

# Information notice

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## Expectations for company reporting 2014-15 – regulatory accounts, accounting separation and performance information

This information notice sets out the way in which we expect the companies to prepare their regulatory information for 2014-15. This includes:

- regulatory accounts;
- accounting separation information; and
- performance reporting information.

### Background

By law – and like any other private limited company in the United Kingdom – each licensed water company in England and Wales must prepare statutory accounts from its financial records every year.

To comply with its licence, each water company must also prepare a yearly financial statement about its regulated business. These are called regulatory accounts. The information that companies provide in their regulatory accounts is checked by independent auditors. In preparing their accounts, companies must follow our

regulatory accounting guidelines (RAGs).

As part of its regulatory accounts, each company has to report the accounts (costs, revenues, assets and liabilities) for the different activities it carries out in delivering services. This is known as accounting separation.

Alongside its regulatory accounts and accounting separation information, we require each company to set out in a yearly statement how it has managed its risks and complied with relevant statutory and regulatory obligations (a 'risk and compliance statement'). Each company also demonstrates how it has performed in the year by publishing a range of key indicators for its customers.

We use all of the information that companies publish – and other forms of intelligence – to consider where there are significant risks to customers and the environment, and whether we need to take any action. We call this our risk-based approach to regulation.

### Regulatory accounts

The current [regulatory accounting guidelines \(RAGs\)](#) will be replaced after the end of the 2014-15 reporting year. We consulted at the end of 2014 on changes to the RAGs which will come into force for the 2015-16 reporting year. We announced our final decisions in [IN 15/01: 'Future company performance reporting and assurance'](#).

Following a consultation in 2013, we published '[Board leadership, transparency and governance principles](#)' for regulated companies in January 2014. This sets out the principles that we expect the companies' Boards to adopt as a minimum. We expect companies to transparently demonstrate how they meet these principles.

### Guidance to auditors

As part of companies' regulatory accounts, independent auditors give an opinion on the regulatory accounts. We set out the full wording of the opinion we require from auditors for 2014-15 in

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

## ['Wording of the regulatory accounts audit opinion 2014-15'](#)

We asked the auditors to perform agreed audit procedures on the 2013-14 retail data and the upstream services information and submit a report to us. For 2014-15 we have reduced the number of procedures that we require.

In [IN15/01: 'Future company performance reporting and assurance'](#), we highlighted that we would be doing further work on proposals for getting water companies to publish more detailed information about their wholesale services. Given the likely changes in this area we do not require any procedures to be performed on the existing upstream services information. We have also focused the procedures to be performed on the retail tables on key areas.

Companies and auditors need to ensure that these procedures are included in engagement letters for the audit work for 2014-15 as set out in ['Audit procedures for retail cost analysis 2014-15'](#).

## [Small company regulatory accounts information requirements](#)

Small companies are those with a turnover of less than £6.5 million in 2014-15.

We have incorporated the relevant information requirements for small companies into section 4 of RAG 3.07. Small companies should also refer to RAG 4.04 for guidance on line definitions.

For small companies that wish to submit their return using our Excel

template, please use ['RAG 3 Small company return'](#).

## [Accounting separation information](#)

### [Guidance clarifications](#)

To help all users to compare companies' retail cost information, in February 2014 we clarified the definitions companies should use in preparing their 2013-14 accounting separation information. Companies should use these same clarifications in preparing their 2014-15 accounting separation information. ['Accounting separation guidance clarifications'](#) is available from our website. To confirm, for 2014-15 reporting companies should continue to follow the cost allocation guidance used for 2013-14 and not the guidance produced for PR14 or that contained in the new RAGs.

### [Methodology statement](#)

Each company must publish on its website an accounting methodology statement and accompanying commentary at the same time as its regulatory accounts. ['Disclosure requirements for companies' accounting separation and upstream services data methodology statements 2013-14'](#) remains relevant and is available on our website.

### [Trial of cost allocation to upstream services](#)

We are continuing to ask companies to publish extra information about their costs in

delivering the less customer-facing ('upstream') services they deliver as part of a trial. For 2014-15, we require companies to:

- complete a form with their upstream services data and publish it along with a methodology statement and commentary on their website; and
- report the main factor causing changes to their costs ('cost drivers') for each of the upstream services they provide. Each company has the flexibility to choose the cost driver it decides is the most appropriate for each service. Companies should also explain in their commentaries why the cost drivers they have chosen are the most appropriate. Where the most appropriate cost driver information is not available we expect companies to use the next most appropriate and explain their reasoning.

The upstream services form can be found in ['Upstream services definitions and form for providing data 2014-15'](#), which is available on our website. The definitions for each data item are the same as in 2012-13 and 2013-14.

## [Performance information](#)

This year we have made no changes to our guidance for companies on:

- [preparing their risk and compliance statement](#); and
- [reporting their performance against their indicators](#).

As they did last year, companies can choose how they explain their

performance to their customers and other stakeholders. We expect each company to clearly set out:

- how it has performed;
- its risks; and
- how it has dealt with them.

We expect companies to bring to our attention risk and performance issues that they identify as they arise. Where we find issues that companies have not made us aware of we will take action. This may include taking formal action, in line with our [approach to enforcement](#).

## Publication and submission

### Performance information

By 15 July 2015 each company will need to send us its risk and compliance statement and publish it on its website, as well as publish its key performance information. Companies should send the website links to these documents and one signed copy of their risk and compliance statement to [riskandcompliance@ofwat.gsi.gov.uk](mailto:riskandcompliance@ofwat.gsi.gov.uk). We will then update the relevant information on our website.

### Regulatory accounts and accounting separation information

As soon as possible after the end of the financial year, and at the latest by 15 July 2015, each company will need to publish its regulatory accounts information on its website. This includes its:

- regulatory accounts;
- accounting separation methodology statement and

accompanying commentary; and

- upstream services form, methodology statement and accompanying commentary.

As soon as it is published, we expect each company to:

- provide us with an electronic link to where this information is held on its website so that we can publish a link to it on our website; and
- send us electronic copies of its:
  - regulatory accounts;
  - statutory accounts (if not bound with the regulatory accounts); and
  - UK holding company accounts (where the ultimate owner is an overseas company).

Please send electronic copies to [regulatory.accounts@ofwat.gsi.gov.uk](mailto:regulatory.accounts@ofwat.gsi.gov.uk). Small companies should also submit their statutory accounts and associated statements to this address.

## Enquiries

If you have any questions about this information notice or any of our requirements, please send them to [regulatory.accounts@ofwat.gsi.gov.uk](mailto:regulatory.accounts@ofwat.gsi.gov.uk).

## More information

[Risk-based approach to regulation](#) web page

[IN 15/01: 'Future company performance reporting and assurance'](#), February 2015

[Regulatory accounting guidelines \(RAGs\)](#) web pages

[Board leadership, transparency and governance principles](#) web page

['RAG 3 Small company return'](#), Excel template

['Wording of the regulatory accounts audit opinion 2014-15'](#), March 2015

['Audit procedures for retail cost analysis 2014-15'](#), March 2015

['Accounting separation guidance clarifications'](#), February 2014

['Disclosure requirements for companies' accounting separation and upstream services data methodology statements 2013-14'](#), February 2014

['Upstream services definitions and form 2014-15'](#), March 2015

[Key indicators – guidance](#) web page

[Risk and compliance statement guidance](#) web page

[Our approach to enforcement](#) web page

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