

# Chapter 36

## Financial measures: Sewerage service - expenditure by purpose

Covering:

Base service provision

Quality enhancements

Enhanced service levels

Improving supply/demand balance

New outputs/obligations since the SBP  
determination

Grants and contributions (including infrastructure  
charges)

Expenditure totals

## Financial measures

### Chapter 36

### Sewerage service - expenditure by purpose

This table has eight blocks and a total of 25 lines. It covers:

- **Base service provision:** This includes the expenditure necessary in the sewerage service for the base service provision, which includes base operating expenditure, infrastructure renewals, and capital maintenance.
- **Enhancements, including**
  - **Quality enhancements:** Lines 7 and 8 are expenditure on the provision of new or enhancement of existing assets to achieve improvement in performance in line with stricter legal requirements allowed for in the SBP (or any subsequent Interim Determination). Lines 16 and 17 should include expenditure associated with new legal obligations placed on the sewerage service since 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 service levels should represent expenditure solely for this purpose. Lines 9 to 10 are for expenditure on outputs allowed for in the SBP (or any subsequent interim determination). Expenditure on other ESL outputs should be included in lines 16 and 17.
- **Improving supply/demand balance:** This includes expenditure on the provision of assets for sewerage supply to new customers with no net deterioration of existing levels of service, and to accommodate increased waste water from existing customers whilst maintaining existing levels of service. Lines 11 to 15 are for expenditure on outputs allowed for in the SBP (or any subsequent interim determination). Expenditure on other supply/demand outputs should be included in lines 16 and 17.
- **New outputs/obligations since the final determination:** Expenditure to deal with new outputs required from the company for the sewerage service not included in either the SBP or subsequent interim determinations. The specific outputs and the reasons for the change since the SBP should be explained in the commentary. This is therefore expenditure the company considers to be outside the remit of the SBP.

The company should provide full commentary to justify their view that expenditure reported in lines 16 and 17 was not allowed for in the SBP or a subsequent interim determination.

- **Grants, capital contributions and infrastructure charges receipts for new connections**
- **Adopted assets:** Assets, which are adopted or acquired at nil cost during the year, are to be distinguished separately in line 20.

## Guidance

This table analyses capital and operating expenditure between purpose categories for the sewerage service.

For the 2008-09 return, companies are required to input figures for the report year only. These figures are to be entered in money of the day price terms.

The Total Asset Additions value calculated in line 23 should be the same as the sum of table 32 line 17 column 6 + table 32 line 33 column 6. Any difference should be explained in the commentary to Chapter 36.

Within the commentary the company is required to set out the progress it has made in delivering other defined outputs for maintaining base services which are included in the SBP.

Table 32 should be compiled in accordance with the principles of RAG 1.02. Assets which have been adopted or acquired at nil cost during the year are therefore included at their MEA value in table 32 and the Regulatory Accounts (with a corresponding amount shown as third party contributions). These assets should not be included within the other purpose categories in this table, but aggregated in line 18. A purpose category analysis of line 18 should be included in the commentary. Amounts shown under grants, capital contributions and infrastructure charges for new connections should not include the corresponding third party contribution amount for such assets.

The chapter 36 commentary must explain how the allocation of expenditure to enhanced service levels relates to improvements in the company wide level of service. Expenditure allocated against DG5 should distinguish between improvements in the 1 in 10 and 2 in 10 risk categories. The commentary should describe in detail how the improvements have been effected and measured with reference, where possible, to levels of service indicators, and in particular how improvements which flow from expenditure in other categories have been accounted for.

PPP elements of any lines should be disclosed separately in commentary

**Allocation of expenditure to infrastructure:** The general rules for allocation of expenditure are contained in Regulatory Accounting Guidelines (RAG 2.02).

In principle, up-sizing of assets should not be allocated to base service provision. Where a new asset is being provided or an existing asset modified to achieve an enhanced service then this should be allocated to enhancement service. However, new or replacement of instrumentation and control assets for maintenance or improved operational efficiency should be allocated to base service provision even if the new plan improves the treatment quality.

The company should state in commentaries how allocation has been made for:

- health and safety expenditure;
- energy conservation expenditure; and
- operational efficiency expenditure

where this has not been allocated to operational activities (on a site by site basis).

## Proportional allocation

- To enhance comparability in the longer term, the appointee is required to allocate expenditure on projects between service areas and investment purpose categories to at least the nearest 5% of project value;

- Confidence grades on expenditure should be limited to the reliability grade only i.e. not accuracy graded since this will depend on the proportion of the project expenditure allocated to each purpose category, e.g. an allocation of 5% of project value to enhanced service levels may be accurate to only  $\pm 2\frac{1}{2}\%$  of project value which is  $\pm 50\%$  of the allocated proportion.
- Because of the effect that a large individual scheme may have on the allocation of costs to a particular investment category, threshold limits have been set on scheme values, above which investment must be proportionally allocated.

Annual Capital Programme (SBP price time base)	Threshold scheme/project size for which proportional allocation is required
£ 0 - 10m	£ 10 000
£10m – 100m	£ 50 000
greater than £100m	£100 000

- The company should provide commentary in the return on any material changes in allocation methodology since the SBP, or any non compliance with the guidance above on allocation of expenditure to infrastructure and proportional allocation between services areas and investment purpose categories. Where these are not consistent with the proportional allocation rules set out above, commentary should also be provided on the extent of non compliance and the methodologies used;
- Proportional allocation may be required between different enhancement categories or to distinguish the elements of a scheme which relate to enhancement from those which serve to maintain base service;
- Scheme costs relating to different enhancement categories are to be proportioned across the investment categories in relation to the relative capacities of each element of the scheme. A single physical measure should be identified that is appropriate to the purpose category, e.g.
  - rate of flow;
  - equivalent population; or
  - hydraulic capacity.

An example of proportional allocation is detailed below:

An existing cast iron water main into a distribution zone with a capacity of 2.8 MI/d needs to be replaced as part of the programme to meet [Article 31 of the Water and Sewerage Services Order \(Northern Ireland\) 2006](#) undertakings for quality in the distribution system. The main is to be constructed with a capacity of 4.3MI/d, to allow for future growth.

Purposes:           Quality Compliance and Growth  
 The scheme would be apportioned as:

$\frac{\text{Existing Capacity} \times 100\%}{\text{Proposed Capacity}}$	i.e. $\frac{2.8 \times 100}{4.3} = 65\%$ to Quality
$\frac{\text{Proposed Capacity} - \text{Existing Capacity} \times 100\%}{\text{Proposed Capacity}}$	i.e. $\frac{(4.3 - 2.8) \times 100}{4.3} = 35\%$ to Growth

**Price base:** All figures, on table 36 are to be in money of the day price terms.

**Grants and capital contributions:** only grants and capital contributions received for expenditure in the Supply/Demand category should be recorded in line 24.

Any other grants and contributions received by companies are accounted for in lines 3, 4 and 6 in this table.

### **Guidance to the Reporter**

The Reporter should:

- confirm that the company has set rules for proportional allocation of expenditure, and that these are reasonable and are followed for project expenditure above the thresholds given in the general guidance for the company;
- indicate the extent to which the company has used proportional allocation versus prime purpose allocation; and
- comment on the types of schemes that were proportionally allocated and give examples of the percentage of capital expenditure allocated to each category between categories where possible. The following area is of particular interest:
  - when practising proportional allocation, what specific method does the company use to determine the elements of quality compliance and maintenance expenditure for projects at treatment works.

## Table 36 line definitions

### A BASE SERVICE PROVISION

<b>1</b>	Base operating expenditure	£m	3dp
<b>Definition</b>	<p>The level of operating expenditure on the sewerage network required to maintain the quantity and quality of outputs and the levels of service provided by the sewerage service in the report year.</p> <p>Operating expenditure excludes current cost depreciation and the infrastructure renewals charge; base opex includes the opex incurred in the provision of services to third parties.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Comparative Efficiency and Performance Team		

<b>2</b>	Infrastructure renewals expenditure (net)	£m	3dp
<b>Definition</b>	<p>The preservation and (where necessary) the replacement of sewerage 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> <p>IRE gross of grants and contributions should be reported in line 6 within table 36 as a separate information item.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Copied: table 32 line 32 column 6		
<b>Responsibility</b>	Network Regulation Team		

<b>3</b>	MNI - gross of grants and contributions	£m	3dp
<b>Definition</b>	<p>The total expenditure (gross of grants and contributions) required for the sewerage service for maintenance of non- infrastructure assets as defined in RAG2.02. Expenditure is for the preservation and where necessary the replacement of sewerage service non- infrastructure assets to maintain serviceability.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Copied: table 32 line 33 column 6		
<b>Responsibility</b>	Network Regulation Team		

<b>4</b>	MNI – grants and contributions	£m	3dp
<b>Definition</b>	Grants and capital contributions received by the company relating to sewerage maintenance non-infrastructure expenditure.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>5</b>	MNI – net of grants and contributions	£m	3dp
<b>Definition</b>	Total net sewerage capital maintenance non-infrastructure expenditure (i.e. after deducting grants and capital contributions)		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments		
<b>Processing rule</b>	Calculated: line 3 minus line 4		
<b>Responsibility</b>	Network Regulation Team		

<b>6</b>	Infrastructure renewals expenditure (Gross)	£m	3dp
<b>Definition</b>	The preservation and (where necessary) the replacement of sewerage service assets defined as infrastructure in RAG2.02, to maintain base operating capability. For this line expenditure is reported gross of grants and capital contributions.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

## B QUALITY ENHANCEMENTS

<b>7</b>	Capex: Total quality enhancement programme (sewerage)	£m	3dp
<b>Definition</b>	<p>The total capital expenditure required for the provision of new, or enhancement of existing, sewerage service assets to comply with legal obligations or Ministerial guidance.</p> <p>This is only the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices.</p> <p>Do not include expenditure relating to new outputs/obligations since the SBP determination.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Copied: table 38 line 29		
<b>Responsibility</b>	Network Regulation Team		

<b>8</b>	Opex: Total quality enhancement programme (sewerage)	£m	3dp
<b>Definition</b>	<p>Additional operating expenditure in relation to the base year for quality opex for new or the enhancement of existing sewerage service assets to comply with legal obligations or other Ministerial guidance.</p> <p>This is only the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices.</p> <p>Do not include expenditure relating to new outputs/obligations since the SBP determination.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Copied: table 38 line 30		
<b>Responsibility</b>	Network Regulation Team		

**C ENHANCED SERVICE LEVELS**

<b>9</b>	Capital expenditure – customer service	£m	3dp
<b>Definition</b>	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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Comparative Efficiency and Performance Team		

<b>10</b>	Additional operating expenditure – customer service	£m	3dp
<b>Definition</b>	This is additional operating expenditure in relation to the base year which arises from enhancements to the level of service provided 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.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Comparative Efficiency and Performance Team		

**D IMPROVING SUPPLY/DEMAND BALANCE**

<b>11</b>	Capital expenditure supply/demand balance	£m	3dp
<b>Definition</b>	The provision of sewerage assets to provide for new customers with no net deterioration of existing levels of service and to accommodate increased waste water from existing customers to maintain existing levels of service.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: sum of 12, 13 and 14		
<b>Responsibility</b>	Network Regulation Team		

<b>12</b>	Capex - new development	£m	3dp
<b>Definition</b>	The gross capital costs associated with the provision of local distribution assets for sewerage services to provide for new customers with no net deterioration of existing levels of service.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		



<b>13</b>	Capex – growth	£m	3dp
<b>Definition</b>	Capital expenditure associated with changes in sewage collected from new and existing customers whilst maintaining existing levels of service.  Note: this capital expenditure should exclude expenditure relating to the provision of local distribution assets to provide a sewerage service to new customers. This expenditure should be reported under line 12, 'Capex – new development'.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>14</b>	Capex – growth – sewage treatment	£m	3dp
<b>Definition</b>	Capital expenditure associated with meeting or offsetting changes in demand from new and existing customers at sewage treatment works and sludge treatment centres.  Note: this capital expenditure should exclude expenditure relating to the provision of local distribution assets to provide a sewerage service to new customers. This expenditure should be reported under line 12, 'Capex - new development'.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>15</b>	Additional operating expenditure supply/demand balance	£m	3dp
<b>Definition</b>	The additional operating expenditure in relation to the base year which results from the supply/demand balance capital investment, including new development.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

**E NEW OUTPUTS/OBLIGATIONS SINCE THE SBP DETERMINATION**

16	New outputs/obligations - capex	£m	3dp
<b>Definition</b>	<p>The capital expenditure to deal with new outputs required from companies for the sewerage service, but not included in either the SBP or a subsequent interim determination. The specific outputs and the reasons for the change since the SBP should be explained in the commentary.</p> <p>For <b>quality enhancement outputs</b>, any changes should be explained with the current view of the relevant quality regulator..</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

17	New outputs/obligations – opex	£m	3dp
<b>Definition</b>	<p>The net additional operating expenditure compared with the base year for enhancement opex of 2006-07 to deal with new outputs required from companies for the sewerage service, but not included in either the SBP or a subsequent interim determination. The specific outputs and the reasons for the change since the SBP should be explained in the commentary.</p> <p>For <b>quality enhancement outputs</b>, any changes should be explained with the current view of the relevant quality regulator.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

**F GRANTS, CAPITAL CONTRIBUTIONS AND INFRASTRUCTURE CHARGES RECEIPTS FOR NEW CONNECTIONS**

18	Infrastructure charge receipts – new connections	£m	3dp
<b>Definition</b>	Capital contributions in the form of sewerage infrastructure charges received during the year for new connections.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>19</b>	Enhancement requisitions, grants and contributions	£m	3dp
<b>Definition</b>	Capital contributions received during the year by the company for the sewerage service assets other than from infrastructure charges.  This should include capital contributions resulting from the connection of non-domestic supplies.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

#### G ADOPTED ASSETS, NIL COST ASSETS

<b>20</b>	Assets adopted or acquired at nil cost	£m	3dp
<b>Definition</b>	The gross MEA value of assets adopted or acquired at nil cost.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

#### H EXPENDITURE TOTALS

<b>21</b>	Total operating expenditure	£m	3dp
<b>Definition</b>	Total operating expenditure		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: sum of lines 1, 8, 10, 15 and 17. This total should equal that calculated on table 22 line 21.		
<b>Responsibility</b>	Comparative Efficiency and Performance Team		

<b>22</b>	Infrastructure renewals expenditure (net)	£m	3dp
<b>Definition</b>	The preservation and (where necessary) the replacement of sewerage 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. IRE gross of Grants and Contributions should be reported in line 6 as a separate information item.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Copied: table 32 line 32 column 6		
<b>Responsibility</b>	Network Regulation Team		

<b>23</b>	Total asset additions	£m	3dp
<b>Definition</b>	Total of asset additions (enhancement plus maintenance non-infrastructure).		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated field: the sum of lines 3, 7, 9, 11, 16 and 20. This total should equal the sum of table 32 line 17, column 6 plus table 32 line 33, column 6 and should equal table 25 line 5 column 8.		
<b>Responsibility</b>	Network Regulation Team		

<b>24</b>	Total enhancement capital contributions	£m	3dp
<b>Definition</b>	The sum of infrastructure charge receipts, requisition receipts, during the year by the company for the sewerage service assets.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: the sum of lines 18 and 19		
<b>Responsibility</b>	Network Regulation Team		

<b>25</b>	Total capital expenditure (excluding adopted and nil cost assets)	£m	3dp
<b>Definition</b>	The total of all expenditure for both base service and enhancement purposes, excluding asset items recorded as additions in table 32 (and the Regulatory Accounts) for adopted assets and assets at nil cost (in accordance with RAG 1.02)		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: sum of line 22 plus line 23 minus line 20		
<b>Responsibility</b>	Network Regulation Team		

CHANGE CONTROL SHEET  
CHAPTER 36

2008/1.0	First issue of chapter for the SBP period
2009/1.0	Second issue of chapter for the SBP period - guidance on allocation of expenditure to infrastructure amended