

Chapter 21

Regulatory accounts

Current Cost Accounting

Covering:
Activity costing analysis -
Water service

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Current Cost Accounting

Activity costing analysis - water service

This table consists of 34 lines within four main headings. It includes operating costs and capital maintenance costs. The information in this table is used for operating cost trends analysis and for the compilation of unit costs..

The company should also provide data relating to services provided by its PPP water contractor operated works. A commentary should be provided detailing PPP costs associated with lines 2 (power), 7 (service charges), 12 (functional expenditure), 16 (total business expenditure), 18 (doubtful debts), 19 (exceptional items) and 30 (capital maintenance).

NIAUR recognises that for the reporting year, water PPP sites will not be operational.

- **Direct costs**

These are costs that are directly attributable to each water service activity, namely water resources and treatment and water distribution. Such costs include apportionments, where such apportionments are necessitated by operational consideration (for example where mobile gangs are used to operate both water and sewerage activities). The direct costs incurred in the provision of general and support activities are given in total for the water service and are also apportioned between service activities.

- **Operating expenditure**

The costs of subjective elements (i.e. rates, doubtful debts or exceptional items) are included only at the water service level and are not apportioned between service activities.

- **Reactive maintenance**

The costs of reactive maintenance expenditure on water infrastructure and non-infrastructure assets which are included within operating expenditure, for each of the two service activities.

- **Capital maintenance**

The capital charges for each service category for infrastructure renewals expenditure, infrastructure renewals accrual/prepayment and current cost depreciation. Other capital charges are included at the service level only and are not apportioned between service activities.

Please note that the current cost depreciation charge, as defined in this table, is the gross figure, i.e. before the amortisation of deferred credits. This figure is not the same as the current cost depreciation charge stated in table 29 line 5.

Company commentary

Allocation of costs: The company must explain the basis for allocation of costs between opex, capex and capital maintenance; between water and sewerage services; and between service areas within the water service. It should also clearly state any general allocation rules,

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Issue 1.0 – May 2008

which have been used by themselves, their contractors or agents (e.g. a rule requiring the capitalisation of any expenditure greater than £100). The company should also detail any changes in judgements, apportionments or adjustments since the prior year, including changes to their capitalisation policies.

- The company should state whether costs such as leakage control have been allocated entirely to opex, or whether significant elements of expenditure have been allocated to capital maintenance or capex lines;
- It is important that the company explain how costs related to business activities (particularly customer services/billing) and indirect costs (general and support expenditure, restructuring provisions and other atypical items) are allocated between the water and sewerage services; and
- It is important that it clearly explain the allocation of indirect costs between the individual service areas (e.g. water distribution and water distribution and treatment).

Atypical costs and provisions: The company must reveal and explain all significant atypical costs and provisions which have occurred during the reporting year, regardless of whether or not they are declared as exceptional items. The company should report atypical costs net of any cost savings associated with the atypical event, for example a reduction in pumping and treatment costs due to lower distribution input during a drought.

The company must also confirm the absence of any atypical costs.

In the commentary to the table the company must disclose:

- business restructuring costs including the Business Improvement Programme. (Please provide a brief description of the costs split between redundancy payments, pension contributions and consultants' fees etc.);
- compensation payments (for one-off events, but not standard GSS or customer charter payments);
- costs attributable to unusual weather conditions;
- pension holidays; and
- rebates of Environment and Heritage Service or other service charges, including rates.

The company must disclose in their commentary, fines paid or provisions made against Section 34 of The Street Works (Northern Ireland) Order 1995 for prolonged occupation of the highway. Preferably this should be reported in the other direct costs line, otherwise the company must state where they have accounted for the fines.

If fines were paid or provisions made in the report year these must also be recorded in the commentary.

In addition, the company must disclose the reasons for any exceptional items, which have been declared, and whether they are expenses or provisions for future costs.

The company must disclose the purpose and amount of any provision included in operating expenditure, and disclose the amount of provision expended or released in the reporting year.

Changes in costs: The company must explain all changes between the prior year (inflated) and reporting year in each element of operating expenditure, including reactive and planned maintenance, where a change in an element exceeds 2% of total operating expenditure, and explain fluctuations in any element of direct costs or operating expenditure which has changed by more than 30% of the prior year figure. An element here refers to a specific category of cost in a service area. So, for example, a change in power costs for the distribution service area above the threshold would need to be explained, as would a change in materials and consumables for the resources and treatment service. If the total column for

any category of cost changes above the threshold, this will also need to be explained if it hasn't already been explained by changes in the individual service areas.

Total operating expenditure: The company must explain any difference between total operating expenditure as shown in table 21 line 22 and in table 35 line 24.

Pensions: The company should identify in the commentary the total element relating to pension costs reported in table 21. The company is asked to set out the level of their actual pension contributions in the reporting year.

If the company is using the multi-employer exemption under FRS 17 it should explain how reported costs in table 21 differ to those that would have been reported had FRS 17 been fully adopted. It should explain the procedure used to allocate pension costs between the water and sewerage service (where applicable). The company must also ensure that the actuarial assumptions underpinning the FRS17 valuation are made available to the Auditor on request.

Third party costs: The company should detail those costs which it has reported in third party costs, and confirm that any associated income has been reported as third party services income in Table 23. If costs have been allocated between third party and appointed business activities, for example allocating costs between customer side and company side for supply pipe repairs, the company should explain the basis on which this allocation has been made.

Water infrastructure renewals charge (IRC): line 25 equals the IRC made to the profit and loss account for the year. Please refer to chapter 33 for company, reporter and auditor guidance. All commentary on IRC should be provided in chapter 33.

Donations to charitable trusts or other funds assisting customers with payment difficulties should be included in the customer services line (line 13), otherwise the company should state in which line it has accounted for the costs. The company must confirm how much it has paid to charitable trusts or other funds assisting customers with payment difficulties. Where the costs have been accounted for in different lines in previous years, please specify which line they have been included in and disclose the amounts.

Guidance to the Reporter

Changes in costs: The Reporter should check that the company has provided explanations on the reasons for changes and fluctuations in costs where the conditions noted in the above subsection apply. If it has not, the reporter should comment himself. In addition, the reporter should give an opinion based on his knowledge of the business on the company's explanation of any significant changes in costs, particularly where they relate to changes in operating conditions, e.g. drought or cold weather.

Cost allocation: The Reporter should comment on the appropriateness of the company's cost allocation procedures.

Water infrastructure renewals charge: The Reporter should refer to reporter guidance in chapter 33.

The Reporter should check that the company has disclosed donations to charitable trusts and other funds assisting customers with payment difficulties as requested, otherwise reporters should comment themselves.

Reporters should check that the company has disclosed the amount of fines paid or provisions made against Section 34 of The Street Works (Northern Ireland) Order 1995 for prolonged occupation of the highway. If not the reporter should comment themselves.

If fines were paid or provisions made in the reporting year, the reporter should check that these have also been disclosed.

Guidance to Auditors

See section 16, "Auditor's guidance".

Column definitions

Column 1: Water resources and treatment: all direct costs associated with the abstraction, conveyance and treatment of raw water, including routine maintenance. (Non-routine maintenance should be charged to **General and support activities**.) Include the cost of bulk water supplies purchased, but exclude the functional costs of bulk water supplied to third parties and of non-potable water. For these purposes, the latter costs should be estimated, and adjustments made to the appropriate subjective fields (including depreciation and infrastructure renewals expenditure/repayment/accrual). Compensating adjustments should be made under **Services provided for third parties**.

See RAG 4.03 for further description of activities.

Column 2: Water distribution: all direct costs associated with the pumping, storage and conveyance of treated water, including the operation, control and monitoring of the distribution system, including routine maintenance. (Non-routine maintenance should be charged to **General and support activities**.) Where pumps serve a dual abstraction/distribution function, an assessment must be made of the costs of each function based on relative pumping head. The costs of distributing non-potable water should be excluded. Include here the installation, removal, and replacement of consumer meters (except where capitalised or rechargeable), but not meter reading. Where distribution employees are employed on work related to tariff matters, and charging and billing enquiries, they should be charged to **Customer services**.

See RAG 4.03 for further description of activities.

Column 3: Water service total: where entries are required in columns 1 and 2, column 3 is calculated from those entries.

Table 21 line definitions

SERVICE ANALYSIS – WATER

A DIRECT COSTS

1	Employment costs	£m	3dp
Definition	The sum of the total costs of "non-manual and manual manpower" which are directly attributable to each of the individually identified service activities: water resources and treatment, water distribution and water service total. To be included are the gross salaries and wages of all employees within the relevant activity, including payments resulting from bonus and profit-related payment schemes, employer's National Insurance contributions, superannuation, unfunded pension liabilities, sick pay, sickness benefits, private health insurance, retirement awards, death in service benefits, paid leave, subsistence, travel, entertaining and conference expenses.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

2	Power	£m	3dp
Definition	All energy costs, including the climate change levy, other than energy used for transport and energy costs, including the climate change levy, associated with the provision of depots and offices - which are included in general and support activities - which are directly attributable to each of the individually identified service activities: water resources and treatment, water distribution and water service total.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

3	Agencies	£m	3dp
Definition	All costs of subcontracting sewerage services to local authorities, which are directly attributable to each of the individually identified service activities: water resources and treatment, water distribution and water service total. All other subcontracted water services are included in hired and contracted services.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

4	Hired and contracted services	£m	3dp
Definition	All hired and contracted equipment and services, which are directly attributable to each of the individually identified service activities: water resources and treatment, water distribution and water service total. (Hired services excludes the hire of vehicles and plant, which is included in general and support activities). Contracted services includes all contracted labour; professional advice (such as lawyers and consultants); computer software; and local authority contracts for the collection of water and sewerage charges. (The provision of services by associated companies is dealt with in line 5.)		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

5	Associated companies	£m	3dp
Definition	<p>The total cost of associated companies that are directly attributable to each of the individually identified service activities: water resources and treatment, water distribution and water service total.</p> <p>If the total cost of all hired and contracted services from associated companies (excluding services that are capitalised or included in infrastructure renewals expenditure of prepayment/accrual) exceeds 20% of the total operating costs of the appointed business, before interest and tax, then such costs must be analysed across the headings of the segmental analysis as if the sub-contracted activities were carried out by the appointee. If the total costs of such subcontracted services fall below this limit then the company may, instead of the foregoing analysis, identify their total cost as a separate and additional component of the segmental analysis within the commentary.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

6	Materials and consumables	£m	3dp
Definition	<p>All materials and consumables that are not 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.</p> <p>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.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

7	Service charges	£m	3dp
Definition	Total cost of service charges by the Environment and Heritage Service for water abstraction which are directly attributable to individually identified service activities: water resources and treatment, water distribution and water service total.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

8	Bulk supply imports	£m	3dp
Definition	<p>Total payments for imported bulk supplies that are directly attributable to individually identified service activities: Water resources and treatment, Water distribution and Water service total.</p> <p>If a supply is a shared supply and is jointly owned, the costs associated with it should not be reported in the bulk supply imports line. The costs should be broken down and reported in lines 1 to 7 and 9 as appropriate. Where this has been done it should be stated in your commentary.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

9	Other direct costs	£m	3dp
Definition	Any other operating costs, but excluding interest and taxation, on an aggregated basis, including costs associated with the provision of depots and offices, and insurance premiums, (where such costs exceed 5% of total operating costs, an analysis should be provided), also include fines and penalties, which can be directly attributable to individually identified service activities: water resources and treatment, water distribution and water service total.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

10	Total direct costs	£m	3dp
Definition	The total direct costs attributable to individually identified service activities: water resources and treatment and water distribution.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: the sum of lines 1, 2, 3, 4, 5, 6, 7, 8 and 9.		
Responsibility	Comparative Efficiency and Performance Team		

11	General and support expenditure	£m	3dp
Definition	<p>The aggregate direct cost of general and support activities is termed general and support expenditure.</p> <p>General and support activities include all centrally provided services, except for any items specifically covered under the individually identified activities. The following services should be included:</p> <ul style="list-style-type: none"> • administrative; • personnel; • financial; • legal and property management; • research and development; • policy determination, implementation and monitoring; • audit; • public and employee relations; • data processing; • planning liaison; • vehicles and plant (including hired vehicles and plant, and leased company cars); • electrical and mechanical maintenance; • land and property maintenance; • materials storage; • operational and technical support; and • general and support buildings. <p>Where an associated company provides such services, the relevant charge should be included.</p> <p>The direct costs of general and support activities are not required to be separately identified for publication but must be allocated across service activities and the individually identified business activities water resource and treatment and water distribution as general and support expenditure.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

12	Functional expenditure	£m	3dp
Definition	The direct costs incurred in the provision of each of the individually identified service and business activities, plus in each case an allocation of direct costs incurred in the provision of general and support activities.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 10 and 11		
Responsibility	Comparative Efficiency and Performance Team		

B OPERATING EXPENDITURE

13	Customer services	£m	3dp
Definition	<p>Total costs directly associated with customer services, except for current cost depreciation.</p> <p>Include customer accounting, the reading of meters, debt recovery and the costs of disconnections, customers' enquiries relating to tariff matters and charging/billing, and complaints handling. (The costs incurred within water distribution in dealing with complaints other than those related to tariff charges and charging/billing should be recorded within that activity.) The cost of billing services purchased should be included but the costs of services provided for third parties excluded. For these purposes, the latter costs should be estimated, and adjustments made to the appropriate headings (and compensating adjustments made under Services provided for third parties). Include donations made to charitable trusts assisting customers or to other assisting customers with payment difficulties.</p> <p>See RAG 4.03 for further definitions.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

14	Scientific services	£m	3dp
Definition	<p>Total costs directly associated with scientific services except for current cost depreciation.</p> <p>Include the costs of scientific and laboratory services, and of the monitoring of quality. The cost of such services purchased should be included but the costs of services provided for third parties excluded. For these purposes, the latter cost should be estimated, and adjustments made to the appropriate subjective lines (and compensating adjustments made under Services provided for third parties).</p> <p>See RAG 4.03 for further definitions.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

15	Other business activities	£m	3dp
Definition	<p>Total costs directly associated with other business activities except for current cost depreciation.</p> <p>This should include the cost of regulation, including all incremental managerial costs of regulation associated with a periodic review,; certification fees associated with the Licence requirements; and staff and associated costs incurred in the preparation of submissions to, and liaison with, regulators. (Note: Environment and Heritage Service charges are included under the operational activities.)</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

16	Total business activities	£m	3dp
Definition	Cost of total business activities except for current cost depreciation.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: Sum of lines 13, 14 and 15		
Responsibility	Comparative Efficiency and Performance Team		

17	Rates	£m	3dp
Definition	The cost of all rates.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

18	Doubtful debts	£m	3dp
Definition	The charge/credit to the profit and loss account for bad and doubtful debts.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

19	Exceptional items	£m	3dp
Definition	Exceptional items are defined in FRS3 Reporting Financial Performance.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

20	Total opex less third party services	£m	3dp
Definition	Total operating expenditure less third party services.		

Primary Purpose	Informing relative performance and efficiency assessments.
Processing rule	Calculated: sum of lines 12, 16, 17, 18 and 19
Responsibility	Comparative Efficiency and Performance Team

21	Third party services – opex	£m	3dp
Definition	The operating costs of providing water services to third parties, to include: <ul style="list-style-type: none"> • rechargeable works • bulk supplies of raw or treated water to other water companies • non-potable water • water main diversions • repairs to customers' supply pipes (if the company has in the past reported the cost of repairs to customers' pipes under a different heading, this should be explained in the commentary). 		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

21a	Total PPP unitary charges	£m	3dp
Definition	Total PPP unitary charges		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

22	Total operating expenditure	£m	3dp
Definition	Total operating expenditure		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 20 and 21		
Responsibility	Comparative Efficiency and Performance Team		

C REACTIVE AND PLANNED MAINTENANCE (INCLUDING OPEX)

23	Reactive and planned maintenance infrastructure	£m	3dp
Definition	The reactive and planned maintenance expenditure on water infrastructure assets, for each of the individually identified service activities: Water resources and treatment, Water distribution and Water service total included in operating expenditure. This should include expenditure on: <ul style="list-style-type: none"> • burst repairs; • flushing, scrubbing and air scouring; • leakage control activities and leak repairs; • valve, hydrant and meter maintenance/replacement; • communication pipe and stop tap replacement; • provision of meter boxes associated with the above; and • reactive and planned maintenance on aqueducts and dams. 		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

24	Reactive and planned maintenance non-infrastructure	£m	3dp
Definition	<p>The reactive and planned maintenance expenditure on water non-infrastructure assets, for each of the individually identified service activities: Water resources and treatment and Water distribution included in operating expenditure.</p> <p>This should include expenditure on:</p> <ul style="list-style-type: none"> planned routine and reactive servicing of pumping plant; planned routine and reactive maintenance of treatment works and instrumentation; service reservoir dosing; buildings and ground maintenance; and contracts for maintenance of computer equipment. 		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

D CAPITAL MAINTENANCE

25	Infrastructure renewals charge (excluding third party services)	£m	3dp
Definition	Infrastructure renewals charge, excluding any part which relates to infrastructure assets which are used for third party services.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 1 and 2: input Column 3: sum of table 21 line 25 column 1 and table 21 line 25 column 2.		
Responsibility	Regulatory Finance Team		

26	Current cost depreciation (allocated)	£m	3dp
Definition	<p>The current cost depreciation charge on tangible fixed assets, for each of the individually identified service activities, Water resources and treatment, Water distribution and Water service total.</p> <p>Note that this figure is not net of the amortisation of deferred credits and intangible assets, which are shown separately on lines 27 and 28.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

27	Amortisation of deferred credits	£m	3dp
Definition	The amortisation of deferred credits arising from third party contributions on non-infrastructure assets. These are amortised over the life of the related asset.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

28	Amortisation of intangible assets	£m	3dp
Definition	Any amortisation or other reduction in the balance sheet valuation of intangible assets, such as goodwill.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

29	Business activities current cost depreciation (non-allocated)	£m	3dp
Definition	The current cost depreciation at the aggregate level for each service, attributable to the assets used in the business activities, i.e. customer services, scientific services and other business activities (lines 13-15).		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

30	Capital maintenance excluding third party services	£m	3dp
Definition	Capital maintenance less capital maintenance charges in respect of third party services		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 25, 26, 27, 28 and 29		
Responsibility	Regulatory Finance Team		

31	Third Party services – current cost depreciation.	£m	3dp
Definition	Current cost depreciation on non-infrastructure assets used only for third party services.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

32	Third Party Services – Infrastructure renewals charge.	£m	3dp
Definition	Infrastructure renewals charge on infrastructure assets used only for third party services.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

33	Total capital maintenance	£m	3dp
Definition	Total capital maintenance (including capital maintenance in respect of third party services)		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 30, 31 and 32		
Responsibility	Regulatory Finance Team		

34	Total operating costs	£m	3dp
Definition	Total operating costs		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 22 and 33		
Responsibility	Comparative Efficiency and Performance Team		

CHANGE CONTROL SHEET

CHAPTER 21

2008/1.0	First issue of chapter for the SBP period