

May 2023

**Business Retail Market –
Financial resilience monitoring &
understanding governance
structures
RFI Guidance v1.0**

Ofwat's monitoring and oversight of Retailers' financial resilience and understanding of governance structures

Request for Information (RFI) guidance

1. Introduction

1.1 Background

Since the business retail market opened in April 2017, Ofwat has been monitoring the development of the market to inform and support its regulatory approach and to ensure Ofwat is best placed to protect the interests of current and future business customers.

To strengthen our understanding of the financial resilience of Retailers in the market, from May 2023, we are implementing a monitoring regime that will include us collecting relevant financial information from all Retailers on an ongoing basis.

Furthermore, we are taking steps to improve our visibility of the ownership structures of Retailers, the way in which their Boards operate and their governance processes. Collecting information on these topics on a timely and consistent basis will improve our understanding of the businesses that operate in the market and the way in which Retailers make decisions.

The questions detailed in this RFI will allow us to collect information on these topics across all Retailers in the market. With greater visibility at both an individual Retailer and sector level, our monitoring will provide better forewarning of potential risks to Retailer financial resilience, strengthening our ability to take appropriate steps to protect the interests of current and future business customers.

This guidance document should be considered alongside the [accompanying cover letter](#) that also provides further detail on the rationale and scope our financial resilience monitoring regime.

1.2 Purpose of this document

Retailers are requested to complete an RFI Excel spreadsheet (provided separately to this document) with relevant data, as well as an accompanying narrative document. This guidance document provides information on how to complete the RFI spreadsheet, definitions relating to the financial metrics that are being requested, and tab by tab

instructions. It also sets out the information that should be included in the accompanying narrative submission regarding Retailers' corporate structures and governance arrangements.

In addition to this guidance document, each tab within the RFI spreadsheet also contains explanatory notes which provide further explanation and clarification for specific questions. When completing the RFI spreadsheet, please refer both to guidance within this document as well as explanatory notes within the RFI spreadsheet.

Where this guidance document or the RFI spreadsheet asks for further explanations or information, these should be provided in the separate narrative document; ideally your narrative document would follow the same structure of the RFI spreadsheet.

We expect and require submissions relating to all actual (outturn) information and data to be accurate. Retailers should provide a description of the assurance processes undertaken to verify that the information and data submitted are accurate in their accompanying narrative submission.

We remind Retailers that this information is being requested under Standard Condition A8 of the Water Supply and Sewerage Licence (WSSL). This licence condition requires Retailers to provide Ofwat with such information as it reasonably requires for the purposes of carrying out its statutory functions under the Act and the Water Act 2014.

1.3 Structure of this document

Section 2 - General notes

Section 3 - Financial metrics guidance

Section 4 - Company structure and governance guidance

2. General notes

2.1 Scope of request: Your business retail activities

This request relates to information pertaining to a Retailer's entire non-household business retail activities across the whole of the UK. To facilitate an accurate and consistent submission of data across the sector, the scope of this information request concerns Retailers' entire non-household water retail business such that this information can be reconciled to filed and published statutory accounts for the relevant reporting period. Note, for those businesses in possession of more than one Water Supply and Sewerage Licence (WSSL), the information submitted in response to this request should be on a consolidated basis.

For example, for Retailers that provide water and waste water retail services to customers in England, Wales and Scotland, the RFI submission should reflect business activities in all these markets, as reflected in the company's filed statutory accounts.

2.2 Reporting period(s)

The information requested is in respect to Retailers' last three financial years with the current financial year on an actual basis (not forecast).

For Retailers with the yearend 31 March, the information requested will be in respect to the financial years ended 31 March 2021, 2022, and 2023. For those Retailers with a different yearend, the information provided should be in respect of their relevant financial years end 2021, 2022, and 2023. All Retailers should state their yearend dates in their narrative submission.

Certain information is requested on a bi-annual basis and should be based on either the position at that date or reflective of the 6-month period as appropriate. For example, applying a 31 March yearend, information should be provided for the 6-month reporting periods to or as at 30 September and 31 March.

2.3 Reconciliation to audited statutory accounts

The financial information submitted in response to this request should agree directly to Retailers' audited and filed statutory accounts, and reconciliations should be provided where appropriate.

Where the information provided differs from that reported in the audited statutory accounts, Retailers should provide an explanation of this difference in their accompanying narrative submission.

If the information provided is based on underlying data that has not been audited, this should be made clear. For instance, financial accounts for the year ended 31 March 2023 may not have yet been audited. Where financial information has not yet been audited, the data provided should be based on the Retailers' latest set of management accounts and a note of to this effect included in the supporting narrative document.

2.4 Units for pounds £'000s

Numbers entered for £ inputs should be entered as units of £'000s.

2.5 Price base

All historical cost and revenue data should be expressed in nominal terms for the relevant reporting period. No adjustment for inflation should be applied for the periods 2020-21 and 2021-22.

3. Financial metrics guidance

The information in this section is relevant to all sheets within the accompanying RFI excel template¹, as shown in table 1.

Table 1: Financial metrics guidance document section and associated excel template sheet

Guidance document section	RFI excel sheet
3.1 Profitability metrics	Revenue
3.2 Financial ratios	Ratios
3.3 Aged debtors and bad debt provision	Debtors
3.4 Funding arrangements	Funding

3.1 Profitability metrics

Retailers are to provide the information requested on a bi-annual basis. For example, the 6-month periods 01 April to 30 September and 01 October to 31 March, for each of the financial years ended 31 March 2021, 2022, and 2023.

3.1.1 Revenue

Total revenue including any amounts uninvoiced in the reporting period.

Note we expect all revenue that accrues in the relevant time period to be attributed to that reporting period, including any revenue accrued from customers that subsequently switched away from your company. Revenue should exclude any VAT amounts.

3.1.2 Wholesale charges

Total wholesale charges incurred in the reporting period.

Note we expect all wholesale charges in the relevant reporting period to be attributed to that reporting period, including any wholesale charges for customers that subsequently switched away from your company.

¹ Information requested regarding Retailers' payment terms with Wholesalers (noted in §3.5) is excluded from the accompanying RFI excel template as this is to be submitted in Retailers' narrative submission.

3.1.3 Gross margin

Note, this metric is calculated based on a Retailer's revenue and wholesale charge inputs, as per §3.1.1 and §3.1.2.

Gross Margin is defined as the total revenue attributed to the relevant reporting period minus the total wholesale charge attributed to the relevant reporting period, expressed as a percentage of total revenue:

$$\text{Gross Margin (\%)} = \frac{\text{Rev}_t - W_t}{\text{Rev}_t}$$

Where:

Rev_t = the total revenue accrued in reporting period t , as per the definition in §3.1.1.

W_t = the total wholesale charge in reporting period t , as per the definition in §3.1.2.

3.2 Financial ratios

3.2.1 Block A: Earnings

Retailers are to provide the information requested on a bi-annual basis. For example, the 6-month periods 01 April to 30 September and 01 October to 31 March, for each of the financial years ended 31 March 2021, 2022, and 2023.

Operating profit/(loss)

Profit or (loss) generated in the period before interest expense and tax charges.

Profit/(loss) before tax

Profit or (loss) generated in the period before tax charges.

EBITDA

EBITDA is calculated as total profit / (loss) for the period before interest, tax, depreciation, and amortisation. EBITDA should be reported on a non-adjusted basis (i.e. no adjustments made for non-recurring exceptional costs).

Some Retailers may monitor EBITDA on an adjusted basis as a measure or indicator of underlying performance. On that basis, Retailers are permitted to also include an Adjusted EBITDA for the same period (i.e. excluding non-recurring exceptional cost items).

Adjustments should only be made for items that are non-recurring, unusual, or that are not related to the underlying performance of the business. For example, exceptional credit losses, a one-off settlement, non-recurring legal costs.

A clear explanation of each adjustment made should be provided in the accompanying narrative RFI submission.

3.2.2 Block B: Interest Cover Ratio

Retailers are to provide the information requested on a bi-annual basis. For example, the 6-month periods 01 April to 30 September and 01 October to 31 March, for each of the financial years ended 31 March 2021, 2022, and 2023.

Net interest expense

Net interest expense is calculated as the sum of Interest Expense less Interest Income, where:

- Interest income relates to interest generated in the relevant reporting period, including interest received on cash deposits and loans made to group companies.
- Interest expense is in respect to interest incurred in the relevant reporting period, including interest on bank loans and overdrafts, loans due to group companies and any other borrowings including interest arising on relevant invoice financing arrangements.

Interest expense should be stated after the impact of hedging arrangements including inflation accretion on index linked debt.

Net interest expense should exclude interest relating to defined benefit pension schemes.

Interest cover ratio

The interest cover ratio is calculated as EBITDA (unadjusted) / Net Interest Expense for the relevant reporting period.

Retailers may also provide the interest cover ratio using the Adjusted EBITDA measure, as noted in §3.2.1.

3.2.3 Block C: Gearing Ratio

For this section Retailers are to report on a bi-annual basis. For example, as at 30 September and 31 March for the financial years ended 31 March 2021, 2022, and 2023.

It should be clear how both Net debt and Shareholder Equity agree to the balance sheet in Retailers' statutory accounts at yearend. Where the requested information does not directly agree Retailers are to provide a clear reconciliation.

Total Net Debt

Net debt is defined as total long and short term borrowings, including:

- Bank loans and overdrafts
- Loans due to other group companies
- Obligations under leases
- Any other borrowings including inflation accretion on index linked debt.

Less:

- Cash in hand and at the bank at period end
- Cash equivalents – short term deposits compared of any investments which are readily convertible into cash. This may include deposits made with group companies.

Total Shareholder Equity

Total shareholder equity includes share capital, preference shares and retained earnings.

Gearing Ratio

Gearing is calculated as Total Net Debt / Total Capital.

Total capital is equal to Total Net Debt plus Total Shareholder Equity.

3.2.4 Block D: Liquidity

This section requires Retailers to provide information on a bi-annual basis. For example, as at 30 September and 31 March for each financial year ended 31 March 2021, 2022, and 2023.

For each reporting period, where the relevant date is the same as the financial yearend date, for example 31 March, the information should agree to the statutory accounts. Where the requested information does not directly agree Retailers are to provide a clear reconciliation.

Net Current Assets / (Liabilities)

Net Current Assets is defined as current assets less current liabilities, as reported in Retailers' statutory accounts.

Current assets being all trade and other receivables due within one year. Current liabilities being all trade and other payables due within one year. Table 2 sets out the items to be included in current assets and current liabilities.

Table 2: Current assets and current liabilities definitions

Category	Item	Definition
Current assets	Inventories	Stocks held as at the relevant date. Stocks consist of consumable stores and work in progress, including chemicals, stationery, petrol, backfill materials, etc.
	Trade & other receivables	Debtors consist of all amounts owing to the company at the relevant date including trade debtors, prepayments and accrued income. This includes amounts falling due after more than one year. Any assets held for sale should also be included here.
	Financial instruments	Difference between book value and fair value of any current assets relating to financial instruments, which are presented at fair value in the statutory accounts.
	Cash & Cash equivalents	Cash consists of cash in hand and at bank and short term deposits. Overdraft balances should not be netted off as they should be included separately in 'Trade & other payables'.
Current liabilities	Trade & other payables	Trade creditors, accrued interest and any other accruals or creditors due within one year that are not borrowings, tax creditors or liabilities arising from derivative financial instruments.
	Borrowings	Balances due within one year which comprise: <ul style="list-style-type: none"> • obligations under leases; • loans due to other group companies; • bank loans; and • any other borrowings. Accrued interest on borrowings should not be included as this is included in 'Trade & other payables' above.
	Financial instruments	Difference between book value and fair value of any current liabilities relating to financial instruments, which are presented at fair value in the statutory accounts.
	Current tax liabilities	Corporation tax payable consists of any balances of corporation tax due to HMRC.
	Provisions	Total provisions for liabilities and charges due within one year. Includes deferred income – grants and contributions and all other provisions including restructuring or reorganisation provisions.

Net Assets / (Liabilities)

Net Assets is calculated as the sum of Net Current Assets / (Liabilities) (as defined), Total non-current assets, and Total non-current liabilities.

Non-current assets are defined as total fixed assets. Non-current liabilities are defined as total creditors due after one year.

3.3 Aged debtors & bad debt provision

This tab seeks data on the company's total customer debt and provision for bad debts. The period end refers to the financial year end 31 March, or equivalent. The table is split into three sections:

3.3.1 Block A: Aged debtor balance

This block requires Retailers to provide information on an annual basis. For example, as at 31 March for each financial year ended 31 March 2021, 2022, and 2023.

At each reporting period, please provide the debtor balance outstanding for each of the aged debtor time periods indicated (the aged debtor period refers to the number of calendar days outstanding not working days), before applying any provisions for bad debts.

Note, credit balances held by Retailers, including deposits paid, prepayments or any other monies paid by customers in advance of consumption should be excluded.

3.3.2 Block B: Bad Debt provision

This block requires Retailers to provide the information requested on an annual basis. For example, the 12-month period 01 April to 31 March, for each of the financial years ended 31 March 2021, 2022, and 2023.

For the reporting period 2020–21, please provide the total bad debt provision brought forward from the 2019–20 reporting period, or equivalent.

For all reporting periods, please provide:

- the increase / decrease in the provision that has been charged to the profit and loss account for the reporting period; and

- the actual value of customers debts written off in the reporting period.

3.3.3 Block C: Aged profile of Bad Debt provision

For each reporting period, please provide analysis of the bad debt provision (as defined in §3.3.2) by the aged profiles provided. Note that the aged profile of the bad debt provision should be in line with the aged debtor profile as defined in §3.3.1.

Note, the aged profile refers to refers to the number of calendar days outstanding not working days.

3.4 Funding arrangements

Retailers are requested to provide further information regarding their current capital structure.

The information should reflect the position at the last requested reporting date on an annual basis. For example, for Retailers with a financial yearend of 31 March or 31 December, the information should be as at 31 March 2023 or 31 December 2022.

The information provided should agree to the information provided in §3.2.3 in relation to a Retailer's gearing ratio.

3.4.1 Block A: Debt Funding

Retailers are to provide the following information in respect to debt funding as at yearend 31 March 2023, or equivalent. This will include, but not limited to, bank loans and overdrafts, loans from group companies or related parties, shareholder loans, bonds issued, revolving credit facilities, invoice financing arrangements and letters of credit.

Retailers should provide the following:

- Listing of all available borrowing facilities.
- For each borrowing facility, as relevant set out:
 - the provider of the facility
 - the type of facility
 - the amount available
 - the balance outstanding, drawn or utilised
 - the start date and maturity or end date of the facility

- associated interest rate
 - key financial covenants
- Listing of any debt instruments.
- For each debt instrument, as relevant set out:
 - the principal sum outstanding,
 - the maturity date
 - associated interest rate
- Listing of any other forms of debt funding not captured by above.

For any forms of debt funding that have an associated interest rate linked to a market index, this should be noted in the relevant cell in column H.

For those debt arrangements categorised as 'Other', please provide information of the instrument employed in the relevant cell in column L of this sheet.

Any other relevant information regarding the structure of the arrangement which is required to enable the nature of the instrument to be fully understood should be noted in the relevant cell in column L.

3.4.2 Block B: Equity Funding

Retailers are to provide the following information in respect to equity funding as at 31 March, or equivalent, for each of the financial years ended 31 March 2021, 2022, and 2023

Retailers are to provide a breakdown of total equity between the balance of:

- ordinary called-up share capital
- preference share capital
- share premium
- other reserves
- retained earnings

A clear explanation of other reserves, including whether these are distributable or non-distributable, should be provided in the accompanying narrative RFI submission.

3.4.3 Block C: Dividends paid or declared in the period

Retailers are to provide the information requested on an annual basis. For example, the 12-month period 01 April to 31 March, for each of the financial years ended 31 March 2021, 2022, and 2023.

For each reporting period set out the total dividend paid and/or declared, split by ordinary and preference share dividends.

In respect to dividends declared provide in narrative when the dividend is expected to be paid.

3.5 Wholesaler payment terms

In order to enhance our understanding of Retailers' working capital requirements, we are requesting information regarding Retailer payment terms agreed with Wholesalers. The information requested should be relevant as of 31 March 2023 and submitted as part of Retailers' narrative submission.

Please provide details of the payment/credit terms² in place with Wholesalers, including but not limited to:

- Which Wholesalers you have agreements in place with, including the end date of the agreement, if applicable, and whether or not there have been any amendments to the agreement since market opening;
- whether the payment of wholesale charges is made in advance or in arrears;
- the credit arrangements in place and the term of these arrangements (e.g. details of deposits, letters of credit, or other security provided); and
- the timescales for resolving disputes relating to under and over payments.

² This includes 'standard' payment/credit terms and alternative payment/credit terms agreed under the Market Codes, see: [Market Codes \(mosl.co.uk\)](https://www.mosl.co.uk).

4. Company structure and governance guidance

Please provide information relating to the following questions in your accompanying narrative submission.

Ownership

Respondents should confirm the full ownership and structure of the Retail business including:

- Who is the top level holding company for the Retail business, if applicable?
- Please provide details of the ownership structure of Retail Business or ultimate parent company. Who are the major shareholders and what are the percentages held?

Governance structures

- How many individuals sit on your Board of Directors, and what are their roles? What is the composition of the Board in terms of executive, non-executive, and independent members?
- How frequently does the Board meet?
- How are Board members selected?
- Are all Board members remunerated? If any are, how is the level of remuneration determined? For example, is it linked to performance?
- What succession planning measures, if any, does the Board have in place to ensure continuity in the event of a planned or unplanned departure of a critical member? How often is this continuity plan reviewed?

Decision making

- Please describe the decision-making process for key business decisions, such as changes to the annual budget or acquisitions. Who are the ultimate decision makers for these types of decisions?
- Where there is a holding or parent company, what, if any, decisions require their approval.
- Does the Board delegate any decision-making authority, for example, to individual Directors or Board Committees? If so, please outline what decisions are delegated and to whom.
- How often does the Board review organisational performance data? What are the organisational Key Performance Indicators that are reviewed and how are they used to manage the organisation?
- Does the Board have a mechanism for evaluating its own performance? If so, please give details of this mechanism, and how often review takes place.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

© Crown copyright 2023

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

OGL