

# Information notice

November 2020

## IN 20/08 Regulatory accounting guidelines 2020–21

This document and its accompanying Consultation on regulatory reporting for 2020–21 – [Responses document](#) provide notice of, and reasons for, the changes we have decided to make to the regulatory accounting guidelines that water and wastewater and water-only companies, including small companies in England and Wales, must follow in preparing their annual performance reports (APRs). These APRs show both operational and financial information that companies are required to publish about their regulated business. This is in addition to the statutory accounts required in the UK under the Companies Act 2006.

### Background

Statutory accounts on their own are insufficient to assess the performance of price-controlled water companies as their assets typically have a much longer life than those of an average UK company and so their value cannot be assessed by conventional means. We also need to ensure that information provided by companies is in a form which allows stakeholders to compare actual performance against our price review expectations. The regulatory accounting guidelines (RAGs) define in detail the treatment of particular items (for example, revenue and interest) where Ofwat disclosure and accounting requirements differ from those normally required under UK accounting standards and applicable legislation. Companies use these guidelines to complete their APR.

In June 2020, we published [our consultation on regulatory reporting for the 2020-21 reporting year](#) (the consultation), in which we explained that one of the three goals set out in [Time to act together: Ofwat's strategy](#) (our strategy) is to transform water company performance. A key part of achieving this is through the publication of the APRs. This helps us, customers and other stakeholders to hold companies to account. It also provides insight that will help us drive improvements in water company performance and to understand the progress that is being made in meeting long-term aspirations. Clear and transparent information will ensure that stakeholders understand how companies are performing, this enables trust and confidence in the sector and allows Ofwat and stakeholders to hold the sector to account.

RAGs 1-4 have been revised for the new price control period (2020-25) following the consultation. This information notice sets out the changes introduced to our revised RAGs. This will impact the APRs for the reporting year ending 31 March 2021.

We had 22 responses to the consultation. These have been published on our website. Most respondents made suggestions as to how the table definitions could be clarified and improved. Where appropriate, we have taken these into account and modified RAG4 to give more clarity.

## **Deadline for submission and publication of the APR**

In the consultation we asked whether it would be practical if we moved the 15 July deadline for the APR publication earlier in July so that we could more easily accommodate the in-period determinations arising from our PR19 final determinations.

We set out a summary of the responses to question 5 in the responses document. We acknowledge the responses and recognise that, if we set an earlier submission date, we would need to factor in time for companies carry out their assurance processes before submission.

We need to strike a reasonable balance between the companies' ability to publish their APRs earlier in July and our ability to be able to make ODI determinations in a compressed timetable. Consequently, our current thinking is that for the data we require to calculate the ODIs, it is appropriate to move the publication date for tables 3A-3I to earlier in July. The remaining APR submission deadline will continue as 15 July. Publication of annual data outside of the main APR publication is not new, for example some tables specified in the RAGs do not have to be included in the APR. We must also consider the need for assurance and governance around any submission. Therefore, we plan to talk to companies and other regulators to ensure any movement in date is aligned with reporting timelines and we will share our conclusions in the annual company reporting Information Notice in spring 2021.

## **Cost assessment data**

Information on costs forms the majority of the information required for the APR. There were over 400 points made in response to question 1 in our consultation – many of which were directed towards the requirements in the cost assessment tables.

The full list of changes to these tables, together with our rationale, is included in [Consultation on regulatory reporting for 2020-21 – Responses document](#).

## Common performance commitment measures

We have extensively revised the versions of tables 3A, 3B and 3E that were included in the consultation in response to the concerns about duplication in the tables and suggestions that they did not present information in a transparent way. Our new tables 3A, 3B and 3E split the high level performance between, water, wastewater and non-financial performance commitments with the more detailed calculations and information being moved to new tables 3F and 3G.

## Social tariffs

Social tariffs are schemes that companies offer to limit or reduce bills to some lower-income customers – with the majority of schemes being fully funded through other customers' bills. As part of their PR19 business plans, water companies committed to increasing the number of customers on social tariffs to over 1.4 million by 2025.

Collecting social tariff data in the APR is important for providing information on how companies are using them and allow us to compare schemes that companies operate. The approach adopted for the APR is consistent with our previous request for information in May 2020. The data generated will provide Ofwat with an up to date view on the features of different schemes and levels of discounts available, as well as which companies are contributing to scheme funding. Social tariffs are currently being considered as part of CCW's Affordability Review, which reports in spring 2021. The information provided through the APR will therefore offer timely insights into latest arrangements at a time when the Review will be reaching conclusions on the financial support available to water customers in England and Wales.

We have clarified that the information we are seeking in our new table 2N relates only to social tariffs as described under section 44 of the Flood and Water Management Act 2010 and matters covered and clarified by the statutory guidance issued by the Secretary of State and the Welsh Government.

## Greenhouse gas emissions reporting

We would like companies to gradually enhance their level of GHGs reporting, in relation to both operational and embedded emissions. In both cases, we are initially adopting a voluntary approach, with the intention being for reporting to become standardised and mandatory in future.

In relation to operational emissions for 2020-21, we are inviting companies to voluntarily report gross and net GHG emissions (in tCO<sub>2</sub>e) for water and wastewater, with emissions being broken down by scope and GHG type (for scope 1 and 3). We would also like to see data presented on intensity of emissions (Kg per ML) and GHG intensity per £m of turnover. We are

also requesting that companies report on emissions reductions brought about by the purchase and generation of renewable energy. This reporting request builds on existing company reporting using the Carbon Accounting Workbook (CAW). Our current aim is for such reporting to become mandatory from 2021-22 onwards.

In relation to embedded emissions for 2020-21, we invite companies to report voluntarily. Those companies who choose to report embedded emissions voluntarily have the freedom to decide how and on what they can report. Depending on the outcome, we will consider whether to propose a similar approach for the 2021-22 reporting year, with our aim being for an increasingly standardised mandatory reporting framework to be in place for the 2022-23 reporting year.

In chapters 1 and 4 of the responses document, we set out in more detail our approach to reporting in the area of GHG emissions.

## Sludge liquor treatment costs

The way in which companies currently account for sludge liquor treatment costs is highly varied. In response to this, we recently commissioned Jacobs to design a standard methodology for the quantification of these costs. Subject to consultation, we are proposing to implement the standardised methodology in next year's RAGs, with companies required to shadow report the costs for the remainder of the 2020-25 period when accounting for internal transfers across price controls. We also propose to consult on a requirement for companies to use the standardised methodology when charging for sludge trades with other companies or third parties from 2021-22. For the purpose of 2020-21 reporting, we request that companies report an indicative shadow cost as far as they are able to, following the guidelines in RAG 2. This will help to provide all parties with an understanding of the standard approach going forward. Further detail on our proposals can be found in our [Reporting of sludge liquor treatment costs document](#), which we are publishing alongside the RAGs.

### Reporting requirements for small companies

We require information from small companies (also known as 'new appointees' or 'NAVs') so that we can better understand how they are serving their customers, and hold them to account on their performance, in a way that is proportionate to their size.

In the consultation, we proposed that small companies publish a customer-focused performance summary, to include their annual returns, a summary of payments made under the guaranteed standards scheme (GSS) and how they have complied with the 'no worse off' principle in line with our policy on new appointments and variations. We also

proposed new reporting requirements on per capita consumption, leakage and financial security.

As most respondents were broadly supportive of our proposals we will go ahead with our consultation proposals.

We reiterate our expectation that small companies should ensure their annual returns are completed accurately and submitted in a timely manner. In light of new requirements for 2020-21, it is increasingly important that small companies publish this information in an accessible format on their websites.

Given the interest from stakeholders and proposals for additional reporting requirements that we received, which could better protect the customers of small companies and facilitate more effective competition in the new connections market, we intend to engage further with relevant stakeholders on how the reporting framework for small companies could evolve for the 2021-22 reporting year and beyond.

## **Future developments**

### **Nature based solutions (NBS)**

While we remain committed to enabling greater uptake of NBS, and although there was broad support for the objective of our proposed reporting in this space, we have decided not to incorporate a reporting requirement into the RAGs at this time.

We recognise the multiple complexities in trying to implement our reporting proposal for NBS and indeed the burden it would impose. We also recognise that NBS are in essence delivery vehicles and not outcomes in and of themselves. Although a reporting requirement isn't necessarily the right answer, there may be an opportunity in other areas to track developments on the adoption of NBS, for example through the ongoing WINEP reform work.

## Next steps

Companies will be required to publish their 2020-21 APR, and submit their completed Excel table templates by 15 July 2021.

Companies have one month to decide whether to dispute revisions to the RAGs. If a company wishes to dispute any revision it must let us know in writing no later than 30 December 2020.

## Enquiries

If you have any questions about this information notice please email [OfwatPandO@ofwat.gov.uk](mailto:OfwatPandO@ofwat.gov.uk).

## More information

[Price review 2019; final determinations](#)

[Consultation on regulatory reporting for the 2020-21 reporting year](#)

[Consultation on regulatory reporting for 2020-21 – Responses document](#)

### **Regulatory accounting guidelines;**

**Copies of the following documents are now available on request by emailing [OfwatPandO@ofwat.gov.uk](mailto:OfwatPandO@ofwat.gov.uk) and will shortly be published on our website.**

- RAG 1.09
- RAG 2.08
- RAG 3.12
- RAG 4.09
- RAG 4.09 Appendix 1
- RAG 4.09 Appendix 2
- RAG 4.09 Appendix 3
- RAG 4.09 Appendix 4
- RAG 4.09 tables (Excel format)