

Information notice

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Revised regulatory accounting guidelines and regulatory accounts reporting requirements for 2012-13 and onwards

Introduction

The regulatory accounts are yearly financial statements the water companies make about their regulated business. To comply with its licence, each company must prepare a set of regulatory accounts, which are examined by independent auditors.

In this information notice, we set out the way in which we expect the companies to prepare their regulatory accounts for 2012-13 and onwards using the revised regulatory accounting guidelines (RAGs) below.

This information note supersedes information note 'IN12/01: [Regulatory accounts reporting requirements for 2011-12 and onwards](#)'.

Consultation on changes to the regulatory accounting guidelines

In July 2012, we published our '[Consultation on changes to the regulatory accounting guidelines \(RAGs\)](#)'. The consultation closed on 31 October 2012. The revised RAGs will come into force for the year ended 31 March 2013.

We have published the revised RAGs now so that the companies can refer to them as they prepare their 2012-13 regulatory accounts. But we are still considering some issues following the consultation, so we will shortly publish an update with:

- definitions of upstream services;
- upstream services pro forma table for 2012-13;
- a responses summary document that summarises the responses we received to our consultation and how we have responded to these; and
- an impact assessment for the changes to the RAGs.

Revised regulatory accounting guidelines (RAGs)

- RAG 1.05 – Guideline for accounting for capital maintenance charges and current costs
- RAG 2.04 – Guideline for classification of capital expenditure
- RAG 3.07 – Guideline for the format and disclosures for the regulatory accounts
- RAG 4.04 – Guideline for the regulatory accounts tables
- RAG 5.05 – Guideline for transfer pricing in the water and sewerage sectors

Accounting separation methodology statement

Each company must publish on its website an accounting separation methodology statement and accompanying commentary at the same time as its regulatory accounts. It is for companies to decide what level of detail to include to enable users to

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

understand the basis against which the separated accounts have been prepared. As a minimum we would expect companies to include:

- cost allocation bases (costs drivers) and any changes year on year;
- a breakdown of the recharges paid to and received from other business units for the use of fixed assets;
- significant changes in costs in the year;
- details of processes and systems and any changes year on year;
- how companies have applied the principles set out in RAG4;
- any additional analysis or adjustments made to the data from the systems;
- an explanation of the allocation basis used for each line of the table, why these allocation bases are considered appropriate and how management is satisfied that they are reasonable; and
- improvements that have been made to methodology in the year and any planned improvements in the coming year.

Fixed assets

Section 2.2 of RAG 4.04 states that assets that are used in more than one business unit should be recorded in the unit of principal use with recharges made by the other business units that use that asset. For 2012-13, we only require assets used by both wholesale and retail to be recorded in the area of principal use with recharges made by the other. Wholesale assets should

then be reported in either the water or sewerage service area of principal use.

General and support assets should continue to be allocated between business units.

Retail assets should continue to be allocated between household and non-household.

Companies can choose to record more assets in the business unit of principal use. If they do so then they will need to detail which assets this applies to in their methodology statement.

Regulatory accounts – reporting for 2012-13 and onwards

New RAGs will need to be in place for 2015-16 when international accounting standards (IFRS) will come into force for all companies. The RAGs will also be amended to cover the approach to transactions between business units within the appointed business. So the revised RAGs that we are issuing for 2012-13 are a ‘stop gap’. We have already started thinking about the transition to IFRS. We have met with Water UK and over the coming months we will be meeting with HMRC and continuing to meet with the [regulatory accounts working group](#). We will use these meetings to inform the development of the new RAGs in time for UK GAAP harmonisation with IFRS.

Interested stakeholders can also help us with the transition to IFRS by responding to [our questionnaire](#). We welcome

responses from companies and, for questions 5, 6 and 8, from other stakeholders too. We do not intend to publish any responses to the IFRS questionnaire. We will use the responses to help inform our discussions with Water UK and at the regulatory accounts working group.

We recognise that some companies may wish to adopt IFRS early in their statutory accounts. Companies deciding to do this will adopt either the reduced disclosure requirements of FRS 101 (if they meet the qualifying criteria) or FRS 102. Where a company chooses to adopt IFRS early for its statutory accounts, it will still need to prepare its regulatory accounts based on the UK GAAP framework that existed before FRS 101 and 102.

Where a company decides to adopt IFRS early, it should contact Robert Lee, Principal Accountant, Regulatory Accounts, at robert.lee@ofwat.gsi.gov.uk.

Publication and submission

For 2012-13, we expect each company to publish its regulatory accounts and accounting separation methodology statement on its website, as soon as possible after the end of the financial year, and at the latest by 15 July 2013. When it does so, we expect the company to provide us with an electronic link to where this information is held on its website. This will allow us to provide a link to all the companies’ information on our website.

When a company publishes its regulatory accounts, it will need to send us electronic copies of the:

- 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.

Where a company has a statutory year-end different from 31 March, please remember to send us links to your statutory accounts when available.

Guidance to auditors

The auditors give an audit opinion on the regulatory accounts. The full wording of the audit opinion that is required as part of the regulatory accounts is set out in '2012-13 Regulatory accounts audit opinion'.

The revised regulatory accounting guidelines require companies to include operating cost analysis and analysis of fixed assets between retail and wholesale business units. So, this analysis will be subject to audit for the first time under the requirements for the auditors to provide an opinion on the regulatory accounts. We accept that auditors will set materiality in the context of

regulatory accounts as a whole, as opposed to individual components such as operating cost analysis. But we consider that the analysis of operating costs and fixed assets between retail and wholesale is material, given that we will use this information in the assessment of future prices determined under the 2014 price review.

Small company regulatory accounts information requirements

We have incorporated the relevant information requirements for small companies (turnover less than £6.5 million) into section 4 of RAG 3.07. Companies should also refer to RAG 4.04 for guidance on line definitions.

Companies that fall within the 'small' threshold should submit statutory accounts containing associated statements as required, for example:

- F6A certificate of financial resources; and
- a statement on links between directors' pay and standards of performance.

Please submit these electronically to regulatory.accounts@ofwat.gsi.gov.uk.

For companies who wish to submit their return using our Excel template, please follow this link: [RAG 3 Small company return](#).

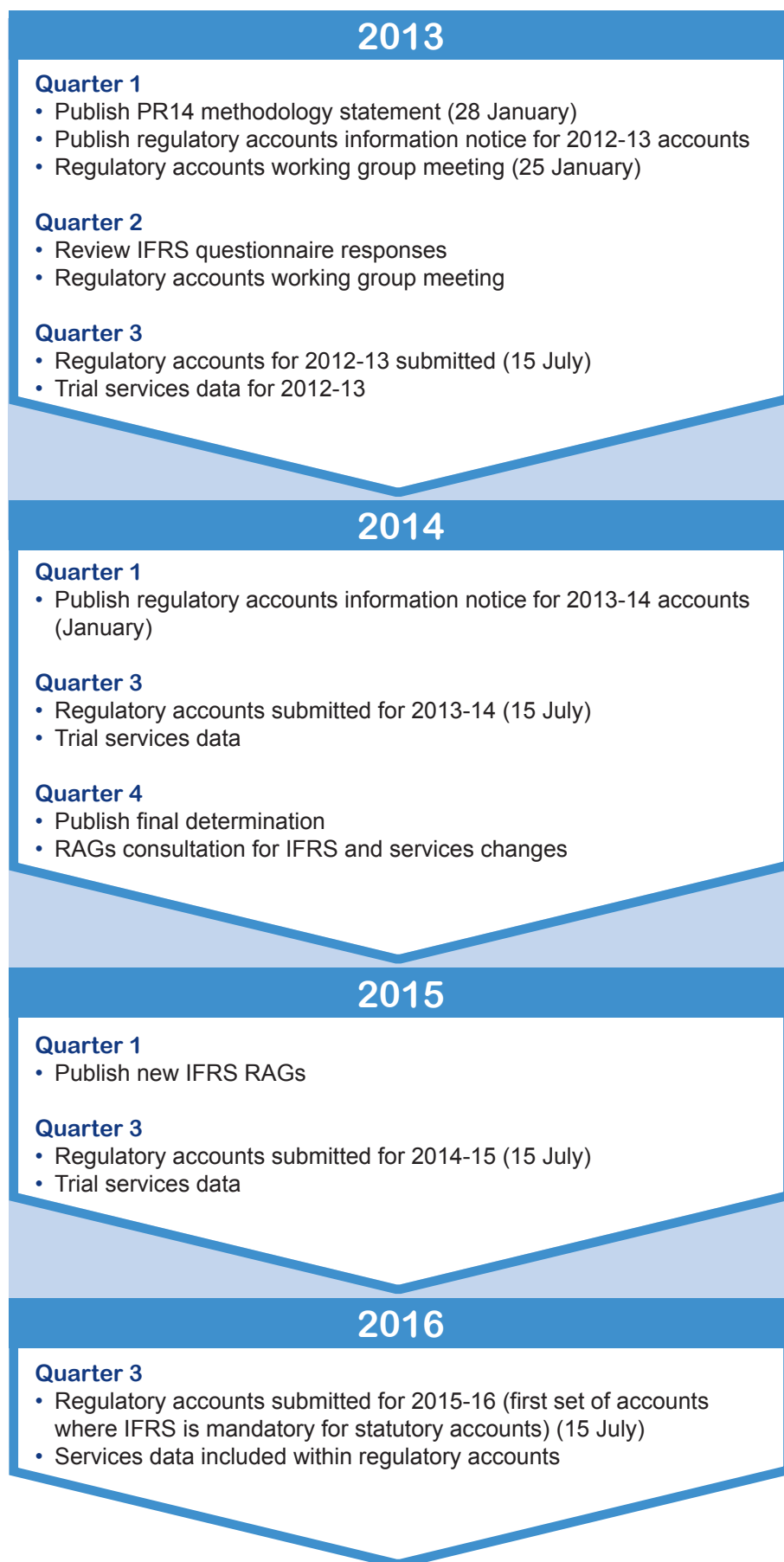
Future reporting developments

The timeline in figure 1 shows the key milestones in the transition towards introducing RAGs that are aligned with IFRS.

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.

Figure 1: Future reporting requirements



More information

'Consultation on changes to the regulatory accounting guidelines (RAGs)', July 2012

'2012-13 Regulatory accounts audit opinion'

'2013 IFRS questionnaire'

'RAG 3 Small company return'

This information notice has been amended since first publication



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