

## COMMERCIAL IN CONFIDENCE

# Expenditure comparisons by purpose Chapter 35b

## Water 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 35b

### Water 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;
- differed timing of expenditure;
- efficiency savings; and

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. 2008-09) prices. In calculating the cumulative variation companies 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 investment 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 35a; lines 2, 3, 6, 8 and 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 35b, as appropriate.

PPP elements of any lines should be disclosed separately in commentary.

#### Guidance to the Reporter

The reporter should:

- review the breakdown of variances provided by the company and confirm whether it is reasonable;
- review the commentary under each heading;
- confirm that the company has either met or is on track with its present plans to meet the required outputs;
- 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;
- in the case of non-delivery of outputs, comment on the explanations put forward by the company and on the company's justification for any re-planned scheme completion dates; and
- state what evidence has been provided by the company to support their analysis.

## **Water service – capex variance from the SBP**

### **Lines 1- 6: Reallocation of the SBP 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 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 current 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;
- comment on the degree to which reported efficiency savings comply with definitions in the reporting requirements and definitions manual;
- 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.

## Table 35b line definitions

### A REALLOCATION OF FINAL DETERMINATION

<b>1</b>	Base service provision – infrastructure assets	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>2</b>	Base service provision – non-infrastructure assets	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>3</b>	Enhanced service levels	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>4</b>	Maintaining supply/demand balance	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>5</b>	Quality enhancements	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>6</b>	Total	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: sum of lines 1 to 5		
<b>Responsibility</b>	Network Regulation Team		

## B OUTPUTS OVER- OR UNDER-ACHIEVED

<b>7</b>	Base service provision – infrastructure assets	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>8</b>	Base service provision – non-infrastructure assets	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>9</b>	Enhanced service levels	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>10</b>	Maintaining supply/demand balance	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>11</b>	Quality enhancements	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>12</b>	Total	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: sum of lines 7 to 11		
<b>Responsibility</b>	Network Regulation Team		

### C DIFFERENT TIMING OF EXPENDITURE

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

<b>14</b>	Base service provision – non-infrastructure assets	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

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

<b>16</b>	Maintaining supply/demand balance	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

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

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

#### D EFFICIENCY SAVINGS

<b>19</b>	Base service provision – infrastructure assets	£m	3dp
<b>Definition</b>	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		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>20</b>	Base service provision – non-infrastructure assets	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>21</b>	Enhanced service levels	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>22</b>	Maintaining supply/demand balance	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>23</b>	Quality enhancements	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		



<b>24</b>	Total	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: the sum of lines 19, 20, 21, 22 and 23		
<b>Responsibility</b>	Network Regulation Team		

<b>25</b>	Total variance	£m	3dp
<b>Definition</b>	The total variance since April 2007 from the SBP determination.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: sum of lines 6, 12, 18, and 24		
<b>Responsibility</b>	Network Regulation Team		

**CHANGE CONTROL SHEET**  
**CHAPTER 35b**

2008/1.0	First issue of chapter for the SBP period
2009/1.0	Second issue of chapter for the SBP period - line 25 definition amended