
GUIDELINE FOR
THE CONTENTS
OF REGULATORY
ACCOUNTS

**REGULATORY
ACCOUNTING
GUIDELINE 3.05**

**Operative:
Financial Year 2002-03**



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Pro-formas

Appendix 2 contains the following pro-formas

Pro-forma Number	Statement
1	- historic cost profit and loss account;
2	- historic cost balance sheet;
3	- historic balance sheet reconciliation to Statutory Accounts
4	- current cost profit and loss account;
5	- current cost balance sheet;
6	- cash flow statement; and
7	- analysis of turnover and operating income;
8/9/10	- current cost analysis of fixed assets by asset type and service;
11	- current cost working capital;
12	- movement on current cost reserve;
13	- reconciliation of current cost operating profit to net cash flow from operating activities;
14	- analysis of net debt;
15	- regulatory capital value
16	- 5 year rolling summary – profit and loss
17	- 5 year rolling summary – balance sheet
18 & 19	- disaggregated activities

Part One – Explanation Note

1.1 Introduction

1.1.1 This regulatory accounting guideline (RAG) covers the Condition F requirements for accounting information, with the exception of the current cost accounting methodology which is covered by regulatory accounting guideline 1 (RAG 1), the classification of expenditure (RAG2) and the activity cost analysis and methodology which is addressed in RAG4.

1.1.2 Regulatory accounts should be prepared in accordance with these guidelines for each financial year. Additionally under the information requirements of Condition B of the Licence, companies are required to provide in electronic format audited accounting information for the appointed business as part of the June return reporting requirements each year. Separate guidance is provided for these returns.

1.2 Licence authority

1.2.1 Paragraph five of Condition F of the Licence provides for the Director General to issue guidelines on the segmental analysis of costs and assets. This regulatory accounting guideline contains guidance on paragraph five and on various issues relating to paragraphs four, six and nine of Condition F, where it has been considered helpful to clarify the interpretation of the Licence, or in some instances, to make minor modifications to the requirements arising from the Licence, as listed in Appendix 1.

1.2.2 This guideline therefore addresses the following requirements of Condition F:

- the accounting statements of the Appointee (paragraph 4);
- the activity cost analysis of the Appointed Business (paragraph 5); RAG4 also provides additional details;
- transactions with associated companies (paragraph 6); and
- audit and publication of accounting statements (paragraph 9)

1.3 Role of Regulatory Accounting Guidelines

1.3.1 Regulatory accounts are the primary source of regular audited financial information about the business regulated by Ofwat. It is intended that the RAGs should take precedence over the accounting standards issued by the Accounting Standards Board in the preparation of regulatory accounts. Where the RAGs do not specifically address an accounting issue, then UK Generally Accepted Accounting Practice (UK GAAP) should be followed.

1.3.2 Currently, figures in the historic cost regulatory accounts differ from those in the statutory accounts following, inter alia the adoption of FRS12 (Provisions, contingent liabilities and contingent assets) and FRS15 (Tangible fixed assets).

For the purposes of regulatory accounts, infrastructure renewals accounting will continue and the relevant sections of FRS12 and in FRS15 should be dis-applied.

- 1.3.3 For statutory purposes FRS17 – Retirement benefits and FRS19 – Deferred tax require certain disclosures by way of a note to the accounts. Where a company produces statutory accounts to a 31 March year end, and these are bound within the regulatory accounts in the document, the additional disclosures specified in FRS17 and 19 are not required in the regulatory accounts. Where a company does not produce statutory accounts at 31 March or where it produces them in a separate document, full disclosures under FRS17 and 19 must be made in the regulatory accounts.
- 1.3.4 A full reconciliation between the statutory accounts and the historic cost regulatory accounts should be provided, in the prescribed format, within the regulatory accounts (see appendix 2, pro forma 3).
- 1.3.5 Merger accounting will be retained for regulatory purposes, so as to ensure comparability, and the relevant sections of FRS6 should be dis-applied. Again a full reconciliation between the statutory accounts and the historic cost regulatory accounts should be provided.
- 1.3.6 The RAGs also require certain information, not normally provided under UK GAAP to be prescribed in the notes to the regulatory accounts. This includes, for example, details of the regulatory capital value and disaggregated cost information. Appendix 2 sets out proformas for both the primary financial statements and the supporting notes to the accounts.

Part Two – Definition of terms

2.1 Historical cost accounts definitions

2.1.1 HCA profit and loss account

Turnover

All revenue derived from standard charges as defined in Condition B for inclusion in the tariff basket calculation, together with revenue from non-tariff basket charges, revenue grants and other sources as defined below. These definitions also apply, where relevant, to the notes to the accounts.

- measured water supply

All revenue derived from the sale of water at standard rates that are included in the Principal Statement, where all or some of the charges are based on measured quantities of volume. It excludes revenue from large users.

- unmeasured water supply

All revenue derived from the sale of water other than on a measured basis and including optional unmeasured water charges at standard rates for example, for hosepipes and swimming pools.

- measured sewerage services

All revenue derived from the provision of sewerage services (which includes revenue raised by any rateable value element of measured sewerage tariff), where all or some of the charges are based on measured quantities of volume. It excludes revenue from large users. Sewerage services includes sewage treatment and disposal and excludes reception, treatment and disposal of trade effluent.

- unmeasured sewerage services

All revenue derived from the provision of sewerage services (which excludes revenue raised by any rateable value element of measured sewerage tariff), other than on a measured basis.

- trade effluent

All revenue derived from the reception, treatment and disposal of trade effluent at standard rates. It excludes revenue from large users.

- revenue grants

All revenue grants received for the provision of water and sewerage services, split between services.

- large user revenues

Revenue from all large user customers that are excluded from the tariff basket. These are customers whose premises have a requirement for not less than 100MI of water per year.

- other sources (excluding third party services and large user revenues)

All other sources of turnover including non - tariff basket charges, rechargeable works, special agreements (excluding those with large users). Sections 40 and 71 annual deficits, compensation, contributions from developers (of a revenue nature), excluding third parties.-

- third party services

Revenue derived from third parties for the provision of water and sewerage services to third parties for which costs are separately disclosed in the activity cost analysis table, split by service.

HCA operating costs

HCA operating costs including exceptional items, depreciation and the infrastructure renewals charge but excluding extraordinary items. (Both exceptional and extraordinary items are defined below. The requirement for a less detailed breakdown of costs as originally outlined in RAG3.02 (and required by section 5.1 of Condition F) is no longer required. HCA operating costs should include:

- manpower costs

Gross salaries and wages of all employees, including on costs such as superannuation, but excluding manpower costs that are capitalised or included in the infrastructure renewals charge.

- other costs of employment

Cost of private health care insurance, unfunded pension liabilities, travel and subsistence, training, entertaining, staff recruitment, conference expenses, retirement awards and death in -service benefits but excluding other costs of employment relating to manpower costs that are capitalised or included in the infrastructure renewals charge.

- power

All energy costs other than energy used for transport.

- rates

General and business rates including cumulo rates for water supply.

- service charges

Payments to the Environment Agency (EA) for water abstraction, payments for bulk water supplies (water) and payments to the EA for discharge consents (sewerage).

- sewerage agencies

All Section 73 costs of sub-contracting sewerage services to local authorities. All other subcontracted sewerage services are included in 'Hired and contracted'.

- materials and consumables

All materials and consumables that are not capitalised, included in the infrastructure renewals charge or included in hired and contracted services which are directly attributable to each of the individually identified service activities: Water resources and treatment, water distribution, and water service total, sewage, sewage treatment, sludge treatment and disposal, and sewerage service total. This category of cost includes equipment (such as small tools and clothing), provisions, tarmac and backfill materials, but excludes all items capitalised or included within infrastructure renewals expenditure. Most if not all stock items fall into this category. This category of cost includes tools, equipment, provisions, clothing, chemicals, petrol, stationery, office equipment, tarmac and backfill materials. Most if not all stock items fall in this category.

- hired and contracted services

All hired and contracted services, not capitalised or included in the infrastructure renewals charge. Hired services include the hire of plant, machinery, office and general equipment and transport excluding leased company cars.

Contracted services includes all contracted labour, professional advice (such as lawyers, auditors and consultants), purchased (non capitalised) computer software and local authority contracts for the collection of water or sewerage charges. Contracted services does not include services provided by associated companies.

- doubtful debts

The charge/ credit to the profit and loss account for bad and doubtful debts.

- depreciation

The depreciation charge on tangible fixed assets. The depreciation charge on non redundant infrastructure assets is taken to be zero when infrastructure renewals accounting is in use.

- intangible assets amortisation

Any amortisation or other reduction in the balance sheet valuation of intangible assets, such as goodwill.

- infrastructure renewals expenditure

Expenditure incurred in maintaining the operating capability of infrastructure assets. Further guidance is contained in RAG2.

- infrastructure renewals accrual

The infrastructure renewals charge is indexed each year so as to be constant in specific price terms between periodic AMP reviews and is the forecast cost of maintaining the operating capability of infrastructure assets. The infrastructure renewals accrual is the difference between the infrastructure renewals charge and the infrastructure renewals expenditure.

- other operating costs

All other operating costs on an aggregated basis including leased company cars and telephone costs but excluding interest and taxation.

Operating income

- profit on sale of fixed assets

proceeds from the disposal of fixed assets less book value and offsetting costs.

- exceptional items

Exceptional items are defined in FRS 3 (Reporting Financial Performance) as material items derive from events or transactions that fall within the ordinary activities of the company and which need to be disclosed separately by virtue of their size or incidence of the reporting entity and which need to be disclosed if the financial statements are to give a true and fair view.

Other income

Includes rental income and income from investments (e.g. share income); but excludes net interest received and profit on disposals on fixed assets.

Interest receivable

Interest receivable including interest received on cash deposits, loans, leases or other forms of lending.

Interest payable

Interest payable including interest paid on loans, leases, debenture, floating rate debt, overdrafts and all other borrowings e.g. commercial paper or bills of exchange.

Taxation

Taxation on ordinary activities for the charging year including any shadow advance corporation tax recoverable, mainstream corporation tax, income and other taxes and any movement in the deferred tax provision. All pertinent accounting standards namely FRS16 (Current tax) and FRS19 (Deferred tax) are to be adhered to. A note to the accounts will be required to show separately the current and deferred elements.

Extraordinary Items

Extraordinary items are defined in accordance with paragraph 6 of FRS3 as material items possessing a high degree of abnormality which arise from events or transactions that fall outside the ordinary activities of the reporting entity and which are not expected to recur.

Dividends

Dividends on ordinary and preference shares announced during the charging year (includes interim and final dividends). Dividends are to be shown in the profit and loss statement.

2.1.2 HCA balance sheet

Tangible fixed assets

Net book value of tangible fixed assets at the end of the charging year less any grants and contributions received relating to capital expenditure on infrastructure assets.

Investments

Fixed asset investments which are intended to be held for the long term or where there are restrictions on the company's ability to dispose of the investment. This includes shares in and loans to group undertakings, participating interests and own shares.

Stocks

Consumable stores and work in progress including chemicals, stationery, petrol, backfill materials etc.

Debtors

All amounts owing to the company at the end of the charging year including trade debtors, prepayments, accrued income, amounts owed by group undertakings and amounts falling due after more than one year. This definition includes any infrastructure renewals prepayments. Short term loans to group companies should be included in short term investments.

Cash at bank and in hand

Cash in hand, bank and cash deposit balances at the end of the charging year. It does not include overdrafts, which should be included within borrowings.

Short term investments

Investments other than fixed asset investments. Includes short term loans to other group companies.

Creditors, amounts falling due within one year

All creditors due to be paid at dates within one year from the end of the charging year and comprising of borrowings, dividends payable and other creditors.

Borrowings

Comprises obligations under finance leases due within the year, bank overdrafts, loans due to other group companies repayable within one year, redeemable debentures repayable within one year, bonds redeemable within one year, commercial paper due within one year, bills of exchange maturing within one year and any other form of borrowing repayable in less than one year. Accrued interest on borrowings should not be included.

Dividends payable

Amounts owed in respect of dividends still outstanding at the year end date. The figure should include amounts due on ordinary shares and preference shares.

Other creditors

Creditors falling due within one year (other than items defined as borrowings and dividends payable), eg trade creditors, capital creditors and accruals.

Creditors, amounts falling due after one year

All creditors due to be paid at dates over one year from the end of the charging year.

Provisions for liabilities and charges

All provisions including the infrastructure renewals accrual, deferred taxation provisions and restructuring or reorganisation provisions.

Deferred income

Deferred income in respect of grants and contributions on capital expenditure relating to non-infrastructure assets.

Capital and reserves

Called up share capital

Nominal value of the shares of the company which are issued and fully paid. This includes ordinary share capital, preference share capital and irredeemable debenture stock.

Share premium

Excess of proceeds from share issues over the nominal value of the shares issued, less amounts written off for approved purposes under the Companies Act 1985.

Profit and loss account

Cumulative balance of historical cost profits retained.

Other reserves

All non-distributable reserves, other than called up share capital and share premium including capital redemption reserves, contingency reserves and other capital reserves.

2.2 Current cost accounts definitions

2.2.1 CCA profit and loss account

Definitions are provided where different from the HCA profit and loss account.

Current cost operating costs

Total cost current operating costs including current cost depreciation, infrastructure renewals charges and exceptional charges but excluding extraordinary items.

Current cost operating income

Current cost operating income including current cost profit or loss on disposal of fixed assets and income from exceptional items. Exceptional items are as defined in paragraph 5 of FRS3.

Working capital adjustment

The adjustment for the impact of general inflation on the real value of working capital to the business. Cash is normally excluded (see RAG1 Sections 1.11.6 and 7 for more details).

Financing adjustment

The real gain or loss arising for the providers of funds from the impact of general inflation on monetary assets and liabilities. Normally this should be calculated as opening net finance multiplied by the percentage change in the RPI during the financial year (see RAG1 Sections 1.11.8 and 1.11.12).

2.2.2 CCA balance sheet

Definitions are provided where different from the HCA balance sheet.

Tangible fixed assets

The current cost net book value of tangible fixed assets before third party contributions. This value reflects the asset valuation principles set out in RAG1 Sections 1.7 to 1.10. Assets are included at Modern Equivalent Asset (MEA) values.

Third party contributions

Grants and third party contributions received (since 1990) in respect of infrastructure assets and the balance of deferred income relating to grants and third party contributions for non-infrastructure assets.

Working capital

All trade assets less all trade creditors, where trade refers exclusively to income or expenditure items brought into the calculation of operating profit. This will be the aggregate of stocks, trade debtors, trade creditors and working cash balances, together with short term capital creditors for capital goods. It also includes trade accruals, prepayments, intra-group trading balances, payments in advance, payroll related taxes and social security contributions. The infrastructure renewals accrual or prepayment is also a working capital item. A breakdown of working capital items are to be shown as a note to the accounts. (See Appendix 2, pro forma 11).

Cash and investments

All cash and investments (both short term and long term) held, excluding working cash balances included as part of working capital. This includes loans included within short and long term investments in the historical cost balance sheet.

Non-trade debtors

Debtors other than trade debtors, prepayments, infrastructure renewals prepayment or other balances included in working capital.

Non-trade creditors due within one year

Creditor balances due to be paid in less than one year from the end of the charging year, excluding amounts included as working capital but also excluding dividends payable. This will include short term borrowing.

Creditors due after one year

All creditors due to be paid at dates over one year from the balance sheet date. This will include all non-trade creditors and borrowings falling due after one year.

Provisions for liabilities and charges

All provisions except for infrastructure renewals accruals which are included in working capital.

Profit and loss account

Cumulative balance of profits retained under current cost accounting.

Current cost reserve

Current cost reserve at the year end. This will be the opening balance on the current cost reserve at the start of the year adjusted for any AMP and RPI adjustments in respect of fixed assets, working capital, financing, grants and third party contributions.

Other Reserves

Non-distributable reserves (other than share capital, current cost reserves and share premium) under current cost accounting rules. It will include capital redemption reserves, contingency reserves and other capital reserves. Amounts attributable to minority interests (if applicable) should also be included in this category.

2.2.3 Cash flow statement

Net cash flow from operating activities

The net increase or decrease in cash resulting from the operations shown in the profit and loss account in arriving at operating profit.

Returns on investments and servicing of finance

This includes receipts resulting from the ownership of an investment excluding those items classified under operating, investing or financing activities. Cash inflows include interest received and dividends received net of any tax credits. Cash outflows include interest paid including any associated tax and the interest element of finance lease rentals. The detailed elements are defined below.

Interest received

The amount of interest received by the company in the year. This includes interest on cash balances, loans to other group companies or third parties, and other investments.

Interest paid

The amount of interest paid by the company in the year. This includes interest on any overdrafts, loans (from all sources) and debenture stock.

Interest in finance lease rentals

The interest element on finance leases paid by the company in the year.

Non equity dividends paid

Dividends relating to non-equity shares as defined in paragraph 12 of FRS4 "Capital Investments"

Taxation paid

All cash flows to or from taxation authorities in respect of the company's revenue and capital profits.

Net cash flow from capital expenditure and financial investment

This comprises all cash flows relating to the acquisition or disposal of any asset held as fixed asset except those classified under "acquisitions and disposal". It includes cashflows relating to infrastructure renewals expenditure. Cash inflows include receipts from sale of fixed assets and investments and grants and third party contributions for non infrastructure assets. Cash outflows include payments to acquire investments and fixed assets, net of grants and third party contributions for infrastructure assets. The detailed elements are defined below.

Gross cost of purchase of fixed assets

The gross purchase price of fixed assets paid for by the company before any deduction of grants and contributions.

Receipts of grants and contributions

The total amount of capital grants and other contributions received in respect of fixed assets during the year.

Infrastructure renewals expenditure

Expenditure incurred in maintaining the existing operating capability of infrastructure assets.

Disposal of Fixed Assets

Cash proceeds received in the year on the sale of fixed assets.

Acquisitions and disposals

The cash flows related to acquisition or disposal of any trade, business or any investment which becomes or ceases to be either an associate, joint venture or subsidiary undertaking. It is envisaged that this heading will be rarely used.

Equity dividends paid

Dividends paid relating to equity shares as defined in paragraph 7 of FRS 4 "Capital Instruments". This will include any special dividends paid in the year.

Management of Liquid resources

This comprises of current asset investments held as readily disposal stores of value. A readily disposable investment is one that is disposable without curtailing or disrupting its business and is either readily convertible into known amounts of cash at or near its carrying amount or traded on an active market. The detailed elements are defined below.

Withdrawals from short term deposits

Cash inflows resulting from withdrawals from short term deposits. Short term deposits are those which are readily convertible into known amounts of cash at or close to their carrying amounts.

Disposal or redemption of other liquid assets

Cash inflows from disposal or redemption of any other investments held as liquid resources (but excluding those included as short term deposits above). Liquid resources is a general term which emphasises the liquidity of the investment and its function as a readily disposable store of value (as defined in FRS1).

Purchase of short term deposits

Cash outflow from payments into short term deposits. Short term deposits are those which are readily convertible into known amounts of cash at or close to their carrying amounts.

Purchase of other liquid investments

Cash outflows to acquire any other investments held as liquid resources (but excluding those included as short term deposits above). Liquid resources is a general term which emphasises the liquidity of the investment and its function as a readily disposable store of value (as defined in FRS1).

Net cash flow from financing

Financing cash flows comprise receipts from or repayments to external providers of finance including receipts from the issue of shares, debentures and borrowings and the capital element of finance lease rentals. The detailed elements are defined below.

Capital element in finance lease rentals

The capital element in finance lease payments made in the year.

New bank loans

The receipts from any loans taken out in the year. These include the proceeds of any loans taken out from other group companies including those held as fixed assets or short term investments.

Repayment of bank loans

The repayments of any loans repaid in the year. These include any loan repaid to other group companies including those held as fixed assets or short term investments.

Proceeds from share issues

The net proceeds of any share issues received in the year, less cost of any share buy backs.

Increase (decrease) in cash and cash equivalents

This comprises of total net cash flows from all sources (before and after financing).-

Note: Further current cost accounting terms are defined in Regulatory Accounting Guideline 1.03, Accounting for Current Costs and Regulatory Capital Values.

Part Three – Accounting Guideline

3.1 Accounting statements

Condition F requirements

3.1.1 Paragraph 4 of Condition F states that all Appointees shall prepare a profit and loss account, a statement of assets and liabilities and a statement of source and application of funds in respect of each of:

- the appointed business;
- the non - appointed business; and
- the total business of the appointee.

3.1.2 Since the introduction of this condition, statutory accounting requirements have evolved. The primary financial statements, currently required by the Accounting Standards Board (ASB), include a cash flow statement instead of a statement of source and application of funds along with a statement of total recognised gains and losses (STRGL) and a reconciliation of movements in shareholders' funds. For regulatory accounting purposes, the cash flow statement is considered to be an important primary statement, which should be included in the regulatory accounts along with the profit and loss and the balance sheet. The STRGL and the reconciliation of movements of shareholders' funds will however form part of the statutory accounts. The regulatory accounts should therefore include a note reconciling amounts reported in the primary statements of the statutory accounts with those reported in the historic cost part of the regulatory accounts.

Cash flow statement

3.1.3 Water companies now include in their regulatory accounts a cash flow statement in place of the source and application of funds statement formally required by Condition F. The cash flow statement is accompanied by reconciliations between operating profit and net cash flow from operating activities and also the movement in cash in the period and the movement in net debt. The cash flow statement should be prepared using the pro formas set out in Appendix 2, which have been prepared in accordance with the required structure and minimum level of disclosure set out in FRS 1 (Cashflow statements, revised 1996).

Pro formas

3.1.4 The Licence requires that regulatory accounting statements should, as far as is practicably possible, have the same content as the statutory annual accounts of the Appointee and be prepared in accordance with the formats and the accounting policies and principles which apply to those annual accounts.

3.1.5 The information in the regulatory accounts should be provided in a common format for all companies. The pro formas for the submission of data are included in Appendix 2; they comprise:

Pro-forma Number	Statement
1	- historic cost profit and loss account;
2	- historic cost balance sheet;
3	- historic cost balance sheet reconciliation to statutory accounts
4	- current cost profit and loss account;
5	- current cost balance sheet;
6	- cash flow statement; and
7	- analysis of turnover and operating income;
8/9/10	- current cost analysis of fixed assets by asset type and service;
11	- current cost working capital;
12	- movement on current cost reserve;
13	- reconciliation of current cost operating profit to net cash flow from operating activities;
14	- analysis of net debt;
15	- regulatory capital value
16	- 5 year rolling summary – profit and loss
17	- 5 year rolling summary – balance sheet
18 & 19	- disaggregated activities

It is intended that these pro formas are consistent with those submitted as part of the June return. The regulatory capital values (pro forma 15) are those determined by Ofwat at periodic reviews. The 5 year rolling summaries (pro forma 16 and 17) are not included in the June return. The pro forma for the statements of disaggregated activities are included for completeness (formerly described as 'activity cost tables' in RAG3.04) but are fully described in RAG4.02.

3.1.6 The Director is primarily concerned with the current cost accounts. He has therefore decided that the analysis of operating profit (incorporating the analysis of operating costs and turnover) and of fixed asset values by asset type and by service should only be prepared on a current cost basis. The regulatory requirement for the analysis of historical cost operating profits and fixed assets will be largely met by the statutory requirements.

Dividend policy

3.1.7 Paragraph 6 and Appendix 1A to Condition F requires companies to report on the value of any dividend paid to an associate and provide a comprehensive explanation of the basis of the dividend.

Comparability – accounting treatment of acquisitions

3.1.8 Regulatory accounts are used for assessing comparative performance between appointed businesses. So when appointed businesses combine their operations it

is necessary for merger accounting to be used for regulatory reporting. This may conflict with the requirements of FRS6 (Acquisitions and mergers) for the preparation of Statutory Accounts. The regulatory accounts should include a note reconciling in full the amounts reported in the Statutory accounts with those reported in the historic cost part of the regulatory accounts.

Transparency

3.1.9 Regulatory accounts should aim to be transparent and readily understood by their readers. For this reason the accounting policies should be fully and clearly set out in a way that follows best practice. Accounting policy changes should be clearly identified. Appropriate commentary on the financial results and trends should be provided so that the readers of the accounts are able to understand them properly.

3.1.10 The objectives and constraints considered by Directors when selecting and changing accounting policies are to be stated. The disclosures required under FRS18 (Accounting Policies) for the statutory accounts are also to be made in the regulatory accounts.

3.1.11 Companies should also:

- include a statement on dividend policy for the appointed business in the notes to the regulatory accounts; and
- give details of policies for the capitalisation of expenditure and its depreciation. Any changes from policies adopted in prior year should be highlighted.

3.1.12 The accounting policy note to the regulatory accounts should also include a comprehensive statement on the principles of the cost allocations used both generally and particularly for the disaggregated activities tables (Appendix 2 - pro forma 18).

3.1.13 Companies are required to provide additional commentary and explanation of trends in the regulatory accounts. The principles to be followed in preparing the commentary and explanation are set out below. The commentary should:

- Explain significant trends in information included in the five year summary covering not only movements from the prior year but the trend over time.
- Highlight those areas where there is a material difference from the prior year amount and give the reason for the difference.
- Provide details of any atypical amounts which have occurred during the report year whether or not they are declared as exceptional items. These should include, but are not restricted to, those items highlighted in guidance for Tables 21 and 22 of the June Return (the disaggregated activities shown in proforma 18).
- Comment on the movement in turnover from the prior year in relation to price limits for the appointed business and changes in demand for services.

- Explain the amount of dividend paid from the appointed business and the policy underpinning the level of dividend.
- Provide details of changes in the treatment of expenditure, for example classification as infrastructure renewals expenditure rather than operating costs.
- Describe the basis used for any allocation or apportionment of costs across potential market segments in respect of the analysis required under RAG4. Highlight any changes in the basis of allocation or apportionment from prior years.
- If relevant, give details of amounts paid by the appointed business to charitable trusts assisting customers or similar funds. The amount of any such donation and a description of its treatment within the accounts should be provided.

3.1.14 Companies are also specifically required to provide additional commentary and explanation of the Regulatory Capital Values as set out in the footnote to the pro forma (see Appendix 2 – proforma 15).

3.1.15 Where a company has a 31 March statutory year end and publishes its statutory and regulatory accounts in one document, then it may refer in the regulatory accounts to any relevant information provided as part of the statutory accounts. If however, the company has a different statutory year end or produces separate regulatory accounts then it must include all commentary in the regulatory accounts.

3.2 Appointed Business

Definitions

3.2.1 The Licence separates the activities of an Appointee into:

- the appointed business which is defined to be the regulated activities of the Appointee; and
- the non-appointed business which is defined to be the non-regulated activities of the Appointee.

3.2.2 Regulated activities are defined in Condition A of the Licence to be the “functions of” and the “duties imposed on” a water and sewerage undertaker by the Water Industry Act 1991 . Regulated activities are consequently those activities that are **necessary** in order for an Appointee to fulfil the functions and duties of a water and sewerage undertaker.

3.2.3 In general, non - regulated activities are activities for which either the water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to external organisations) or the activity involves the optional use of an asset owned by the Appointed Business (for example, the use of underground assets for cable television).

- 3.2.4 Appendix 3 contains further guidance on the division between appointed and non - appointed activities based on these criteria.
- 3.2.5 Despite these definitions, exceptions will arise to the general rules. (For example, trade effluent treatment is regulated under the Licence but undertakers are not monopoly suppliers of this service.) The consistency and accuracy of the definitions applied will become increasingly important as appointed companies continue to diversify. Appointees are therefore required to detail in the notes to the regulatory accounting information their definition of appointed and non - appointed businesses adopted for the purposes of those accounts. This note should be, as far as is practicably possible, in line with the guidance provided above. Companies should discuss areas of difficulty, in advance of preparing the accounts, with Ofwat.

Materiality considerations

- 3.2.6 The Director General has decided that companies may if they wish, only publish financial statements for the Total Business, provided all material non - appointed activities take place in associated companies and consequently the appointed business is effectively the same as the total business. This reflects the use primarily of the current cost accounts of the appointed business when undertaking periodic reviews.
- 3.2.7 Following this decision therefore, if:
- (a) the total annual income generated by all non - appointed activities of an Appointee is less than 1% of the turnover of the appointed business; and
 - (b) the historical cost operating profit generated by all non -appointed activities of an Appointee is less than 1% of the historical cost operating profit of the appointed business; and
 - (c) the net operating assets, carried in the historical cost balance sheet wholly or principally for non - appointed activities are less than 1% of the net operating assets of the appointed business;
- then companies may, if they wish, regard the non - appointed activities as immaterial and the total business of the Appointee as the appointed business.
- 3.2.8 A low materiality threshold of 1% has been chosen for this purpose since the implicit threshold in the Licence is 0% and because companies should only disregard non - appointed activities if they are genuinely immaterial in the context of the total business of the Appointee. However to reduce the burden in small water only companies, up to £100,000 of non - appointed turnover may also be treated as appointed. This limit will therefore only exceed the 1% threshold for Appointees with a turnover of less than £10m.
- 3.2.9 Furthermore, if the non - appointed activities of a Water only company are material using these criteria but would be immaterial if billing commission were treated as

appointed, then such companies may also regard non - appointed activities as immaterial and the total business of the Appointee as the appointed business.

Transfer prices and disposals of land

3.2.10 When a non - appointed activity includes the optional use of an asset owned for an appointed activity, then it is appropriate that both shareholders and customers should benefit. This objective can be achieved in one of two ways.

3.2.11 If the use of an asset for a non - appointed activity involves a disposal of protected land then the requirements of Condition K apply, as described in 'MD' letters. For this purpose, land includes buildings and other structures, land covered by water and any estate, interest, easement, servitude or right in or over land, and the disposal of protected land includes the creation of any interest or right in or over land. Examples of disposals of protected land include permission for cable TV in sewers, the erection of aerials and the granting of fishing rights.

3.2.12 If the use of an asset for a non - appointed activity does not involve a disposal of protected land then an arms length transfer price should be negotiated. This transfer price will appear in the turnover of the appointed business and the costs of the non - appointed business.

3.2.13 RAG 5.03 -Transfer pricing in the Water Industry (Revised March 2000) incorporates the disclosures required in respect of the apportionment and allocation of revenues, costs, assets and liabilities between the appointed business and any other business of the Appointee or between the Appointee and an associated company, as required by paragraph 7 of Condition F. Transactions to be disclosed in the regulatory accounts are set out in Section 3.4 on this guideline.

3.3 Profit Analysis

Analysis of total current cost operating costs

3.3.1 Paragraph 5 of Condition F and the detailed requirements given in RAG4 (The analysis of operating costs and assets) require a segmental analysis of the total current cost operating costs of the appointed business for each of the following:

- water supply:
 - resources and treatment
 - distribution
- sewerage service:
 - sewerage reception and conveyance
 - sewage treatment
 - sludge treatment and disposal

3.3.2 The regulatory requirements in respect of the subjective analysis of operating costs have been incorporated into the pro formas in Appendix 2. The headings of this analysis are as follows:

- manpower costs;
- other costs of employment;
- power;
- rates;
- service charges;
- local authority sewerage agencies;
- materials and consumables;
- hired and contracted services;
- charges for bad and doubtful debts;
- depreciation and amortisation;
- intangible assets written down;
- infrastructure renewals expenditure;
- infrastructure renewals accrual/ (prepayment);
- exceptional items; and
- other operating costs.

Definitions of these headings are included in Part 2 to these guidelines.

Services sub – contracted to Associated Companies

- 3.3.3 If the total cost of all hired and contracted services from associated companies (excluding services that are capitalised or included in the infrastructure renewals charge) exceeds 20% of the total operating costs of the appointed business, before interest and tax, then such costs should be analysed across the headings of the segmental analysis as if the sub - contracted activities were carried out by the Appointee.
- 3.3.4 If the total cost of sub-contracted services falls below this limit then companies may, instead of the above analysis, identify their total cost as a separate and additional line in the segmental analysis of costs described above.
- 3.3.5 Such transactions with associated companies are also subject to the general requirements of paragraph 6 of Condition F and RAG5.03.

Turnover analysis

- 3.3.6 Paragraph 5 of Condition F and the June Return Reporting Requirements also requires an analysis of the turnover of the Appointed Business under the following headings:

tariff basket

- measured water supply;
- unmeasured water supply;
- measured sewerage services;
- unmeasured sewerage services;
- trade effluent;

non-tariff basket

- large user revenues;
- third party services;

- revenue grants; and
- all other sources (excluding large users and third parties).

3.3.7 This analysis of turnover should only include income from standard charges (as defined in Condition B of the Licence) under each of the five headings corresponding to the tariff basket elements. Non-tariff income should be included in the remaining four categories as appropriate.

3.3.8 When 'all other sources' exceeds 5% of turnover this figure should be disaggregated into its major components.

3.3.9 All items of income should be stated gross and should not be netted off against items of expenditure.

3.3.10 This analysis should not include:

- rental income;
- interest received;
- income from investments; and
- profit from the sale of fixed assets.

However, profit from the sale of fixed assets and exceptional items should be disclosed separately. Rental income and income from investments should be shown, net of any associated expenses as other income after operating profit in the profit and loss account. Interest received should be included in the interest line. The analysis should be by service and include:

- current cost profit/(loss) on disposals of fixed assets;
- exceptional items;
- other operating income; and
- the working capital adjustment.

This analysis should be submitted in the format recommended in Appendix 2 (pro forma 7).

Reconciliation with the Profit and Loss Account

3.3.11 The subjective analysis of total operating costs should be combined with the analysis of turnover in order to disclose an analysis of operating profit, split between water and sewerage which can be readily reconciled with the profit and loss account of the appointed business.

This analysis should be submitted in the format recommended in Appendix 2 (pro formas 4 and 18) and RAG4.

Rolling five year summary

3.3.12 Paragraph 3.4.6 of RAG1.03 requires that a rolling five year summary of the current cost profit and loss account and balance sheet should be included as a note to the current cost accounts.

3.3.13 This five year summary should largely be in the format of the current proformas used for regulatory accounts purposes although minor changes may be required to reflect developments in those proformas, in subsequent years.

3.3.14 All figures in the summary should be restated into English pounds of the final year using RPI indexation. For the profit and loss account, it will be appropriate to index all items by the average inflation rate over the financial year whilst for the purposes of the balance sheet, the percentage change in the RPI from one financial year-end to the next, should be applied to all balance sheet items including share capital.

3.4 Associated companies

Definitions

3.4.1 Condition A of the Licence defines an associated company to be any group company or related company. RAG5.03 updates this definition in accordance with FRS8 (Related party disclosures) and as modified by RD29/97 (Identification of related companies).

3.4.2 Paragraph 14 of FRS8 seeks to distinguish between the control and influence of entities. Where Appointees consider that paragraphs 14(a) and 14(b) of FRS8 are applicable they should demonstrate that this is the case. Where entities have Directors in common and transactions have taken place between these entities as covered in FRS8 paragraph 14(c); Appointees are to be required to have procedures in place to ensure such Directors are unable to influence such transactions.

Transactions to be disclosed

3.4.3 Paragraph 6 of Condition F also requires that all transactions between the Appointee and its associated companies must be disclosed, subject to the materiality considerations discussed below. In particular, the Appendix to Condition F specifies that the following transactions, with related data, must be disclosed:

- loans by or to the Appointee;
- dividends paid to any associated company;
- guarantees or other forms of security by the Appointee;
- transfer of any asset or liability by or to the Appointee;
- supply of any service by or to the Appointee;
- omission by the Appointee or any associated company to exercise a right as a result of which the value of the net assets of the Appointee is decreased, and
- waiver of any consideration, remuneration or other payment by the Appointee.

- 3.4.3 The Appendix to Condition F also specifies the information to be disclosed for each of these categories of transactions. Where appropriate, formulae may be disclosed in place of figures, for example for interest rates.
- 3.4.4 Any transactions in the last four categories may be aggregated with any other similar transaction in the same category with the same associated company. This aggregation does not include netting off transactions to the Appointee against transactions by the Appointee or vice versa.
- 3.4.5 If a company is an associated company of an Appointee for only part of a financial year then transactions with that associated company throughout the financial year should be disclosed, unless the Appointee has agreed with the Director that partial disclosure is sufficient.
- 3.4.6 To increase the transparency of inter-company trading RD25/98 was issued on 17 August 1998 (Regulatory Accounting Reporting). All companies should include details in their Regulatory Accounts of services supplied by associate companies to the regulated business and services supplied by the regulated business to other group companies. If a materiality level below which transactions are not disclosed is applied this should be declared.
- 3.4.7 In addition to the transactions identified in Section 3.4.3 above, the following details of inter-company transactions should be provided:
- Where costs have been allocated between regulated and non-regulated businesses the methodology for allocating costs should be described.
 - Where dividends have been paid to an associated company the policy underlying the dividend should be commented on.
- 3.4.8 The following details should now be included in the published regulatory accounts:

Service	Company	Turnover Of Associate	Terms Of Supply	Value
Service received by regulated business or service provided by regulated business.	Associate providing the service or associate to whom the service is provided.		A statement of the means by which the price to associates has been established eg competitive tendering.	Of service received by regulated business or service supplied by regulated business.

Directors' statement

3.4.10 The disclosure of transactions with associated companies should include a statement that to the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed. Nil returns are also required.

Transfer prices

3.4.11 All transactions between the Appointee and associated companies should be considered on an arm's length basis and follow the guidance provided in RAG5.03.

Diversification and protection of core business

3.4.12 Condition F6A requires companies to submit at the same time as the regulatory accounting information, a certificate from the directors stating that the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least twelve months, its regulated activities and sufficient management resources to enable it to carry out its functions.

For some companies, Condition F6A has been extended. In addition to the requirements outlined above, these companies are required to:

- Confirm that in the opinion of the directors all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to the company, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.
- Submit with each certificate a statement of the main factors which the directors have taken into account in giving that certificate.
- Provide a report prepared by the companies' auditors and addressed to Ofwat, stating whether they are aware of any inconsistencies between the certificate and the financial statements or any information obtained in the course of their work.

3.4.13 If the period to which the statement relates straddles the period when the Director is entitled to issue an interim determination notice, the opinion of the directors should in no way be compromised. Particularly as the Director will continue to have specific regard to his general duties under Section 2 of the Water Act 1989.

3.4.14 This certificate should be submitted to the Director as part of the published regulatory accounting information.

3.5 Publication of accounting statements

Reports to be delivered

3.5.1 Accounting information can be sub - divided as follows:

- statutory information which is not required by Condition F (for example, emoluments of directors);
- statutory information which is also required by Condition F (for example, profit and loss account of the Appointee);
- non - statutory information which is required to be published by Condition F (for example, segmental analysis of operating costs), together with an auditors report on this information.
- non - statutory information which is required by Condition F but is not required to be published, together with a report from the auditors on this information. This generally covered by the requirements of RAG5.03.

3.5.2 Appointees with a UK holding company should submit the following documents to the Director:

- UK holding company accounts;
- Appointee accounts which should also be circulated on request, to customers of the Appointee and shareholders of the ultimate holding company; and
- A supplementary report containing the unpublished information which will be treated as commercial - in - confidence.

3.5.3 Appointees without a holding company should submit the following documents to the Director:

- Appointee accounts which should also be circulated on request to customers; and
- A supplementary report containing the unpublished information which will be treated as commercial - in - confidence.

3.5.4 It should be noted that where a company has a statutory year end of 31 March the regulatory accounts of the Appointee should always include the full statutory accounts of the Appointee.

3.5.5 It is recommended that water bill notifications, and where appropriate holding company accounts, make reference to the availability, upon request, of the Appointee accounts.

3.5.6 A checklist of the statements and reports required under Condition F is contained in Appendix 4.

3.5.7 Paragraph 9.3 of Condition F requires that the Appointee shall deliver to the Director a copy of the accounting statements and auditors reports prepared under Condition F as soon as reasonably practicable and in any event not later than 15 July following the end of the financial year to which they relate. Appointees should deliver five copies of each of these statements and reports. Companies are required to publish their regulatory accounts on their websites at the same time as they are submitted to Ofwat.

Reports to be published

3.5.8 Paragraph 9.4 of Condition F requires that all of the accounting statements and reports delivered to the Director shall also be published, with the exception of:

- details of transactions (other than the summary outline in section 3.4.8 above) with associated companies referred to in paragraph 6; and
- details of the allocation and apportionment of assets and costs.

3.5.9 The published accounts should also contain a statement as to whether the Appointee was in compliance with paragraph 3.1 of Condition K at the end of the financial year.

3.5.10 All material required to be published by Condition F will be placed in the Ofwat library. Other material will be held within the office on a commercial-in-confidence basis.

3.6 Audit

Auditors reports

3.6.1 Paragraph 9 of Condition F requires auditors to address reports to the Director General concerning:

- accounting records;
- accounting statements;
- historical cost accounts;
- current cost accounts; and
- trading with associates (see RAG 5.03)

3.6.2 Regulatory accounting information falls into two categories – that which is required to be published and that which is not required to be published – as discussed above. It is therefore convenient for auditors to prepare two reports to the Director General – one relating to the published accounts and the other to the information that is not required to be published. The recommended wording of these reports is discussed below.

3.6.3 These reports are in addition to the statutory report of the auditors to the shareholders.

Report on published accounts

3.6.4 The recommended wording of the auditors report to the Director General on the published accounts is as follows:

" To the Director General of Water Services

We have audited the regulatory financial statements on pages A to D.

Respective responsibilities of Directors and auditors

As described on page XX the company's Directors are responsible for the preparation of the regulatory financial statements. It is our responsibility, to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

We read the other information contained in the Annual Report and accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on the test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

Opinion – qualified solely as regards the historical cost regulatory balance sheet.

The historical cost regulatory balance sheet on page XX has been drawn up in accordance with the RAG3.05 guidance that infrastructure renewals accounting as applied in previous years should be continued and the relevant sections of Financial Reporting Standard 12 and 15 disapplied. As a consequence an amount of XX million has been included under accruals in the regulatory balance sheet and has been taken to decrease the amount of fixed assets as shown in the statutory balance sheet on page XX.

In our opinion, the regulatory financial statements and other information contain the information for the year 31 March 20XX required to be published and submitted to you by the Appointee, to comply with Condition F of the Instruments of Appointment granted by the Secretary of State for the Environment of the group as Water and Sewerage Undertakers under the Water Industry Act 1991.

In respect of this information, we report that in our opinion:

- a) Proper accounting records have been kept by the Appointees as required by paragraph 3 of Condition F of the Instruments of Appointment;
- b) The information is in agreement with the Appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F of the Instruments of Appointment and the Regulatory Accounting Guidelines numbers 1 to 4 issued by the Office of Water Services;
- c) The regulatory financial statements on page XX give, under the historical cost convention, a true and fair view of the revenues, costs and except for

accounting for infrastructure renewals in the regulatory balance sheet in the manner referred to above, the assets and liabilities of the Appointees and their appointed businesses;

- d) The current cost financial information on pages XX to XX has been properly prepared in accordance with Regulatory Accounting Guidelines 1.03 Accounting for Current Costs issued [June 2002] by the Office of Water Services.

Report on unpublished information

- 3.6.5 The arrangements for the provision of the report from the auditors to the Director General on the accounting information which is not required to be published is covered in RAG5.03.

Auditors contracts

- 3.6.6 The Director should be informed by the company of any change in the company's auditors and the following details provided:
- the name and address of the new auditors;
 - the name of the partner responsible for the audit;
 - the name, address, telephone number and e-mail address of the principal contact; and
 - the date on which the auditors were appointed.
- 3.6.7 The Director also requires a statement confirming that the contract of appointment with the auditors satisfies the requirements of paragraph 9.2 of Condition F namely "that the auditors will provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Director may reasonably require."

APPENDIX 1

Clarification of condition F of the licence

Section Condition	Issue	Licence
3.1	Accounting statements	F4.1
3.1.2/3	Cash flow statement	F4.1
3.1.4	Pro formas	F4.2
3.3.2	- Analysis of total operating costs - payment to EA for discharge consents - intangible assets written down - infrastructure renewals expenditure and - infrastructure renewals accrual - segmental analysis for associated companies	F5.1(1)
3.3.8	Disaggregation of "all other sources" of turnover	F5.1(2)
3.4.1 to 5	Definition of associated companies.	A3
3.4.16/17	Licence amendment regarding diversification and protection of the core business	F6A.2

APPENDIX 2 Pro-forma regulatory accounts

Pro forma 1

Historic Cost Profit and Loss Account for the Twelve Months ended 31 March 20XX

	Note	Current Year			Prior Year		
		Appointed	Non Appointed	Total	Appointed	Non Appointed	Total
Turnover	(b)	I	I	C	I	I	C
Operating costs	(b)	I	I	C	I	I	C
Operating income	(b)	I	I	C	I	I	C
Operating profit	(b)	C	C	C	C	C	C
Other income	(b)	I	I	C	I	I	C
Interest receivable	(b)	I	I	C	I	I	C
Interest payable	(b)	I	I	C	I	I	C
Profit on ordinary activities Before taxation		C	C	C	C	C	C
Taxation – current	(b)	I	I	C	I	I	C
- deferred		I	I	C	I	I	C
Profit on ordinary activities After taxation		C	C	C	C	C	C
Extraordinary items	(b)	I	I	C	I	I	C
Profit for the year		C	C	C	C	C	C
Dividends	(b)	I	I	C	I	I	C
Retained profit for year		C	C	C	C	C	C

I: input

C: calculation

(a): note required; see separate table for further analysis

(b) note required only if different from statutory accounts note

Pro forma 2

Historic Cost Balance Sheet as at 31 March 20XX

	Current Year			Prior Year			
	Note	Appointed	Non Appointed	Total	Appointed	Non Appointed	Total
Fixed Assets							
Tangible Assets	(b)	I	I	C	I	I	C
Investment		I	I	C	I	I	C
Total fixed assets		C	C	C	C	C	C
Current Assets							
Stocks		I	I	C	I	I	C
Debtors	(b)	I	I	C	I	I	C
Cash at bank and in hand		I	I	C	I	I	C
Short term investments		I	I	C	I	I	C
Total current assets		C	C	C	C	C	C
Creditors: amounts falling due within one year	(b)						
Borrowings		I	I	C	I	I	C
Dividends payable		I	I	C	I	I	C
Other creditors		I	I	C	I	I	C
Total creditors		C	C	C	C	C	C
Net current assets		C	C	C	C	C	C
Total assets less current liabilities		C	C	C	C	C	C
Creditors: amounts falling due after one year	(b)						
Borrowing		I	I	C	I	I	C
Other creditors		I	I	C	I	I	C
Total creditors		I	I	C	I	I	C
Provisions for liabilities & charges	(b)						
- Deferred tax		I	I	C	I	I	C
- Other provisions		I	I	C	I	I	C
Deferred income	(b)	I	I	C	I	I	C
Net Assets employed		C	C	C	C	C	C
Capital and reserves							
Called up share capital		I	I	C	I	I	C
Share premium		I	I	C	I	I	C
Profit & loss account		I	I	C	I	I	C
Other reserves	(b)	I	I	C	I	I	C
Capital & reserves		C	C	C	C	C	C

I: input

C: calculation

(a): note required; see separate table for further analysis

(b) note required only if different from statutory accounts note

Pro forma 3

Historic cost Balance Sheet Reconciliation to Statutory Accounts

In the preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS15: Tangible Fixed Assets. However for the purposes of the Regulatory Accounts, Ofwat has requested that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:

	Infrastructure Assets £m
Cost	
Cost at 31 March per Regulatory Accounts	
Adjustment to opening balance	
Infrastructure renewals expenditure capitalised in the year	
Cost at 31 March 20xx per Statutory Accounts	C
Depreciation	
At 31 March per Regulatory Accounts	
Adjustment to opening balance	
Depreciation charge for IRE	
At 31 March 20xx per Statutory Accounts	C
Net Book Value	
At 31 March per Regulatory Accounts	C
Adjustment for Infrastructure renewals accounting	C
At 31 March 20xx per Statutory Accounts	C
Provisions and Liabilities	
At 31 March per Regulatory Accounts	
Less Infrastructure renewals accrual	
At 31 March 20xx per Statutory Accounts	C
Debtors	
At 31 March per Regulatory Accounts	
Less Infrastructure renewals prepayment	
At 31 March 20xx per Statutory Accounts	C

Pro forma 4

**Current Cost Profit and Loss Account
for Appointed Business
for the year
ended 31 March 20XX**

		Current Year	Prior Year
Turnover	Note (a)	I	I
Current cost operating costs	(a)	I	I
Operating income	(a)	I	I
		C	C
Working capital adjustment		I	I
Current cost operating profit		C	C
Other income	(b)	I	I
Interest receivable	(b)	I	I
Interest payable	(b)	I	I
Financing adjustment		I	I
Current cost profit before taxation		C	C
Taxation	(b)		
- Current taxation		I	I
- Deferred		I	I
Current cost profit on ordinary activities		C	C
Extraordinary items	(b)	I	I
Current cost profit attributable to shareholders		C	C
Dividends	(b)	I	I
Current cost profit retained		C	C

I: input

C: calculation

(a): note required; see separate table for further analysis

(b): note required only if different from statutory accounts note

Pro forma 5

**Current Cost Balance Sheet
for Appointed Business
as at 31 March 20XX**

	Note	Current Year	Prior Year
Fixed Assets			
Tangible assets	(a)	I	I
Third party contributions since 89-90		I	I
Working capital	(a)	I	I
Net operating assets		C	C
Cash & investments		I	I
Non-trade debtors		I	I
Non-trade creditors due within one year		I	I
Creditors due after one year		I	I
Provisions for liabilities & charges			
- Deferred taxation		I	I
- other provisions		I	I
Dividends payable		I	I
Net assets employed		C	C
Capital and reserves			
Called up share capital		I	I
Share premium		I	I
Profit and loss account		I	I
Current cost reserve	(a)	I	I
Other reserves		I	I
Total capital & reserves		C	C

I: input

C: calculation

(a): note required; see separate table for further analysis

(b) note required only if different from statutory accounts note

Pro forma 6

Current Cost Cash Flow Statement for Twelve Months Ended 31 March 20XX

	Current Year			Prior Year		
	Appointed	Non Appointed	Total	Appointed	Non Appointed	Total
Net cash flow from operating activities	I	I	C	I	I	C
Returns on investments & Servicing of finance						
Interest received	I	I	C	I	I	C
Interest paid	I	I	C	I	I	C
Interest in finance lease rentals	I	I	C	I	I	C
Preference Non-equity dividends paid	I	I	C	I	I	C
Net cashflow from returns on Investment & servicing of finance	C	C	C	C	C	C
Taxation						
UK corporation tax paid	I	I	C	I	I	C
Capital expenditure and financial investment						
Gross cost of purchase of fixed assets	I	I	C	I	I	C
Receipt of grants and contributions	I	I	C	I	I	C
Infrastructure renewals expenditure	I	I	C	I	I	C
Disposal of fixed assets	I	I	C	I	I	C
Net cash outflow from investing activities						
Acquisitions and disposals	I	I	C	I	I	C
Equity dividends paid	I	I	C	I	I	C
Management of liquid resources						
Withdrawals from short term deposits	I	I	C	I	I	C
Disposal or redemption of other liquid assets	I	I	C	I	I	C
Purchase of short term deposits	I	I	C	I	I	C
Purchase of other liquid investments	I	I	C	I	I	C
Net cash flow from management of liquid resources	C	C	C	C	C	C
Net Cash flow before financing	C	C	C	C	C	C
Financing						
Capital element in finance lease rentals	I	I	C	I	I	C
New bank loans	I	I	C	I	I	C
Repayment of bank loans						
Proceeds from share issues	I	I	C	I	I	C
Net cash inflow from financing	C	C	C	C	C	C
Increase (decrease) in cash and cash equivalents	C	C	C	C	C	C

I: input

C: calculation

Pro forma 7

**Analysis of Turnover and
Operating Income for
the Appointed Business**

	Current Year			Prior Year		
	Water Services	Sewerage Services	Appointed Business	Water Services	Sewerage Services	Appointed Business
Turnover						
Measured	I	I	C	I	I	C
Unmeasured	I	I	C	I	I	C
Trade effluent	I	I	C	I	I	C
Revenue grants	I	I	C	I	I	C
Large user revenues	I	I	C	I	I	C
Other sources (excluding third parties)	I	I	C	I	I	C
Third party services	I	I	C	I	I	C
Total turnover	C	C	C	C	C	C
Operating income						
Current cost profit or loss on disposal of fixed assets	I	I	C	I	I	C
Exceptional items	I	I	C	I	I	C
Other operating income	I	I	C	I	I	C
Total operating income	C	C	C	C	C	C
Working capital adjustment	I	I	I	I	I	I

I: input

C: calculation

Pro forma 8

Current Cost Analysis of Fixed Assets by Asset Type

Water Services

	Specialised Operational Assets	Non-Specialised Operational Properties	Infrastructure Assets	Other Tangible Assets	Total
Gross replacement cost					
At 1 April 20XX	I	I	I	I	C
AMP adjustment	I	I	I	I	C
RPI adjustment	I	I	I	I	C
Disposal	I	I	I	I	C
Additions	I	I	I	I	C
At 31 March 20XX	C	C	C	C	C
Depreciation					
At 1 April 20XX	I	I	I	I	C
AMP adjustment	I	I	I	I	C
RPI adjustment	I	I	I	I	C
Disposals	I	I	I	I	C
Charge for year	I	I	I	I	C
At 31 March 20XX	C	C	C	C	C
Net book amount at 31 March 20XX	C	C	C	C	C
Net book amount at 1 April 20XX	C	C	C	C	C

I: input

C: calculation

Pro forma 9

Current Cost Analysis of Fixed Assets by Asset Type

Sewerage Services

	Specialised Operational Assets	Non-Specialised Operational Properties	Infrastructure Assets	Other Tangible Assets	Total
Gross replacement cost					
At 1 April 20XX	I	I	I	I	C
AMP adjustment	I	I	I	I	C
RPI adjustment	I	I	I	I	C
Disposal	I	I	I	I	C
Additions	I	I	I	I	C
At 31 March 20XX	C	C	C	C	C
Depreciation					
At 1 April 20XX	I	I	I	I	C
AMP adjustment	I	I	I	I	C
RPI adjustment	I	I	I	I	C
Disposals	I	I	I	I	C
Charge for year	I	I	I	I	C
At 31 March 20XX	C	C	C	C	C
Net book amount at 31 March 20XX	C	C	C	C	C
Net book amount at 1 April 20XX	C	C	C	C	C

I: input

C: calculation

Pro forma 10

**Current Cost Analysis
of Fixed Assets
by Asset Type**

Total Services	Specialised Operational Assets	Non-Specialised Operational Properties	Infrastructure Assets	Other Tangible Assets	Total
Gross replacement cost					
At 1 April 20XX					C
AMP adjustment					C
RPI adjustment					C
Disposal					C
Additions					C
At 31 March 20XX	C	C	C	C	C
Depreciation					
At 1 April 20XX					C
AMP adjustment					C
RPI adjustment					C
Disposals					C
Charge for year					C
At 31 March 20XX	C	C	C	C	C
Net book amount at 31 March 20XX	C	C	C	C	C
Net book amount at 1 April 20XX	C	C	C	C	C

I: input

C: calculation

Pro forma 11

**Current Cost
Working Capital**

	Current Year	Prior Year
Stocks	I	I
Trade debtors	I	I
Working cash balances	I	I
Trade creditors	I	I
Short-term capital creditors	I	I
Infrastructure renewals accrual/prepayment	I	I
Other accruals	I	I
Trade payments in advance	I	I
Payroll related taxes and social security contributions	I	I
Group trade debtors/(creditors)	I	I
Other short term group debtors/(creditors)	I	I
Prepayments and other short term debtors	I	I
<hr/>		
Total working capital	C	C
<hr/>		

I: input

C: calculation

**Movement on
Current Cost
Reserve**

	Current Year	Prior Year
Balance at 1 April 20XX		
AMP adjustment		
RPI adjustments:		
Fixed assets		
Working capital		
Financing		
Grants and third party contributions		
Balance at 31 March 20XX	C	C

I: input

C: calculation

Pro forma 13

Reconciliation of Current cost operating profit to net cash flow from operating activities

	Current Year	Prior Year
Current cost operating profit	I	I
Working capital adjustment	I	I
Change in stocks		
Receipt from other income		
Current cost depreciation	I	I
Current cost profit/(loss) on sale of assets	I	I
Increase in debtors and prepaid expenses	I	I
Increase in creditors and accrued expenses	I	I
Infrastructure renewals expenditure	I	I
Movement in provisions	I	I
Effect of other deferrals and accruals on operating activity cashflow	I	I
Net cash flow from operating activities	C	C

I: input

C: calculation

Pro forma 14

Analysis of net debt

	At 1 April 20XX	Cash Flow	Other Non- Cash Charges	Acquisitions	At 31 March 20XX
Cash in hand and bank	I	I	I	I	C
Overdrafts	I	I	I	I	C
Loans due after one year	I	I	I	I	C
Loans due within one year	I	I	I	I	C
Finance leases	I	I	I	I	C
Current asset investment	I	I	I	I	C
Total	C	C	C	C	C

I: input

C: calculation

Pro forma 15

Regulatory Capital Value		
	Note	Current Year
Opening RCV for the year	(a)	I
Capital expenditure	(a)	I
Infrastructure renewals expenditure		I
Grants and contributions		I
Depreciation		I
Infrastructure renewals charge		I
Outperformance of Regulatory Assumptions (5 years in arrears)		I
Closing RCV carried forward	(a)	C
Average regulatory capital value		C

I: input

C: calculation

(a) notes required : To explain that the table shows the RCV used in setting the price limits for the period [2000-01 to 2004-05]; the differences from the actual capital expenditure and depreciation etc will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

Companies may also explain items which may be logged up and items of discretionary expenditure for possible inclusion in the RCV in future. The commentary should note that these items will required agreement with Ofwat prior to the next price setting period.

Pro forma 16

**Five year rolling summary:
Current Cost Profit and Loss
Account for Appointed Business**

	Year 1	Year 2	Year 3	Year 4	Year 5
Turnover	I	I	I	I	I
Current cost operating costs	I	I	I	I	I
Operating income/expense	I	I	I	I	I
Working capital adjustment	I	I	I	I	I
	C	C	C	C	C
Other income	I	I	I	I	I
Net interest	I	I	I	I	I
Financing adjustment	I	I	I	I	I
Current cost profit before taxation	C	C	C	C	C
Taxation	I	I	I	I	I
Current cost profit on ordinary activities	C	C	C	C	C
Extraordinary items	I	I	I	I	I
Current cost profit attributable to Shareholders	C	C	C	C	C
Dividends	I	I	I	I	I
Current cost profit retained	C	C	C	C	C

I: input

C: calculation

Pro forma 17

**Five year rolling summary:
Current Cost Balance Sheet
for Appointed Business**

	Year 1	Year 2	Year 3	Year 4	Year 5
Tangible fixed assets	I	I	I	I	I
Third party contributions since 89-90	I	I	I	I	I
Working capital	I	I	I	I	I
<hr/>					
Net operating assets	C	C	C	C	C
Cash & investments	I	I	I	I	I
Non-trade debtors	I	I	I	I	I
Non-trade creditors	I	I	I	I	I
Creditors due after one year	I	I	I	I	I
Provisions	I	I	I	I	I
Dividends payable	I	I	I	I	I
Net assets employed	C	C	C	C	C
<hr/>					
Called up share capital	I	I	I	I	I
Share premium	I	I	I	I	I
Profit and loss account	I	I	I	I	I
Current cost reserve	I	I	I	I	I
Other reserves	I	I	I	I	I
<hr/>					
Total capital and reserves	C	C	C	C	C

I: input

C: calculation

Proforma 18

**Published activity cost table – water and sewerage companies
Appointed Business - Revenue Account Only**

£000s	Service Analysis								Business Analysis		
	Water Supply			Sewerage Services							
	Resource & treatment	Distribution	Water Supply Subtotal	Sewerage	Sewage Treatment	Sludge T&D Subtotal	Sewage T&D Subtotal	Sewerage Service Subtotal	Customer Services	Scientific Services	Cost of Regulation
Direct Costs											
Employment Costs	I	I	C	I	I	I	C	C			
Power	I	I	C	I	I	I	C	C			
Agencies				I			C	C			
Hired and Cont. Services	I	I	C	I	I	I	C	C			
Associated Companies	I	I	C	I	I	I	C	C			
Materials and Consumables	I	I	C	I	I	I	C	C			
Service Charges	I		C	I	I	I	C	C			
Other Direct Costs	I	I	C	I	I	I	C	C			
Total Direct Costs	C	C	C	C	C	C	C	C	I	I	I
General & Support Exp.	I	I	C	I	I	I	C	C	I	I	I
Functional Expenditure	C	C	C	C	C	C	C	C	C	C	C
Capital Costs											
CC Depreciation	I	I	C	I	I	I	C	C			
Infrastructure Ren. Exp.	I	I	C	I	I	I	C	C			
Inf. Ren. Accrual/Prepayment	I	I	C	I	I	I	C	C			
Functional Cost	C	C	C	C	C	C	C	C			
Total (from above)			I					I			
Rates			I					I			
Doubtful Debts			I					I			
Exceptional			I					I			
Intangible Assets			I					I			
Business Acts. Cap. Costs			I					I			
Service Cost			C					C			
Services for Third Parties			I					I			
Total			C					C			
CCA (MEA) Values											
Service Activities	I	I	C	I	I	I	C	C			
Business Activities			I	I			I	C			
Service Totals			C	I			C	C			
Services for the Third Parties			I					I			
Total			C					C			

I = Input

C Calculation

Proforma 19

Published activity cost table - water companies Appointed business - revenue account only

£000s	Service Analysis			Business Analysis		
	Resource & Treatment	Distribution	Water Supply Subtotal	Customer Services	Scientific Services	Cost of Regulation
Direct Costs						
Employment Costs	I	I	C			
Power	I	I	C			
Hired and Cont. Services	I	I	C			
Associated Companies	I	I	C			
Materials and Consumables	I	I	C			
Service Charges	I	I	C			
Other Direct Costs	I	I	C			
Total Direct Costs	C	C	C	I	I	I
General & Support Exp.	I	I	C	I	I	I
Functional Expenditure	C	C	C	C	C	C
Capital Costs						
CC Depreciation	I	I	C			
Infrastructure Ren. Exp.	I	I	C			
Inf. Ren. Accrual/Prepayment	I	I	C			
Functional Cost	C	C	C			
Total (from above)			C			
Rates			I			
Doubtful Debts			I			
Exceptional			I			
Intangible Assets			I			
Business Acts. Cap. Costs			I			
Service Cost			C			
Service for Third Parties			I			
Total			C			
CCA (MEA) Values						
Service Activities	I	I	C			
Business Activities			I			
Water Supply Total			C			
Services for the Third Parties			I			
Total			C			

I = Input C = Calculation

APPENDIX 3 Appointed versus non appointed activities

The lists of appointed and non - appointed activities in this Appendix are based on the criteria discussed in paragraph 3.2. These lists are for guidance and are not intended to be exhaustive. Companies are encouraged to discuss borderline cases with Ofwat.

Appointed activities

- water supply (including bulk supplies and large user customers)
- sewerage
- sewage treatment and disposal
- management and holding of protected land
- supply of non - potable water
- rechargeable work for which Appointee is monopoly supplier
- conservation
- recreation and amenity uses of those waters and lands which the Appointee employs for the purposes of water supply, in order to comply with the Water Act 1989, for example rambling.

Non appointed activities

- sale of non water and sewerage services to third parties including the EA, for example laboratory, computing, billing, engineering, meter reading, support and transport services
- plumbing services
- consultancy
- external sales of energy
- billing commission
- stores sales to third parties
- rechargeable work for which Appointee is not monopoly supplier - recreation and amenity uses of non appointed assets in conjunction with those waters and lands which the Appointee employs for the purpose of water supply, beyond the duties imposed by the Water Act 1989, for example water skiing and restaurants.

Note that the receipt of rental income from protected land will generally involve the disposal of an interest of right over the land and will therefore be subject to the requirements of Condition K as described in MD letters.

APPENDIX 4 checklist of condition F requirements

This appendix summarises the reports and statements to be included in the regulatory accounts, by reference to paragraph numbers in Condition F and including any subsequent modifications to the Licence requirements.

Paragraph 4: Accounting statements

Reports:

- HC Profit and Loss Account
- HC Balance Sheet
- CCA Profit and Loss Account
- CCA Balance Sheet and
- CCA Cash Flow Statement,
for each of the Appointed Business, the Non appointed Business and the total business of the Appointee subject to the materiality criteria.
- Notes to these accounts

Paragraph 5: Segmental information

Analysis of:

- turnover, operating income and working capital adjustment of the Appointed Business;- current cost operating costs of the Appointed Business split between water resources and treatment and distribution for water supply, sewage, sewage treatment, sludge treatment and disposal for sewerage services.

Paragraphs 6 & 6A: Transactions with Associated Companies & Ring Fencing (note RAG 5.03 – part 2 provides more details)

- statement of compliance with condition F and RAG 5.03
- details of transactions between the appointee and associated companies and between the Appointed and Non appointed Businesses of the Appointee
- ~~statement that to the best of the directors' knowledge, all appropriate~~

transactions with associated companies have been disclosed.

- details of procedures used to award contracts to associates.
- directors' certificate regarding diversification and protection of the core business.
- declaration by Directors and Senior Managers of interests in associates.

Paragraph 7: Basis of allocations and apportionment

- description of the basis of allocation and apportionment of costs and assets between the Appointee and its associated companies and between the Appointed and the Non appointed Businesses of the Appointee.
- Further details are also given in RAG4.

Paragraph 8: Current cost accounts

- CC Profit and Loss Account,
- CC Balance Sheet,
- CC Cash Flow Statement,
- analysis of fixed assets by asset type within service,
- calculation of AMP adjustment where appropriate,
- five year rolling summary,
- statement of accounting policies,
- working capital note and
- movement on current cost reserves note,
- infrastructure renewals account reconciliation,
- analysis of net debt.

Paragraph 9: Audit reports

- report on published accounts
- report on non - published information