

**Working Paper No. 2**  
**November 2015**

# Beyond Compliance Monitoring and Reporting

---

Leading Author: Cosmo Graham<sup>a</sup>

Contributing Authors: Michael Rouse<sup>b</sup>, Ivaylo Kastchiev<sup>c</sup>,  
Želmíra Macková<sup>d</sup>, Avni Dervishi<sup>e</sup>

---

## SUMMARY

The use of information by regulators to try and improve the quality of service offered by water companies and the effectiveness of economic regulation is a challenging exercise. Regulators are often faced with many different providers, operating under different models with different systems for recording information which systems may not provide the information regulators think is most helpful.

Regulators therefore face a challenge in ensuring that the information provided to them is accurate, timely, comparable and reliable. There is then the issue of designing a system which will provide appropriate incentives for water companies to improve their services.

These systems can range from simple information and publicity models, to league to tables to systems which provide direct financial rewards to providers who show improvements or sector leading performance. Finally, it is important that the information, and the use of it by the regulator, is done in a way which is accessible for the public.

---

*Keywords: Information sharing, Data use, Benchmarking, Performance indicator*

---

<sup>a</sup> *University of Leicester, United Kingdom*

<sup>b</sup> *Independent International Consultant*

<sup>c</sup> *Energy and Water Regulatory Commission (EWRC), Bulgaria*

<sup>d</sup> *Ministry of Agriculture, Czech Republic*

<sup>e</sup> *Formerly worked for Water Regulatory Authority, Albania*

## **CENTRAL QUESTION:**

*How can regulators use the information they receive or require to encourage better provision of services?*

- *How can regulators ensure that information is reliable and comparable?*
- *What role is there for information from water consumers?*
- *What types of benchmarking models are available?*
- *What incentives exist or can be provided for improving services?*
- *What is the role of information on long-term business and investment planning and life-cycle asset management?*

## **INTRODUCTION AND CONTEXT**

Accountability and transparency (The Lisbon Charter Principle 1.2) are the enabling principles for a water sector that learns from best practices. Regulatory authorities have the duty to collect, analyse and disseminate information that can be used by all; they are the enablers of a culture of constructive transparency. Their role in contributing to fair and open competition should aim to raise innovative solutions and technical progress, promoting efficiency and quality. This is particularly important as global infrastructure investment needs around US\$ 3.7 trillion per year, but only around US\$ 2.7 trillion of annual investment is provided, leading to an annual investment deficit of US\$ 1 trillion (1.4% of global GDP).

Regulators typically require water companies to provide them with substantial information on their performance in relation to a variety of metrics, such as operational, financial, environmental and customer service. Although this information is required to ensure that water companies comply with the regulations under which they operate, there is also an opportunity to use this information to improve water services and to build overall more resilient systems.

The information that regulators receive from companies is not only useful in relation to improving service delivery but can also help them to assess the companies' plans for life-cycle asset management. Because water companies are critical to the network infrastructure, their management requires specific knowledge, skills and expertise, and applying an integrated and systematic approach for overall life-cycle management. The utility is responsible for asset management and planning, but the regulator is responsible for making sure that good decisions have been taken, the appropriate operational and management measures and investments have been

implemented, and no negative effects have been transferred to the next generations.

There are a number of challenges in trying to accomplish this. Companies may collect and record information in different ways. Regulators must be confident that the information supplied is accurate. The information that is provided must be relevant and relate to the experience of service users. For example, although it is easy to measure response time for telephone systems, it is more important to customers how long a company takes to resolve a problem after answering the phone. Just because something is measurable or quantifiable does not make it the best measure. Information must also be comparable across companies and across time periods which may create problems if reporting definitions and conventions change.

#### Box 1. Case study – Czech Republic

The Czech Republic has a fragmented water market with approximately 2,570 operators of different sizes and different operating models. There are also a substantial number of state entities with a responsibility for regulating the water companies and municipalities supplying water services. As part of the obligations of the Czech Republic to the EU, the state has been required to improve and strengthen its regulatory system. (This was one of the conditions for the EU funding in the sector.) This was done through the establishment of a coordinating entity under the auspices of the Ministry of Agriculture. The Ministry of Agriculture receives the necessary data from the sector, which is published in an annual yearbook. It serves as a central point for providing methodological assistance, as well as having a division which will deal with complaints and regulatory issues. A coordinating committee has been set up to strengthen the regulatory mechanisms in the water sector. This new system has ensured comparability of data from the numerous operators for benchmarking purposes, streamlined the scoring system and allowed a better understanding of the investment needs of the sector.

There is also the question of whether and how to obtain information from service users on their experiences and how this might be fed into the regulatory process. Also, there is the question of the utility of looking at the performance of other industries in relevant areas, for example, complaint handling, which might have lessons for the water sector. Finally, there is the problem of how to create incentives for companies to improve performance? Should there be

direct financial rewards through the regulatory system for performing well on certain measures? Is publicity about company performance a sufficient incentive to see performance improvements? There may need to be different incentives arrangements depending on ownership models.

## **CURRENT TRENDS**

Benchmarking the performance of water companies for both service quality and tariff regulation is a common technique in regulatory systems. There are a variety of techniques which have been employed by regulators although the most common is simply to publish information about service performance, which allows for an informed debate about the relative performance of water companies.

Water scarcity is an issue in a number of countries for a variety of reasons such as drought, population growth etc. This leads to questions of public trust in the water companies and the regulatory systems.

Resilience has become an important concept. It is a multi-faceted concept and includes aspects such as long-term climate trends and population growth, as well as short term shock events such as droughts, flooding, cyber-attacks and terrorism. The role of the regulator must encompass the responsibility of ensuring built-in resilience planning into their system. The starting point is to agree on a common understanding of the concept.

### **Box 2. Case Study – Bulgaria**

The Bulgarian regulator is focusing on the quality of information, provided by the utilities for each variable needed for KPIs' reporting, and is assessing the sources of information in the companies, as well as the individual implementation of the KPIs' levels. Information provided from the utilities should be used for critical assessment of each individual company and the sector as a whole. Each individual assessment should provide not only public announcements of the utility results, but also financial rewards or penalties for good or bad performance, and therefore to motivate the companies to perform better.

### Box 3. Case Study – Albania

Monitoring through defined Key Performance Indicators (KPIs) has enabled the Albanian Water Regulatory Authority (WRA) to make a correct assessment of each operator's performance and set challenging but realistic performance targets. The examination covers operational, financial and customer service performance of the utilities. Based on defined methodology using KPIs and defined boundaries on the achieved performance, utilities are assessed individually and are also compared, highlighting the best as well as the poor performers in the sector. Through the Performance Reporting, utilities appraise their own performance against others in similar environments, recognising their strength and weaknesses as well as learning from more effective or efficient practices developed elsewhere.

Monitoring and reporting is not only a legal requirement to ensure that the WRA is accountable for the decisions made. Such reporting also helps the service providers in evaluating their own performance, recognising their strength and weaknesses and to identify opportunities for further improvement. WRA also sees reporting as an essential instrument to create a transparent regulatory environment and keep the public informed. It believes that subjecting utilities to public transparency is a strong incentive for them to provide better services. Also such offers the regulator the opportunity to comment on sector developments, policy, regulations and make recommendations.

### **FUTURE PROSPECTS**

Technological innovation such as social media may provide a means of providing an insight into the experience of consumers of water services.

There is likely to be further consolidation of water operators in the future. This leads to opportunities and challenges. In countries with very fragmented water systems with many operators, consolidation may simplify the regulatory task and allow common reporting systems to be developed as can be seen in the case study of the Czech Republic. If, however, consolidation leads to too few potential comparators, this may be a challenge to benchmarking by the regulators.

As benchmarking and information provision is developed by regulators, this offers the prospects of making comparisons between different countries. Although there are potential gains from such a comparison, there are also difficulties in doing this in a robust manner, given the different histories, operating environments and operational models that exist.

#### Box 4. Case Study – England and Wales

In the regulation of the water sector in England and Wales, the regulator (OFWAT) has designed a Service Incentive Mechanism (SIM) which provides direct financial rewards for water companies which perform well against output based measures of customer service quality which are common to all the companies. The measures are a combination of quantitative metrics and a qualitative one, based on a customer survey. Companies are rewarded or penalised depending on whether they are above or below the average score in a sector. The maximum reward for highly performing companies is capped at 0.5% of revenue of the company's integrated business; the maximum penalty is capped at 1% of revenue. This is an example of a system which used customer focused data and provides direct financial incentives to the companies.

## RECOMMENDATIONS

- The regulator must ensure that there is the appropriate investment by companies to ensure the necessary access to data that is accurate and appropriately classified.
- There is a need for the standardization of how and what data is collected to increase comparability across datasets and to ensure that data collection is limited to what is important.
- The data should be used to inform knowledge that can guide decision-making in terms of what interventions are needed to address current challenges.
- The data should be used in a way which provides appropriate incentives for providers to improve their service provision.
- Data on service quality should be presented in a manner which is accessible and comprehensible to the general public.

## USEFUL LINKS

Below are the websites of regulators referred to in this paper.

- Albania: Regulatory Authority of the Water Supply and Waste Water Disposal and Treatment Sector: <http://www.erru.al/index.php?lang=2>
- Bulgaria: Energy and Water Regulatory Commission: <http://www.dker.bg/indexen.php>
- Czech Republic: Ministry of Agriculture: [www.eagri.cz/en](http://www.eagri.cz/en)
- England and Wales: OFWAT: [www.ofwat.gov.uk/](http://www.ofwat.gov.uk/)