

Ofwat: Our monitoring and reporting approach for new appointees

Severn Trent Connect response

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Date April 2021

Purpose and objectives

Question 1:

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

Response:

We are supportive of Ofwat's stated purpose and objectives in helping to meet the sector's long-term challenges, and aiding stakeholders to hold companies to account for their performance.

No worse off principle

In addition to sharing information to assist stakeholders in assessing whether companies are meeting the "no worse off" principle, we would welcome a sector-wide benchmark; recognising that new appointees may be operating across a number of incumbents, each with a different level of performance. This approach should aid new appointees in providing a level of service consistent across their customer base, as well as compared with the incumbents they are operating amongst. We would also welcome a greater emphasis on tariffs as a major measure in meeting the no worse off principle.

Proportionate regulation

We agree that regulation of new appointees should be proportionate to the risks (operational and financial) posed to customers and the environment, but not necessarily with the size of the business. This might be better achieved basing the regulatory oversight against the type of services provided (retail plus / full service).

Reducing regulatory burdens

We are supportive of efforts to consolidate information into fewer regulatory submissions.

Policy areas

Question 2:

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?

Response:

We agree with Ofwat's stated principle of strengthening reporting requirements for new appointees, and welcome the initiative to remove the need for providing full annual performance reports as currently provided by incumbent companies once the annual turnover threshold of £10.2million is exceeded.

Question 3:

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?

Response:

We don't agree that reporting requirements should be on a turnover-based tier system. Rather, we believe that operational and financial risks to customers and the environment should influence the reporting requirements. We propose the reporting tier systems as set out below.

Type of service		
Retail plus	Full service	Incumbent
Companies buying water and/or wastewater services from incumbents, maintaining local networks and providing retail services.	Companies providing their own water and/or wastewater treatment, maintaining networks and providing retail services.	

Question 4:

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

Response:

Our recommendation for the approach of deciding the scope and scale of the information collected from new appointees, is on the risks the new appointees pose to customers and the environment. However, as a minimum, the following categories should be considered:

- Financial resilience
- Network serviceability
- Compliance with Environmental permits

We would also welcome more reporting on environmental performance such as emissions per customer or per unit of water provided / sewage treated.

Question 5:

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?

Response:

We support the need to improve the quality and transparency of financial information shared by new appointees, to aid stakeholders in better understanding companies' financial positions. The tiering should not influence the quality or transparency, or quantity of financial information shared.

Financial information

It would be sensible to require new appointees to disclose a balance sheet, cashflow statement and net debt position.

There may also be merit in companies reporting (albeit at an aggregated level) on non-appointed revenues / costs to enable Ofwat and other stakeholders to better understand the level of these activities across new appointees.

Transactions with associated companies

We welcome the disclosure of transactions between appointed and associated companies in a way consistent with the information requirements of incumbents.

Question 6:

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?

Response:

We are supportive of the proposal to introduce an annual narrative requirement to explain any material differences between forecasts submitted as part of the company-based-assessment and actual performance.

We would also be supportive in principle for issuing an annual rolling five-year forecast, irrespective of whether company-based-assessments have been opted for or not (providing such forecasts remain confidential). This is as we believe it is reasonable for Ofwat to have a detailed understanding of past, current and forecast financial performance information. If this requirement were implemented, it would render the company-based-assessment obsolete.

Question 7:

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?

Response:

We agree that performance data should be consolidated into a single, annual performance submission, which is available to all stakeholders.

Question 8:

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

Response:

The categories of performance metrics as outlined in the consultation document are sensible, we particularly welcome the inclusion of affordability/vulnerability and environmental performance information. To aid with performance comparisons between new appointees, we recommend a prescriptive suite of measures. Aligning these measures with those currently reported on by incumbents would also aid stakeholders in comparing the performance of new appointees with incumbent companies.

Question 9:

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

Response:

Based on our recommendation to the tiering approach (as outline in our response to question 3), we believe the only justifiable differences in reporting requirements can be based on the services provided to customers, and how the services are delivered. For example, water and/or wastewater services, and retail-plus or full service.

Based on our response to question 1, we recommend reporting at the company-level, rather than site or incumbent levels, as this aligns with our recommendation for a sector-wide set of “no-worse-off” performance levels.

One-off events can have a significant impact on a single year’s performance. Measures with multi-year rolling averages will help to smooth out the impact from single events, which might otherwise mis-represent performance.

Governance and assurance

Question 10:

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

Response:

Board statements

As a minimum we would expect the Boards of new appointees to provide a statement confirming the following:

- All regulatory reporting has been subject to board-level oversight and approval.
- The company has sufficient internal controls to ensure that the data and information provided is sufficiently accurate to meet its obligations.

Third party assurance

We believe that third-party audits of financial information are necessary to confirm that the financial information contained within new appointee annual performance reports is

consistent with their statutory accounts. It's not appropriate to restrict this assurance approach to larger new appointees, as to do so could call into question the transparency and credibility of information submitted by smaller new appointees.

Question 11:

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

Response:

We agree that greater transparency of corporate and board structures is needed. This could include a corporate organogram identifying where an organisation sits within a group, as this will be complimentary when detailing any transactions between associated companies. Providing a narrative on governance arrangements would also help in providing greater transparency.

Implementation and next steps

Question 12:

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

Response:

On the basis that all or most new appointees already capture the majority of financial and performance information set out in this consultation, it is reasonable to implement the changes for the 2021/22 reporting year (subject to confirmation of the new reporting requirements by August 2021). We agree that annual performance information should also be published on companies' websites.