

COMMERCIAL IN CONFIDENCE

Chapter 36b

Expenditure comparisons by purpose

Sewerage service - capex variance from SBP determination

Covering:

- Reallocation of final determination
- Outputs over- or under-achieved
- Different timing of expenditure
- Efficiency savings

Expenditure comparisons by purpose

Chapter 36b

Sewerage service - capex variance from SBP determination

This table covers all cumulative variations in capital investment since April 2007 from the SBP determination or a subsequent interim determination. The company is asked to report variations in the following categories due to:

- reallocations;
- company outputs over- or under-achieved;
- different timing of expenditure; and
- efficiency savings.

The company is required to allocate the cumulative variations in expenditure covering the SBP period.

Guidance

This table facilitates analysis of comparisons between company actual figures and those contained in the SBP. The company should complete this table for the years indicated in "money of the day" (i.e. 2007-08) prices. In calculating the cumulative variation the company should calculate variations for each year against the determination in money of the day equivalents, using the latest Construction Output Price Index (COPI) as published by the DTI in the "Quarterly building price and cost indices" publication. The 'money of the day' variation should then be indexed forward to report year prices using the financial year average RPI, and summed to give the cumulative variation.

Supply/demand balance and non-infrastructure maintenance investment should be included gross of grants and capital contributions whereas infrastructure renewals expenditure should be included net of grants and capital contributions.

The company is required to complete this table in full if there are variances >10% or £2.5m p.a. in any one of the following lines in table 36a; lines 2,3,6,8 or 10.

If the company receives an interim determination during the report year, it should submit revised figures for prior years (2007-10 only) for table 36b, as appropriate.

PPP elements of any lines should be disclosed separately in commentary

Company commentary

Lines 1- 6: Reallocation of the final determination

This section covers variances arising from a difference between the company's plans and the SBP in the allocation of investment between the different investment categories.

The company should provide commentary on the circumstances and timing of decisions taken regarding the re-direction of funds within their overall capital investment programmes. Where re-allocations of resources have led to a large reduction in the amount devoted to a certain purpose category, the company should state details of how outputs have been met from the reduced amounts, and whether these are considered to be efficiency savings or result from uncertainties prevailing at the time of the SBP submission.

Lines 7 - 12: Outputs over- or under-achieved

This section covers variances arising from changes in the quantity of outputs required in the SBP. Note that such changes relate to the funded programme to date. A variance arising from an output which has been delayed, but is still required, should be reported against lines 13 to 18.

The company should identify the main additional outputs, not expected at the time of the SBP, that have been delivered during the SBP period. In the case of lower outputs, the commentary should set out the circumstances which have resulted in lower outputs and any benefit sharing taken place as a result.

In the case of capital maintenance, the company should comment on the additional output in terms of additional activity not anticipated at the time of the SBP determination.

Lines 13- 18: Different timing of expenditure

This section covers variances arising from different timing of expenditure for whatever reason.

The company should identify the implications of the reprofiling or delay for the delivery of quality compliance outputs by due dates.

It is anticipated that the balance of entries due to reprofiling will be zero over the five year SBP period, unless expenditure has been carried over into the next price control period.

Lines 19- 24: Efficiency savings

This section covers variances arising from delivery of outputs at lower total costs than was assumed in the SBP determination.

Efficiency savings should meet the following criteria:

- they should result from positive management action (for example, specific technological innovations, specific improvements in internal planning, design or purchasing arrangements, etc);
- there should be no loss in output achievement;
- no customers should be exposed to greater levels of risk or lower levels of security; and
- they should be part of a least total cost solution.

The company should identify the main areas of the quality compliance programme where savings relative to expectations have been realised. The company should state the broad extent to which savings have resulted from:

- synergies between similar projects which have been merged;
- improved contacting arrangements; or
- radically different choice of solutions i.e. capex/opex, more use of existing assets, reline/renew mix.

Examples should be provided to illustrate this.

Guidance to Reporters

Reporters should pay particular attention to any cases where savings have been achieved now but where this will result in additional capital expenditure being necessary in future.

Reporters should:

- comment on the degree to which reported efficiency savings comply with definitions in the reporting requirements and definitions manual; and
- Confirm the top three sources of efficiency in terms of £m saved, and for each:
 - provide a brief description/example to illustrate the positive management action taken;
 - state the exact source of the innovation and how costs have been saved; and
 - comment on the sustainability of the efficiency savings.

Reporters should review the breakdown of variances provided by the company and confirm whether it is reasonable.

The Reporter should review the commentary under each heading. In particular, Reporters should:

- confirm that the company has either met, or is on track with its present plans to meet the required outputs.;
- in the case of non-delivery of outputs, comment on any explanation put forward by the company and on the company's justification for any re-planned scheme completion dates;
- consider in detail (where appropriate) the areas of the quality enhancement programme where the largest efficiency savings have been made, and review the company's explanations of the savings compared with original assumptions;; and
- state what evidence has been provided by the company to support their analysis.

Table 36b line definitions

A REALLOCATION OF FINAL DETERMINATION

1	Base service provision - infrastructure assets	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for infrastructure assets used to maintain the base service arising from a difference between the company's plans and the SBP determination in the allocation of investment between the different investment categories.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

2	Base service provision - non-infrastructure assets	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for non-infrastructure assets used to maintain the base service arising from a difference between the company's plans and the SBP determination in the allocation of investment between the different investment categories.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

3	Enhanced service levels	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used to provide enhanced service levels arising from a difference between the company's plans and the SBP determination in the allocation of investment between the different investment categories.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

4	Maintaining supply/demand balance	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used to maintain the supply/demand balance arising from a difference between the company's plans and the SBP determination in the allocation of investment between the different investment categories.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

5	Quality enhancements	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used for quality enhancements arising from a difference between the company's plans and the SBP determination in the allocation of investment between the different investment categories.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

6	Total	£m	3dp
Definition	The total variance between the SBP determination and actual out-turn expenditure arising from a difference between the company's plans and the SBP determination in the allocation of investment between the different investment categories.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 1 to 5.		
Responsibility	Network Regulation Team		

B OUTPUTS OVER- OR UNDER-ACHIEVED

7	Base service provision – infrastructure assets	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for infrastructure assets used to maintain the base service arising from changes in the delivery of outputs required in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

8	Base service provision – non-infrastructure assets	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for non-infrastructure assets used to maintain the base service arising from changes in the delivery of outputs required in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

9	Enhanced service levels	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used to provide enhanced service levels arising from changes in the delivery of outputs required in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

10	Maintaining supply/demand balance	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used to maintain the supply/demand balance arising from changes in the delivery of outputs required in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

11	Quality enhancements	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used for quality enhancements arising from changes in the delivery of outputs required in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

12	Total	£m	3dp
Definition	The total variance between the SBP determination and actual out-turn expenditure arising from changes in the delivery of outputs required in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 7 to 11.		
Responsibility	Network Regulation Team		

C DIFFERENT TIMING OF EXPENDITURE

13	Base service provision – infrastructure assets	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for infrastructure assets used to maintain the base service arising from output reprofiling.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

14	Base service provision – non-infrastructure assets	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for non-infrastructure assets used to maintain the base service arising from output reprofiling.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

15	Enhanced service levels	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used to provide enhanced service levels arising from output reprofiling.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

16	Maintaining supply/demand balance	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used to maintain the supply/demand balance arising from output reprofiling.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

17	Quality enhancements	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used for quality enhancements arising from output reprofiling.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

18	Total	£m	3dp
Definition	The total variance between the SBP determination and actual out-turn expenditure arising from output reprofiling.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 13 to 17.		
Responsibility	Network Regulation Team		

D EFFICIENCY SAVINGS

19	Base service provision – infrastructure assets	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for infrastructure assets used to maintain the base service arising from delivery of outputs at lower total costs than was assumed in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

20	Base service provision – non-infrastructure assets	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for non-infrastructure assets used to maintain the base service arising from delivery of outputs at lower total costs than was assumed in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

21	Enhanced service levels	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used to provide enhanced service levels arising from delivery of outputs at lower total costs than was assumed in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

22	Maintaining supply/demand balance	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used to maintain the supply/demand balance arising from delivery of outputs at lower total costs than was assumed in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

23	Quality enhancements	£m	3dp
Definition	The variance between the SBP determination and actual out-turn expenditure for all assets used for quality enhancements arising from delivery of outputs at lower total costs than was assumed in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

24	Total	£m	3dp
Definition	The total variance between the SBP determination and actual out-turn expenditure arising from delivery of outputs at lower total costs than was assumed in the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 19 to 24.		
Responsibility	Network Regulation Team		

25	Total variance	£m	3dp
Definition	The total variance since April 2005 from the SBP determination.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 6, 12, 18 and 24.		
Responsibility	Network Regulation Team		

CHANGE CONTROL SHEET
CHAPTER 36b

2008/1.0	First issue of chapter for the SBP period