

Chapter 35a

Expenditure comparisons by purpose

Water service -

Expenditure comparisons by purpose

Covering:

- Base service provision
- Quality enhancements
- Enhanced service levels
- Improving supply/demand balance
- Grants and contributions
- Expenditure totals

Expenditure comparisons by purpose

Chapter 35a

Water service - expenditure comparisons by purpose

This table covers:

- **Base service provision:** This includes the expenditure necessary in the water service for the base service provision, which includes base operating expenditure, infrastructure renewals, and non-infrastructure capital maintenance expenditure.
- **Enhancements including:**
 - Lines 6 and 7 are expenditure on the provision of new or enhancement of existing assets to achieve improvement in performance in line with enhanced legal requirements, allowed for in the SBP (or any subsequent interim determination);
 - Enhanced service levels: An enhancement is achieved through the provision of identifiable, measurable, and permanent stepped improvements in service levels above the most recently established company-wide base level of service and which are additional to improvements which result from expenditure in other purpose categories. Allocation of expenditure to enhanced customer service levels should represent expenditure solely for this purpose; and
 - Maintaining and improving supply/demand balance: This includes expenditure on the provision of assets for water supply to new customers with no net deterioration of existing levels of service, and to accommodate increased use of water by existing customers whilst maintaining existing levels of service; and improving the security of supply.

Guidance

This table facilitates capital and operating expenditure comparisons between company report year actual figures and those contained in the SBP. Company report year figures are copied directly from table 35. The company should include all expenditure, including that on new outputs/ obligations, in lines 17, 18 and 19 for reconciliation purposes. If the company receives an interim determination during the report year, it should submit revised figures for prior years (2007-10 only) for table 35a, as appropriate.

PPP elements of any lines should be disclosed separately in commentary

Actual and Strategic Business Plan (SBP) forecast

Comparisons between company actuals and SBP assumptions will be made in report year prices. SBP forecast figures for the report year (in SBP base year prices) should be entered in column 1. These figures should be adjusted to report year prices using RPI and COPI and restated in column 2.

- Capital expenditure and grants and capital contributions will be adjusted to report year prices using the Construction Output Price Index (COPI); and
- Operating expenditure will be adjusted to report year prices using the Retail Price Index (RPI).

The company should confirm in its commentary the inflator that has been used in each line and the amount of correction to bring the SBP projected figure into line for the report year.

Variations in expenditure

The efficient and effective management of expenditure programmes requires the company to have flexibility in the allocation of financial resources between investment categories and across individual purpose categories in the short term to achieve output targets. It is expected that the majority of these short run variations will be corrected for in the medium term.

Company commentary

The company should:

- report on significant variations between the report year figures and the figures contained in the SBP. It is considered that variations in excess of 5% in any expenditure figure included in the tables should be regarded as significant. Variations of less than £100,000 are unlikely to be significant for most appointees; and
- demonstrate, taking into account any commentary already provided in the Board's Overview and table 11, the reasons for significant changes and provide evidence that the company is actively managing the programmes to accommodate the changes in an effective manner.

Reasons for significant variations include:

- variations due to major project slippage caused by factors outside the company's control;
- variations as a result of appraisal identifying conventional lower NPV operating cost solutions to problems where initially capital projects had been identified and included in the price determination;
- variations due to a reassessment of priorities or general approach to the achievement and maintenance of levels of service, performance or compliance; or
- variations as a result of innovative solutions to problems.

The company should also:

- specify the extent to which variations have resulted from each of the above and comment as to whether the company's investment programme is on target to deliver the required outputs by due dates;
- justify significant variations due to other reasons; and
- justify variations which result in earlier expenditure in an investment category than assumed in the base projections; for example, in terms of quantifiable earlier or improved benefits to customers.

Guidance to Reporters

The Reporter should:

- comment on the company's progress with the delivery of SBP schemes;
- evaluate the explanations for the variations in expenditure given in the company's commentary and express an opinion on whether they are reasonable;
- request explanations where none have been given by the company and should confirm that the request has been made where no response is obtained; and
- assess the company's comments on their ability to deliver outputs given any variation in actual expenditure from the SBP.

Water service - expenditure comparisons by purpose
Column definitions
Column units & precision

Column 1 – Strategic Business Plan forecast expenditure for the report year in SBP base year prices.

£m (3dp)

Column 2 – Column 1 figures adjusted to report year prices using RPI and COPI: £m (3dp).
{column 1 x RPI factor (for opex) (lines 1, 7, 9, 13, 15, 17, and 19)
column 1 x COPI factor (for capex)(lines 2, 3, 4, 5, 6, 8, 10, 11,12, 14, 16 and 18) }

Column 3 – Actual 2008/2009 outturn.

£m (3dp)

Column 4 - column 3 minus column 2

£m (3dp)

Column 5 - (column 4 divided by column 2) x 100

% (2dp)

Table 35a line definitions

A BASE SERVICE PROVISION

1	Base operating expenditure	£m %	3dp 2dp
Definition	<p>The level of operating expenditure on the water network required to maintain the quantity and quality of outputs and levels of service provided by the water service in the report year.</p> <p>Operating expenditure excludes current cost depreciation and the infrastructure renewals charge.</p> <p>Base opex includes the opex incurred in the provision of services to third parties</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 1 column 4		
Responsibility	Comparative Efficiency and Performance Team		

2	Infrastructure renewals expenditure (net)	£m %	3dp 2dp
Definition	<p>The preservation and (where necessary) the replacement of water service assets defined as infrastructure in RAG2.02 to maintain serviceability. For this line expenditure is reported net of grants and capital contributions as in table 32.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 2 column 4.		
Responsibility	Network Regulation Team		

3	Maintenance MNI - gross of grants and contributions	£m %	3dp 2dp
Definition	<p>The total expenditure gross of grants and contributions required for the water service for maintenance of non-infrastructure assets as defined in RAG2.02. Expenditure is for the preservation and, where necessary, the replacement of water service non-infrastructure assets to maintain serviceability.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 3 column 4.		
Responsibility	Network Regulation Team		

4	MNI – grants and contributions	£m	3dp
Definition	Grants and contributions received by the company relating to water maintenance non-infrastructure.		
Primary Purpose	Informing relative performance and efficiency assessments		
Processing rule	Column 3 is copied from table 35 line 4, column 4		
Responsibility	Network Regulation Team		

5	MNI - net of grants and contributions	£m	3dp
Definition	Total net water capital maintenance non-infrastructure expenditure i.e. after deducting grants and contributions received by the company		
Primary Purpose	Informing relative performance and efficiency assessments		
Processing rule	Copied: column 3 is copied from table 35 line 5, column 4		
Responsibility	Network Regulation Team		

B QUALITY ENHANCEMENTS

6	Capex: Total quality enhancement programme (water)	£m %	3dp 2dp
Definition	<p>The total capital expenditure proportionally allocated to quality required for the provision of new or enhancement of existing water service assets to comply with legal obligations or Ministerial guidance.</p> <p>This is the capital expenditure to deliver the outputs included in the SBP or amendments confirmed at an interim determination of prices for all the water service quality cost drivers.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 7 column 4.		
Responsibility	Network Regulation Team		

7	Opex: Total quality enhancement programme (water)	£m %	3dp 2dp
Definition	<p>The net additional operating expenditure in relation to the base year for quality opex for work to deliver the water service quality enhancement programme. This is the operating expenditure to deliver the outputs included in the SBP or amendments confirmed at an interim determination of prices for all the water service quality cost drivers.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 8 column 4		
Responsibility	Network Regulation Team		

C ENHANCED SERVICE LEVELS

8	Capital expenditure – customer service	£m %	3dp 2dp
Definition	<p>Capital expenditure for the sole purpose of enhancing the level of service to customers. An enhancement is achieved through the provision of identifiable, measurable, and permanent stepped improvements in service levels above the most recently established company-wide base level of service and which are additional to improvements which result from expenditure in other purpose categories. Allocation of expenditure to enhanced service levels should represent expenditure solely for this purpose.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 9 column 4		
Responsibility	Comparative Efficiency and Performance Team		

9	Additional operating expenditure – customer service	£m %	3dp 2dp
Definition	This is additional operating expenditure in relation to the base year which is the result of providing enhanced service levels for customers. An enhancement is achieved through the provision of identifiable, measurable and permanent stepped improvements in service levels above the most recently established company-wide base level of service and which are additional to improvements which result from expenditure in other purpose categories. Allocation of expenditure to enhanced service levels should represent expenditure solely for this purpose.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 10 column 4		
Responsibility	Comparative Efficiency and Performance Team		

D MAINTAINING AND IMPROVING SUPPLY/DEMAND BALANCE

10	Capital expenditure supply/demand balance	£m %	3dp 2dp
Definition	The provision of local water distribution assets to provide for new customers with no net deterioration of existing levels of service and to accommodate increased use of water by existing customers to maintain existing levels of service.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 11 column 4		
Responsibility	Network Regulation Team		

11	Total enhancement capital contributions	£m %	3dp 2dp
Definition	The sum of infrastructure charge receipts, requisition receipts, grants and other capital contributions received during the year by the company for the water service assets. This excludes the amount attributable as third party contributions in respect of adopted assets and assets acquired at nil cost for the water service in the year.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 27 column 4.		
Responsibility	Network Regulation Team		

12	Capex net of enhancement capital contributions	£m %	3dp 2dp
Definition	Capex net of grants and contributions.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of line 10 minus line 11.		
Responsibility	Network Regulation Team		

13	Additional operating expenditure supply/demand balance	£m %	3dp 2dp
Definition	The additional operating expenditure in relation to the base year which results from supply/demand balance capital investment, including new development.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 15 column 4		
Responsibility	Network Regulation Team		

14	Capital expenditure – security of supply	£m %	3dp 2dp
Definition	<p>The capital costs associated with the achievement of an enhanced service level that directly impacts on supply/demand balance.</p> <p>An enhancement is achieved through the provision of identifiable, measurable and permanent stepped improvements in service levels above the most recently established company-wide base level of service and additional to improvements which result from expenditure in other purpose categories.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 16 column 4.		
Responsibility	Network Regulation Team		

15	Additional operating expenditure – security of supply	£m %	3dp 2dp
Definition	The adjustments made to base operating expenditure due to capital investment undertaken to achieve an enhanced service level that directly impacts on supply/demand balance.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 35 line 17 column 4.		
Responsibility	Network Regulation Team		

E EXPENDITURE TOTALS

16	Total gross capex gross of grants (ire net) and excluding new outputs.	£m %	3dp 2dp
Definition	The sum of all expenditure for both base service and enhancement purposes gross of grants and capital contributions, (ire net) and excluding new outputs/obligations. Excludes assets adopted from third parties where no expenditure is recorded.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 2, 3, 6, 8, 10 and 14.		
Responsibility	Network Regulation Team		

17	Total opex excluding new outputs	£m %	3dp 2dp
Definition	The total operational expenditure for the water service excluding new outputs.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 1, 7, 9, 13 and 15.		
Responsibility	Comparative Efficiency and Performance Team		

18	Total gross capex gross of grants, (ire net) and including new outputs	£m %	3dp 2dp
Definition	The sum of all expenditure for both base service and enhancement purposes gross of grants and capital contributions, (ire net) including new outputs/obligations. Excludes assets adopted from third parties where no expenditure is recorded.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 1 copied from line 16 column 1 Column 3 copied from table 35 line 28		
Responsibility	Network Regulation Team		

19	Total opex including new outputs	£m %	3dp 2dp
Definition	The total operational expenditure for the water service.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 1 copied from line 17 Column 3 copied from table 35 line 24.		
Responsibility	Comparative Efficiency and Performance Team		

CHANGE CONTROL SHEET
CHAPTER 35a

2008/1.0	First issue of chapter for the SBP period
2009/1.0	Second issue of chapter for the SBP period; - Amended processing rule for line 16.