

# **RAG 3.12 – Guideline for the format and disclosures for the annual performance report**

## **Consultation version**

## Contents

1. Explanatory note	2
2. Accounting statements	3
3. Accounting disclosures	6
4. Narrative disclosures on performance	17
5. Small company information requirements	26
6. Transactions with associates and the non-appointed business	28
Appendix 1: Pro forma tables	32
Appendix 2: Accounting methodology statement	35
Appendix 3: Basis for requesting information	37

Consultation

## **1. Explanatory note**

### **1.1 Introduction**

- 1.1.1 Water companies are required to prepare a set of regulatory accounting statements in each twelve month period ending on 31 March. Condition F of the companies' licences (as modified and effective from 1 March 2019), sets the purpose and framework for the regulatory accounting guidelines (RAGs) and the checks and balances associated with them, but omits any specific detail as that detail is already contained in RAG 3.
- 1.1.2 Condition F makes it clear that the requirements in the RAGs must be complied with, albeit within the scope and purpose set by Condition F as a whole. Within the published RAGs there are some matters which are outside the framework of Condition F. One example of this is information required on outcomes performance. We are, however, able to require the provision of this information, with the form and content set out, under other conditions in the licence. In order to help people understand the basis on which we require information we include within RAG 3 Appendix 3 the basis for requesting information.

### **1.2 Annual information notice 'Expectations for monopoly company annual performance reporting'**

- 1.2.1 Ofwat will publish an information notice annually. This will include any required amendments to RAG3 required for the upcoming reporting year. If any new accounting standards mean that a departure from UK GAAP is necessary it will be covered in this notice.

## **2. Accounting statements**

### **2.1 Accounting statements**

#### **Condition F requirements**

2.1.1 Under paragraph F2 of Condition F we require all appointees to prepare accounting information as set out in the RAGs. That requirement is set out in this guideline.

#### **Pro forma tables**

2.1.2 We require that regulatory accounting statements should be prepared in accordance with the formats, accounting policies and principles which apply to the statutory annual accounts of the appointee.

2.1.3 The information in the regulatory accounting statements must be provided in a common format for all companies and with a 31 March year end. The pro forma tables for the submission of data are included in Appendix 1.

2.1.4 Table 4B (Analysis of debt) is not required to be included as part of the APR but must still be prepared in accordance with these RAGs and submitted to Ofwat.

### **2.2 Publication of accounting statements**

#### **Reports to be delivered**

2.2.1 Appointees should submit the following documents to Ofwat:

- ultimate UK holding company accounts (whether this is an ultimate holding company or an intermediate holding company as part of an overseas group of companies);
- annual performance report including the regulatory accounting statements; and
- statutory accounts (if not bound with the annual performance report).

2.2.2 We require the appointee to deliver to Ofwat a copy of the annual

performance report (including regulatory accounting statements and auditors reports prepared under Condition F) as soon as reasonably practicable and in any event **not later than 15 July** following the end of the financial year to which they relate. Appointees can submit electronic copies by email to Ofwat.

2.2.3 Companies may refer in the annual performance report to any relevant commentary provided as part of the latest available statutory accounts. A clear cross-reference and link needs to be provided.

## Website publications

2.2.4 Companies should publish their annual performance report on their websites at the same time as the report is submitted to Ofwat.

2.2.5 Companies should publish the ‘accounting methodology statement’ on their websites. They may include this statement in the annual performance report but there is no specific obligation to do so. The required contents of the methodology statement are set out in Appendix 2.

## 2.3 Audit

### Auditors’ reports

2.3.1 We require auditors to address reports to Ofwat concerning:

- accounting records; and
- accounting statements.

As a minimum the audit opinion should cover the pro forma tables in section one and section two of the annual performance report.

2.3.2 The required wording of the audit opinion will be set out in our annual information notice on the annual performance report.

### Further information required from auditors

2.3.3 The licence requires that the contract of appointment with the auditors contains a term ‘that the auditors will provide such further explanation or clarification of their reports, and such further information in respect of the

matters which are the subject of their reports, as Ofwat may reasonably require.'

## **2.4 Definition of the appointed business**

2.4.1 The licence separates the activities of an appointee into appointed and non-appointed activities.

2.4.2 Appointed activities are those activities that are necessary in order for an appointee to fulfil the functions and duties of a water and sewerage undertaker. Appendix 1 in RAG4 sets out more information on appointed and non-appointed activities. Companies should discuss areas of difficulty, in advance of preparing the accounts, with Ofwat.

Consultation

## **3. Accounting disclosures**

### **3.1 Disclosures required in the annual performance report**

3.1.1 Companies shall include:

- a statement on executive pay and performance;
- a statement as to disclosure of information to auditors;
- a statement on dividend policy for the appointed business;
- an accounting policy note for price control units;
- a note on revenue recognition;
- a note on capitalisation policy;
- a note on bad debt policy;
- a statement on sufficiency of non-financial resources;
- a statement on sufficiency of financial resources and facilities;<sup>1</sup>
- the tax strategy for the appointed business;
- a statement on differences between statutory and RAG definitions;
- a long term viability statement;
- a statement explaining out/under performance of the return on regulatory equity (Financial Flows and RORE);
- a statement explaining the variance on infrastructure network reinforcement charges; and
- a statement on innovation competition.

### **3.2 Statement on executive pay and performance**

#### **Background**

3.2.1 The disclosure requirements, commitments and expectations are set out in Section 35A of the Water Industry Act 1991, 'Putting the sector in balance' position statement published in July 2018, PR19 final determination: Aligning risk and return technical appendix and our Board leadership, transparency and governance principles published in January 2019<sup>2</sup>. Given the public service nature of the water sector, it is important that water companies are transparent about performance related executive pay and how it aligns to

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<sup>1</sup> If, as we anticipate, we modify the ring-fencing provisions in companies' licences, the statement on sufficiency of non-financial resources and statement of sufficiency of financial resources and facilities will become one document referred to as the Ring-fencing Certificate.

<sup>2</sup> [Board leadership, transparency and governance – principles](#)

delivery of services to customers.

## Disclosures

- 3.2.2 Section 35A of the Water Industry Act 1991 contains a requirement for companies to make a statement to Ofwat at the end of each financial year, regarding links between directors' pay and standards of performance. The annual performance report should contain this statement.
- 3.2.3 The statement should detail any arrangements linking the remuneration of the directors of the company to standards of performance in connection with the carrying out of functions of a relevant undertaker. It should cover any person who has been a director of the company at any time and received remuneration during the financial year. Remuneration means any form of payment, consideration of other benefit (including pension benefit).
- 3.2.4 Our PR19 final determinations set out our expectations for reporting on Executive pay and performance over 2020-25. Companies should disclose how it has applied the executive pay policy in the year including how bonuses have been calculated. Also where appropriate, any changes to the policy including the underlying reasons for the change.
- 3.2.5 The disclosure statement should cover the requirements set out in the Water Industry Act 1991 and address the expectations set out in our PR19 final determinations and include:
- The date the arrangements were made;
  - a description of all performance targets and the standards of performance in question;
  - an explanation of the purpose of linking each particular ~~target~~ standard of performance to remuneration;
  - a description of the targets set for each standard;
  - an explanation of how all the standards of performance are assessed and the source of the data;-
  - an explanation of:
    - whether targets were achieved or not;
    - how the remuneration was calculated for each standard; and
    - details of the amounts paid to all individual directors;
  - a description of each performance target and how it demonstrates alignment to the delivery of service to customers;
  - how the company ensures performance targets are stretching;

- an explanation of how all the targets are monitored and assessed and the source of the data and an explanation of how the company has ensured the policy has been rigorously applied;
- a description of any gateway or underpin arrangements or other conditions that must be met in order for a bonus to be awarded including an assessment of the performance of each arrangement;
- an explanation of the role of the remuneration committee in developing, implementing and monitoring performance related pay policies, including how the committee will ensure that targets remain stretching and aligned to delivery for customers; and,
- an explanation of any changes made or proposed to the policy, including the underlying reasons for the change.
- an explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and rigorously applied.

3.2.6 Where a policy applies at a group level, we expect the policy to take account of the position of each regulated company within the group. We expect that where directors have shared responsibilities within the group the policy should clearly explain how it applies to each regulated company. We also expect that the customers of each regulated company within the group only contribute to any bonus payments if the performance targets for its company are met, thereby demonstrating that the policy takes account of the service delivered to the customers of each regulated company within the group.

3.2.7 Companies will need to consider how the information provided under this section 3.2 of this guideline may help them demonstrate they are meeting the board leadership and transparency objective of our Board leadership, transparency and governance principles and how best to reference this when explaining how they have met the objective.

### **3.3 Statement as to disclosure of information to auditors**

3.3.1 Section 418 of the Companies Act 2006 requires each director to make a statement in the accounts that:

- a) so far as the director is aware, there is no relevant information of which the company's auditors are unaware; and
- b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of the

information.

3.3.2 Typically this is included in the directors' report for statutory purposes. Ofwat requires this statement to be made in companies' annual performance reports.

### **3.4 Statement on dividend policy and explanation of dividends paid**

#### **Background**

3.4.1 The disclosure requirements are set out in either licence condition P8 or I12, 'Putting the sector in balance' position statement published in July 2018, PR19 final determination: Aligning risk and return technical appendix and our Board leadership, transparency and governance principles.

3.4.2 Appointees are required by either condition P8 or I12 to have in place a dividend policy that complies with the following principles,

- that dividends declared or paid should not impair the ability of the appointee to finance the appointed business; and
- that dividends should be an incentive which is expected to reward efficiency and the management of economic risk.

3.4.3 We set out our expectations for dividend policies for 2020-25 in our PR19 final determinations.<sup>3</sup> This includes the factors companies should take into account in the design and application of dividend policies and our assessment of a reasonable base dividend. It is important that customers and wider stakeholders can understand how decisions companies make about total dividends declared or paid reflect delivery to customers and their wider obligations.

#### **Disclosures**

3.4.4 Conditions P8 and I12 require the appointee to ensure that any dividends are declared or paid in accordance with the current dividend policy.

3.4.5 Our PR19 final determinations set out our expectations for reporting on dividends over 2020-25. In summary, we expect companies to:

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<sup>3</sup> See section 9.1 of [PR19 final determinations: aligning risk and return technical appendix](#).

- set out details underpinning their approach to dividends and factors that influence dividends transparently in their published dividend policy;
- set out how their approach takes account of delivery for customers;
- ensure that their dividend policy is clearly set out in the annual performance report and is consistent with all other narrative in relation to dividend policy or dividends declared or paid within the remainder of the annual performance report, within the statutory accounts and within any other publication, and,
- clearly signal any changes to their dividend policy in their annual performance report.

3.4.6 When explaining dividends declared or paid, we expect each appointee to explain how its base dividend and any adjustment to it (including any dividend paid by the appointee for any reason, including dividends paid to a holding company to allow it to pay interest on an intergroup loan from the appointee) takes account of all relevant factors in respect of the appointee's wider obligations and responsibilities, and to demonstrate that the final dividend takes account of the interest of customers. In all cases, we expect companies to clearly justify and be transparent about dividend payments, explaining all factors that have been taken into account. We expect companies to:

- set out how total dividends declared or paid have been determined and how they are consistent with the appointee's dividend policy; and
- clearly explain and provide justification for any deviations from the policy.

3.4.7 Where companies pay dividends to holding companies which offset amounts of interest receivable under intergroup loan arrangements, they should separately provide a description of the arrangement and the amounts paid and received in the year. This should be linked with the disclosures required for transactions with associates detailed in paragraph 7.2.

3.4.8 The board leadership and transparency objective of our Board leadership, transparency and governance principles sets out a guiding provision that companies should publish an explanation of dividend policies and dividends paid. Companies will need to consider how the information provided under section 3.4 of this guideline may help them demonstrate they are meeting

the objective and how best to reference this when explaining how they have met the objective.

### **3.5 Accounting policy note for price control segments**

3.5.1 Companies must include an accounting policy note for price control units which are disclosed in section 2 of the annual performance report. This should summarise the basis of the allocation of operating costs and assets and any major changes in the year. Companies should state that the accounts have been drawn up in accordance with RAG2 – Guideline for classification of costs across the price controls. They should also refer to the accounting methodology statement and provide a reference to this document.

### **3.6 Revenue recognition note**

3.6.1 The revenue recognition note should cover the following.

- A description of any adjustments between amounts recorded as turnover in the statutory accounts and amounts recorded as turnover in the regulatory accounting statements. This should be split between adjustments relating to IFRS15 deviation and any other adjustments.
- Whether or not the company bill void properties speculatively, that is to 'the occupier'. If so, it should confirm that this bill is then recorded in turnover.
- If the company does not speculatively bill, how it checks that the property is indeed unoccupied. It should also describe how it ascertains the identity of any occupier.
- A description of steps that the company takes to establish whether properties with no occupier information are void or occupied, e.g. visits to properties or searches using third party electronic data such as council tax/electoral roll records.
- Any changes in methodology in calculating the measured income accrual.
- Any significant differences between a retrospective review of the previous years measured income accrual and the amounts actually billed in the year.

### **3.7 Capitalisation policy note**

3.7.1 Companies should explain the basis for capitalising costs. Companies should also clearly state any general rules which have been used (e.g. a rule requiring the capitalisation of any expenditure on a physical asset greater than £100). Companies should also detail any changes in judgements, apportionments or adjustments since the prior year, including changes to their capitalisation policies.

### **3.8 Bad debt note**

3.8.1 Companies should set out details of their write-off policy and explain any changes from the prior year in their policies, procedures or practices in relation to write-offs along with the reasons for any changes.

3.8.2 Where a change in write-off policy (including 'house-keeping' exercises) results in a material change in the level of reported write-off, companies should explain whether this level is likely to continue in future years or is being reported as an atypical cost in this reporting year only.

3.8.3 Where a change in the bad debt provisioning policy results in a material change in the bad debt charge, companies should explain the reasons for the movement. The effect of any changes should be quantified.

3.8.4 Where there has been significant movement in the trade debtor balance companies should explain the reasons for the movement. This should refer to outstanding customer debt and the bad debt provision.

### **3.9 Sufficiency of non-financial resources**

3.9.1 The annual performance report should also contain a statement as to whether the appointee was in compliance with either paragraph 3.1 of Condition K or, in some licences, paragraph 4.2 of Condition P at the end of the financial year.

### **3.10 Ring-fencing certificate or certificate of adequacy**

3.10.1 The annual performance report should contain a ring-fencing certificate or certificate of adequacy as required by and detailed in Condition P9 or Conditions I13 to I25.

3.10.2 These provisions require companies to submit at the same time as the regulatory accounting information, a certificate from the Board of Directors (“the Board”) stating that the appointee will have available to it sufficient financial resources and facilities and sufficient management resources and systems (or methods) of planning and internal control to enable it to carry out its regulated activities, for at least twelve months following the date on which the certificate is submitted to Ofwat.

3.10.3 Depending on the specific provisions relating to the ring-fencing certificate or certificate of adequacy set out in each appointee’s licence, most companies are required to:

- confirm that in the opinion of the Board all contracts entered into with any associated appointee include all necessary provisions and requirements concerning the standard of service to the appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker;
- submit with each certificate a statement of the main factors which the Board has taken into account in giving that certificate;
- provide a report prepared by the appointee’s auditors and addressed to Ofwat, stating whether they are aware of any inconsistencies between the certificate and the financial statements or any information obtained in the course of their work; and
- inform Ofwat in writing if the Board becomes aware of any circumstances which would change its opinion as set out in the certificate or mean the certificate could not be repeated in light of the circumstance.

### **3.11 Tax Strategy for appointed business**

3.11.1 The Finance Bill 2016 introduced the requirement for large companies to publish their tax strategy annually. We are also requiring all companies to publish details of their tax strategy (relating to the appointed business) within the annual performance report. The tax strategy should cover the following key areas:

- The approach to risk management and governance arrangements;
- The attitude of the company towards tax planning;
- The level of tax risk that the group is prepared to accept; and
- The approach of the company towards its dealings with HMRC.

References and links may be made to tax strategies published in the

statutory or group accounts as appropriate.

### **3.12 Differences between statutory and RAG definitions**

3.12.1 Pro formas 1A, 1B, 1C and 1D all have a column to report any resulting differences between statutory and regulatory definitions on a line by line basis. Where any individual values recorded in these lines are considered material then a narrative explanation should be provided on what these differences relate to.

3.12.2 Companies should provide a reconciliation between the total borrowings figures included in the statutory accounts and the borrowings shown in the regulatory accounts with a brief explanation of the reasons for the differences.

### **3.13 Long term viability statement**

3.13.1 Companies and their management are responsible for ensuring that they are financially resilient. We expect companies to include a statement in their annual report which confirms that they are financially viable over the longer term. Companies should take account of the requirements of the UK Corporate Governance Code, when preparing their statement.

3.13.2 We expect companies to prepare and stress test a forward looking business plan in a robust manner and to consider the financial viability of the appointee over an appropriate forward looking period. Companies are responsible for determining the period over which they make their assessment, however justification for the choice will be required. We do not consider the period of the price control to constrain the period over which financial resilience should be assessed and as part of the PR19 process, all companies committed that their assessment of financial resilience will extend beyond the period of the price control. Companies are responsible for determining the appropriate level of stress testing they undertake. Companies are also responsible for determining the level of third party assurance that they believe to be appropriate to ensure the quality and robustness of their statements.

3.13.3 We expect companies to include a clear and unambiguous statement in their annual performance report which sets out the steps that company Boards have undertaken to assess the long term financial viability of the company and evidences how they have concluded on the long term financial viability of the company. We do not expect companies to publish information that is commercially sensitive, but we do expect the statement to clearly set out the

approach taken, explain the details and severity of the stress tests undertaken and evidence consideration of any concerns arising from the stress testing, including detail of mitigating actions proposed. We also expect the statement to provide a suitably robust justification for the approach undertaken, the selection of the sensitivities assessed, the forward looking period considered and the extent to which (if any) third party assurance has been used.

3.13.4 If companies publish the same statement in the statutory accounts and this is published simultaneously with the annual performance report then it need only be included in the statutory accounts with a suitable cross reference in the annual performance report.

### **3.14 Return on regulatory equity**

3.14.1 We expect companies to include a statement which explains RoRE performance compared to the base RoRE set at the last price review. Companies should identify and quantify the key components of the out/under performance. RoRE should be presented for both the reporting year and for the period to date, calculated on an arithmetic average basis for the period from the start of the control period.

### **3.15 Infrastructure charges**

3.15.1 We expect companies to include a statement which explains the variance between revenues and costs arising from providing infrastructure network reinforcement for developers, which is proportionate to its value. The variance is calculated over a rolling five-year period, as set out in the definition of terms in RAG4.

### **3.16 Innovation competition**

3.16.1 We expect companies to provide a breakdown of their innovation competition spend to explain how activities and expenditure comply with the terms of any innovation competition funding decision, including clarification that innovation competition funding is not being used to fund business as usual activities funded through totex.

3.16.2 Where companies have recovered revenue from customers for the purposes of the innovation competition but this revenue has not been paid into the innovation competition fund in full, we will require full justification from the companies.

Consultation

## **4. Narrative disclosures on performance**

### **4.1 Outcomes**

- 4.1.1 Companies should provide narrative commentary explaining how the information reported in pro forma 3A relates to the information on outcome performance it has published and reported to its customer challenge group or similar body and customers more generally.
- 4.1.2 Companies should provide narrative commentary where it thinks forecasting a reward or penalty in column 3A.6 would be inappropriate for a particular performance commitment. The commentary should explain why a forecast would be inappropriate.

### **4.2 Totex**

- 4.2.1 Narrative commentary should be provided on any difference between the actual and allowed totex values disclosed in section 4. Separate commentary should be provided for both water and wastewater.
- 4.2.2 Commentaries should make reference to the following areas (this is not an exhaustive list):
- efficiency savings;
  - changes resulting from expenditure being delayed or brought forward;
  - expenditure on outputs which are not included in the PR19 baseline; and
  - other changes.
- 4.2.3 Where actual totex includes costs which the company believes to be exceptional or atypical, these should be disclosed separately in the commentary. The commentary should highlight clearly relevant links between the narrative on outcome performance and delivery and the totex costs reported in the year.
- 4.2.4 Where companies have recharges between business units in respect of the 'principal use' of assets then the nature and extent of these charges should be included in the commentary. Companies should not duplicate text included in the accounting methodology statement.

## 4.3 Retail

4.3.1 Narrative commentary should be provided on any material difference between the values reported in lines 2C.12 (total operating costs) of pro forma 2C and the retail revenues allowed in price limits for 2015-20. Separate commentary should be provided for household and non-household retail.

4.3.2 Commentaries should make reference to the following areas (this is not an exhaustive list):

- efficiency savings;
- changes in customer numbers;
- changes in metering levels;
- material one-off / atypical items of expenditure; and
- other changes.

## 4.4 Wholesale revenues

4.4.1 Narrative commentary should be provided on the difference between allowed and actual revenue under the wholesale control disclosed in pro forma 2I. Companies should explain any subsequent consequences of any variations in revenue for future periods.

4.4.2 Commentaries should make reference to the following areas (this is not an exhaustive list):

- Changes in metering levels;
- Changes in customer demand;
- Numbers of customers;
- Number of new connections; and
- Number of void properties.

4.4.3 Following the commencement of the competitive retail market (on 1 April 2017), companies should disclose both the income and the payments relating to 'performance charges'. It is not sufficient for companies to disclose the net set-off position.

## 4.5 Current tax analysis

4.5.1 An analysis is required of the appointed current tax charge or credit reported in line 1A.12 comparing this to that charge or credit resulting from applying the

standard corporation tax rate to the profit or loss on ordinary activities for the appointed business before tax and any fair value movements as shown in table 1A. There should be no netting off of material positive or negative amounts.

4.5.2 The analysis should make reference to the following areas (this is not an exhaustive list):

- Prior year adjustments
- Impact of group relief; including any amounts paid for these – these transactions should also be disclosed in the transfer pricing table template (see sections 6.2 and 6.3)
- Adjustments for fair value gains / losses subject to tax

## **4.6 Current tax reconciliation**

4.6.1 A reconciliation is required to explain any significant variations between the appointed current tax charge or credit reported in line 1A.12 for the appointed business to the total current tax charge allowed in price limits. The reconciliation should quantify the £m difference relating to each particular area and narrative should be provided to explain at a high level the circumstances which led to the difference arising. Where there have been legislative changes that have impacted, eg changes to capital allowance rates, then these should be highlighted separately to the related revenue or expenditure impacts, such as lower totex expenditure due to efficiencies.

4.6.2 The reconciliation should make reference to the following areas (this is not an exhaustive list):

- Prior year adjustments
- Impact of group relief; including any amounts paid for these – these transactions should also be disclosed in the transfer pricing table template (see sections 7.2 and 7.3)
- Effect of corporation tax rate changes
- Capital allowances
- Interest
- pensions

4.6.3 Details of factors affecting future tax charges should be given.

## 4.7 Interest

4.7.1 Analysis is required of the appointed interest expense reported in 1A.7 and the appointed other interest expense reported in 1A.8. The breakdown should provide detail of the components which make-up the interest figure, not the interest attributable to each debt instrument. Interest charges arising in relation to the recognition of **direct procurement for customers** (DPC) arrangements under IFRS16 should be separately disclosed.

4.7.2 The breakdown should make reference to the following areas where applicable (this is not an exhaustive list):

- Interest charged on external borrowings, excluding those relating to DPC arrangements
- Interest payable on intra-group borrowings
- Interest charges in relation to DPC arrangements under IFRS16
- Interest payable in relation to other leases under IFRS16
- Amortisation of debt issuance costs
- Amortisation of any debt premiums/discounts
- Interest paid in relation to pension scheme liabilities
- Preference share dividends
- Any other financing costs/ interest charges

## 4.8 Financial flows

4.8.1 Information reported on financial flows aims to improve the transparency concerning financial flows to the appointee's investors. This requires a clear comparison between the actual financial flows to investors under the actual capital structures that companies have adopted and what they would have been under the notional capital structure used in our determinations.

4.8.2 We expect companies to provide a supporting narrative to fully explain and highlight the key features of the analysis. This narrative should aid the understanding and interpretation of the data and is a key element in improving transparency. In particular,

- 1F.5 'Gearing' and 1F.9 'Cost of debt (adjusted for hedging instruments)': if the company considers that a weighted average is more accurate in the calculation, a narrative explanation must be provided;
- 1F.17 'Other exceptional items': if the line is used then the company

must include an appropriate and clear supporting narrative of the associated transaction(s);

- 1F.21 'Voluntary sharing arrangements': The table narrative should include an explanation of each arrangement and payment made.

## **4.9 Wastewater volumes**

4.9.1 Table 4E requires companies to enter non-financial information that enables high level unit costs (operating expenditure) to be derived for wholesale wastewater. The sum of three lines in 4E.25 (volume collected for foul, surface water and highway drainage) gives the total volume of wastewater collected. If there is a variance between this sum and the value given for 4R.13, companies should include narrative commentary explaining the variance and the methodology used to derive the reported data.

## **4.10 Narrative on costs**

4.10.1 The lines in Tables 4L and 4M generally correspond to the standard lines in the PR19 business plan tables WS2 and WWS2 respectively. Where lines from the business plan tables have no corresponding lines in Tables 4L or 4M it is because these lines were either not used by companies or by just one or two companies. Tables 4L and 4M have lines for companies to insert their own expenditure purpose categories. If companies would have allocated expenditure to any of the standard lines in the business plan tables that have not been copied across to RAG4.09 tables, they should instead allocate the expenditure to these 'freeform' lines. If these lines have been used, companies should provide commentary to explain them.

4.10.2 In lines 6A.26 to 6A.39 companies are required to report water treatment works that have not been used in the year but have not been decommissioned. Companies should provide commentary on any instances where this is the case.

4.10.3 Companies should provide commentary on how they have calculated population and household growth in line 6C.13 including how they have taken account of the 2011 census.

4.10.4 Companies are encouraged to provide commentary on how they interpret 'structurally refurbished' in completing line 7C.15. If a company is unable to identify the actual length of rising main that has been replaced or structurally

refurbished, then it should submit an estimate and fully explain the methodology used and the assumptions made in the accompanying commentary.

- 4.10.5 Companies should explain the basis of its estimate for line 8A.4 of all the untreated sewage sludge (primary, secondary, tertiary) produced by in-area wastewater treatment processes in the report year, and which is produced as a result of treating non-appointed liquid wastes through appointed wastewater treatment assets.
- 4.10.6 In lines 8A.10 and 8A.13 we ask for a measure of intersiting work done by tanker. In line 8A.11 we ask for a measure of intersiting work done by truck. In lines 8A.15 and 8A.18 we ask for a measure of work done in sludge disposal operations by tanker. In line 8A.16 we ask for a measure of work done in sludge disposal operations by truck. If actual road distances are not available companies should estimate the road distance and state in the commentary if this is the case.
- 4.10.7 In table 8A where both the incumbent and a third party service provider undertake different stages of sludge treatment, eg dewatering followed by lime stabilisation, sludge quantities should not be doubled-counted and should be reported either in line 8A.1 or line 8A.2, not both. Where this situation occurs the companies should report on the quantity involved and the line to which it has been allocated in the commentary.
- 4.10.8 Companies should explain the basis of their estimate of total sewage sludge produced from non-appointed liquid waste treatment reported in line 8A.4.
- 4.10.9 The default assumption will be that the population equivalents reported in lines 7D.17 to 7D.20 will be served by sewage treatment works (STWs) at which the required output has been delivered primarily by a capex solution. Where this is not the case companies should report the population equivalent benefitting from (primarily) opex solutions in their commentary.
- 4.10.10 Where companies have used a different methodology to calculate non-resident population in line 7E.12 they should provide details in their commentary.

## **4.11 Supply-demand balance and metering**

- 4.11.1 Table 4L requires companies to provide details of their expenditure in the areas of long-term improvements to the supply-demand balance and strategic

regional water resource solutions. We expect companies to include narrative commentary to report on progress and deliverables in these areas. This should include explanation of any variances from their business plan and water resources management plan proposals.

4.11.2 Tables 4L and 4Q require companies to provide details of the expenditure and related benefits delivered through their internal interconnection programmes. We expect companies to include narrative commentary to report on progress and the deliverables in this areas. This should include detail of installed pipe material, length, diameter and capacity, in particular where these solutions do not provide supply-demand balance benefits but solve intra-zonal deficits. Companies should include explanation of any variances from their business plan and water resources management plan proposals.

4.11.3 Table 4P requires companies to report their total annual leakage. This figure should be derived from the same leakage data that is used in both leakage performance reporting (as an input to the three-year average calculation) and annual water resources management plan reporting. Companies should include explanation of any variances from their business plan and water resources management plan proposals.

4.11.4 Table 4Y requires companies to provide detail of their smart metering programmes. We understand that a number of alternative smart meter technologies can be adopted by companies. Companies should include narrative commentary explaining the smart metering technologies it is utilising and the capabilities and benefits these provide.

4.11.5 We expect companies to include narrative commentary to explain how the metering and leakage figures reported in Table 4Y relate to their business plan and water resources management plan forecasts. Where companies identify costs and benefits relating to 'other' leakage activities in lines 32 and 38, we expect narrative commentary providing detail of these activities.

## **4.12 Analysis of debt**

4.12.1 We expect close alignment between tables 1E and 4B. Where the following line items are different, we expect companies to provide a reconciliation explaining the reason for any differences.

- 1E.3: 'Total borrowings' (to align with line 805: 'Totals for all instruments')

- 1E.11: 'Indicative weighted average nominal interest rate' (to align with line 808: 'Indicative weighted average nominal interest rate')
- 1E.12: 'Indicative weighted average cash interest rate' (to align with line 809: 'Indicative weighted average cash interest rate')

4.12.2 Some companies may use a different measure of net debt to calculate gearing for the purposes of financial covenants which are of use to the financial community. If a different measure of debt is commonly used by a company, then the restated gearing level should be inserted in line 1E.8 'Adjusted gearing' together with an accompanying commentary.

### **4.13 Common performance measures**

4.13.1 The intention of the red, amber, and green rating and commentary for shadow reporting is to provide transparency on the degree to which a company has been able to implement the reporting guidance for shadow reporting. For any amber or red components companies should provide a separate short commentary covering:

1. the reasons for your non-compliance for the reporting year,
2. the actions you are taking to become compliant; and,
3. your current expectation on when your reporting will be compliant with the consistent definitions.

### **4.14 Board statement on accuracy and completeness of data and information**

4.14.1 Companies should provide a statement, signed by, or on behalf of their boards, stating that the data and information which the company has provided to Ofwat in the reporting year and/or which they have published in their role as water and sewerage undertaker was accurate and complete and setting out any exceptions to this. Companies should explain the reasons for any exceptions.

4.14.2 This statement should be accompanied by a description of the activities which the board has carried out to allow it to make this statement. This should include how the board has:

- engaged and challenged on the assurance approaches which have been taken;
- taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed;
- satisfied itself that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information in particular areas; and
- utilised individual directors and committees in carrying out its activities in this area.

4.14.3 The requirement to provide the statement set out in paragraph 4.15.1 does not replace any existing requirements, in this guideline or elsewhere, where we have asked for assurance on specific pieces of data and information which are provided to us. However companies will need to reference these in meeting the requirements of paragraph 4.14.2.

4.14.4 The requirements set out in paragraphs 4.15.1 and 4.15.2 are minimum requirements and where we have concerns we may need to ask companies to provide additional assurance on an annual or more regular basis.

## **4.15 Non-household market activity**

4.15.1 Where the appointee has exited all non-household market activities then tables 2G and 2H should be left blank. Companies should make a narrative statement to this effect and disclose the corresponding wholesale revenue.

## **4.16 Return on regulatory equity**

4.16.1 Companies should include a narrative to clearly explain any exceptional items they have included in its calculation of RORE (return on regulatory equity) in line 4H.5.

## **4.17 Financial derivatives**

4.17.1 Where the nature of other derivatives results in an inability to provide this information prevents a full reconciliation with Table 1C, companies should provide a note explaining why.

## 5. Small company information requirements

- 5.1.1 We do not request the full accounting information from new and existing small companies that we receive from larger companies, but we still require some regulatory accounting information to a 31 March year end.
- 5.1.2 The information requirements are proportionate to the size of the company, but sufficient to enable us to effectively regulate these companies. **We define a company with an annual turnover of less than £10.2m as small in terms of regulatory accounting information requirements<sup>4</sup>.**
- 5.1.3 In some circumstances, we may ask some small companies for more information than is set out below, to address certain company specific issues. This may include evidence of financial security. If required, we will discuss this with the company to explain what information we require and when it should be submitted.
- 5.1.4 New appointments are required to maintain sufficient access to finance. While this is assessed at the point of a NAV's licence application, and when there is a variation for a new site, we consider that to protect customers it is important that we continue to monitor NAVs' access to finance on an annual basis. We require companies to confirm that they continue to maintain the sufficient financial security requirements that are required at the point of a licence grant or variation as set out in our NAV policy.
- 5.1.5 Where the security includes a Parent Company Guarantee (PCG), loan facility or bond or other financial instrument, then the degree to which the facility has been drawn on should be set out in the explanation.
- 5.1.6 In general, the minimum level of financial security required is calculated as **one year's annual operating costs required to supply the number of connections the business is projected to have in two years' time (as included in granted applications and current applications).**
- 5.1.7 Table 2 below sets out the requirements for companies that fall below the **Small company** threshold. These should all be prepared by 15 July following the year end.

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<sup>4</sup> This is also the turnover threshold below which the government allows limited companies to file abridged accounts with Companies House.

**Table 2 Small company requirements**

<b>Requirement</b>	<b>Where</b>
Accounts prepared to a 31 March year end. These should also be available on your website at the same time it is submitted to us	RAG3 2.1
Certificate of adequacy of financial resources	Licence condition I 17
Statement confirming that the company maintains sufficient financial security.	RAG3 5.1.3 – 5.1.6
Two pro forma tables; S1. Split of turnover, operating costs and depreciation S2. Non-financial information for the 12 months ended 31 March 20xx	Appendix 1 See RAG4 for line definitions
Statement on executive pay and performance	RAG3 3.2
Statement of dividend policy	RAG3 3.4
A customer-focused performance summary for the reporting year which should also be available on your website at the same time as it is submitted to us. At a minimum, we would expect this to include: <ol style="list-style-type: none"> <li>1. The completed tables, S1 and S2, in an accessible format.</li> <li>2. A summary of payments under the guaranteed standards scheme (GSS). For each GSS standard, the summary should include: <ol style="list-style-type: none"> <li>a) the minimum GSS payment amount;</li> <li>b) the number of failures; and</li> <li>c) the total amount of compensation paid.</li> </ol> </li> <li>3. How the company complies with the 'no worse off' principle (customers, or future customers, should overall be no worse off than if they had been supplied by the previous appointee/incumbent).</li> </ol>	Licence condition M (provision of information to Ofwat)

## **6. Transactions with associates and the non-appointed business**

### **6.1 RAG5 Principles**

- 6.1.1 Appointees are under a duty to trade at arm's length and to ensure that there is no cross-subsidy with respect to transactions between the appointed business and any associated company.
- 6.1.2 In addition following the introduction of separate binding price controls at the 2014 price review, companies need to attribute or allocate costs between the controls. The revenue allowance for each price control is determined by the estimated costs specific to that particular price control and comparable information on actual costs will be needed for future price reviews. Therefore companies should also ensure that there is no cross subsidy between price control units.
- 6.1.3 Appointees are required to demonstrate, through the application of the principles set out in RAG5, the basis of any arm's length trading and that there is no cross-subsidy.

### **6.2 Transactions to be disclosed**

- 6.2.1 We require all transactions between the appointee and its associated companies must be disclosed and if any single transaction exceeds 0.5% of the turnover of the appointed business (or £100,000 if greater) it should not be aggregated. In particular, the following transactions, with related data, must be disclosed if over the materiality limit:
- loans by or to the appointee;
  - dividends paid to any associated company;
  - guarantees or other forms of security by the appointee;
  - transfer of any asset or liability by or to the appointee;
  - transfer of any corporation tax group losses by or to the appointee;
  - supply of any service by or to the appointee;
  - omission by the appointee or any associated company to exercise a right as a result of which the value of the net assets of the appointee is decreased; and
  - waiver of any consideration, remuneration or other payment by the appointee.

## 6.3 Transfer pricing table templates

6.3.1 The disclosures required should be included in the published annual performance report in three separate tables:

Service	Company	Turnover of associate	Terms of supply	Value
Service received by regulated business.	Associate providing the service.		A statement of the means by which the price charged by the associates has been established, e.g., competitive tendering.	Value of service received by regulated business.
Corporation tax group relief received by regulated business	Associate surrendering the group relief.		A statement of the means by which the payment for the group relief has been established (including the amount paid).	Value of group relief.

Service	Company	Turnover of associate	Terms of supply	Value
Service provided by regulated business.	Associate to whom the service is provided.		A statement of the means by which the price charged to the associates has been established, e.g., competitive tendering.	Value of service provided by regulated business.
Corporation tax group relief surrendered by regulated business	Associate receiving the group relief.		A statement of the means by which the payment for the group relief has been established (including the amount received).	Value of group relief.

<b>Service provided to the non- appointed business</b>	<b>Basis of recharge made by the appointed business</b>	<b>Value of the recharge made by the appointed business</b>
Treatment of imported sludge	Where appointed business assets have been used to carry out non-appointed activities, then the basis of the recharge should be explained. This should include an explanation as to the contribution to depreciation and finance costs of the assets as well as the incremental operating expenditure and any rental for land or buildings.	Value of the recharge made by the appointed business.
Treatment of tankered waste	Where appointed business assets have been used to carry out non-appointed activities, then the basis of the recharge should be explained. This should include an explanation as to the contribution to depreciation and finance costs of the assets as well as the incremental operating expenditure and any rental for land or buildings.	Value of the recharge made by the appointed business.
Other	Where appointed business assets have been used to carry out non-appointed activities, then the basis of the recharge should be explained. This should include an explanation as to the contribution to depreciation and finance costs of the assets as well as the incremental operating expenditure and any rental for land or buildings.	Value of the recharge made by the appointed business.

- 6.3.2 Where appropriate, formulae may be disclosed in place of figures, for example for interest rates.
- 6.3.3 Transactions in the last three categories may be aggregated with any other similar transaction in the same category with the same associated company (unless prohibited by the 'single transaction' rule in paragraph 7.2.1). This aggregation does not include netting off transactions to the appointee against transactions by the appointee or vice versa.
- 6.3.4 Additionally where more than one associated company has transactions which are below the threshold then these should not be amalgamated such that there becomes a disclosure between the appointee and 'various' associates, even for common transaction types.
- 6.3.5 If a company is an associated company of an appointee for only part of a financial year then transactions with that associated company will only need to be disclosed whilst they were an associated company.
- 6.3.6 Amounts disclosed should not be rounded below the £1,000 level e.g. £0.652m rather than £0.7m.
- 6.3.7 Where a consent is required from Ofwat to enable the company to enter into a particular transaction which is otherwise prohibited by the company's licence (for example loans or guarantees to an associated company), companies should provide a confirmation that an appropriate consent is in place and that that there have been no changes to the arrangement which would invalidate the basis of that consent.

## Appendix 1: Pro forma tables

<b>Section 1 Regulatory financial reporting</b>	
Pro forma 1A	Income statement
Pro forma 1B	Statement of comprehensive income
Pro forma 1C	Statement of financial position
Pro forma 1D	Statement of cash flows
Pro forma 1E	Net debt analysis (appointed activities) at 31 March 20xx
Pro forma 1F	Financial flows for the 12 months ended 31 March 20xx and for the AMP to date
<b>Section 2 Price review and other segmental reporting</b>	
Pro forma 2A	Segmental income statement for the 12 months ended 31 March 20xx
Pro forma 2B	Totex analysis for the 12 months ended 31 March 20xx - wholesale
Pro forma 2C	Operating cost analysis for the 12 months ended 31 March 20xx - retail
Pro forma 2D	Historic cost analysis of tangible fixed assets
Pro forma 2E	Analysis of 'grants and contributions' for the 12 months ended 31 March 20xx - water resources, water network+ and wastewater network+
Pro forma 2F	Household - revenues by customer type
Pro forma 2G	Non-household water - revenues by tariff type
Pro forma 2H	Non-household wastewater - revenues by tariff type
Pro forma 2I	Revenue analysis for the 12 months ended 31 March 20xx
Pro forma 2J	Infrastructure network reinforcement costs for the 12 months ended 31 March 20xx
Pro forma 2K	Infrastructure charges reconciliation for the 12 months ended 31 March 20xx
Pro forma 2L	Analysis of land sales for the 12 months ended 31 March 20xx
Pro forma 2M	Revenue reconciliation for the 12 months ended 31 March 20xx - wholesale
Pro forma 2N	Developer services - Non financial information
Pro forma 2O	Historic cost analysis of intangible fixed assets
<b>Section 3 Performance summary</b>	
Pro forma 3A	Outcome performance table
Pro forma 3B	Supplementary performance table
Pro forma 3C	Customer measure of experience (C-MeX) table
Pro forma 3D	Developer services measure of experience (D-MeX) table
Pro forma 3E	Shadow reporting of new common performance measure data

<b>Section 4 Additional regulatory information - service level</b>	
Pro forma 4A	Water bulk supply information for the 12 months ended 31 March 20xx
Pro forma 4B	Analysis of debt
Pro forma 4C	Impact of price control performance to date on RCV
Pro forma 4D	Totex analysis for the 12 months ended 31 March 20xx - water resources and water network+
Pro forma 4E	Totex analysis for the 12 months ended 31 March 20xx - wastewater network+ and bioresources
Pro forma 4F	Major project expenditure for wholesale water by purpose
Pro forma 4G	Major project expenditure for wholesale wastewater by purpose
Pro forma 4H	Financial metrics for the 12 months ended 31 March 20xx
Pro forma 4I	Financial derivatives
Pro forma 4J	Atypical and non-atypical expenditure by business unit for the 12 months ended 31 March 20xx - water resources and water network+
Pro forma 4K	Atypical and non-atypical expenditure by business unit for the 12 months ended 31 March 20xx - wastewater network+ and bioresources
Pro forma 4L	Expenditure by purpose for the 12 months ended 31st March 20xx - water resources and water network+
Pro forma 4M	Expenditure by purpose for the 12 months ended 31st March 20xx - wastewater network+ and bioresources
Pro forma 4N	Other expenditure for the 12 months ended 31 March 20xx - water resources and water network+
Pro forma 4O	Other expenditure for the 12 months ended 31 March 20xx - wastewater network+ and bioresources
Pro forma 4P	Expenditure on non-price control diversions for the 12 months ended 31 March 20xx
<b>Section 5 Additional regulatory information - water resources</b>	
Pro forma 5A	Non-financial data for the 12 months ended 31st March 20xx - water resources
Pro forma 5B	Operating cost analysis for the 12 months ended 31st March 20xx - water resources
<b>Section 6 Additional regulatory information - water network plus</b>	
Pro forma 6A	Non-financial data for the 12 months ended 31st March 20xx - raw water transport, raw water storage and water treatment
Pro forma 6B	Non-financial data for the 12 months ended 31st March 20xx - treated water distribution
Pro forma 6C	Non-financial data - Properties, population and other for the 12 months ended 31st March 20xx - water network+
Pro forma 6D	Demand management - Metering and leakage activities for the 12 months ended 31 March 20xx
<b>Section 7 Additional regulatory information - wastewater network plus</b>	
Pro forma 7A	Wastewater network+ - Functional expenditure for the 12 months ended 31st March 20xx
Pro forma 7B	Wastewater network+ - Large sewage treatment works for the 12 months ended 31 March 20xx
Pro forma 7C	Non-financial data for the 12 months ended 31st March 20xx - wastewater network+
Pro forma 7D	Non-financial data for the 12 months ended 31st March 20xx - wastewater network+
Pro forma 7E	Non-financial data - Properties, population and other for the 12 months ended 31st March 20xx - wholesale wastewater

<b>Section 8 Additional regulatory information - bioresources</b>	
Pro forma 8A	Non-financial data for the 12 months ended 31st March 20xx - bioresources
Pro forma 8B	Operating cost analysis for the 12 months ended 31st March 20xx - bioresources
Pro forma 8C	Bioresources analysis for the 12 months ended 31st March 20xx
Pro forma 8D	Non-financial data - sludge treatment and disposal for the 12 months ended 31st March 20xx - bioresources
<b>Section 9 Additional regulatory information - innovation competition</b>	
Pro forma 9A	Innovation competition
<b>Small company return</b>	
Pro forma S1	Analysis of turnover and operating costs
Pro forma S2	Non-financial information for the 12 months ended 31 March 20xx

Follow this link for the [Excel tables \[TBC in final version\]](#)

## Appendix 2: Accounting methodology statement

This appendix sets out our requirements for the disclosures to be included in companies' accounting methodology statements. Each company must publish their statement either on their website or in the annual performance report.

The 2 areas that should form the focus of the statement will be to describe how costs are reported across:

- Price control units (annual performance report section 2); and
- Wholesale upstream services (annual performance report section 4).

### High level overview

Details of the company's systems for producing disaggregated cost and asset data (eg spreadsheets or integrated accounting systems), including any changes year on year.

### Price control units

We expect that companies will apply the principles and guidance set out in RAG 4.

Companies should:

- Confirm they have followed the principles and guidance set out in RAG 4;
- Describe the method or cost driver that the company has used to calculate allocations between the price control units (where specific guidance has not been prescribed);
- Where there has been a change to the methodology compared to the previous year give reasons for the change and quantify the impact;
- Describe significant changes in reported costs at the price control unit level compared to the previous year;
- Where there has been a significant movement in a particular cost type (e.g. power or local authority rates) between the price control units then reasons for this should be included;
- For both 'power' costs and 'other operating expenditure' quantify the percentage split between directly coded and allocated costs;
- Describe how power costs are disaggregated when it is consumed at sites that cover more than one price control unit;
- Quantify the percentage split of M&G costs across the price control units; and

- Describe any planned improvements for future years.

For assets companies should adopt the 'principal use' rules whereby the asset is recorded in a single price control unit which then makes recharges.

Companies should:

- Confirm they have followed the principal use rules set out in RAG 4;
- Describe the method used to calculate the appropriate recharge. This should have reference to the depreciation and the finance costs of maintaining the asset; and
- Describe any significant movements in the amounts recharged between the price control units.

Companies should also refer to the equivalent recharges to the non-appointed business for activities set out in appendix 1 of RAG4 such as tankered waste.

### **Wholesale upstream services**

Companies should provide an explanation of:

- how the company has disaggregated the operating costs across the upstream services for each cost type, specifying cost drivers where necessary;
- Describe how power costs are disaggregated when it is consumed at sites that cover more than one upstream service;
- how treated bulk supply imports have been allocated between water resources and water treatment;
- the derivation of the quantities used to calculate the unit cost information,
- Significant changes in reported costs at the upstream services level compared to the previous year;
- Where there has been a significant movement in a particular cost type (eg power or local authority rates) between the upstream services then reasons for this should be included; and
- Where there has been a significant movement in a particular unit cost then reasons for this should be included.

Where companies encounter difficulties in completing tables 4D and 4E, they should describe how they have completed the table and suggest how alternative methods could be used.

## Appendix 3: Basis for requesting information

OFWAT has the power to request information in licence conditions B, F, I, K, M and P. This appendix sets out our requirements along with the relevant licence condition under which it is requested.

### Pro forma tables

Section 1 Regulatory financial reporting		Accounting information - licence condition F	Other information - licence condition M
Pro forma 1A	Income statement	✓	
Pro forma 1B	Statement of comprehensive income	✓	
Pro forma 1C	Statement of financial position	✓	
Pro forma 1D	Statement of cash flows	✓	
Pro forma 1E	Net debt analysis at 31 March 20xx	✓	
Pro forma 1F	Financial flows for the 12 months ended 31 March 20xx and for the AMP to date	✓	

<b>Section 2 Price review and other segmental reporting</b>		<b>Accounting information - licence condition F</b>	<b>Other information - licence condition M</b>
Pro forma 2A	Segmental income statement for the 12 months ended 31 March 20xx	✓	
Pro forma 2B	Totex analysis for the 12 months ended 31 March 20xx - wholesale water & wastewater	✓	
Pro forma 2C	Operating cost analysis for the 12 months ended 31 March 20xx - retail	✓	
Pro forma 2D	Historic cost analysis of tangible fixed assets - wholesale & retail	✓	
Pro forma 2E	Analysis of 'grants and contributions' and land sales for the 12 months ended 31 March 20xx - wholesale	✓	
Pro forma 2F	Household - revenues by customer type	✓	✓
Pro forma 2G	Non-household water - revenues by tariff type	✓	✓
Pro forma 2H	Non-household wastewater - revenues by tariff type	✓	✓
Pro forma 2I	Revenue analysis for the 12 months ended 31 March 20xx	✓	
Pro forma 2J	Infrastructure network reinforcement costs for the 12 months ended 31 March 20xx	✓	
Pro forma 2K	New connections reconciliation for the 12 months ended 31 March 20xx	✓	
Pro forma 2L	Analysis of land sales for the 12 months ended 31 March 20xx	✓	
Pro forma 2M	Revenue reconciliation for the 12 months ended 31 March 20xx - wholesale	✓	
Pro forma 2N	Developer services - Non financial information		✓
Pro forma 2O	Historic cost analysis of intangible fixed assets	✓	

<b>Section 3 Performance summary</b>		<b>Accounting - information - licence condition F</b>	<b>Other - information - licence condition M</b>
Pro forma 3A	Outcome performance table	✓	✓
Pro forma 3B	Supplementary performance table	✓	✓
Pro forma 3C	Customer measure of experience (C-MeX) table		✓
Pro forma 3D	Developer services measure of experience (D-MeX) table		✓
Pro forma 3E	Shadow reporting of new common performance measure data		✓
<b>Section 4 Additional regulatory information - service level</b>			
Pro forma 4A	Water bulk supply information for the 12 months ended 31 March 20xx	✓	✓
Pro forma 4B	Analysis of debt	✓	
Pro forma 4C	Impact of price control performance to date on RCV	✓	
Pro forma 4D	Totex analysis for the 12 months ended 31 March 20xx - water resources and water network+	✓	✓
Pro forma 4E	Totex analysis for the 12 months ended 31 March 20xx - wastewater network+ and bioresources	✓	✓
Pro forma 4F	Major project expenditure for wholesale water by purpose	✓	
Pro forma 4G	Major project expenditure for wholesale wastewater by purpose	✓	
Pro forma 4H	Financial metrics for the 12 months ended 31 March 20xx	✓	
Pro forma 4I	Financial derivatives	✓	
Pro forma 4J	Atypical and non-atypical expenditure by business unit for the 12 months ended 31 March 20xx - water resources and water network+	✓	
Pro forma 4K	Atypical and non-atypical expenditure by business unit for the 12 months ended 31 March 20xx - wastewater network+ and bioresources	✓	
Pro forma 4L	Expenditure by purpose for the 12 months ended 31st March 20xx - water resources and water network+	✓	
Pro forma 4M	Expenditure by purpose for the 12 months ended 31st March 20xx - wastewater network+ and bioresources	✓	
Pro forma 4N	Other expenditure for the 12 months ended 31 March 20xx - water resources and water network+	✓	
Pro forma 4O	Other expenditure for the 12 months ended 31 March 20xx - wholesale wastewater	✓	
Pro forma 4P	Expenditure on non-price control diversions for the 12 months ended 31 March 20xx	✓	

<b>Section 5 Additional regulatory information - water resources</b>		<b>Accounting - information - licence condition F</b>	<b>Other - information - licence condition M</b>
Pro forma 5A	Non-financial data for the 12 months ended 31st March 20xx - water resources		✓
Pro forma 5B	Operating cost analysis for the 12 months ended 31st March 20xx - water resources	✓	
<b>Section 6 Additional regulatory information - water network plus</b>			
Pro forma 6A	Non-financial data for the 12 months ended 31st March 20xx - raw water transport, raw water storage and water treatment		✓
Pro forma 6B	Non-financial data for the 12 months ended 31st March 20xx - treated water distribution		✓
Pro forma 6C	Non-financial data - Properties, population and other for the 12 months ended 31st March 20xx - water network+		✓
Pro forma 6D	Demand management - Metering and leakage activities for the 12 months ended 31 March 20xx	✓	✓
<b>Section 7 Additional regulatory information - wastewater network plus</b>			
Pro forma 7A	Wastewater network+ - Functional expenditure for the 12 months ended 31st March 20xx	✓	
Pro forma 7B	Wastewater network+ - Large sewage treatment works for the 12 months ended 31 March 20xx	✓	✓
Pro forma 7C	Non-financial data for the 12 months ended 31st March 20xx - wastewater network+		✓
Pro forma 7D	Non-financial data for the 12 months ended 31st March 20xx - wastewater network+		✓
Pro forma 7E	Non-financial data - Properties, population and other for the 12 months ended 31st March 20xx - wholesale wastewater		✓
<b>Section 8 Additional regulatory information - bioresources</b>			
Pro forma 8A	Non-financial data for the 12 months ended 31st March 20xx - bioresources	✓	
Pro forma 8B	Operating cost analysis for the 12 months ended 31st March 20xx - bioresources		✓
Pro forma 8C	Bioresources analysis for the 12 months ended 31st March 20xx	✓	✓
Pro forma 8D	Non-financial data - sludge treatment and disposal for the 12 months ended 31st March 20xx - bioresources		✓
<b>Section 9 Additional regulatory information - innovation competition</b>			
Pro forma 9A	Innovation competition	✓	
<b>Small company return</b>			
Pro forma S1	Analysis of turnover and operating costs	✓	
Pro forma S2	Number of connections and site consumption		✓

## RAG3 disclosure requirements

		Accounting information - licence condition F	Other information - licence condition M	Other information - licence condition B	Other information - licence condition K	Ring fencing provisions - licence conditions I or P	Other information - statutory
<b>RAG3 Accounting disclosures requirements</b>							
3.1.1 3.2	Statement on executive pay and performance						✓
3.1.1 3.3	Statement as to disclosure of information to auditors	✓					
3.1.1 3.4	Statement on dividend policy for the appointed business	✓	✓				
3.1.1 3.5	Accounting policy note for price control units	✓					
3.1.1 3.6	Note on revenue recognition	✓					
3.1.1 3.7	Note on capitalisation policy	✓					
3.1.1 3.8	Note on bad debt policy	✓					
3.1.1 3.9	Sufficiency of non-financial resources				● ■	■	
3.1.1 3.10	Sufficiency of financial resources and facilities				●	◆	
3.1.1 3.11	Tax strategy for the appointed business,	✓					
3.1.1 3.12	Statement on differences between statutory and RAG definitions,	✓					
3.1.1 3.13	Long term viability statement,	✓					
3.1.1 3.14	Statement explaining out/under performance of the return on regulatory equity (RORE)	✓					
3.1.1 3.15	Statement explaining the variance on infrastructure network reinforcement charges	✓	✓				
3.1.1 3.16	Statement on innovation competition	✓	✓				
<b>RAG3 Narrative disclosure requirements</b>							
4.1	Outcomes		✓	✓			
4.2	Totex	✓	✓				
4.3	Retail	✓	✓				
4.4	Wholesale revenues	✓	✓				
4.5	Current tax analysis	✓	✓				
4.6	Current tax reconciliation	✓	✓				
4.7	Interest	✓	✓				
4.8	Financial flows	✓	✓				
4.9	Wastewater volumes	✓	✓				
4.10	Narrative on costs	✓	✓				
4.11	Supply-demand balance and metering	✓	✓				
4.12	Analysis of debt	✓	✓				
4.13	Common performance measures		✓				
4.14	Board statement on accuracy and completeness of data and information		✓				
4.15	Non-household market activity	✓	✓				
4.16	Return on regulatory equity	✓	✓				
4.17	Financial derivatives	✓	✓				

		Accounting information - licence condition F	Other information - licence condition M	Other information - licence condition B	Other information - licence condition K	Ring fencing provisions - licence conditions I or P	Other information - statutory
<b>RAG3 Small company disclosure requirements</b>							
5.1.4	Sufficiency of financial resources					◆	
5.1.4	Statement on links between Directors' pay and standards of performance published in the accounts						✓
5.1.4	Statement of dividend policy published in the accounts	✓	✓				
<b>RAG3 Transfer pricing disclosure requirements</b>							
6.2	Transactions with associates			✓			
6.3	Services received and provided by the regulated business from/to an associate			✓			
6.3	Corporation tax group relief received and surrendered by the regulated business from/to an associate			✓			
6.3	Services provided by the non-appointed business			✓			

Key

●	For Tideway
◆	Authorisation is contained in either condition I or condition P, depending on when a company's licence was last updated.
■	Authorisation is contained in either condition K or condition P, depending on when a company's licence was last updated.