

## **Consultation 2/2024: Consultation on Arqiva’s Regulatory Accounts**

### **Section 1 – Introduction to Arqiva’s Regulatory Accounts**

Arqiva made a set of promises (the Undertakings<sup>1</sup>) about how it will run its broadcasting transmission business. As part of these Undertakings, it annually produces Regulatory Accounts.

These are different from the Arqiva Group Limited accounts which provide information about all the different parts of Arqiva’s business and are filed at Companies House. The Regulatory Accounts have a narrower focus on parts of the business covered by the Undertakings i.e. providing Network Access (NA) and Managed Transmission Services (MTS) to television and radio broadcasters<sup>2</sup>. They therefore exclude, for example, Arqiva’s activities linked to smart meters. They also exclude revenue and profits from Arqiva’s DAB and Freeview multiplex businesses and anything to do with its satellite-related business.

The Regulatory Accounts are intended to “fairly represent the state of the businesses’ affairs to which they relate” i.e. provide a breakdown of financial performance, outlining cost allocations and revenue streams for the services covered by the Undertakings.

Across the UK, there are not many businesses which have an obligation to produce regulatory accounts. It applies only to a subset of regulated businesses. A document issued by a group of regulators back in 2000 suggested this type of financial information could be useful for stakeholders including customers, regulators and the company itself<sup>3</sup>. This gave reasons and examples of ways stakeholders may find regulatory accounts useful, including:

- monitoring performance against the assumptions underlying the price controls
- informing future price control reviews
- assisting in the detection of certain anti-competitive behaviour e.g. undue discrimination
- assisting in monitoring financial health
- improving transparency in the regulatory process

Within the Undertakings which apply to Arqiva, Section 15 defines the framework for its “Regulatory Accounting”<sup>4</sup>.

In considering any changes, the Adjudicator<sup>5</sup>, Glyn Jones, must comply with the provisions of the Undertakings. Within those provisions, Section 15.10 gives the Transmission Adjudicator the ability either to change the financial information Arqiva is required to publish or to remove the obligation to provide Regulatory Accounts.

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<sup>1</sup> For a brief background to the Undertakings and full link to the whole document, see Appendix 1.

<sup>2</sup> NA and MTS are defined in the Undertakings, Page 27

<sup>3</sup> See full document at [www.urgeni.gov.uk](http://www.urgeni.gov.uk): [Role of Regulated Accounts in regulated Industries](#)

<sup>4</sup> Section 15 of the Undertakings is reproduced in Appendix 2.

<sup>5</sup> The Undertakings refer to the “Adjudicator”. In this document “Adjudicator” and “Transmission Adjudicator” are used interchangeably and have the same meaning.

The Undertakings include an Appendix<sup>6</sup> setting out a ‘Form of Regulatory Accounting Statement’ with illustrative data. This format was proposed by Arqiva at the time the Undertakings were being agreed with the competition authorities. The format currently used is different (changes were originally agreed with the Office of the Adjudicator in 2009<sup>7</sup>) and has been used, with minor changes, for over 15 years.

Each year, Arqiva produces to the ‘Regulatory Accounting Principles and Methodologies’ (RAPM) for review by the Office of the Adjudicator. The RAPM have to contain an adequate level of detail to enable the Adjudicator to understand the basis on which the Regulatory Accounts will be prepared and must take into account all relevant guidance issued by the Adjudicator pursuant to paragraph 13.2 of the Undertakings.

The RAPM are maintained in accordance with Section 15.5 of the Undertakings, which require that the Regulatory Accounts (RA) are prepared and externally audited on a Fairly Presents basis and the principles and methodology as explained in Appendix 3.

In October 2024, Arqiva published its most recent Regulatory Accounts for the financial year ending 30 June 2024 (RA FY24), which were prepared according to the ‘Regulatory Accounting Principles and Methodologies’ (RAPM 2023/24).

The table below includes links to various documents. The current Regulatory Accounts and RAPM, and the archive going back to 2009, are published on Arqiva’s website. The format originally considered for the Regulatory Accounts forms an Appendix to the Undertakings which can be found on the Transmission Adjudicator’s website.

<b>Regulatory Accounts FY24</b>	<a href="#">Arqiva Regulatory Accounts FY24 - FINAL with Audit Opinion - signed.pdf</a>
<b>RAPM 2023/24</b>	<a href="#">Regulatory Accounting Principles and Methodologies 2023-2024.pdf</a>
<b>Archive Accounts and RAPM</b>	<a href="https://www.arqiva.com/documentation/">https://www.arqiva.com/documentation/</a> Regulatory tab
<b>Undertakings Appendix 14 (Page 62) Form of Regulatory Accounting Statement</b>	<a href="#">Undertakings - non-confidential version.pdf</a>

<sup>6</sup> The Undertakings, Appendix 14, Page 62

<sup>7</sup> [https://www.ota-bts.org.uk/documents/OTABTSreport\\_july09september09.pdf](https://www.ota-bts.org.uk/documents/OTABTSreport_july09september09.pdf)

## Section 2 - Purpose of This Consultation

Producing the Regulatory Accounts in their current form has a cost reflecting the time it takes each year for Arqiva's finance team, its auditors (who audit both the Arqiva Group Limited accounts and the Regulatory Accounts) and the Adjudicator. The costs vary from year to year, but the Adjudicator's high-level estimate is that this effort equates to costs for the regulated business in the range of £250k to £350k each year. Stakeholders should not assume the whole amount could be saved under any of the options set out in this consultation.

Since becoming Transmission Adjudicator in March 2024, Glyn Jones has met or spoken with a range of Arqiva's broadcast transmission customers. These conversations suggest that few customers are deriving much of value from the Regulatory Accounts.

The purpose of this consultation is to explore the views of stakeholders more systematically. How relevant are they for you? Are they still needed? How useful is the current format, the information included and the level of detail? Could changes enhance their value? Are they still needed?

Stakeholder feedback will help inform the Transmission Adjudicator's assessment and decisions about whether the requirements for the Regulatory Accounts should:

- a) remain unchanged;
- b) be left largely unchanged with relatively minor changes;
- c) be changed either to be more useful to stakeholders or to reduce the resources required to produce them; or that
- d) the requirement to produce the Regulatory Accounts should be lifted.

## Section 3 – The Consultation Process

Although the Undertakings do not require a consultation before any change, it is appropriate to seek the views of stakeholders on this occasion. This will include broadcast transmission customers and also Arqiva, Ofcom, and the Competition and Markets Authority.

It is expected that stakeholders will have varying levels of familiarity with the Regulatory Accounts and differing views about their relevance. For some, the accounts may contain essential information that meets a continuing business need; for others, they may have little or no use; and for others, they may lack clarity or fail to provide meaningful insights. It will be useful to hear all perspectives.

Given the perception that awareness and familiarity with the Regulatory Accounts is low, in addition to asking for written submissions we will reach out to a sample of stakeholder companies. This will include some who we believe may, otherwise, not input their views. This will be done through a telephone survey.

Following the consultation, we will analyse responses to identify common themes and actionable insights, and we will publish a summary of the feedback received both from written submissions and the phone-out survey. In the summary, our approach will be to explain which companies or organisations have expressed particular opinions. To enhance transparency, where possible we would prefer to avoid keeping responses or parts of responses confidential.

We will follow our 'Consultation Principles' which are published on the Transmission Adjudicator's website at [https://www.ota-bts.org.uk/documents/Consultation\\_Principles.pdf](https://www.ota-bts.org.uk/documents/Consultation_Principles.pdf).

Informed by the responses to this consultation, we may brief external consultants with expertise in regulatory accounting to make recommendations. The Transmission Adjudicator will then consider, within the terms of the Undertakings, the next steps.

#### **Section 4 - Consultation Questions**

We invite written submissions responding to the following questions. The phone-out survey will use these questions as a guide. We recognise that some stakeholders may not have views on all questions, and you may opt not to respond to some questions.

1. How often does someone in your business or organisation read and analyse Arqiva's Regulatory Accounts and the supporting information? What purposes are they used for?
2. How useful are the Regulatory Accounts for your business or organisation?
3. In the current format, how clear and easy to understand is the financial information? How easy is it to track year-on-year changes and identify trends?
4. Is there additional information would you like to see and if so, why? Could some information be dropped and, if so, why?
5. Do you encounter any difficulties in navigating or understanding the documents? Do you have views about whether an alternative format or way to present the information would help enhance their usability?
6. If a stakeholder has questions arising from the Regulatory Accounts, is it clear how to get answers? Have you any experience of how well the process for follow-up works?
7. In your opinion, which of the options in Section 2, i.e. a), b), c) or d), most closely reflects your views and why?
8. Are there new tools or technologies that could be adopted to improve the transparency, usability or usefulness of the Regulatory Accounts?
9. Are there other regulatory accounts which you regard as examples of best practice and what do you regard as their strengths in the context of the Arqiva regulated businesses?
10. Bearing in mind the resources needed to produce Regulatory Accounts, do you think there is still a need for Arqiva to produce them in some form?
11. Are there other views, in areas not covered by the previous ten questions, which you believe are relevant to this consultation?

## Section 5 – Consultation Responses and Timetable

Written responses should be submitted by emailing a PDF or Microsoft Word document to [contact@ota-bts.org.uk](mailto:contact@ota-bts.org.uk) with the subject line **Consultation 2/2024**. You must complete a copy of the Consultation Coversheet (Appendix 4) and attach it to the email with your submission.

If you opt not to submit a written response but would like to nominate someone in your company or organisation who would be keen to be included in the phone-out survey, please email their name, contact details and role in your company or organisation to with the subject line **Consultation 2/2024 Phone**.

<b>Consultation Launch Date:</b>	Tuesday, 17 December 2024
<b>Deadline for Responses:</b>	Tuesday, 11 February 2025
<b>Publication of Summary of Responses:</b>	Tuesday, 04 March 2025

## Appendix 1: Background to the Undertakings

- In 2008, the Competition Commission (CC) announced its decision to allow the merger of Arqiva and National Grid Wireless (NGW) subject to the agreement of a package of measures (the Undertakings) to protect the interests of their customers.
- The CC concluded the merger could lead to “substantial lessening” of competition in broadcast transmission services and worsening in the price and non-price factors on which they had competed in the provision of Network Access (NA) and Managed Transmission Services (MTS) to television and radio broadcasters.
- After consultation with Arqiva, its customers and other stakeholders, the CC accepted the Undertakings from Arqiva. Found at this link: [Undertakings - Non-confidential version.pdf](#).
- The Undertakings are intended, amongst other things, to adequately protect existing and new customers over pricing and terms and conditions of Arqiva’s services.
- The Undertakings provide for the appointment of an Adjudicator to, among other functions, operate an adjudication scheme set out in the Undertakings. One function is to issue guidance or directions in relation to the application of provisions of the Undertakings.
- The Undertakings define NA and MTS<sup>8</sup> as:
  - NA means the provision of access to the mast and site network and shared or shareable antenna systems acquired, constructed or installed by Arqiva for the purposes of providing analogue and/or digital terrestrial broadcasting transmission services within the UK to deliver broadcast content to end users;
  - MTS means the provision of a managed terrestrial transmission service (comprising a package of services including some or all of network design, procurement and installation of transmitters, network monitoring, quality assurance of the signal and/or maintenance of Transmitter Equipment) for the purpose of providing analogue and/or digital terrestrial broadcasting transmission services within the UK to deliver broadcast content to end users.
- The Regulatory Accounts are prepared in accordance with Section 15 of the Undertakings (see Appendix 2).
- The Undertakings require Arqiva to take into account all relevant guidance issued by the Adjudicator, and the Adjudicator may from time-to-time direct Arqiva to provide such financial information in addition to, or instead of, that specified as he considers reasonably necessary for the proper discharge of his functions, and direct Arqiva to amend the principles, methodologies and rules.

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<sup>8</sup> These definitions should be read in the context of the Undertakings as a whole. It should be noted that the Undertakings do not apply to broadcasting transmission for Community Radio licences.

## **Appendix 2: Extract from The Undertakings Section 15: Regulatory Accounting**

- 15.1 Arqiva undertakes to maintain appropriate accounting records to enable it to prepare annual statements of revenues, costs and assets employed for each of MTS and Network Access, on the basis of the accounting principles, methodologies and rules generated pursuant to paragraph 15.5, and that fairly represent the state of the businesses' affairs to which they relate. Unless otherwise directed by the Adjudicator the statements shall reflect the format set out in Appendix 14.
- 15.2 The statements shall be prepared by Arqiva for the period from the Commencement Date to 30 June 2009 and each financial year thereafter. Arqiva shall also provide a reconciliation to its audited statutory accounts, and ensure that the summary statements are prepared on a consistent basis from one financial year to the next.
- 15.3 Each statement shall be approved by the Arqiva Board of Directors on the basis that:
  - 15.3.1 the information has been properly extracted from Arqiva's accounting records;
  - 15.3.2 the accounting principles, methodologies and rules referred to in paragraph 15.5 have been applied appropriately.
- 15.4 Arqiva shall engage an auditor (which may be its statutory auditor) to audit the statements prepared by Arqiva pursuant to paragraph 15.1. Arqiva's letter of engagement appointing the auditor shall include provisions acknowledging the acceptance by the auditor of duties and responsibilities to the Adjudicator in respect of its audit work. Any audit opinion issued pursuant to paragraph 15.6 shall be addressed to both Arqiva and the Adjudicator.
- 15.5 With effect from the first working day of the fourth full calendar month following the Commencement Date, Arqiva shall maintain documentation of the accounting principles, methodologies and rules to be used in preparing these summary statements and provide these to the Adjudicator. These principles, methodologies and rules shall be consistent with those used for cost oriented pricing of contracts and contain an adequate level of detail to enable the Adjudicator to understand the basis on which the statements will be prepared, and will take into account all relevant guidance issued by the Adjudicator pursuant to paragraph 13.2.
- 15.6 The auditor shall opine, in respect of each summary statement, on:
  - 15.6.1 whether the information has been properly extracted from Arqiva's accounting records;
  - 15.6.2 whether the accounting principles, methodologies and rules referred to in paragraph 15.5 have been applied appropriately;
  - 15.6.3 whether the statements are a fair representation of the state of the business affairs as at the balance sheet date and their profit (or loss) for the year ended on balance sheet date accepting the accounting principles, methodologies and rules used in preparing the financial statements which are applicable at the time pursuant to paragraph 15.5 of these Undertakings.

- 15.7 Arqiva shall provide the Adjudicator with each statement, evidence of board approval (which may be in the form of an extract from the minutes of the relevant meeting, a copy of a written resolution, a letter from the chairman of the Arqiva Board of Directors, or such other form as the Adjudicator deems acceptable) and a copy of the corresponding audit opinion, Arqiva’s statutory accounts and the reconciliation of each statement to the relevant statutory accounts as soon as reasonably practicable, but no later than four (4) months following the end of the financial year to which they relate.
- 15.8 In the event that the auditor is unable to give an unqualified opinion, the Adjudicator may direct Arqiva to provide such further information as would enable the auditor to give an unqualified opinion.
- 15.9 Arqiva shall use all reasonable endeavours to obtain from the auditor any further explanation and clarification of any audit opinion provided pursuant to paragraph 15.6 and any other information in respect of the matters which are the subject of that audit opinion as the Adjudicator requires.
- 15.10 The Adjudicator may from time to time:
- 15.10.1 direct Arqiva to provide such financial information in addition to, or instead of, that specified in paragraph 15.1 as he considers reasonably necessary for the proper discharge of his functions;
  - 15.10.2 direct Arqiva to amend the principles, methodologies and rules generated pursuant to paragraph 15.5 (and in so doing, the Adjudicator may take into account the views of the auditor);
  - 15.10.3 direct that Arqiva is not required to comply with the provisions of paragraphs 15.1 to 15.9 (or any part thereof).



### Appendix 3: Regulatory Accounting Principles & Methodologies (RAPM)

The RAPM is published annually alongside the Regulatory Accounts on Arqiva’s website. It has been developed and refined over the years to reflect changes in Arqiva’s organisation structure and the accounting processes. The RAPM document is discussed and agreed annually by Arqiva’s finance team and the Transmission Adjudicator. As required by the Undertakings, it describes the accounting principles, methodologies and rules used in preparing the accounts.

Part of the audit process is to confirm that the Regulatory Accounts have been prepared in line with the RAPM.

The current RAPM document includes the following key points:

- **Accounting Principle:** RA is derived from Consolidated Financial Statements of Arqiva Group Limited (AGL) prepared in accordance with International Financial Reporting Standards (IFRS) as defined by AGL accounting policies set out in the consolidated financial statements, unless any specific deviation is required.
- **Cost Causality:** Revenues (including transfer charges), cost components, assets and liabilities are attributed to NA, MTS and Other (Other represents AGL’s non-regulated business) on a basis which reflects the activities causing the revenues to be earned, costs to be incurred, assets acquired, or liabilities incurred. Where a direct relationship does not exist, they are attributed on a fair, reasonable and non-discriminatory basis.
- **Data Source Accuracy & Completeness:** Empirical data, both financial and non-financial, used as part of the accounting and attribution methodology is subject to financial controls and governance. The objective involved in the regulatory financial reporting of the AGL is to maintain financial information to an adequate degree of accuracy, such that the information in the RA is free from material errors, misstatements or double counting.
- **Materiality:** Under international accounting standards, an item is material to the financial statement if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions of the primary users of the financial statement. An item can be deemed to be material depending on the nature or magnitude of information, or both. AGL management can determine what it believes to be material in managing the operations of the business.
- **Consistency:** RA prepared on consistent basis to allow meaningful year-on-year comparison. Should changes be made to RAPM that lead to a material effect on information reported in the RA, the corresponding prior year figures will be restated if possible.
- **Objectivity:** Each element of RA reporting, so far as possible, must take account of all available financial and operational data that is relevant to that element. Where an element of RA reporting is based on assumptions, they should be justified and supported by available relevant empirical data. Cost allocations are intended to be impartial, and not to benefit any particular service, customer segment, Arqiva, or any other operator.

### Asset Valuation

- Consideration has been given to the basis on which asset values and depreciation are reported in the RA. For Reference Offer pricing, Arqiva uses the Regulated Asset Base (RAB).
- RAB uses depreciated replacement cost based on a valuation of the regulated asset base (used to provide NA and MTS) carried out by independent consultants in 2012. This valuation was independently audited for the Adjudicator. It is adjusted annually with RPI.
- As agreed with the Adjudicator, the RA use valuations based on the Fixed Asset Register (FAR) used in the accounts of Arqiva Group Limited. The FAR values assets on a historical cost basis. Assets are depreciated over their useful economic life. The FAR includes assets used for services covered by the Undertakings and also non-regulated assets.
- In preparing the RA an exercise is undertaken to exclude assets which are not relevant for the RA and to categorise assets according to whether they are used for NA or MTS.

### Allocation Bases

- AGL maintains its core accounting records in a manner which allows for revenues, costs, assets and liabilities to be separated into the various functions noted above. Once costs have been analysed by function, these can then be attributed either directly or indirectly to NA, MTS or Other.
- Where costs, assets and liabilities are captured at a total company level and fall into the Operations, Technology and Corporate functions, these require further analysis, management apply agreed apportionment methods to allocate the costs into the regulated activities presented in the RA.
- Where data is recorded in the general ledger by site location code (for example fixed assets and rent costs) the wind loading methodology is used to allocate the site-specific shared costs/assets between regulated and non-regulated activities.
- Methodologies for allocation of each item in the RA is included in the latest RAPM published on Arqiva's website ([Regulatory Accounting Principles and Methodologies 2023-2024.pdf](#)).

**Appendix 4:**

**Consultation Coversheet (Office of The Adjudicator Broadcast Transmission Services)**

**Consultation Title:** Consultation on Arqiva’s Regulatory Accounts (December 2024).....

**Name of Respondent:** .....

**Representing:** .....

**Address:** .....

**Phone number:** .....

**Email address:** .....

**Transparency**

As explained in our Consultation Principles, whenever possible responses will be published in full. If you want to request that parts of your submission are not published, please give details and reasons.

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(Include as much detail as you believe is relevant to explain why we should decide not to publish particular parts of your submission.)

**Declaration**

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that OTA-BTS can publish. In supplying this response, I understand that OTA-BTS may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations.

If I have sent my response by email, OTA-BTS can disregard any standard e-mail text about not disclosing email contents and attachments.

**Name:** .....

**Date:** .....

**Signed:** .....