

# Information notice

March 2022

## IN 22/01 Expectations for monopoly company annual performance reporting 2021-22

### About this information notice

This information notice is relevant to all large appointees and the licensed infrastructure provider (Tideway). The requirements for companies' 2021-22 annual performance reports (APRs) are set out in the regulatory accounting guidelines (RAGs). This information notice provides:

- clarification and further detail for a small number of areas on what we expect companies to provide in their APRs; and
- details of some extra information which we would like to companies to provide in addition to their APRs.

### 1. Clarification and additional information relating to APRs

In this section we set out some clarification and further detail relating to previously published information requirements as set out in the RAGs, confirm the process for the submission of APRs and provide information for the determination of in-period outcome delivery incentives (ODIs).

#### 1.1 Updates to the RAGs

In October 2021 we published [IN 21/03 Regulatory accounting guidelines 2021-22](#) which set out the revised RAGs for the 2021-22 reporting year. We have made some minor revisions to RAG 4.10 since October. Links to the latest versions of the RAGs, which should be used for 2021-22 reporting, can be found at the end of this document in the 'More information' section.

For most tables, cost allocation should be based on the guidance provided in RAG 2.08. However, when completing table 8C lines 18 to 23, the revised guidance in RAG 2.09 should be followed.

We are likely to make some updates to the RAGs for 2022-23. We anticipate consulting on any necessary changes later in the summer. Any consultation will be after we have received the APRs for 2021-22 and we will also consider the timing in relation to any other consultations which we are conducting around this time.

## **1.2 Process for submission of APRs**

Companies are required to submit their APRs to Ofwat as soon as reasonably practicable and, in any event, not later than Friday 15 July. A link to the Excel template which companies should use to submit their APR tables is provided at the end of this information notice.

Companies should upload their APRs and associated files to their company's area on our Sharepoint data capture site. If companies have any problems accessing this site they should email [annual.reporting@ofwat.gov.uk](mailto:annual.reporting@ofwat.gov.uk)

## **1.3 Publication of APR tables**

It is our expectation that this year companies will make APR data available in a way that can be reused and accessed by all. Companies can do this by publishing their APR tables in an Excel format on their website and publishing metadata such as publication date, version information and the file type, and supporting documentation such as explaining changes in methodology from previous years. This is consistent with the expectations set out in our October publication – [H2Open: Open data in the water industry](#) – to make water industry data freely available to everyone to access, use and share.

## **1.4 Reporting for in-period outcome delivery incentives**

In line with part 3A of condition B of companies' licences, we will be making in-period determinations to adjust price controls in relation to performance for the 2021-22 reporting year. Alongside their other APR tables, companies should submit tables 3A to 3I within the ODI performance model, a populated version of the in-period adjustment model and any other supporting data or information (such as proposals for bill smoothing and bill impacts).

Companies should ensure that they report against the most recent version of all their performance commitments (PCs), as the PCs set in the PR19 final determinations outcomes appendices have been subject to a small number of [changes and corrigenda](#). For Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water we have now made the changes that are contained in the Competition and Market Authority's (CMA) March 2021 determinations to their PCs. We have agreed these changes separately with the four appellant companies.

We circulated version 1.6 of the ODI performance model to companies on 14 February 2022 and asked for comments on this by 11 March 2022. We will publish an update to this model

once we have considered the comments received. Once available, all companies should use the updated version of the ODI performance model because it includes updates that affect all companies. We note that in some rare instances, such as where there are enhanced or two tiered ODI rates, companies may need to use the override function in the 'Company\_PC\_inputs' worksheet. When companies use this override, they should provide a clear explanation in their commentary of what they have done to substantiate it.

Our expectation is that companies' submitted data will comply with the relevant guidance for both bespoke and common PCs, and their [PR19 common performance commitment definitions](#). This use of common, converged methods for reporting data increases transparency for all stakeholders and makes comparisons across the sector more meaningful. If the data submitted is not based on a fully converged methodology, then companies should clearly explain why they have not been able to this and demonstrate that not being fully compliant does not have a material impact on the reported performance. If the move to convergence affects baselines for any PCs, then companies should also show this clearly.

Companies should provide a proportionate level of detail and supporting information in their commentaries to allow us to clearly understand the drivers of performance and associated ODI payments. This provides transparency for all stakeholders, including customers. It is particularly important if companies are reporting large outperformance payments or incurring large underperformance payments that they provide comprehensive supporting commentary and evidence explaining what is driving this. In addition, companies should provide commentary when reporting data that differs significantly from the sector averages.

As was the case in 2020–21, we have been clear that we expected companies to work flexibly and innovatively to deliver the best possible outcomes for their customers. We have emphasised that we did not want achieving targets or other incentive mechanisms in the wider regulatory regime to be a barrier to doing the right thing. We explained that we would consider any need for an adjustment in the round as part of our normal reconciliation processes, which would include the in-period ODI process. Companies may choose to explain in their 2021–22 APR how they have worked flexibly and innovatively to deliver services for customers due to the Covid-19 pandemic and any influence this has had on their performance. In light of this, companies may also choose to make the case for an intervention where they consider there has been a material impact.

As we stated in [Consultation on changes to per capita consumption performance commitments – our decision on reporting performance and ODI timing](#) and [Sector overview: Final determinations of in-period outcome delivery incentives for 2020–21](#), we do not want to weaken the incentives we set at PR19 to lower consumption. Although per capita consumption is now an end of period PC across the sector, we still expect companies to better understand changing water consumption, take action to reduce water consumption and evaluate the benefits of different options. There was insufficient detail on this topic in

most companies' 2020-21 APR commentaries and we would expect details on activities such as water efficiency campaigns and any other relevant activity.

In their 2020-21 submissions some water and wastewater companies reported that 0% of their internal sewer flooding incidents were identified by the company, rather than by customers. Given that the [reporting guidance](#) says that companies should make all reasonable efforts to determine the number of properties affected by flooding, including making site visits to all neighbouring properties, we would not normally expect that the reported figure would be zero or near zero. If a company reports zero or near zero for this within table 3G it should explain why this is the case.

Following the [consultation](#) we ran on the reference to v13 of the Carbon Accounting Workbook (CAW) we are considering the responses and will contact the affected companies when we have decided whether a change to the CAW version is necessary.

## **1.5 Water industry national environment programme (WINEP), National Environment Plan (NEP) and bathing water**

Some companies have contacted us because, due to either the impacts of the Covid-19 pandemic or for other reasons, the Environment Agency or Defra have altered either delivery dates or other WINEP requirements. Our policy is that we would not expect to make changes to financial PCs simply because of WINEP changes. We addressed this scenario in our PR19 final determinations. Section 6.3 of the [PR19 delivering outcomes for customers appendix](#) recognised that WINEP deliverables might change during the 2020-25 period. We said we wanted companies to focus on delivering environmental improvements rather than convincing regulators to alter the programme. Therefore we did not put in place a specific approach for companies to amend PCs on WINEP and NEP during the period.

It is important to note that the most changes to WINEP tend to result in later delivery dates or funded schemes not being delivered at all. Because we knew at PR19 that changes to WINEP would not automatically be reflected in financial PCs we introduced (for all companies except those with early certainty) a non-financial incentive for WINEP. We did this to allow companies to clearly demonstrate whether they have met or not met their WINEP/NEP obligations without the need for changes to their financial PCs. If water companies in Wales agree changes with Natural Resources Wales to NEP schemes we will adopt a comparable approach to that we apply to WINEP changes.

## **1.6 Bathing Waters**

As [reported by Defra](#), there was no classification of bathing water for 2020 due to the Covid-19 pandemic. However, the 2021 bathing water assessment is based on the four years 2017, 2018, 2019 and 2021 so we expect companies to use this for 2021-22 reporting and would not expect them to report 'NA'.

## 1.7 Innovation fund costs reporting

Companies should not include the revenue collected from customers for the innovation fund as a cost in the regulatory accounts. The only costs related to the innovation fund we expect to be included in these tables are actual costs on projects that have been funded by the innovation fund (as reported in line 9A.22 of the APR).

While companies will report a provision within their statutory accounts in relation to the innovation fund, for the purposes of the regulatory accounts we expect this to be reversed with no corresponding adjustment to revenue. This should be listed in companies' APRs as a difference between the statutory and regulatory accounts.

For 2021–22 companies should unwind any accrual that was reported in 2020–21.

## 1.8 Financial flows reporting

In response to feedback from companies and to improve the layout and understanding of table 1F of the APR, the following amendments have been made for 2021–22.

The table now has separate sections for Regulatory equity (£m) and Return on Regulatory equity (%) to enhance readability of the table.

Line 1F.3 has been re-labelled from 'Gearing' to 'Impact of movement from notional gearing', to provide a clearer, more transparent description of what is being reported.

The previous 'Actual performance adjustment 2015–20' line is now summarised in line 1F.24 to line 1F.26 which is a new section at the foot of the table, labelled 'Cash impact of 2015–20 performance adjustments'.

The effect of this amendment is to remove an element of 'double counting', as these adjustments relate to the previous AMP and were reported when the out/under performance occurred, whilst continuing to provide visibility of the impact of the over/under performance from 2015–20 on the current period. In addition, it aligns the consistency of reporting within the main body of the table to so that the main body of the table is now being reported on an 'accruals' basis, while the performance adjustment for 2015–20 is reported on a cash basis, when these adjustments are reflected in allowed revenue.

For 2021–22 onwards, the section now only includes the out/under performance for totex and ODIs. When reporting the 'AMP to date' values in 2021–22, companies should reflect the updated values for 2020–21, which will be included in the 'Financial Flows data allowances' published on the Ofwat website.

## 1.9 Connected properties reporting

In response to feedback, we have made edits to the line definitions in RAG 4.10 for table 4R of the APR to clarify calculations of total connected properties, the reporting of unbilled properties and the reporting of multiple properties covered by a single bill.

## 1.10 Audit opinion wording for the 2021-22 APR

We are publishing the [Audit Opinion for the 2021-22 APR](#) alongside this information notice. This sets out the wording of the audit opinion that we expect all auditors to provide on companies' 2021-22 APRs. It has been shared and agreed with the audit firms.

## 2. Risk and compliance statement

Alongside their 2021-22 APRs, we expect companies to provide a risk and compliance statement, appropriately signed off, in which the board clearly confirms that the company:

- considers that it has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
- has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

Where the company considers it is unable to provide such a statement it should explain why it is unable to do so.

## 3. Greenhouse gas emissions reporting

As we set out in [Consultation on regulatory reporting for 2021-22 – Responses document](#), we request that companies provide a strengths, weaknesses, opportunities and threats (SWOT) based explanatory statement on their approach to reducing greenhouse gas (GHG) emissions alongside the completion of table 11A of the APR (Operational greenhouse gas emissions reporting). While we request this on a voluntary basis for the reporting year 2021-22, we strongly encourage companies to undertake the analysis, as a SWOT analysis-based narrative enables better and more consistent stakeholder understandings of company actions on GHG emissions. Additionally, as we also set out in our [Responses document](#), where possible, companies are encouraged to voluntarily report on other GHGs not included in table 11A, specifically HFCs, PFCs, and SF6 in the commentary to table 11A.

It is imperative that companies make more rapid progress on the reporting and managing embedded emissions. For the 2021-22 reporting year we continue to invite voluntary

reporting of embedded emissions, but in a more standardised way as indicated in our [Responses document](#). The aim is to introduce a form of mandatory standardised reporting on embedded GHG emissions for the 2022-23 APR, subject to consultation.

## 4. Additional information requests

In this section we set out some areas where we are requesting or are likely to request information that we expect companies to provide in addition to their APRs.

### 4.1 Bioresources additional information

On 9 December 2021 we published a consultation regarding [additional information](#) that companies would be expected to provide alongside their regulatory reporting for 2021-22. We discussed this issue with water and sewerage companies at [a Cost Assessment Working Group](#) on 21 January 2022. The consultation closed on 10 February 2022.

The purpose of the information is to improve our econometric cost benchmarking models and so better enable us to set a specific efficiency challenge for bioresources (and separately for wastewater network plus) when we set price controls. We continue to consider that a specific efficiency challenge would be more transparent and more likely to achieve a stretching, targeted efficiency challenge for bioresources activities.

We have now considered stakeholders' responses. Most stakeholders supported our preferred approach, that is 'Option 4: Company adjusted historical data'. In this option, companies would make adjustments to their historical data.

Through our engagement with stakeholders, we understand that early publication of the information requirements would be helpful. We are therefore announcing our decision to implement our preferred option, which we consider is most likely to provide accurate data and publishing the [finalised request for information](#) alongside this information notice.

We will also consider what additional guidance we can provide to improve the consistency of reporting between companies.

### 4.2 Additional enhancement cost reporting

To help improve accuracy and scope of cost benchmarking at PR24 additional historical enhancement expenditure and delivered benefit data will be required. This data will be related to expenditure data already submitted through the APR in tables 4L and 4M. We are currently working with all companies through the PR24 Cost Assessment Working Group (CAWG) to understand what data is available, where it may provide value in cost benchmarking and where it is proportionate to collect and report. We will continue to work

closely with CAWG and confirm the final data requirements in April. For the agreed additional data lines we will be requesting the outturn data for 2020-21 and 2021-22.

### **4.3 Base cost information request**

On 9 December 2021 we consulted on our current thinking on our approach to [Assessing base costs at PR24](#). We asked stakeholders to identify any additional information we could collect to improve our base cost assessment approach. For example, additional cost driver and explanatory variable data that could improve our econometric base cost models; additional data that could improve our assessment of growth expenditure; and/or additional cross-sector data that could enable well-evidenced cost adjustment claims to be developed and facilitate the wider application of symmetrical cost adjustments.

We also set out our intention to seek data related to the impact of the Covid-19 pandemic on companies' bad debt costs in their PR24 business plan tables. We now consider that this information could be helpful at an earlier stage of the PR24 process to inform the assessment of base costs.

Our current intention is to publish a base cost information request in April/May 2022, that will enable us to collect additional historical information based on suggestions made by the sector in response to our consultation.

We will develop the information request collaboratively with the CAWG, and we expect companies to submit the additional data alongside the 2021-22 APR. The additional information could then feed into our approach to assessing wholesale base costs at PR24 and enable us to consider early publication of our base cost econometric models in 2023.

### **4.4 Developer services information request**

On 9 August 2021 we published a developer services data request covering the 2020-21 financial year. The aim of the data request was to inform the regulation of the developer services market for PR24. The data request followed the [Gathering data about developer services](#) consultation in June 2021.

We are in the process of analysing the additional developer services data received from companies and will set out more details on our proposed approach to regulating developer services in the PR24 draft methodology in July 2022.

Before then, we aim to issue a follow up developer services information request to water companies before the end of March 2022 that we will expect companies to provide alongside their 2021-22 APRs. For avoidance of doubt, the data request will cover the 2021-22 financial year, as was previously signposted in [Gathering data about developer services: Data request 2020-21](#). Combined with the 2020-21 data already collected, this will provide two years of



developer services data, which will help to inform our approach to regulating developer services at PR24 that will be set out in our PR24 final methodology in December 2022.

We recognise the relative lateness of the request. We are aiming to rationalise the 2021–22 developer services data request based on our analysis of 2020–21 developer services data to reduce the burden on companies.

#### **4.5 Leakage reporting additional information**

Following PR19 we have been engaging with companies to develop more granular leakage reporting through consultations on the RAGs, industry working groups and individual company meetings with leakage practitioners. The aim of this data collection is to provide valuable insight to both companies and regulators, and to specifically:

- enable companies to explain their leakage strategies in terms of the activities, associated costs and the benefits they are delivering;
- allow companies to demonstrate the drivers of their leakage strategies; and
- provide us with better understanding of the effective leakage strategies and the efficient costs and benefits for leakage activities delivered across the industry.

In February 2022 our consultants produced draft definitions for more granular leakage data reporting, and these have been issued to companies for comment and feedback. The intention is to produce a finalised set of definitions in March 2022 and submit a data request for companies to provide this information, including back-cast historical figures. We are in discussions with companies regarding an appropriate timescale for the provision of this data. This is likely to be either alongside the 2021–22 APR submission or later in 2022.

#### **4.6 Future common performance commitments information request**

In November 2021, we set out the potential for new PCs for PR24 in our [discussion document](#). We are currently reviewing responses. Alongside this there are task and finish groups considering potential definitions for biodiversity and river water quality metrics. We are also considering a Water UK group proposal on how information could be collected to take better account of the consequence of sewer flooding to customers.

We want to collect information for the 2022–23 reporting year for any new PCs. Where appropriate we may also ask companies for relevant information that they already have for previous years. We will continue to liaise with stakeholders through the outcomes working group to provide further updates on these definitions and discuss the form and timing of any data requests. Any data request will be targeted, proportionate and feasible and, if possible, we will time any requests in the short term so that these are alongside 2021–22 APRs. We expect to introduce formal reporting for the 2022–23 reporting year.

## 4.7 Asset health information request

In our [Assessing base costs at PR24](#) consultation we discussed our intention to potentially collect additional asset health information to provide insight into levels of asset health at a sector level, future capital maintenance activity requirements, and to investigate if the future is likely to be different to the past. Respondents to the consultation were broadly supportive of our intention to potentially collect more information in this regard. We therefore propose to collect additional information on a suite of asset health related information.

We are currently collating feedback from the consultation and considering wider implications from the UKWIR 'Future asset planning' report. We will therefore aim to provide further information on the specific asset health measures and a data collection template in early April 2022.

Companies should submit this information, on a voluntary basis in the first instance, alongside their 2021-22 APRs. We will review this information in July 2022 and then consider how to refine and improve the information requirements for standardised collection and reporting in the 2022-23 APR. We will provide further details of the requirements for 2022-23 in the summer.

Given the relatively late notice of this information request, we appreciate that the collection of additional information should be targeted, proportionate and feasible. We will aim to collect data that should be accessible to companies or that has been collected previously.

## 5. Regulatory Capital Value (RCV) indexation annual update

For 2021-22, we have included a new dashboard tab in the RCV indexation annual update model, that will be published on the Ofwat website later in the spring. This provides a clearer, more summarised view of the RCV movement in the reporting period for each price control.

## 6. Enquiries

If you have any questions about this information notice, please send them to [annual.reporting@ofwat.gov.uk](mailto:annual.reporting@ofwat.gov.uk)

## **More information**

[RAG 1.09 – Principles and guidelines for regulatory reporting under the ‘new UK GAAP’ regime](#)

[RAG 2.08 – Guideline for classification of costs across the price controls](#)

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[RAG 3.13 – Guideline for the format and disclosures for the annual performance report](#)

[RAG 4.10 – Guideline for the table definitions in the annual performance report](#)

[RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors](#)

[IN 21/03 Regulatory accounting guidelines 2021-22](#)

[2021-22 annual performance report tables \(excluding tables 3A-3I\), Excel template](#)

[Audit Opinion for the Annual Performance Report 2021-22](#)

[Reallocation of costs information request](#)