

The role of regulatory accounts

Information plays a critical role in our work of regulating the Scottish water industry on behalf of customers, by allowing us to monitor how well the industry is performing.

An important element of the information we collect is the regulatory accounts, which provide us with the specific information we need to regulate the industry effectively.

This summary explains how regulatory accounts have developed in the UK and how they are used.



What are regulatory accounts?

Regulatory accounts are a series of financial reports that are designed to provide regulators with information about the performance and financial health of the companies and industries they regulate. They are compiled according to accounting conventions stipulated by the regulator. Regulatory accounts are similar to the statutory financial accounts that most UK companies complete as required by the Companies Act 1985. However, whereas statutory accounts are completed according to the same rules and using the same format across all sectors and industries, regulatory accounts are tailored to take account of the economics of the particular regulated industry.

Regulatory accounts tend to require more detailed information about costs and revenues than statutory accounts, and are completed using different accounting conventions. Whereas statutory accounts are generally completed using historic cost accounting, regulatory accounts also use current cost accounting. Current cost accounting is a more useful measure for regulators as it allows them to take a view of the current value of the regulated company's assets and the likely cost of replacing them.

Development of regulatory accounts in the UK

Over the last decade regulatory accounts have played an increasingly important role in fulfilling the information requirements of UK regulators. Ofwat, the economic regulator of the water industry in England and Wales, first implemented regulatory accounts in 1992-93. Over time, the value of regulatory accounts has been recognised by other economic regulators. They have been introduced in the following regulated industries in the UK:

- civil aviation;
- electricity;
- gas;
- postal services;
- rail; and
- telecommunications.



Purposes of regulatory accounts

As regulatory accounts are more specialised than statutory accounts, the regulator can tailor them to meet their particular needs. This includes the following:

- Monitoring progress against the assumptions underlying current price controls and other regulatory decisions;
- Informing future regulatory decisions about price controls;
- Revealing certain anti-competitive behaviour, such as cross-subsidisation and undue discrimination; and
- Facilitating competition.

Regulatory accounts are not only useful for the regulator. By completing regulatory accounts, the regulated company also generates information in a format that can be used to inform its own management decisions. The transparency generated by regulatory accounts may also be useful to customers, policy makers and other stakeholders.

Further reading

The Information Note 'Regulatory Accounts in the Scottish Water Industry' looks at regulatory accounts in more detail.

Copies of all of Scottish Water's regulatory accounting submissions and the accounting conventions that we use are available in the Publications section of our website.

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