

Information notice

April 2024

IN 24/01 Expectations for monopoly company annual performance reporting 2023–24

About this information notice

This information notice is relevant to all large appointees and the licensed infrastructure provider (Tideway). The requirements for companies' 2023–24 annual performance reports (APRs) are set out in the regulatory accounting guidelines (RAGs). This information notice provides detail on:

- the submission and publication of APRs;
- reporting for in-period outcome delivery incentives; and
- some extra information which we expect companies to provide in addition to their APRs.

1. Submission and publication of APRs and reporting for in-period outcome delivery incentives

1.1 Updates to RAG 4

In February 2024, we published our [Consultation on regulatory reporting for 2023–24](#), in which we set out proposed changes to the RAG 4 that would apply from the 2023–24 reporting year onwards. We will publish our response document, which summarises the responses we received to the consultation and how we have taken account of them in making our revisions, shortly. We are publishing the revised version of RAG 4 alongside this information notice. Links to the latest versions of the other RAGs, which should be used for 2023–24 reporting, can be found at the end of this document in the 'More information' section.

1.2 Updated version of RAG 3.12

We have also published an updated version of RAG 3.12 to reflect the [modification](#), effective from May 2023, which we made to each companies' licence to amend the condition which relates to its dividend policy. We have also updated the tables in annexes A1 and A3 to include

the five new tables which those companies with accelerated infrastructure delivery project and PR24 transition expenditure are now required to provide as part of their APRs.

1.3 Applicable version of RAG 2

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.

1.4 Process for the submission of APRs

Companies are required to submit their APRs to Ofwat as soon as reasonably practicable and, in any event, not later than Monday 15 July 2024. A link to the Excel template, which companies should use to submit their APR tables, is provided in the 'More information' section at the end of this information notice.

Each company should upload its APR and associated files to the 'July APR 2024' folder in its company area on our SharePoint data capture site. If companies have any problems accessing this site, they should email annual.reporting@ofwat.gov.uk

1.5 Open data

Consistent with the expectations set out in our October 2021 publication, [H2Open: Open data in the water industry](#), to make water industry data freely available to everyone to access, use and share, we asked companies to publish their 2022–23 APR tables in a format that could be accessed and reused by all. As set out in the [Water Company Performance Report 2022–23](#) we were disappointed to see that only a few companies considered open data characteristics when publishing their APR data tables and that none explained how the APR data publication would inform future open data releases. Also, while most companies provided a rationale on their open data approach, only a small number of companies explained why they chose to apply the open data characteristics that they did.

We expect to see further progress by companies in their 2023–24 APRs, which should clearly demonstrate the application of the characteristics of open data to the presentation of their data (including in their data tables). Alongside this, we expect companies to publish the rationale for the approach taken. This rationale should set out which open data characteristics were adopted, how these were chosen, reasoning for the decision and what considerations influenced their approach. Companies should notify us when they publish both their 2023–24 APR data tables and the rationale for their approach by emailing annual.reporting@ofwat.gov.uk. Companies should provide the URL where the APR data tables and rationale can be found.

1.6 Dividends

In May 2023 the dividend policy licence condition (P30) [modification](#) came into force. The licence condition requires an appointee to only declare or pay a dividend in accordance with a dividend policy that has been approved by its board and which complies with a number of key principles. These include taking into account service delivery for customers and the environment, and the investment needs and financial resilience of the appointee over the longer term.

Companies should describe their approach to compliance with P30 through transparent and relevant reporting in their APRs. We expect companies to set out and explain in their APRs how performance in the round has been considered and reflected, and for dividend reporting to be joined up with related areas of the APR and financial statements; the basis for all dividend decisions made should be clear to the reader.

We have published guidance on our assessment of dividends declared or paid in accordance with the P30 licence condition [Guidance on factors Ofwat considers in assessing dividends](#), and in respect of recent APR submissions we have provided several companies with feedback on dividend reporting. In the forming and application of their dividend policy we expect companies to consider all areas of underperformance alongside outperformance in determining the level of dividend, including matters of public scrutiny. Companies must clearly explain a decision to pay or declare a dividend in a scenario where the company has significant service failures to address or there is a risk of regulatory or other fines or penalties (including in relation to compliance with environmental obligations), or a need to take remedial actions. Over the coming months we will be giving consideration to whether there are areas of our guidance that can be further clarified and we aim to engage with companies on that basis.

Companies should take particular note that the licence condition applies to any dividend declared or paid by the appointee and regardless of intended use of that dividend.

1.7 Reporting for outcome delivery (ODI) incentives

APR submission requirements

This year there is not an in period determination process for ODI payments. Any adjustments to reflect ODI payments will be made in the PR24 process, with payments included in the final determination of price controls. However, companies should still 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 alongside their other 2023–24 APR tables. We will confirm our requirements for forecast 2024–25 performance separately, as part of a wider

communication on updating past performance business plan data for PR24 final determinations.

We expect companies to report against the performance commitment levels (PCLs) set out in each relevant performance commitment (PC). Companies should ensure that they report against the most recent version of each PC. For ease of reference, we [published](#) consolidated outcomes appendices on our website on 28 February 2023. For all companies these consolidated outcomes appendices combine the PR19 information about PCs with changes and corrigenda made since PR19. For Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water these appendices also incorporate the Competition and Market Authority's March 2021 determinations and, for Anglian Water only, the interim determination in August 2021. For Severn Trent Water, South Staffs Water and South West Water these appendices incorporate changes to PCs to reflect our final decisions on Green Economic Recovery.

We will share version 1.11 of the ODI performance model and the in-period adjustment model with all companies shortly. We will publish an update to this model once we have considered the comments received from companies. Once available, all companies should use the updated version of the ODI performance model to report 2023–24 actual performance and updated forecast performance for 2024–25. 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 for this in their commentary.

Companies may request deferrals to ODI payments. However, this year 2023–24 ODI payments will be included in the PR24 final determination and form one element of the revenue and RCV adjustments for all the PR19 reconciliation mechanisms. Consequently, we do not expect companies to make specific requests for deferrals of ODI payments in APRs this year. Any profiling of PR19 reconciliation adjustments will be applied in line with the policy set out in the PR24 final methodology. Companies should set out any proposals on profiling in their responses to the PR24 draft determination.

Expectations for in-period and end of period PCs

Our adjustments to price controls for the PR24 final determination will include ODI payments for performance against both in-period and end of period PCs. Therefore, in their 2023–24 APRs, we require companies to provide the same level of supporting evidence, in terms of both commentary and assurance, for end of period PCs as for in-period PCs. For end of period PCs, this applies to both their actual reported performance for 2023–24 and their forecast performance for 2024–25.

Supporting information and commentaries

To ensure transparency for customers and other stakeholders, companies should provide a proportionate level of detail and supporting information in their commentaries to explain the drivers of performance and associated ODI payments for both in-period and end of period PCs. Companies should also provide commentary when reporting performance is a material step change in performance from the previous year.

We recognise that company annual reports and APRs are public facing and need to be easy for stakeholders to understand. However, companies also need to provide sufficient technical detail to support their reported out- and under- performance payments. We note that some companies usefully provide a separate document with their APR, setting out all of the relevant commentary for tables 3A-3I in one place. Companies may take this approach, providing any separate document is clearly signposted in and accessible from the relevant sections of the APR. This should help reduce the number of queries we need to send to companies when we are reviewing companies' APR submissions.

Reporting and assurance requirements

Companies' data submissions should comply with the relevant guidance for PR19 bespoke and [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. For the common PCs below, companies are required to submit RAG compliance checklists (or a statement that the company is fully compliant where this was the case) with their 2023–24 APRs as evidence of compliance with the common methodology:

- Leakage
- Per capita consumption (PCC)
- Unplanned outage
- Mains repairs
- Water supply interruptions
- Internal sewer flooding
- Sewer collapses

If a company's data is not fully compliant with the converged methodology, then it should clearly explain why this is and demonstrate (supported by external assurance) that not being fully compliant does not have a material impact on the reported performance. We do not expect companies to include outperformance payments for common PCs where there are issues of material non-compliance. If the move to convergence affects baselines for any PCs, then companies should provide recalculated baselines and clearly explain what they have done.

In 2021, 2022 and 2023 we found instances of companies not complying with the specific reporting and assurance requirements set out in company PC definitions (both in-period and end of period). Examples included not submitting assurance reports required for bespoke PCs, not providing RAG compliance checklists for common PCs and not providing third-party materials required or other additional information specified in the PC. For both in-period and end of period PCs we expect companies to comply with any specific reporting and assurance requirements as set out under 'Reporting and assurance' in company PC definitions. In order for us to confirm payments can be made, companies must include evidence of such compliance (for example the relevant external assurance report or confirmation from the Environment Agency) within, or alongside, their APR submission.

All companies should provide a statement from their external assurers confirming that appropriate third-party assurance has been carried out on their reported 2023-24 financial PCs. As our PR24 final determinations include adjustments to price controls for end of period as well as in-period PCs, we expect this external assurance to cover both in-period and end of period PCs. Where specific assurance is required for particular in-period or end of period bespoke PCs (as set out in the reporting and assurance section of the PC definition), and this is not covered by a separate assurance report, specific reference must be made to these PCs within the overall external assurance report. This external assurer's statement should specify which financial PCs (on a PC-by-PC basis) the third-party assurers have reviewed as part of their assurance work, the outcome of the assurance on these PCs and their assessment of the materiality of the impact on reported performance for each PC where the PC requirements have not been met.

In order to protect customers, where a company does not provide evidence of compliance with the PC definition, we will consider whether we should defer any relevant outperformance payments until we can be confident that a company has delivered what is expected of it.

Per capita consumption

On 26 October 2023 we wrote to companies requesting data to inform and support the work we had commissioned from Europe Economics to identify the impact of Covid-19 on household PCC during the pandemic, for the remainder of the 2020–25 price control period and beyond 2024–25.

Companies submitted their data in response to our request in November 2023. We will be updating the analysis of the impact of Covid-19 on PCC in the summer of 2024 using assured actual annual data for 2023–24 and updated monthly data for the period from October 2023 to May 2024.

We therefore require companies to submit updated data on supply, demand, leakage, metering and water efficiency alongside their APRs by 15 July 2024. We will contact companies separately shortly to confirm the details of the data they should submit.

Unplanned outage

Our review of company 2022–23 APR submissions identified that, for the unplanned outage PC, most companies reported full compliance on all peak week production capacity (PWPC) methodology components in 2022–23. However, upon review, most companies had not followed all elements of our [PR19 reporting guidance](#).

The guidance clearly states that companies are expected to:

- define PWPC for each water production site;
- review PWPC annually;
- support PWPC with evidence of actual output or of capacity tests undertaken on a rolling programme each five years. This should be based on a risk-based approach for each works and the duration of testing does not need to extend to seven days; and
- support revisions to PWPC with evidence of changes to assets or processes.

Further explanation is given in the guidance that:

- PWPC is equivalent to the maximum volume of water which can be put into supply and sustained over a period of one week measured in Ml/d;
- it is expected that PWPC would be a fixed value for each production site each year unless a change to assets or process can be evidenced; and
- PWPC does not account for seasonal changes in yield (most commonly observed at groundwater sources) and allowed abstraction volumes (most commonly observed at river sources) which are weather dependent and not an indicator of asset health.

Most companies could not demonstrate that capacity tests were undertaken, on the basis required in the guidance, to check PWPC. In fact, in most cases companies stated that they did not intend to undertake capacity tests. Companies explained that they used telemetry data to establish daily output or distribution input to inform PWPC. However, this data is weather dependent and therefore, as stated in the guidance, it should not be the primary way of establishing PWPC. In addition, some companies identified that a number of sites had been out of supply for a few years, and that they therefore needed to restate PWPC values for historic years, this suggests the annual review had not taken place at the time of reporting.

For all companies, it is our expectation that all components of the company's unplanned outage methodology should be fully compliant when reporting 2023–34 unplanned outage performance. We will closely assess any non-compliant elements in companies' 2023–24 APR submissions and will consider what interventions might be appropriate in light of our findings.

Reporting when a PCL has been met

We have become aware that some companies are reporting inconsistently in table 3A on whether PCLs have been met. An example of this is on the water quality compliance (CRI) PC, where some companies have reported in their APRs that they have met the PCL, when they have not met the PCL but are within the deadband for the PCL.

When reporting on whether or not a PCL has been met in column 5 of table 3A, companies should only enter a 'Yes' if the PCL itself has been met rather than just if they are within the deadband for the PC. This is in line with the reporting requirements for the table, as set out in RAG 4, and will ensure consistent reporting across companies.

Bespoke PR19 greenhouse gas emissions PCs

In our [Consultation on PR24 operational greenhouse gas emissions performance commitments definitions](#), we outlined our proposals for the scope of the PCs for PR24. Our decisions, outlined in our consultation response [document](#), relate solely to the PR24 PCs. Companies with bespoke PR19 greenhouse gas emissions PCs should continue to report based on the requirements for their PR19 PCs, which were set at PR19 and apply to the end of the 2020–25 period.

1.8 Audit opinion wording for the 2023–24 APR

We are publishing the [Audit opinion for the 2023–24 APR](#) alongside this information notice. This sets out the wording of the audit opinion that we expect all auditors to provide on companies' 2023–24 APRs. It has been shared and agreed with the audit firms.

2. Risk and compliance statement

Alongside its 2023–24 APR, we expect each company 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. Early submission of common performance commitment data

To enable us to gain a more timely view of company and sector performance, we are asking all companies to provide us with the full year results for 2023–24 for the 12 common PCs reported on in the Water Company Performance Report (these are the performance levels as reported in APR tables 3A, 3B, 3C and 3E) before submitting their final assured data in their APR submission in July 2024. Companies should submit this data to Ofwat no later than 30 April 2024. We appreciate that the April 2024 data could still be subject to change and will take that into account when reviewing.

4. Tax reconciliation

Our review of the 2022–23 Tax reconciliation notes highlighted issues with how some companies were presenting the PR19 tax allowance, which made understanding the reasons for and the size of the adjustments difficult. To improve the clarity of the notes we ask that the reconciliation includes the PR19 annual tax allowance as set, with necessary adjustments to reflect indexation and the subsequent change in tax rates, shown clearly within the published reconciliation.

We also ask that more detail is provided to explain how any identified differences have arisen to improve stakeholder understanding. For example, some notes just highlighted that capital allowances were different than assumed at PR19 without giving a reason why, e.g. it could be due to the super deduction regime, capital allowance disclaimers or differences in expenditure etc.

We will review the tax reconciliation notes published this year and consider whether further guidance is required within the RAGs.

5. Operational resilience information request

We aim to issue an information request on operational resilience measures that we expect companies to provide alongside their 2023–24 APRs. We are currently considering the feedback received from the Operational Resilience Working Group (ORWG) which will help develop the information request. We will hold another ORWG session in the spring to share details of this information request and collect additional insights and feedback from the group.

6. Enquiries

If you have any questions about this information notice, please send them to annual.reporting@ofwat.gov.uk

Further 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 3.14 – Guideline for the format and disclosures for the annual performance report](#)

[RAG 4.12 – Guideline for the table definitions in the annual performance report](#)

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

[2023-24 annual performance report tables \(excluding tables 3A-3I\)](#), Excel template

[Audit Opinion for the Annual Performance Report 2023-24](#)