

July 2021

Our monitoring and reporting approach for new appointees – policy conclusions

About this document

We [consulted on our monitoring and reporting approach](#) for new entrants to the water sector (**new appointees**) in February 2021. The new appointments and variations (NAV) framework enables these new entrant companies to replace an existing company as the provider of water and/or wastewater services in a specific geographical area in England and Wales.

This document summarises the views provided by respondents to our consultation and sets out our policy conclusions and next steps.

Reporting requirements for 2021-22

Alongside this document, we are now [consulting on the regulatory reporting requirements](#) that would apply to new appointees for the 2021-22 reporting year. This new consultation (under Condition F of new appointees' licences) includes our final proposals, informed by our consideration of responses to our February 2021 consultation.

We expect to finalise these requirements for new appointees in late 2021.

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1. Introduction

1.1 Background

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 (**new appointees**) 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 [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 lower costs, innovation, multi-utility developer services and more sustainable developments. If a new appointee is chosen by the 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 sewage 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.

New appointments and variations are consistent with our wider approach to promoting the targeted use of markets to benefit customers. As we set out in [our strategy](#), 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.

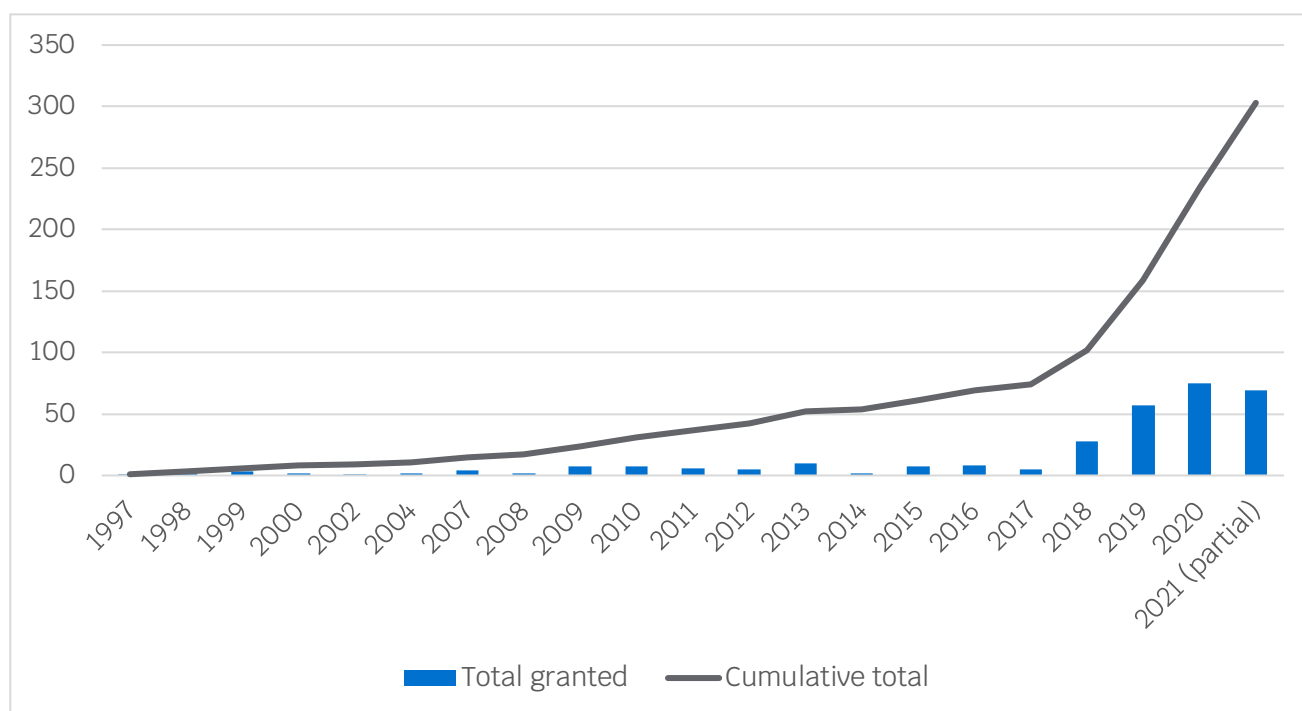
1.3 Recent growth

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 2017, the number of new appointments and variations has increased significantly. We granted 28 new appointments or variations in 2018, 57 in 2019, 71 in 2020, and 69 in 2021 (as of 6 July 2021).

We have made 303 new appointments or variations as of 6 July 2021 and based on the number of applications that we have received from new appointees, we expect further rapid growth in the near future.

Figure 1.1 – New appointments and variations since 1997



Source: [Register of new appointments and variations](#), Ofwat (as of 6 July 2021)

1.4 Our February 2021 consultation

We [consulted on reviewing our monitoring and reporting approach for new appointees](#) in February 2021. We noted that the success of the new appointments and variations market in recent years had 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.

To ensure the potential of this market is unlocked, customers are protected and our regulations are proportionate, we proposed to examine how our monitoring and reporting approach for new appointees could evolve to secure the future success of this market.

Building on previous work to extend reporting requirements for new appointees in 2020-21, we proposed how we may regulate new appointees in future, discussing our overall approach and potential areas of focus, such as financial reporting, service performance, governance and assurance, and how to implement any changes. We summarise our draft proposals in these areas in more detail in sections 2 to 6.

Overview of responses

We received written responses from 16 stakeholders to our consultation, which was open from 25 February to 26 April 2021. Respondents included:

- five new appointees – Albion Eco, Icosa Water, Independent Water Networks, Leep Water Networks, and Severn Trent Connect;
- ten incumbent water companies – Affinity Water, Anglian Water, Hafren Dyfrdwy (jointly with Severn Trent Water), SES Water, South East Water, South West Water, Southern Water, Wessex Water, and Yorkshire Water; and
- CCWater.

We publish these responses in full on [our website](#).

To help them prepare their written responses, we also met with a number of new appointees to outline our draft proposals throughout March and April 2021.

In the rest of this document, for each key issue we summarise our February 2021 proposals and the views of respondents before setting out our conclusions. For brevity we focus on addressing responses that are relevant to the issues raised in our consultation.

2. Overall framework

2.1 Purpose and objectives

What we said in our consultation

In the context of rapid growth in new appointments and variations, we said the purpose of the consultation was to develop the monitoring and reporting framework for new appointees so that it helps to deliver our strategic goals and legal duties, enabling customers and other stakeholders to hold companies to account while also supporting us to monitor their performance and make targeted interventions where necessary.

In evolving our monitoring and reporting for new appointees, we said our principal objectives were 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 which 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.

We also noted the opportunity to streamline regulatory interactions where possible as well as the opportunity to evaluate and unlock the benefits of new appointments and variations through improved visibility of financial, cost and service data.

Respondents’ views

Fourteen respondents agree with our proposed purpose and objectives. Three respondents make additional comments:

- CCWater proposes a greater emphasis on protecting customers. CCWater also says that as the market grows, new appointees may make efficiencies or save costs by reducing their levels of compensation or standards of service to customers and suggests an additional objective of “ensuring resilient and consistent services to customers” to address this;
- Southern Water proposes an additional objective to “inform any future decisions about whether it is appropriate to set price controls for New Appointees in place of the no-worse off principle”; and
- Anglian Water proposes two further principles – ensuring equivalence in the level of scrutiny between new appointees and smaller incumbents, and transparency around the level of service provided by new appointees. Anglian Water also proposes an additional objective to capture the benefits of the market in order to assess the delivery of long-term benefits to end customers.

In addition to assessing compliance with the no worse off principle, Severn Trent Connect also suggests a sector-wide benchmark which it says would encourage new appointees to offer a consistent level of service to their customers compared to the incumbents they operate across, and would aid comparability.

Our conclusions

We consider the principles and objectives suggested by respondents are sufficiently captured in the purpose and objectives that we set out in the February consultation, particularly relating to protecting customers by ensuring the delivery of good levels of service and compliance with the ‘no worse off’ principle.

Whether new appointees offer consistent levels of service across all of the sites they serve is outside the scope of this consultation. However, we note that new appointees are required to comply with the conditions of their licences and wider statutory obligations. They should also abide by our overall new appointments and variations policy which includes the ‘no worse off’ principle in relation to the levels of service of the individual incumbents they have replaced.

In terms of establishing a sector-wide benchmark for all new appointees, this is also outside the scope of this consultation. We understand that some new appointees already commit to offering consistent levels of service to all of their customers regardless of the performance of individual incumbents. There may be merit in exploring this concept further when we next revise our new appointments and variations policy.

While informing future policy decisions on the new appointments and variations market is not a principal objective of evolving the reporting framework, we consider our proposals will support this, including in any evaluation of its long-term benefits and the future approaches to price controls.

We address our approach to setting different reporting requirements between new appointees and incumbents in section 2.2.

2.2 Strengthened reporting requirements

What we said in our consultation

We said we did not consider it appropriate or proportionate for new appointees to be subject to the full annual reporting requirements that currently apply to incumbents. Equally, we considered strengthened and proportionate reporting requirements should apply to all new appointees as the market continues to evolve.

We said we were considering introducing a ‘tiered’ system which would mean different reporting requirements between tiers of new appointees and invited views on the rationale and basis for such an approach.

We suggested reporting tiers could be set on the following basis:

- **between incumbents and new appointees** – to ensure that new appointees do not face full reporting requirements, we suggested differentiating between companies based on whether condition B of their licence is currently suspended (currently the case for all new appointees, which means they are not subject to full price controls);
- **between new appointees** – we suggested basing this on turnover, which is the current threshold between new appointees and incumbents, but mentioned numbers of customers as an alternative approach.

Respondents’ views

Fourteen respondents agree with the principle of strengthening reporting requirements for new appointees.

On maintaining different reporting requirements between incumbents and new appointees, Affinity Water, Anglian Water, Hafren Dyfrdwy/Severn Trent Water and Southern Water request further clarity on when full reporting requirements faced by incumbents would apply to new appointees. Affinity Water suggests it could be when a new appointee serves two-thirds as many customers as the smallest incumbent.

Wessex Water considers new appointees should have the same reporting requirements where they provide the same services as incumbents. Hafren Dyfrdwy/Severn Trent Water suggest not differentiating between incumbents and new appointees where they are of equivalent size and reducing reporting requirements for smaller incumbents.

On different reporting requirements between new appointees, Severn Trent Connect and Hafren Dyfrdwy/Severn Trent Water propose instead basing tiers on the type of service provided – such as by a bulk supply or discharge agreement (‘retail plus’) or by treatment services operated by the new appointee (‘full service’). Albion Eco proposes a separate tier for new appointees that only serve large non-household customers.

Wessex Water disagrees with implementing reporting tiers between new appointees.

Our conclusions

We agree with the majority of respondents that it is necessary to strengthen the reporting requirements for new appointees, reflecting their recent growth and the high expectations of customers and other stakeholders in terms of the new appointees’ financial resilience and

operational performance. We outline how this could operate in more detail in sections 3 to 5 of this document.

We do not consider it to be appropriate or proportionate for new appointees to face the same reporting requirements as incumbents, particularly with regards to full price controls which do not currently apply to new appointees. We are also mindful of ensuring any reporting framework is effective and proportionate to the risk to customers and the environment overall. This does not mean that new appointees should necessarily have lower requirements than incumbents – in some circumstances, it may be beneficial for them to report on additional targeted measures.

In terms of how we differentiate between new appointees and incumbents, we consider our proposal to align this to whether condition B of a water company's licence (which establishes whether or not a company is subject to full price controls) offers sufficient flexibility and avoids the need to continually revise a fixed threshold as new appointees continue to grow in size. Because condition B is suspended for all new appointees, this ensures that any future decisions can be taken in concert with our wider policy approach to price controls.

We consider there is merit in operating a tiered system between new appointees, particularly as the market continues to evolve and new business models are developed. However, based on our assessment of the relative risks of the different types and sizes of new appointees, and accounting for the high expectations of them in terms of financial and performance reporting, we do not consider there is a sufficiently strong case to introduce tiered reporting requirements between new appointees at this time. There are also challenges in setting a threshold based on turnover or customer numbers that can readily adapt to a rapidly growing market. New appointees will still have different reporting requirements relating to performance based on the types of service they provide (such as water or wastewater; bulk-supply or full-serve, see section 4). New appointees subject to a company-based assessment will also provide additional information relating to this process, as set out in section 3.2.

We acknowledge the observation that, while all new appointees provide retail services to their end customers, some sites have different arrangements in place such as a bulk supply or discharge agreement with a local incumbent, or the new appointee operates its own upstream treatment works. In these cases, it may be appropriate to vary the reporting requirements for new appointees, most likely on a site-specific basis to appropriately address potential risks to customers and the environment. As such, we note that new appointees only need to report financial and performance information that is relevant to the sites they serve – for example, a new appointee does not need to report wastewater data where it only provides water services for a site. New appointees that serve a single site or a single large customer are to have the same reporting requirements as other new appointees but only in relation to the single site that they serve.

2.3 Monitoring and assessing approach

What we said in our consultation

In terms of our role in monitoring, assessing and presenting the information we collect from new appointees, we suggested we could align this with our approach to incumbents, for example by including data on new appointees in our annual publications on financial resilience, service performance and other relevant publications where appropriate.

Respondents' views

Respondents generally support our suggestion.

Independent Water Networks says that any measures used to compare the performance of new appointees and incumbents should be objective and comparable. Leep Water Networks says we should consider restricting such measures to those that are wholly or largely within the control of new appointees.

Our conclusions

We will consider how best to manage and present the information we collect from new appointees. We consider there is some value in incorporating them into existing publications such as the monitoring financial resilience or service delivery reports, provided this is proportionate and offers meaningful insights.

To maintain proportionality, we would expect this information to align with what is provided by new appointees in their annual submissions so as to not create additional information requirements.

3. Financial reporting

3.1 New financial tables

What we said in our consultation

We proposed changing financial reporting requirements for all new appointees to include additional financial data tables. We suggested this could include at least a balance sheet, cashflow statement and net debt position (based on tables 1C, 1D and 1E in the annual performance report tables prepared by incumbents, see [RAG 4.09](#)). We said we expected this information to be published by default.

We also suggested new commentary requirements which would encourage new appointees to explain material movements or changes from the previous year's reporting and improve transparency and comparability for stakeholders.

We also said we were considering requiring new appointees to disclose the extent of transactions with related parties in their annual returns, consistent with the reporting requirements for incumbents (see [RAG 3.12](#)).

We observed that, by expanding financial reporting requirements for new appointees in this way, we could remove our existing requirement for separate financial accounts to be prepared to a March year end and provided by 15 July. We noted that we would still require statutory financial statements to be submitted when available, no later than six months after the statutory year end for each new appointee.

Respondents' views

Respondents are very supportive of our proposals to collect additional financial data tables.

Leep Water Networks says it has reservations about providing financial information about capital expenditure at a site level, arguing it could reveal commercially sensitive information.

Independent Water Networks and Icosa Water suggest we could collect further data from incumbents on the proportion of new developments won by new appointees and the volumes billed, to allow us to consider whether the behaviour of incumbents is supporting the market and the benefits brought by new appointees.

Our conclusions

Our final proposals are to collect additional financial data tables from new appointees and therefore we are consulting on the detailed content of the data tables and the reporting requirements. We are also consulting on a requirement to provide a reconciliation of some

key values in the income statement between regulatory and statutory reporting. We consider that this could give further reassurance on data quality and allow new appointees to demonstrate that they are correctly interpreting and following the regulatory accounting guidelines, leading to more consistent and comparable regulatory financial reporting.

We are not proposing to collect any disaggregated financial information by site at this time, and we do not consider any of the proposed information to be commercially sensitive.

In advance of the 2024 price review (PR24) for incumbents, we are separately [consulting on new data requirements for incumbents relating to developer services](#), which could include market shares of new appointees, self-lay providers and incumbents in new developments.

3.2 Requirements relating to company-based assessments

What we said in our consultation

Well-established new appointees can ask us to consider using a '[company-based assessment](#)' when we assess their applications to serve new sites. This includes an annual reassessment which compares actual reported financial information with previous forecasts.

We said we were considering streamlining interactions with new appointees by specifying the key information we need to complete this annual reassessment. We said that new appointees would submit this information as part of their annual reporting.

We suggested this could include a requirement to compare new appointees' latest annual outturn figures with the forecasts they previously provided and provide a narrative explaining any material variances. We did not propose to introduce more data requirements than currently exist for new appointees subject to a company-based assessment.

Respondents' views

Ten respondents support our proposals to include an annual narrative requirement for new appointees subject to a company-based assessment, with many agreeing it would improve clarity and certainty for new appointees and increase transparency for other stakeholders.

Independent Water Networks says that, while it understands that we need to better understand the financial health of a new appointee as part of the annual review process, it does not consider comparing outturn to forecast to be a representative or appropriate measure of a new appointees' financial health. The respondent suggests three key indicators (debt level with associated guarantees, underlying profitability and current and forecast customer cost to serve) it believes should be considered when carrying out an annual review of a company-based assessment.

Leep Water Networks suggests including non-financial elements in the company-based assessment process in order to reduce the need to submit duplicate or repetitive statements with each application to serve a site. The respondent suggests that doing so would deliver further benefits from a company-based assessment and encourage new entrants to seek this status, driving improvements in the market.

Our conclusions

Our final proposals are to require relevant new appointees to provide annual narrative comparing their actual financial results with the forecast data provided when applying for a company-based assessment. We will also ask for updated financial projections to reflect the latest market conditions and associated company estimates. This has the effect of formalising much of what relevant new appointees currently provide to us.

We will consider the proposal by Independent Water Networks to consider current and future customer costs to serve as part of the company-based assessment. Our current approach already considers debt levels with associated guarantees and underlying profitability.

As Leep Water Networks acknowledges in its response, our approach to assessing individual licence applications is outside the scope of this consultation. However, we will reflect on the implementation of the new reporting framework and whether there are implications for our approach to assessing applications for new appointments and variations.

4. Service performance

4.1 Annual performance report

What we said in our consultation

We said we were 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.

We noted this would 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.

We said the single annual performance report could include relevant measures reported to other regulators, such as the Environment Agency and Drinking Water Inspectorate.

Respondents' views

Twelve respondents say they support our proposal to introduce a consolidated annual performance report that is accessible to all relevant stakeholders.

Independent Water Networks says it recognises the value of providing greater transparency but that this should be balanced with the need for commercial sensitivity in the context of competitive markets.

Icosa Water disagrees with publicly disclosing information due to the early state of the new appointment and variations market, arguing low site or customer numbers could be unrepresentative of performance or reflect lack of incumbent support. In particular, Icosa Water says that it does not want to disclose commercially sensitive information, that reporting performance failures caused by incumbents could negatively affect the new appointee's reputation, and that presenting low penetration numbers may deter developers.

Our conclusions

Our final proposals include a requirement for new appointees to produce an annual performance report as part of their annual submissions. We consider there are key benefits in terms of facilitating greater transparency and accountability in bringing together new and existing measures into a single document that is accessible to all relevant stakeholders. For this reason, new appointees should publish them on their websites.

Beyond preparing their annual performance reports in line with our requirements, new appointees should also consider whether there are additional ways to ensure relevant information is accessible to their customers and other stakeholders.

We do not consider the level of detail we are proposing should cause commercial sensitivity issues. Some of the information is already publicly available, such as the number of sites and properties served by each new appointee. In any case, because of their role as regulated companies providing an essential service, we consider new appointees have a responsibility to report their performance and be accountable to their customers. We also consider there are potential reputational benefits for new appointees to demonstrate their record of service delivery when approaching developers to serve new sites.

4.2 Performance measures

What we said in our consultation

We proposed that new appointees should report on their actual levels of service delivered each year. We said that 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 suggested the following key service areas that new appointees could be required to report against as a minimum:

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

We invited views on whether we should prescribe specific measures for each key service area, or give new appointees the flexibility to report measures they consider best reflect their underlying performance, potentially from a longlist of appropriate measures.

We said that any measures that are used should, wherever possible, be aligned to existing industry definitions to support comparability and proportionality. We suggested this could include the industry-wide [definitions of common performance commitments](#) developed during the 2019 price review (PR19) for incumbents. We observed this would further support assessments of whether end customers are no worse off when served by a new appointee relative to the incumbents it replaced.

We also suggested that new appointees could evidence how they have complied with the no worse off principle and are providing services consistent with their applications to serve sites, including offers to provide discounts to end customers.

We invited suggestions on which specific measures would be appropriate for new appointees to report against.

Respondents' views

Eight respondents support the five key service areas that we identified in our February consultation. No respondents object to these proposed areas.

CCWater, Severn Trent Connect, Southern Water and South West Water say that we should prescribe common measures to ensure comparability. Severn Trent Connect, Southern Water and Yorkshire Water support the use of existing industry definitions. Anglian Water, SES Water, Hafren Dyfrdwy/Severn Trent Water and Wessex Water support the use of relevant common performance commitments.

In terms of specific measures, a number of respondents make the following suggestions, grouped here by each key service area:

- **customer service** – total complaints, customer satisfaction surveys;
- **affordability and vulnerability** – the number of customers on the priority services register, the number of customers on WaterSure tariffs, alignment with incumbent reporting requirements for 2020-21;
- **operational performance**: water supply interruptions, sewer flooding incidents, water quality compliance;
- **asset health and resilience**: unplanned outages or remedial maintenance (where new appointees operate upstream assets), the same requirements as incumbents; and
- **the environment**: compliance with environmental permits, emissions per customer or unit of water provided or sewage treated.

In addition, South West Water and Wessex Water suggest requiring new appointees to provide narratives that explain their performance. Anglian Water and Yorkshire Water suggest reporting on other relevant measures such as void properties, lengths of mains and lengths of sewers – they note this will aid with comparability and could assist the development of bulk charges by incumbents.

South West Water suggests requiring new appointees to report against Water UK's Developer Services metrics, arguing that not including new appointees could represent a market barrier. South West Water and SES Water suggest that over time new appointees could be included in the [developer services measure of experience](#) (D-MeX).

Icosa Water comments that publicising whether customers receive discounts (under the ‘no worse off’ principle) may dissatisfy customers and create unrealistic market expectations.

Independent Water Networks argues that the current regulatory framework makes it difficult for new appointees to match incumbents’ provision for economically deprived and vulnerable customers. The respondent says that under the ‘no worse off’ principle, new appointees should be able to offer comparable social tariffs to those offered by incumbents but it considers that there are difficulties in doing so.

Icosa Water and Leep Water Networks comment that specific performance measures should be restricted to those that are wholly or largely within the control of each new appointee.

Our conclusions

We consider there are significant advantages in prescribing a common set of performance measures to enable comparability both between new appointees and with incumbents. Doing so will support assessments of whether end customers are no worse off and help to indicate whether intervention is necessary. Enabling effective comparisons could also support us to set more stretching performance challenges for incumbents at future price reviews and help evidence the relative benefits of this market.

Using the current set of common performance commitments should ensure they align with customer priorities, following their extensive development during the PR19 process, and will minimise the administrative burden of developing bespoke reporting requirements for new appointees. In future, we expect to use definitions that are consistent with those that are developed for PR24, subject to consultation.

In terms of specific measures, we have carefully considered the suggestions by respondents and the common performance commitments that currently apply to incumbents. In reaching our final proposals, we balance the need to ensure effective coverage of key areas of service delivery, support effective comparisons between companies, and maintain overall proportionality in terms of existing definitions and the relative risk of new appointees.

Our final proposals are set out in table 4.1. We consider it is important to ensure coverage against the five key service areas we have identified. Where common performance commitments are not appropriate or desirable for new appointees, we have instead set out alternative measures using existing industry measures where possible (such as CCWater’s definition of complaints to ensure there is coverage of customer service).

Table 4.1 – Proposed performance measures

	Performance commitments	Other measures
Customer service	N/A	Total complaints (household and non-household) Performance against the Guaranteed Standards Scheme (existing requirement)
Affordability and vulnerability	Number of customers on the Priority Services Register (partial)	Number of customers on reduced charges
Operational performance	Water quality compliance Water supply interruptions Internal sewer flooding External sewer flooding Pollution incidents	N/A
Asset health and resilience	Mains repairs Sewer collapses Treatment works compliance	N/A
Environment	Leakage (existing requirement) Per capita consumption (existing requirement)	N/A

We summarise our analysis of the common performance commitments, including their relevance for new appointees and our rationale for inclusion, in more detail in Annex A1 of this document. We consider the more than 400 bespoke performance commitments that apply to the 17 incumbents are not appropriate or proportionate for new appointees at this stage. The only exception to this is external sewer flooding, which as we set out in Annex A1 is a key measure of operational performance that also provides some coverage of asset health and is common to nine of the eleven wastewater incumbents.

In terms of reduced charges, we consider it is important for new appointees to set out the number of customers on social tariffs, WaterSure tariffs, and any other reduced charges – including where they previously committed to provide discounts when applying to serve the site. This will provide an important indicator of new appointees’ approach to affordability and vulnerability. It is the responsibility of new appointees to consider the impact of publishing this information on customers and other market participants. We do not expect new appointees to publish data which could reveal the identity of individual households.

We note the observation by Independent Water Networks that new appointees should offer social tariffs that are comparable to those provided by incumbents. By matching the end charges of the incumbent it has replaced, a new appointee should in principle have a sufficient margin to provide comparable social tariffs except where the new appointee’s customer base has higher average levels of financial vulnerability. Given the current state of the market, we expect new appointees to be able to provide comparable social tariffs or a reduction in end charges equivalent to those offered by the incumbents they have replaced.

In terms of only specifying measures that are wholly or largely within the control of new appointees, we consider it is important to clarify our expectations. New appointees choose to enter the water sector, which involves complying with their legal obligations and meeting the expectations of [our NAV policy](#). Some new appointees arrange bulk supply or discharge agreements while others provide their own upstream services. In either case, new appointees are responsible for complying with their legal and regulatory obligations as well as meeting their customers' expectations. While we recognise that some performance issues may result from upstream incidents, new appointees can mitigate this through terms in their bulk agreements and seek to explain this to their customers. In addition to the above measures, our final proposal includes a requirement for new appointees to provide a high-level performance summary, building on the existing requirement for 2020-21, which will give new appointees an opportunity to explain their performance and provide further details.

To enable comparability between new appointees and with incumbents, and to potentially support the development of bulk charges by incumbents, our final proposals include additional measures for appointees to report:

- number of void properties;
- number of metered and unmetered properties (water services only);
- length of mains in kilometres; and
- length of sewers in kilometres.

This builds on existing requirements for new appointees to report property numbers and volumes of water supplied and wastewater discharged. As suggested by Yorkshire Water, we also propose to include a field for the incumbent region of each site (i.e. the incumbent company that originally served the site prior to all new appointments or variations).

4.3 Level of reporting

What we said in our consultation

We asked for views on whether performance 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).

Respondents' views

Severn Trent Connect, Hafren Dyfrdwy/Severn Trent Water and SES Water consider that company-level reporting would be appropriate (i.e. at the level of the new appointee).

CCWater, Independent Water Networks and South West Water support reporting at the level of incumbent regions, suggesting this would be more meaningful than company-level

comparisons. CCWater also suggests additional performance commentaries for sites with more than 1,000 properties.

Wessex Water supports site-specific reporting, suggesting that it would not be additionally burdensome to produce this level of information.

South East Water suggests reporting by age of assets for key operational measures while retail services could be reported at company level.

Southern Water supports reporting at company-level, incumbent regions and the age of assets.

Anglian Water and Leep Water Networks support the use of more aggregated measures. Leep Water Networks considers site-specific reporting would not be appropriate for per capita consumption and water supply interruptions.

Severn Trent Connect and Hafren Dyfrdwy/Severn Trent Water suggest using multi-year averages to mitigate the impact of one-off events.

Our conclusions

We consider the level of reporting for most performance measures should be on a site-specific basis. For some measures (such as the compliance risk index) this may not be possible and so that should be reported at a company level. We consider financial reporting should remain at a company level.

We consider this reflects the newness of the reporting framework and will support greater trust and confidence in the data provided by new appointees. In addition, it should help to facilitate effective comparisons with each incumbent, enabling stakeholders to aggregate performance data from individual sites to the level of the regions served by incumbents. Overall, we consider this to be proportionate because new appointees should already be collecting information at this level (in line with their applications to serve individual sites, where in most cases they committed to match or exceed the level of service provided by the incumbent they replaced). As the framework becomes more established, including relating to data assurance, we could review this approach in future.

Without financial incentives associated with performance reporting, we do not see value in adopting multi-year averages at this stage given the complexity this would introduce. We consider that new appointees can explain the effect of one-off events in their wider performance commentary.

5. Governance and assurance

5.1 Board leadership and governance

What we said in our consultation

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

We said we did not consider that the [board leadership, transparency and governance framework](#) as it applies to incumbents should apply to new appointees in full. However, we said that we considered greater transparency of new appointees' corporate and board structures is needed, particularly where new appointees are part of wider corporate groups.

We suggested new appointees could 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 businesses.

Respondents' views

Seven respondents (CCWater, Hafren Dyfrdwy/Severn Trent Water, Independent Water Networks, Severn Trent Connect, South West Water, Southern Water and Wessex Water) agree that greater transparency of new appointees' corporate and board structures is required. Icosa Water disagrees.

Six respondents (CCWater, Hafren Dyfrdwy/Severn Trent Water, Independent Water Networks, Severn Trent Connect, South West Water and Southern Water) agree with requiring narrative on governance arrangements rather than applying the board leadership, transparency and governance framework in full.

South East Water suggests that new appointees provide a statement on how they have had regard to the board leadership, transparency and governance framework (and/or the [Wates principles for large private companies](#)).

Anglian Water, SES Water and Wessex Water consider the requirements for new appointees should be equivalent to those that apply to incumbents.

Our conclusions

We consider it is important to balance the need for greater transparency around new appointees' corporate and board structures, ensuring that customers and other stakeholders have confidence in the approach taken by new appointees, and the need to be proportionate.

We continue to consider that it may not always be proportionate for new appointees to meet the board leadership, transparency and governance principles but that they should demonstrate exemplary governance and meet those principles where they can. We consider it strikes the right balance between transparency and proportionality for us to require new appointees to explain their corporate and board structures in their annual reports but not require them to meet the principles at this time. New appointees should consider how best to do this, for example through the use of organograms and by providing details of board and committee memberships.

While we do not propose to make this a requirement at this time, we encourage new appointees to consider how best to apply the board leadership, transparency and governance principles to their regulated business, and to have regard to them where they are relevant.

We will keep under review whether further interventions in this area are warranted.

5.2 Assurance requirements

What we said in our consultation

We said that given the additional information we are looking for new appointees to report, we considered it important to have necessary assurance that the information and data has had director or board-level oversight by the new appointees.

We proposed that new appointees should provide a statement confirming that all regulatory reporting has been subject to director or board-level oversight and approval. They 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.

We also suggested introducing a requirement for larger new appointees to confirm whether a third-party assurer has performed a review of the financial information in the small company return and confirmed that it is consistent with the new appointee's statutory accounts.

Respondents' views

Nine respondents (Affinity Water, Anglian Water, Hafren Dyfrdwy/Severn Trent Water, Icosa Water, Independent Water Networks, Severn Trent Connect, South East Water, Southern Water and Wessex Water) agree that new appointees should provide statements confirming that regulatory reporting has had board-level oversight and approval.

SES Water, South West Water and Yorkshire Water support new appointees providing a summary of the assurance process undertaken.

Leep Water Networks agrees with larger new appointees providing additional assurance that confirms that their service provision is sufficiently well-resourced. CCWater says there should be some assurance on the accuracy of financial information and performance data.

On requiring third-party assurance, Hafren Dyfrdwy/Severn Trent Water, Severn Trent Connect, South West Water and Wessex Water support this for all new appointees. Affinity Water and Southern Water support this for larger new appointees only.

CCWater, Icosa Water and Independent Water Networks disagree with requiring third-party assurance, arguing it would be onerous or disproportionate, particularly for smaller new appointees, though Icosa Water comments that it may be appropriate in future.

Our conclusions

We continue to consider that it is important for new appointees to provide assurance around the financial and performance data they provide in their annual reports. Doing so should increase transparency and enable customers and other stakeholders to have trust and confidence in the quality of data reported.

For this reason, our final proposals include a requirement for new appointees to provide:

- a statement confirming that all regulatory reporting has been subject to director or board-level oversight and approval; and
- a summary of the data and information assurance process undertaken.

Both statements will align with the requirements for incumbents where appropriate. We provide more detail in our consultation.

We have reflected on the relevance of third-party assurance for all new appointees, and considered this in the context of our decision not to implement reporting tiers in full at this stage. To maintain proportionality, our final proposal is to not require third-party audits but to instead require new appointees to confirm whether or not one has been undertaken.

Our final proposals also include a requirement to provide a reconciliation of some key values in the income statement between regulatory and statutory reporting. We consider that this could give further reassurance on data quality if the statutory accounts are already subject to third-party audit. It would also highlight differences in regulatory and statutory reporting and allow new appointees to demonstrate that they are correctly interpreting and following the Regulatory Accounting Guidelines.

6. Implementation

What we said in our consultation

While new appointees should already be collecting and monitoring their financial and service performance, we acknowledged that new reporting requirements could represent a step change and require changes to internal systems and processes. For this reason, we published our previous consultation in February prior to a formal consultation in the Regulatory Accounting Guidelines.

We said that we expected to consult on formal changes with respect to the 2021–22 reporting year by summer 2021, finalising our decisions in late 2021.

If we were to implement our decisions with respect to the 2021–22 reporting year, we said 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.

We said any further changes would be included in future consultations on the Regulatory Accounting Guidelines and would apply to future reporting years.

Respondents' views

Ten respondents (Affinity Water, Anglian Water, CCWater, Hafren Dyfrdwy/Severn Trent Water, Independent Water Networks, Severn Trent Connect, SES Water, South East Water, Wessex Water, Yorkshire Water) support most reporting changes applying to the 2021–22 reporting year (with annual submissions based on these requirements starting in July 2022).

Icosa Water, Leep Water Networks and South West Water say they would prefer changes to apply to the 2022–23 reporting year. Leep Water Networks comments that some measures could be implemented in stages in 2021–22 and 2022–23 to enable a review of efficiency.

Our conclusions

We consider it is important for changes to the regulatory reporting framework to be implemented in a timely manner, while ensuring that new appointees have appropriate systems in place to capture relevant information. Based on the responses we have received and our engagement with new appointees, we consider the financial information and performance measures in our final proposals to be reasonable and we expect new appointees to already be collecting the majority of this data for management purposes.

In line with our proposals, alongside this document we are publishing a formal consultation under Condition F of new appointees' licences, which enables us to publish Regulatory

Accounting Guidelines with which new appointees must comply when preparing and publishing their annual submissions.

Due to the timing of this revision, we consider there is an opportunity to simplify and streamline the regulatory reporting requirements for new appointees so that it is clearer what is required when preparing their annual submissions. We are therefore consulting on a separate set of documents and data templates which we consider will help ensure that the new reporting framework for new appointees is clear, targeted and proportionate. We provide more detail in our concurrent consultation.

7. Next steps

Alongside this document, we are [consulting on the regulatory reporting requirements](#) that would apply to new appointees for the 2021-22 reporting year.

Informed by the responses that we receive, we expect to finalise these requirements in late 2021. New appointees are to submit their annual performance reports in line with our final requirements in July 2022.

In terms of future policy changes, we will keep the effectiveness of our decisions under review as we continue to monitor the resilience and performance of new appointees and as both the market and wider regulatory framework continue to evolve.

A1 Assessment of PR19 performance commitments

In this annex we set out more detailed analysis of the relevance of [PR19 common performance commitments](#) to new appointees, our rationale for proposing to include or not include them, and how we intend to implement our final proposals.

Performance commitment	Proposed approach and rationale	Proposed implementation
Customer measure of experience (C-MeX)	Do not propose to include. We do not consider it is feasible to include new appointees in C-MeX during the 2020-25 period. Smaller new appointees may also struggle to achieve representative survey samples. Instead, we propose to include total complaints as a measure of direct customer service provided by new appointees. New appointees will also continue to report their payments made against the statutory guaranteed standards scheme.	N/A
Developer services measure of experience (D-MeX)	Do not propose to include. We do not consider it is feasible to include new appointees in D-MeX during the 2020-25 period. New appointees could voluntarily report their levels of service when serving developers, for example using the existing Water UK levels of service system. It may be appropriate to monitor this in future.	N/A
Priority Services Register	Propose to partially include. We consider that the element of this performance commitment measuring how many household customers are on the priority services register ('PSR reach') is a good reflection of how well equipped new appointees are to support customers in vulnerable circumstances. Due to their scale, we consider the element relating to attempted contacts of customers on the register ('PSR data checking') may not be proportionate for new appointees at this time. Instead, new appointees should consider how they can highlight schemes for vulnerable customers in their performance summaries.	We will include this in new data tables in the Regulatory Accounting Guidelines. It will be partially consistent with incumbents' reporting requirements.
Water quality compliance	Propose to include. We consider this to be a key priority for customers and a direct measure of the company's operational performance. It aligns with existing reporting requirements to the Drinking Water Inspectorate (the compliance risk index) and the company's statutory obligations around drinking water quality.	We will include this in new data tables in the Regulatory Accounting Guidelines. We consider this should be reported at the level of the new appointee. This would only apply to sites where water services are provided.
Water supply interruptions	Propose to include. We consider this to be a key priority for customers and a direct measure of a company's operational	We will include this in new data tables in the Regulatory Accounting Guidelines. It will be consistent with incumbents' reporting requirements.

Performance commitment	Proposed approach and rationale	Proposed implementation
	performance. It is also an indicator of a company's asset health.	This would only apply to sites where water services are provided.
Leakage	Propose to maintain. This requirement was introduced for 2020-21 and is consistent with what new appointees already provide in their water resources management plans (WRMPs). As well as measuring environmental impacts, it also is an indicator of a company's asset health.	We will include this in new data tables in the Regulatory Accounting Guidelines. Unlike incumbents, this will continue to be reported on a megalitres per year basis rather than megalitres per day. We consider using the definition of leakage as developed for incumbents at PR19 is most appropriate to ensure effective comparisons rather than the definition used for water resources management plans (WRMPs). This would only apply to sites where water services are provided.
Per capita consumption	Propose to maintain. This requirement was introduced for 2020-21 and is consistent with what new appointees already provide in their water resources management plans (WRMPs).	We will include this in new data tables in the Regulatory Accounting Guidelines. To facilitate effective comparisons with incumbents, we have maintained the breakdown between measured and unmeasured customers and added input and calculation blocks to support new appointees to calculate per capita consumption levels at the level of the new appointee and incumbent areas. This would only apply to sites where water services are provided.
Internal sewer flooding	Propose to include. We consider this to be a key priority for customers and a direct measure of a company's operational performance. Reflecting the nature of new appointees and our proposal to not include other asset health measures, we consider it is necessary to extend reporting to include external sewer flooding , a bespoke performance commitment which applies to nine out of eleven wastewater incumbents. This should also facilitate a proportionate number of performance measures overall by reducing the need to include other asset health measures.	We will include this in new data tables in the Regulatory Accounting Guidelines. It will be consistent with incumbents' reporting requirements. This would only apply to sites where wastewater services are provided.
Pollution incidents	Propose to include. We consider this to be a key priority for customers and a direct measure of a company's operational performance and resilience. It also measures environmental impacts resulting from the new appointee's management of its network and upstream assets.	We will include this in new data tables in the Regulatory Accounting Guidelines. It will be consistent with incumbents' reporting requirements. This would only apply to sites where wastewater services are provided.
Risk of severe restrictions in a drought	Do not propose to include. We do not consider this to be a priority to be included. Industry work on forward-looking resilience measures may be more appropriate in future.	N/A
Risk of sewer flooding in a storm	Do not propose to include. We do not consider this to be a priority to be included. Industry work on forward-looking resilience measures may be more appropriate in future.	N/A

Performance commitment	Proposed approach and rationale	Proposed implementation
Mains repairs	Propose to include. We consider this to be a key indicator of a company’s asset health.	We will include this in new data tables in the Regulatory Accounting Guidelines. It will be consistent with incumbents’ reporting requirements. This would only apply to sites where water services are provided.
Unplanned outage	Do not propose to include. While this is an important indicator of asset health, it may be challenging for new appointees to apply in practice and we consider what it attempts to measure may be captured by supply interruptions or customer complaints.	N/A
Sewer collapses	Propose to include. We consider this to be a key indicator of a company’s asset health.	We will include this in new data tables in the Regulatory Accounting Guidelines. It will be consistent with incumbents’ reporting requirements. This would only apply to sites where wastewater services are provided.
Treatment works compliance	Propose to include. We consider this to be a key indicator of a company’s asset health and a measure of environmental impacts. It aligns with existing reporting requirements to the Environment Agency and Natural Resources Wales (see, for example, version 9 of the Environmental Performance Assessment methodology for 2021 to 2025) and the company’s statutory obligations relating to complying with its discharge permits for wastewater and water treatment works.	We will include this in new data tables in the Regulatory Accounting Guidelines. New appointees are to report the number of failed discharges on a site level and the template will calculate companies’ overall compliance. This would only apply to sites where a new appointee operates wastewater or water treatment works with relevant discharge permits.

We also considered the relevance of requiring new appointees to report against ‘comparable’ performance commitments, principally those on our [asset health longlist](#). In particular, we consider customer contacts about water quality (appearance, taste and odour) and sewer blockages could be good indicators of asset health. Unplanned maintenance (water and wastewater) may similarly indicate the level of past investment in a company’s non-infrastructure assets. On balance we do not propose to include them at this stage due to the relative age of the assets operated by new appointees, and because other measures such as water supply interruptions and total complaints may provide initial coverage in these areas. It may also not be proportionate to require reporting against these measures unless there is a record of poor performance or until the reporting framework is more established.

We consider new appointees should report external sewer flooding incidents, a ‘comparable’ bespoke performance commitment for nine of the eleven wastewater incumbents which measures both operational performance and is an indicator of a company’s asset health.

In future, it may be appropriate to include some wider measures, such as other common or bespoke performance commitments reported by incumbents, or wider industry measures such as greenhouse gas emissions, particularly as they evolve through PR24.

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