

Information notice

26 October 2021

IN 21/03 Regulatory accounting guidelines 2021-22

This document and its accompanying [Consultation on regulatory reporting for 2021-22 – 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 May 2021, we published [our consultation on regulatory reporting for the 2021-22 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 3 and 4 have been revised 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 2022.

We had 18 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 we have modified RAG4 to give more clarity.

Cost assessment data

Information on costs forms the majority of the information required for the APR. There were over 200 points made in response to our general question on the APR tables – 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 2021-22 – Responses document](#).

Greenhouse gas (GHG) emissions

We would like companies to enhance their level of GHGs reporting, in relation to both **operational** and **embedded emissions**.

GHG operational emissions reporting

We confirm our decision that reporting will be mandatory for the 2021–22 reporting year onwards. We have amended our reporting table for operational emissions to ensure that it more closely aligns with the reporting focus of the Carbon Accounting Workbook (CAW). It also aligns with the latest best practice developments and the reporting approach of the GHG protocol and carbon reporting and emissions guidance from Defra. The operational emissions reporting table has been amended to better complement the sectors efforts to demonstrate progress in moving to net zero, taking into account responses we received to the consultation.

GHG embedded emissions reporting

As a result of the responses to this consultation, combined with our voluntary approach to reporting on embedded emissions for 2020–21, we have developed a richer understanding of how the sector is reporting, and importantly how companies are managing their embedded emissions. It is imperative that companies make more rapid progress in this area. Increasingly in the future, stakeholders will expect companies to be capable of demonstrating that their actions are contributing towards the UK and Welsh Governments' 2050 net zero targets.

We recognise that companies are not yet reporting on their embedded emissions in a comprehensive or consistent manner due to a lack of an agreed definition, frameworks and tools. However, a lack of a clear definition, or standardisation, should neither prevent progress nor justify a lack of progress in relation to companies being able to demonstrate that they are taking meaningful action to reduce their embedded emissions and justifying related investment decisions. We ask that companies at a minimum report on tCO₂e in relation to capital projects undertaken in the reporting year up to the point they are commissioned (ie. cradle-to-gate¹). We also ask that companies split their reporting by construction and maintenance activity.

For the 2021–22 reporting year we continue to invite voluntary reporting of embedded emissions, but in a more standardised way.

Revising RAG2 – Overhead cost reporting

In June 2021 we published [Overhead cost reporting – revising RAG2. In that consultation we stated that we seek to](#) identify if there is more that we could do to improve the effectiveness of markets. We were specifically interested in bioresources, developer services and water resources. The consultation looked at improving guidance on the allocation of costs to these parts of the value chain. The consultation closed on 2 August 2021.

Our existing guidance on cost allocation for company Annual Performance Reports (APRs) is contained in RAG 2.08. Much of the current guidance in that document is aimed at the split of costs between retail and wholesale. And within retail there is guidance on further disaggregation between different retail customer types. We proposed to use RAG2 as the basis for providing improved guidance on the allocation of overhead costs, where necessary, so that companies are able to consistently allocate costs between wholesale price controls. We include a new version of the regulatory accounting guidance, RAG 2.09, to reflect the improved guidance. This guidance focussed on the allocation of overhead costs in relation to:

- Bioresources,
- developer services; and
- general costs spanning wholesale controls.

Revising RAG2 – Energy generation in bioresources

The new version of RAG2 also incorporates our **revised guidance concerning the allocation of revenues or avoided costs associated with energy generation in bioresources**. We published [Bioresources cost allocation – Energy generation and odour control](#) in June 2021 to consult

¹ 'Cradle-to-gate': emissions resulting from the extraction, transportation and processing of raw materials used to create product and deliver it to the factory gate (UKWIR, 2012).

on how the revenues and/or cost savings arising from energy generation within the bioresources control should be allocated across price controls going forwards.

Gathering data about developer services

In June 2021 we published [Gathering data about developer services – a consultation](#) to consult on the collection of additional data to inform the regulation of the developer services market as part of the 2024 price review (PR24). In August 2021 the [Gathering data about developer services: Data request 2020–21](#) was published alongside the [pro forma tables](#), which reflected the comments received during the consultation process.

The deadline for data submissions covering the 2020–21 financial year was the 8th October, and we are currently in the process of reviewing and analysing the data received. In the data request we said that we intend to use the 2020–21 data submitted by companies to update our final RAGs for 2021–22. We are not yet in a position to confirm our requirements for the 2021–22 developer services data tables. Our expectation is that we will request a full-year of developer services data for 2021–22 to corroborate our analysis of 2020–21 data. But we will release separate tables later in the year once analysis of 2020–21 data is complete.

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 February 2021, our consultation, [Our monitoring and reporting approach for new appointees – a consultation – Ofwat](#), 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.

In July we published [Our monitoring and reporting approach for new appointees – policy conclusions](#) where we set out our conclusions. This includes a requirement for new appointees to produce an annual performance report as part of their annual submissions. We consider there are key benefits in terms of facilitating greater transparency and accountability in bringing together new and existing measures into a single document that

is accessible to all relevant stakeholders. For this reason, new appointees should publish them on their websites. We will publish our detailed requirements in late 2021.

Next steps

Companies will be required to publish their 2021-22 APR and submit their completed Excel table templates by 15 July 2022.

Companies have one month to decide whether to dispute revisions to the RAGs and ask for a reference to the Competition and Markets Authority (CMA). If a company wishes to do so it must let us know in writing within one month of receiving notice that a revision will take effect. We expect to receive any such notification no later than 25 November 2021.

Enquiries

If you have any questions about this information notice please email OfwatPandO@ofwat.gov.uk.

More information

[Price review 2019; final determinations](#)

[Consultation on regulatory reporting for the 2021-22 reporting year](#)

[Consultation on regulatory reporting for 2021-22 – Responses document](#)

Regulatory accounting guidelines;

Copies of the following documents are now available on request by emailing OfwatPandO@ofwat.gov.uk and will shortly be published on our website.

- [RAG 1.09](#)
- [RAG 2.09](#)
- [RAG 3.13](#)
- [RAG 4.10](#)
- [RAG 4.09 Appendix 1](#)
- [RAG 4.09 Appendix 2](#)
- [RAG 4.09 Appendix 3](#)
- [RAG 4.09 Appendix 4](#)

- [RAG 4.10 tables \(Excel format\)](#)