant policy issues.

2. Purpose and objectives

2.1 Purpose

As set out in [our strategy](#), our goals are to transform water companies' performance, driving them to meet long-term challenges and provide greater public value. We also have legal duties to consider how best to protect customers, ensure companies properly carry out their functions, and further long-term resilience in the sector.

In addition, as providers of an essential service in a monopoly sector, new appointees should be accountable to their customers and other stakeholders for the services they deliver in the same way as incumbent companies. Due to the success of the new appointments and variations market leading to rapid growth in the size of some new appointees, we consider it necessary to review our existing approach.

Given this context, the purpose of this consultation is to further develop the monitoring and reporting framework for new appointees so that it helps to deliver our strategic goals and legal duties. This will enable customers and other stakeholders to hold companies to account while supporting us to monitor performance and make targeted interventions where necessary.

2.2 Our policy objectives

In considering how to evolve our existing approach, our principal objectives are to:

- satisfy ourselves that new appointees are sufficiently resilient in the round;
- ensure the delivery of good levels of service for the customers of new appointees and that there is compliance with the 'no worse off' principle we use when granting new appointments and variations; and
- ensure that our regulation of, and interactions with, new appointees are proportionate to the risks to customers and size of new appointees.

By aiming to meet these objectives, we expect to deliver:

- greater visibility of, and confidence in, the financial and operational resilience of new appointees, as well as the levels of service provided to their customers each year;
- improved consistency and quality of data and information produced by new appointees, in a format that is accessible to all relevant stakeholders, including customers, developers, regulators and others; and
- streamlined interactions with new appointees leading to more proportionate and targeted regulations in the round.

We will also look to reduce regulatory burdens where possible, for example by incorporating existing information that new appointees already collect and hold to minimise additional burdens on new appointees. Changes to the annual reporting process may also create opportunities to further reduce regulatory burdens and interactions in the medium term, such as in our licensing process.

Improved visibility of financial, cost and service data should also help us to better evaluate and unlock the benefits of new appointments and variations – including when we design policies to support the new connections market and develop our approach to future price reviews for large incumbent companies.

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?

3. Policy areas

In this section we cover a number of key issues for stakeholders to comment on. For each issue we set out the current approach, our proposals and consultation questions.

3.1 Overall approach

As set out in section 1.4, we currently collect information about the financial positions and levels of service delivered by new appointees through the small company return for companies with annual turnover below £10.2m. New appointees will be required to publish these for the first time, for 2020-21, in July 2021.

Prior to the rise in the quantity of new appointments and variations in recent years, this information has been relatively high level to minimise the regulatory burden on new appointees, reflecting their size and the relatively low risk to customers.

Due to the success of the new appointments and variations market leading to rapid growth in the size of some new appointees, and our strategic focus on transforming water companies' performance, we consider it necessary to review this approach. If we do not change our approach, there is a risk that the largest new appointees become subject to full reporting requirements which are unlikely to be appropriate or proportionate.

Our proposals

As the new appointments and variations market has developed and expanded, it is important that the expectations of customers and other stakeholders are met. We do not consider it to be appropriate or proportionate for new appointees to be subject to full annual performance reporting requirements that currently apply to incumbents. Equally, we consider strengthened and proportionate reporting requirements should apply to all new appointees as the market continues to evolve.

To ensure any new approach is proportionate, we are considering introducing 'tiers' whereby the smallest new appointees would have fewer reporting requirements than larger new appointees. Due to their size and successful growth, we consider larger new appointees should be better equipped to meet further requirements and more likely to realise efficiency gains because they are more active in the new connections market. We recognise there may be other factors which justify different approaches for some new appointees.

For all new appointees irrespective of size, we have already introduced some important changes for 2020-21, including a customer-focused performance summary. Our initial thinking is that this could be incorporated into a consolidated annual performance report, bringing together existing materials and information that new appointees already collect,

such as information required for financial reporting, and other relevant metrics that reflect the new appointee’s underlying performance. This should give greater visibility to customers and other stakeholders of new appointees’ financial positions and the levels of service delivered each year. Developers may also be able to use this information when deciding to select a new appointee with a good record on customer service to serve a site.

For larger new appointees, and those that provide services beyond the ‘last mile’, we consider a much wider range of metrics, notably in relation to relevant aspects of service delivery, is meaningful and proportionate. We consider this further in sections 3.2 and 3.3.

The thresholds between tiers would be based on an objective metric such as annual turnover or the number of properties connected. Our initial view is to introduce two tiers with a threshold of £5m in annual turnover – this would initially lead to two new appointees in the ‘higher tier’ and six in the ‘lower tier’ based on 2019–20 data (see table 3.1). We are interested in views from stakeholders on how many tiers should exist and how the thresholds between tiers should be defined.

Table 3.1 – Potential reporting tiers

	‘Tier 1’ (< £5m turnover)	‘Tier 2’ (≥ £5m turnover)	Large incumbent companies (subject to full price controls)
Water company	Albion Eco Albion Water County Water Icosa Water Severn Trent Connect Veolia Water Projects	Independent Water Networks Leep Water Networks	17 largest companies

We want to ensure all new appointees do not need to produce the full annual performance reports submitted by incumbents and also avoid the need for us to continually update the level of the upper threshold as new appointees continue to grow. For these reasons, we propose to remove the existing £10.2m small company threshold currently set out in the Regulatory Accounting Guidelines. Instead of setting an upper threshold based on turnover, we propose to amend the Regulatory Accounting Guidelines to specify that small company reporting requirements will apply to all companies where condition B of their licence is suspended (which is currently the case for all new appointees). This should give us flexibility to evolve the framework in the coming years and maintain overall management of the reporting approach for new appointees within the Regulatory Accounting Guidelines process. Due to the size and characteristics of their regulated businesses, at this time we do not consider it appropriate to change the form of price control for new appointees.

In terms of our role in monitoring, assessing and presenting the information we collect from new appointees, we could align this with our approach to larger companies, for example by

including data on new appointees in our annual publications on financial resilience (the [monitoring financial resilience report](#)), service performance (the [service delivery report](#)) and other relevant publications where appropriate.

New appointees are required by their licence to comply with our reporting requirements and ensure the timeliness and accuracy of information that they provide. Where new appointees fall short, we will take action where necessary, in line with our [approach to enforcement](#).

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?

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?

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

3.2 Financial information

3.2.1 Financial accounts

Incumbent companies are responsible for publishing information relating to their financial resilience. We publish some of this information to enhance the transparency and accessibility of incumbents’ financial performance and structures, so that we and other stakeholders can monitor these businesses and challenge the sector in its identification and management of risk.

Currently we do not require financial information from new appointees to be published, though this will change for 2020–21. Instead, new appointees complete a small company return which contains a basic profit and loss statement for the reporting year, and submit financial accounts prepared to a March year end. The accounts are required to have board-level oversight and be signed off by a director.

All companies are required to provide us with accounts for the year to 31 March. Where companies do not have a statutory year end then they can provide us with management accounts rather than statutory accounts. In some cases the content of the management accounts has not always included the level of detailed disclosure as would be seen in

statutory accounts, which has resulted in multiple interactions between us and some new appointees following the initial provision of this information.

Our proposals

To ensure all companies provide a level of detailed financial information that stakeholders need to understand their financial positions, we are considering changes to the small company return for all new appointees to include additional financial data tables. This could include at least a balance sheet, cashflow statement and net debt position.³ The addition of data tables with specified line definitions would improve the quality and consistency of financial information provided by new appointees. Our expectation is additional information will be published by default.

New commentary requirements would also facilitate and encourage new appointees to explain material movements or changes from the previous year's reporting and improve transparency and comparability for stakeholders. We could also highlight significant areas where additional narrative would aid our analysis.

As with incumbents, new appointees are required through their licences to conduct transactions with related parties at arm's length. Because a number of new appointees regularly transact with group companies for a variety of reasons (e.g. asset management services, financing or support functions), further transparency over related party transactions is important and would help to indicate the extent of transactions between the new appointee and related parties in the wider corporate group and provide assurance they are in line with licence obligations. For these reasons, we are considering requiring new appointees to disclose the extent of transactions with related parties in their annual returns, as currently applies to incumbents. This would be consistent with the reporting of related-party transactions that larger companies include in their annual performance reports.⁴

If we were to expand the small company return to collect all of the financial information that we require to assess new appointees' financial resilience, we could remove our existing requirement for separate financial accounts to be prepared to a March year end and provided by 15 July. However, we would still require statutory financial statements to be submitted when available, and to enable us to undertake analysis we consider this should be provided no later than six months after the statutory year end for each new appointee.

³ Based on tables 1C, 1D and 1E in the annual performance report tables prepared by large companies – for indicative line definitions, see our Regulatory Accounting Guidelines consultation ([RAG 4.09](#)).

⁴ See 'Transactions with associates and the non-appointed business' on page 28 of our Regulatory Accounting Guidelines consultation ([RAG 3.12](#)).

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?

3.2.2 Interactions with the licensing process

As we set out in section 1.4, well-established new appointees can currently ask us to consider using a ‘company-based assessment’ when we assess their applications to serve new sites. Part of this involves an annual reassessment which compares actual reported financial information with previous forecasts.

Our proposals

To streamline interactions with new appointees and provide further clarity and certainty, we are considering specifying the key information we need to complete our annual reassessment for using a company-based assessment, which would be included in the new appointee’s small company return. This would include a requirement to compare their latest annual outturn figures with the forecasts they previously provided and provide a narrative explaining any material variances.

For the avoidance of doubt, we are not proposing to introduce more data requirements in this area; we want to clarify what is required to meet the conditions of the company-based assessment and to incorporate this into the small company return to streamline the process and extent of interactions between us and new appointees.

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?

3.3 Service performance

From 2020–21, we require the small company return to be published and include a list of sites served. This will set out, for each site, the numbers of connections, the volume of water and wastewater services provided, residential per capita consumption and leakage. We consider this will be an important improvement in the transparency of information new appointees share with customers and stakeholders. Currently, there are some examples of new appointees publishing customer service information on their website, but it is limited and varies by company.

In addition to the low visibility of the quality of retail services provided to end customers, stakeholders also have limited sight of the asset health and resilience of the wholesale assets operated by new appointees (principally their on-site networks, although some new appointees operate non-infrastructure assets such as treatment works). Because the costs of on-site maintenance and replacement are likely to increase over time, we consider there is a need to have greater visibility of the health and ongoing maintenance of on-site assets operated by new appointees.

As set out in section 1.4, new appointees are to publish a customer-focused performance summary on their websites from July 2021 – this will include narrative on how they have complied with the ‘no worse off’ principle and a summary of their performance against the [statutory guaranteed standards scheme](#).

Our proposals

We are considering introducing a requirement for a single annual performance report to be published by new appointees, bringing together new and existing measures into a single document and building on the new customer-focused performance summary introduced for 2020–21. This should give better visibility of the levels of service provided by new appointees once they are appointed to serve a site and help customers and other stakeholders to hold them to account. Developers and other stakeholders may also be able to use this information when deciding whether to participate in the new appointments and variations market. This single annual performance report could include relevant measures reported to other regulators, such as the Environment Agency and Drinking Water Inspectorate.

As well as relevant existing measures, we consider new appointees should also report on their actual levels of service delivered each year. We recognise there is a balance between gaining greater visibility of new appointees’ underlying performance, enabling comparisons between companies, and the overall proportionality of any new reporting requirements. We also acknowledge that not all measures may be comparable in all cases, particularly where the characteristics of individual companies differ significantly, which may justify different approaches between new appointees and between tiers.

Some of the key service areas we could require new appointees to report against include:

- customer service;
- affordability and vulnerability;
- operational performance;
- asset health and resilience; and
- the environment.

For each key service area, we could either prescribe specific measures (such as total complaints for customer service, water supply interruptions and/or sewer flooding incidents for operational performance, unplanned maintenance for asset health, and so on) or new

appointees could have the flexibility to report measures they consider best reflect their underlying performance, potentially from a longlist of appropriate measures. We are interested in views on which approach we should take at this stage and in future.

Whichever approach we take, to support comparability and proportionality, any measures that are used should be aligned to existing definitions where possible, such as CCW's industry definition of complaints made directly to companies, or the industry-wide [definitions of PR19 common performance commitments](#) for incumbents. This would further support assessments of whether end customers are no worse off when served by a new appointee relative to the incumbents it has replaced.

We are interested in views from stakeholders on what performance measures would be appropriate for new appointees to report against, whether this should differ by tier, for example on the basis of risk. For larger new appointees, and those that provide services beyond the 'last mile', we consider a much wider range of metrics, notably in relation to relevant aspects of service delivery, is meaningful and proportionate.

We are also interested in views on whether measures should be reported at the level of the new appointee or at a more disaggregated level (such as on a site-specific basis, by incumbent region where a new appointee has committed to provide a comparable level of service to the incumbent, or by age of site).

When applying to serve new sites, some new appointees commit to providing better services to customers than the incumbent, for example a discount on charges to end customers. To help evaluate benefits of the overall framework, new appointees could submit evidence on how they have complied with the no worse off principle and are providing services consistent with their applications to serve sites.

New appointees could also provide further information on the range of support they have provided to customers with respect to affordability issues such as social tariffs or other hardship payments where this is relevant. This could be aligned with the reporting requirements that have been introduced for incumbents in the Regulatory Accounting Guidelines for the 2020-21 reporting year.⁵

In the context of potential service failures and risks, new appointees it would be helpful for new appointees to provide information on their preparedness to respond to emergencies, taking account of their wider obligations and duties. This could be through the proposed annual performance reports or another format.

⁵ See table 2N ('Residential retail – social tariffs') of the final Regulatory Accounting Guidelines for 2020-21.

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?

3.4 Governance and assurance

Effective governance and assurance processes are essential to ensure water companies properly carry out their functions, and for customers and other stakeholders to effectively hold them to account and have to trust and confidence in the information they report.

Incumbent companies are subject to our [board leadership, transparency and governance principles](#) which include objectives they should deliver in terms of their purpose, regulated company and board arrangements and approach to transparency. For new appointees, we have previously said that delivering these principles may not always be proportionate but they should demonstrate exemplary governance and meet the principles where they can.

Our proposals

Given the importance of the additional information we are looking for new appointees to report, we consider it important to have necessary assurance that the information and data has had director or board-level oversight by the new appointees.

In their annual reports, new appointees could include a statement confirming that all regulatory reporting has been subject to director or board-level oversight and approval. New appointees could also provide a summary of the data assurance process undertaken. The level of detail of these statements could be at the discretion of the new appointee or align with the new reporting requirement for incumbents we introduced for the 2020-21 annual performance reports.⁶ This would provide increased transparency of the assurance process used and enable stakeholders to have trust and confidence in the quality of data reported.

For incumbents we require an audit opinion covering sections 1 and 2 of their annual performance reports. Currently we do not require a third-party audit on financial information in the small company return. We could require larger new appointees in tier 2 to confirm that

⁶ See 'Board statement on accuracy and completeness of data and information' on page 25 of our Regulatory Accounting Guidelines consultation ([RAG 3.12](#)).

a third-party assurer has performed a review of the financial information in the small company return and confirmed it is consistent with the new appointee's statutory accounts.

We do not consider the board leadership, transparency and governance framework should apply to new appointees in full, particularly as some aspects are unlikely to be proportionate. However, we consider greater transparency of their corporate and board structures is needed, particularly where new appointees are part of wider corporate groups. New appointees could also provide a narrative in their annual reports on their governance arrangements including how they have considered applying the board leadership, transparency and governance principles to their regulated business.

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?

4. Implementation and next steps

4.1 Implementation

While new appointees should already be collecting information about and monitoring their financial positions and performance, we acknowledge that new reporting requirements may represent a step change in annual reporting and could require changes to internal systems and processes. For this reason we have published this document prior to consulting on formal changes in the Regulatory Accounting Guidelines later this year.

Depending on the feedback we receive, we expect to consult on formal changes through the annual Regulatory Accounting Guidelines process. For the 2021-22 reporting year, we intend to consult in May or June 2021 and finalise our decisions in late 2021. Our decisions will be informed by stakeholders' responses and the quality and consistency of reporting that is provided by new appointees in July 2021 with respect to the 2020-21 reporting year.

If we were to implement our decisions with respect to the 2021-22 reporting year, new appointees would then submit their annual reports based on our final Regulatory Accounting Guidelines in July 2022 with respect to the 2021-22 reporting year. Any further changes would be included in future consultations on the Regulatory Accounting Guidelines and would apply to future reporting years.

We consider the most appropriate frequency of reporting is annual, though we recognise that informal monitoring and engagement throughout the year may be relevant depending on the individual circumstances of each new appointee. New appointees should also consider what information should be made accessible to their customers and other stakeholders through a range of channels, for example on their websites.

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

4.2 Next steps

We welcome views on this consultation by 26 April 2021. If you wish to discuss any aspect of this consultation, or to arrange a conversation on the issues we have raised, please contact us at NAVpolicy@ofwat.gov.uk.

Based on the feedback we receive, we intend to consult on further proposals in May or June 2021 with respect to changes to the 2021-22 reporting year and finalise our decisions in late 2021 through the Regulatory Accounting Guidelines process.

New appointees are due to publish their small company returns and comply with other reporting requirements with respect to the 2020-21 reporting year in July 2021. As we noted in our November 2020 decisions on the Regulatory Accounting Guidelines, we expect new appointees to ensure their annual returns are completed accurately and submitted in a timely manner. In light of the new requirements for 2020-21, we said it was increasingly important for new appointees to publish this information in an accessible format on their websites. We maintain these high expectations and will provide further guidance and feedback for new appointees in due course.

**Ofwat (The Water Services Regulation Authority)
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We regulate the water sector in England and Wales.**

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