

RD 13/02

**TO ALL REGULATORY DIRECTORS
OF WATER AND SEWERAGE
COMPANIES AND WATER ONLY
COMPANIES**

29 April 2002

Dear Regulatory Director

**REGULATORY ACCOUNTS FOR 2001-02
REPORTING REQUIREMENTS – RAG 3.04**

Regulatory accounts should be submitted as soon as possible after the end of the financial year and before 15 July. Five copies of the printed reports and confidential information should be submitted, in addition to five copies of the statutory accounts and the holding company's group accounts. Copies of the ultimate holding company's consolidated accounts and those of common services companies should also be submitted, where applicable.

Companies are again required to have their June return information audited and it is expected that information in the June return submission and the regulatory accounts will be consistent.

Reporting basis

Regulatory accounts for 2001-02 should be drawn up on the basis of the regulatory accounting guidelines currently in force. All accounting standards extant at 31 March 2002 should be complied with (except FRS12 as detailed in RD 11/00). Issues noted in RD5/01 and corresponding letters in previous years remain relevant. If the requirements of these conflict with those included in accounting standards, please contact Tracey Anderson, Head of Regulatory Accounts and Business Affairs Team.

For statutory reporting purposes, companies are now required to comply with FRS19 – Deferred tax and FRS17 – Retirement benefits. The application of each of these standards for the regulatory accounts in 2001-02 is explained below.

FRS19 – Deferred taxation

FRS19 is effective for financial statements relating to accounting periods ending on or after 23 January 2002. It must therefore be applied for the regulatory accounts for 2001-02.

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The method of calculation should be the same as that adopted for statutory reporting purposes. The deferred tax charged or credited in the year should be reported as a separate line in the profit and loss account as shown in Annex A. Any deferred tax provision or asset should be separately identified in the balance sheet as shown in Annex B.

Comparative amounts for 2000-01 should be reported.

Where a company produces statutory accounts to a 31 March year-end, and these are bound with the regulatory accounts in one document, the additional disclosures specified in FRS19 are not required in the regulatory accounts. In accordance with our general guidance on regulatory accounting requirements, where a company does not produce statutory accounts at 31 March or where it produces them in a separate document, full disclosure under FRS19 must be made in the regulatory accounts.

For June return 2002 reporting purposes, you should include the deferred tax charged or credited in the year in Table 20 line 10. The deferred tax provision should be included in Table 19 line 17 and Table 24 line 9.

The information capture system (ICS) for the June return 2002 reflects the amounts you reported in 2000-01. The ICS will not permit you to restate the comparative amounts to reflect changes under FRS19. You should include details of the amounts to be included in the commentary to the relevant table. We will make the necessary changes on receipt. The changes will be made prior to the table being placed in the public domain. We will ask you to validate the figures before they are released.

FRS17 – Retirement benefits

The initial requirements under FRS17 – Retirement benefits are for accounting periods ending on or after 22 June 2001. As with FRS19, where a company produces statutory accounts to a 31 March year-end, the disclosures specified in FRS17 are not required in the regulatory accounts. For companies with a different statutory year-end, regulatory accounts must comply with FRS17 (requirements for accounting periods ending on or after 22 June 2001).

FRS17 sets out additional disclosure and reporting requirements to be applied for accounting periods ending on or after 22 June 2002 and 22 June 2003. FRS17 encourages early adoption of these requirements. For regulatory accounting purposes early adoption of these additional requirements, FRS17 is not permitted.

Reflecting changes in RPI

The relevant measures of changes in RPI to be used in preparation of the 2001-02 current cost accounts are as follows:-

	Year end	Year average
2000-2001 to 2001-2002	1.3	1.5
1999-2000 to 2000-2001	2.3	3.0
1998-1999 to 1999-2000	2.6	1.6
1997-1998 to 1998-1999	2.1	3.2
1996-1997 to 1997-1998	3.5	3.3

The above percentage figures are calculated from the changes in retail price indices of:-

	Year end	Year average
2001-2002	174.5	173.9
2000-2001	172.2	171.3
1999-2000	168.4	166.4
1998-1999	164.1	163.8
1997-1998	160.8	158.8
1996-1997	155.4	153.7

Review of the regulatory accounting guidelines (RAGs)

In RD02/02 – ‘The Review of the regulatory accounting guidelines’ (January 2002) we consulted on a number of changes to the regulatory accounts. We intend to set out our conclusions on the consultation in an RD letter in June 2002. We will issue our revised RAGs at the same time. In RD02/02 we indicated that the revised RAGs will not apply in full until the financial year end 31 March 2003 but that there are some changes which we believe companies could make for the 2001-02 financial year.

One such change is the provision of commentary and explanation of trends to support the accounts. This is one of the recommendations arising from the Inter-Regulatory Working Group¹. It is intended to ensure increased openness and transparency in the accounts and promote greater accountability to customers.

¹ The Inter-Regulatory Working Group comprises of Ofgem, Oftel, Ofwat, Ofreg, ORR, CCA and PSC.

Some responses to RD02/02 - 'The review of the regulatory accounting guidelines' expressed concern that providing such information is a duplication of commentary already provided in the June return. The regulatory accounts are more widely used and are required to be made available to all customers. In addition, some companies provide commentary on a commercial-in-confidence basis in the June return. We want to make this information timely and accessible to all interested parties. The June return information is not publicly available until some eight months after the year-end.

Companies therefore are required to provide commentary and explanation of trends to support the accounts in accordance with the principles set out below. If your company has a 31 March statutory year-end, then you may refer in the regulatory accounts to any relevant information provided as part of your statutory accounts. If, however, your company has a different statutory year-end or produces separate regulatory accounts then you must include all commentary in the regulatory accounts. The commentary should:

- Highlight those areas where there is a material difference from the prior year and give the reason for the difference.
- Explain significant trends in information included in the five-year summary covering not only movements from the prior year but the trend over time.
- Provide details of any atypical amounts, which have occurred during the report year whether or not they are declared as exceptional items. These should include, but are not restricted to, those items highlighted in guidance for Tables 21 and 22 of the June return.
- Comment on the movement in turnover from the prior year and how that relates to price limits and changes in demand for services.
- Explain the amount of dividend paid from the appointed business and the policy underpinning the level of dividend.
- Provide details of changes in the treatment of expenditure, for example classification as infrastructure renewals expenditure rather than operating costs.
- Describe the basis used for any allocation or apportionment of costs and asset values across potential market segments in respect of the analysis required under RAG 4. Highlight any changes in the basis of allocation or apportionment from prior years.
- Give details of amounts paid by the appointed business to charitable funds assisting customers or similar funds. The amount of any such donation and a description of its treatment within the accounts should be provided.

In the consultation paper we indicated that in order to make the regulatory accounts more accessible to users, companies will be required to publish the accounts on their websites. You are required to do so for the 2001-02 year end. Regulatory accounts should be included in your website on the date they are submitted to us.

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The requirement to include the regulatory capital value (RCV) in the accounts will not take effect until 2002-03. However, you are encouraged to consider early adoption and inclusion of the RCV in the 2001-02 regulatory accounts. Where you do wish to include the RCV this year, please contact Tracey Anderson, Head of Regulatory Accounts and Business Affairs Team (tracey.anderson@ofwat.gsi.gov.uk or on 0121 625 1311) to confirm the figures which should be reported.

We also said that auditors will be required to provide copies of engagement letters and details of materiality calculations for their audits this year. We will be writing shortly to each auditor to request this information.

I would be grateful if a copy of this letter could be shown to your auditors.

Yours sincerely

Keith Mason
Director of Regulatory Finance

**Current Cost Profit and Loss Account
for Appointed Business
for the year
ended 31 March**

		2002	2001
Turnover	Note (a)	I	I
Current cost operating costs	(a)	I	I
Operating income	(a)	I	I
		C	C
Working capital adjustment		I	I
Current cost operating profit		C	C
Other income	(b)	I	I
Interest receivable	(b)	I	I
Interest payable	(b)	I	I
Financing adjustment		I	I
Current cost profit before taxation		C	C
Taxation	(b)		
- Current tax		I	I
- Deferred tax		I	I
Current cost profit on ordinary activities		C	C
Extraordinary items	(b)	I	I
Current cost profit attributable to shareholders		C	C
Dividends	(b)	I	I
Current cost profit retained		C	C

I: input

C: calculation

(a): note required; see separate table for further analysis

(b): note required only if different from statutory accounts note

**Current Cost Balance Sheet
for Appointed Business
as at 31 March**

	Note	2002	2001
Fixed Assets			
Tangible assets	(a)	I	I
Third party contributions since 89-90		I	I
Working capital	(a)	I	I
Net operating assets		C	C
Cash & investments		I	I
Non-trade debtors		I	I
Non-trade creditors due within one year		I	I
Creditors due after one year		I	I
Provisions for liabilities & charges:			
- Deferred tax		I	I
- Other provisions		I	I
Dividends payable		I	I
Net assets employed		C	C
Capital and reserves			
Called up share capital		I	I
Share premium		I	I
Profit and loss account		I	I
Current cost reserve	(a)	I	I
Other reserves		I	I
Total capital & reserves		C	C

I: input

C: calculation

(a): note required; see separate table for further analysis

(b): note required only if different from statutory accounts note