

Our Ref: [REDACTED]

23 April 2021

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Dear Ofwat

Ref: Response to consultation on monitoring and reporting approach for new appointees

Please find attached SES Water's response to your consultation on monitoring and reporting approach for new appointees.

If you have any further queries, please do not hesitate to contact us for further information or clarification.

Yours faithfully



Paul Kerr
Group Chief Financial Officer

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?

We agree and are supportive of the purpose and objectives this consultation has set out.

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 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?

We agree the principle of introducing proportionate reporting requirements that are based on a ‘tiered’ approach.

We appreciate and understand the thinking of proposing the tiers based on turnover. However, we would suggest the following two options for tiers:

1. Turnover-based tiers: instead of using an arbitrary threshold of £5m, Ofwat should conduct a set of data analysis to have an insight on such statistics as the average and median turnover of existing NAVs, their distribution pattern, etc. in order to settle with a turnover threshold that is data driven and fit the majority of NAVs.
2. Connection-based tiers: again we suggest that Ofwat conduct data analysis to have an insight about the number of connected properties served by NAVs, their descriptive statistics as above, then decide on the threshold of tiers based on the distribution characteristics. Number of connected properties may not necessarily reflect the size of NAVs, but it reflects the scope of work and level of complexity in service delivery.

One point of caution is that Ofwat should keep in mind about consistent treatment of NAVs for regulatory decisions. Different tiers of reporting requirements also mean different and probably incomparable data for analysis and decision making at a later stage. Ofwat may want to think of what level of reporting details should be applied across the board and what extra requirements applied to NAVs that are larger than the defined threshold, and how to design regulatory requirements later of each category.

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

We would be supportive of aligning this work with the approach to large incumbent companies and including data on new appointees in your annual publications.

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

We support the idea that new appointees should provide at least a balance sheet, cashflow statement and net debt position and that the addition of data tables with specified line definitions would improve the quality and consistency of financial information. We also support that information about transactions between the new appointee and related parties should be reported for transparency and providing a comprehensive picture of the industry for financial and other analyses that serve decision making purposes.

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

We agree the proposal to introduce an annual narrative requirement for new appointees without increasing the data requirements will aid streamlining the process.

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?

We agree the principle of a consolidated annual performance report that is accessible to all relevant stakeholders. For some measures (connections) there would be benefit to developers/customers if larger new appointees were included in the relevant delivery D-MeX measures, both quantitative and qualitative.

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

We agree with the stated key service areas:

Customer service

Affordability and vulnerability

Operational performance

Asset health and resilience

Environment

The performance measures in general should be relatable to the common commitments applied to incumbent water companies.

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

As stated previously there would be benefit to developers/customers if larger new appointees were included in the relevant delivery D-MeX measures, both quantitative and qualitative.

The annual report should be at the level of new appointee.

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

We believe that it is reasonable to require new appointees to provide at least a summary of the data assurance process undertaken.

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

We agree that the board leadership, transparency and governance framework should apply to new appointees in full. A narrative in the annual reports on governance arrangements and how they are applied to their regulated business should be sufficient.

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

We agree with the proposed implementation timeline for the annual reporting and if there was to be inclusion of the larger new appointees to D-MeX measures that could be piloted in Q4 of 21/22 ahead of implementation from April 2022.