Utility Regulator
ELECTRICITY GAS WATER

Water and Sewerage Service
Price Control 2013-2015

PC13 Annex F
Financing Investment - Draft Determination

September 2012

Water and Sewerage Service
Price Control 2013-15
Financing Investment

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1 Introduction and Summary

1.1. Building Blocks

1.1.1. The role of the Utility Regulator, in broad terms, is to set prices that are only as high as they need to be to ensure that the objectives of NI Ministers can be met at the lowest reasonable overall cost.

1.1.2. This chapter provides details of how we have calculated allowed revenue using the building-blocks approach as follows:

Return allowed on the regulatory capital value
+
depreciation on non-infrastructure assets
+
the infrastructure renewals charge (IRC)
+
allowed for operating costs
+
allowed for PPP costs
+
Taxation
=
Allowed Revenue

1.2. Allowed Revenue

1.2.1. Our revenue and price limits for NI Water cover the two year period from 1st April 2013 to 31st March 2015. We have calculated an allowed revenue requirement of £690.9m. This provides for a saving of £70.2m, when compared to NI Water's business plan submission.

Table 1.1 – Draft Determination revenue proposal

	NI Water PC13 Business Plan	Utility Regulator Draft Determination	Saving over PC13
Overall revenue	£761.m	£690.9m	£70.2m

2 Regulatory Capital Value (RCV)

2.1. Roll forward of the RCV from PC10

2.1.1. The RCV has been developed for regulatory purposes and represents the capital base established for the purposes of setting price limits.

2.1.2. The first stage in establishing an RCV for PC13 is to update the RCV published as part of the PC10 Final Determination. Table 7.1 shows our calculation of the roll forward using actual RPI and COPI indices:

Table 2.1 – Roll forward of the RCV from PC10

Nominal Prices	2010-11	2011-12	2012-13
	£m	£m	£m
Closing RCV (Previous Year)	1386.0	1555.7	1723.8
Indexation	68.8	74.6	49.6
Adjustments	2.5	1.4	
Opening RCV	1457.3	1630.3	1773.5
Capital expenditure (excluding IRE)	158.1	152.3	159.7
Infrastructure renewals expenditure	28.3	29.0	29.7
Infrastructure renewals charges	-28.3	-29.0	-29.7
Grants and contributions	-3.0	-3.6	-4.1
Depreciation charge (MNI)	-52.3	-53.5	-54.9
Adjustment to MNI for depreciation of capital grants	3.0	3.1	3.3
Other adjustments (e.g. disposal of assets)	-7.4	-4.8	-4.4
Closing RCV	1555.7	1723.8	1873.1
Note: Figures may not add up due to rounding.			

2.1.3. We have maintained the opening RCV at £1,386m (closing 2009-10) which is consistent with the established RCV of around £800m at April 2007.

2.1.4. NI Water had adjusted the opening RCV by approximately £31m in the business plan submission to reflect changes between forecast and actual expenditure at the end of the SBP period. We have not taken this into account in our calculations to date as this can only be assessed along with outputs delivered. This is something

we will seek to explore further with the company during the draft determination consultation.

2.1.5. The second stage in establishing an RCV for PC13 is to apply a number of adjustments to the roll forward of PC10. These are set out below.

2.2. Notified Index

2.2.1. The RCV, which is determined at each price review, reflects the Utility Regulators assumptions about the movements in construction price inflation for the price control period. The net capital expenditure which is added to the RCV reflects assumptions about the movement in COPI relative to the movement in RPI. This difference is known as the notified index. The adjustment we have included reflects the impact the change in notified index has had on the relevant charges of IRC and MNI.

2.2.2. We have calculated this figure to be negative adjustment of £22.2m to the opening RCV for PC13.

2.3. Logging up and down

2.3.1. This deals with changes to the outputs associated with the investment programme since prices were last set at PC10.

2.3.2. Capital expenditure which is logged up is added to the opening RCV. These amounts are scrutinised and challenged by us to ensure the addition to the RCV reflects what would be expected from an efficient company.

2.3.3. The RCV is reduced by the amount of any logging down. Customers should not continue to finance services which they have not received.

2.3.4. We have calculated a net logging down of capital expenditure to be £65.6m.

2.4. Asset Disposals

2.4.1. The RCV is also adjusted for any asset disposals. When we set prices we do not know the actual disposals and this gets corrected at the following price review. Assets disposals have been much lower than forecast during PC10.

2.4.2. We have calculated this figure to be positive adjustment of £14.8m to the opening RCV for PC13.

2.5. Opening RCV for PC13 Summary

Table 2.2 – Opening RCV for PC13

	£m
Roll forward of the RCV from PC10	1873.1
Notified Index	-22.2
Logging up / down	-65.6
Asset Disposals	14.8
Opening RCV for PC13	**1800.2**
Note: Figures may not add up due to rounding.	

2.5.1. The third stage is establishing the RCV for PC13 is to establish the inputs for PC13. These are largely driven by the investment programme.

2.6. The Investment Programme

2.6.1. The investment programme that NI Water will have to deliver during this regulatory control period is shown in Table 2.3.

Table 2.3 - Required Investment Programme (Nominal Prices) (£m)

Investment Category	2013-14	2014-15
Infrastructure renewals	33.3	33.3
Other investment	134.7	134.6
Total Investment	168.0	167.9
Note: Figures may not add due to rounding.		

2.7. Depreciation and Infrastructure Renewals Charges

2.7.1. As well as being constituent parts of the buildings blocks approach to establishing allowed revenue, depreciation on non infrastructure assets and infrastructure renewals charges also form part of the RCV calculation. We must therefore consider them at this point in order to establish the RCV for PC13 on which a return is allowed.

2.7.2. NI Water has submitted detailed tables on asset lives, depreciation rates and depreciation calculations for PC13. However, in setting the allowance for depreciation within the RCV and building blocks, NI Water has used the lower maintenance non infrastructure figure. We refer to this as 'broad equivalence' and this is the same approach adopted by the Utility Regulator during PC10.

2.7.3. Infrastructure assets are generally underground assets with long useful lives. These lives, however, tend to be difficult to assess accurately. This makes it difficult to use conventional accounting methods to calculate depreciation for infrastructure assets, as these methods rely on the concept of establishing an average asset life for each component of the asset base. Instead, we treat the whole infrastructure network as a single system. The complete asset will never become obsolete or require replacement at any one time. It is replaced in parts as different elements come to the end of their useful lives. The IRC is intended to allow for this gradual replacement of the infrastructure asset over time.

2.7.4. In any one year the actual level of investment expended on the infrastructure assets is classed as the Infrastructure Renewals Expenditure (IRE). As in PC10 we intend to set IRC equal to IRE.

2.7.5. The figures assumed for both depreciation and infrastructure renewals charges are summarised table 2.4.

Table 2.4 - Depreciation and Infrastructure Renewals Charges (Current Cost Basis) (Nominal Prices) (£m)

Depreciation Category	2013-14	2014-15
Current Cost depreciation (after Broad Equivalence)	47.6	47.6
Infrastructure Renewals Charge	33.3	33.3
Total depreciation and infrastructure charges	**80.9**	**80.9**

2.8. Asset Disposals and Cash Proceeds

2.8.1. Cash proceeds from asset disposals are not expected to be very material. However, it is the CCA net book value which is adjusted within the RCV. Our assumption is based on the level of asset sales made by NI Water in its Business Plan submission and both figures are presented in Table 2.5.

Table 2.5 - Asset Disposals and Cash Proceeds (Nominal prices) (£m)

	2013-14	2014-15
Cash proceeds from asset disposals	0.65	1.20
CCA net book value	1.1	6.6

2.9. RCV for PC13

2.9.1. Table 2.6 summarises the notional RCV in each year of this PC13 period.

Table 2.6 - Calculation of Notional RCV in Each Year of this Regulatory Control Period (Nominal Prices) (£m)

Nominal Prices	2013-14	2014-15
	£m	£m
Closing RCV (Previous Year)	1800.2	1930.6
Indexation	46.1	49.4
Adjustments	0	0
Opening RCV	1846.2	1980.1
Capital expenditure (excluding IRE)	134.7	134.6
Infrastructure renewals expenditure	33.3	33.3
Infrastructure renewals charges	-33.3	-33.3
Grants and contributions	-5.6	-5.8
Depreciation charge (MNI)	-47.6	-47.6
Adjustment to MNI for depreciation of capital grants	4.1	4.3
Other adjustments (e.g. disposal of assets)	-1.1	-6.6
Closing RCV	1930.6	2058.9
Note: Figures may not add up due to rounding.		

3 The Allowed Rate of Return

3.1. Introduction

3.1.1. In setting price limits the Utility Regulator will consider the appropriate rate of return that NI Water should earn on its RCV. The rate of return is set with reference to the weighted average cost of capital (WACC). As prices and RCV are adjusted by outturn inflation we are interested in the real cost of capital.

3.1.2. The weighted average cost of capital (WACC) is the weighted average of two components: the cost of equity (Re); and the cost of debt (Rd), where the weightings represent the proportions of debt and equity in a firm's capital structure.

3.1.3. The WACC is calculated using the following formulae:

WACC (Vanilla) = g x Rd + Re (1 – g)

g is gearing
Rd is cost of debt
Re is cost of equity

3.1.4. In the remainder of this section we will examine proposals from NI Water for an appropriate WACC and then outline our own proposals. We also draw on advice from First Economics.

3.2. Cost of Debt

3.2.1. In assessing the real cost of debt over the PC13 period, NI Water requested the UR to consider the following:

- The weighted average nominal rate NI Water incurs on its embedded debt to 31st March 2011. This has been shown to be 5.21%.
- The forecast nominal rate of new debt finance which NI Water requires between 1st April 2011 and 31st March 2015. This is assumed to be 4.25% and is linked to the prevailing yield on a benchmark government bond (Treasury 4.25% maturing in 2027) plus 85 basis points.
- A projection of RPI inflation to establish a real cost of debt based on the nominal cost of debt established above. NI Water have sourced inflation forecast from the Office of Budget Responsibility (OBR) and assumed an average of 2.56% for PC13.

3.2.2. The real overall cost of debt NI Water therefore propose for PC13 is 2.33% based on the relative weightings of embedded and new debt.

3.2.3. The Utility Regulator has considered the NI Water submission and continued to monitor the cost of new debt in particular. Yields on the reference gilt have fallen since the submission of the business plan although we also note the OBR forecast that the yield on the weighted average of all UK government gilts is forecast to rise over the PC13 period.

3.2.4. Our minded to position at present is an overall cost of debt of 2.30% based on a new cost of debt of 4.14% and acceptance of NI Water assumptions on embedded debt and RPI.

3.2.5. We will continue to monitor gilt yields and inflation prior to our final determination and make appropriate adjustments if necessary.

3.3. Cost of Equity

3.3.1. In assessing the appropriate cost of equity for PC13, NI Water have relied on the same analysis and rationale as that used in PC10 which was based on a Water UK published report on the cost of capital undertaken by NERA.

3.3.2. NI Water believes that it would be appropriate to maintain the cost of equity at PC10 levels i.e. 7.1%.

3.3.3. The Utility Regulator has continued to monitor regulatory decisions and have considered the cost of equity in greater detail.

Risk free rate and Equity Risk Premium

3.3.4. We have reviewed the risk free rate that other regulators have applied in recent determinations and conclude that 2.0% should be used for PC13.

3.3.5. We have also considered recent regulatory assumptions and analysis on market returns and concluded the market return to fall in the 6.0-7.0% range. When taken alongside the proposed risk free rate of 2.0%, this gives a range of the equity risk premia of 4.0-5.0%.

3.3.6. We propose an equity risk premium of 4.8% for NI Water.

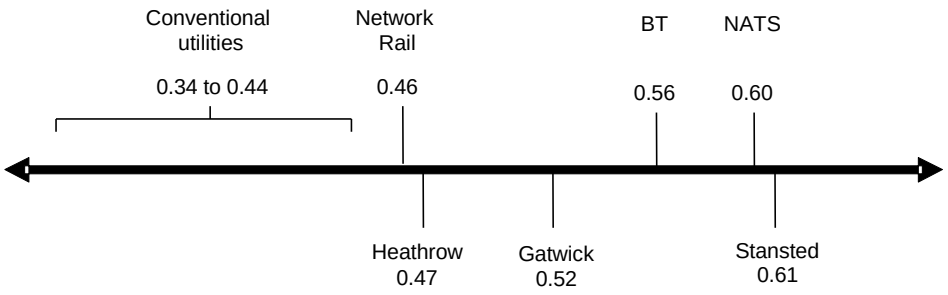
Asset beta

3.3.7. NI Water is not listed on the UK stock exchange. This has meant that the Utility Regulator had to approach the task of setting an asset beta through comparator analysis.

3.3.8. First Economics have provided analysis considering:

- The betas for comparator firms with a stock market listing (whose asset betas were estimated using actual market data); and
- Beta estimates for regulated firms without a stock market listing that regulators have made in recent periodic reviews.

3.3.9. First Economics' analysis concludes that conventional network businesses all exhibit negligible revenue risk, relatively low cost risk and have sizeable RABs. They therefore sit at the lower end of the beta spectrum. By contrast, all companies at the higher end of the beta spectrum have characteristics which make them riskier in the eyes of investors, explaining their higher costs of capital.



3.3.10. In order to position NI Water at an appropriate point on the spectrum the Utility Regulator has considered the same factors as First Economics.

3.3.11. NI Water exposure to cost risk is low to moderate. Costs have a high labour content with some exposure to energy costs, commodity prices and the construction cycle.

3.3.12. NI Water also has a sizable RCV and high RCV-to-revenue ratio which implies that profits are fairly resilient in the face of cost and revenue shocks.

3.3.13. However the NI Water price control is based on a price cap. As such the company's allowed revenues are exposed to demand variability. Indeed the company have experienced a fall in demand during PC10 and this is not compensated for by any correction mechanism.

3.3.14. In our view and for the reasons described above we propose an asset beta of 0.44 for NI Water.

3.4. Gearing

3.4.1. We propose to continue with a notional gearing figure of 55% during PC13.

3.5. Summary of WACC for PC13

Table 3.1 – WACC Summary

Components of the Allowed Rate of Return	
Cost of Debt	2.30%
Cost of Equity	6.07%
Gearing	55%
WACC (Pre tax cost of debt, post tax cost of equity)	**4.00%**
Components of the Cost of Equity	
Risk-free Rate	2.00%
Asset Beta	0.44
Equity Beta	0.85
Equity Risk Premium	4.80%
Cost of equity	**6.07%**
Components of the Cost of Debt	
Cost of Debt (Nominal)	4.92%
Inflation	2.56%
Cost of debt (Real)	**2.30%**

4 Total Allowed for Operating Costs

4.1.1. Total operating costs include the following:

- base operating costs, including any adjustments;
- our estimate of the scope for efficiency;
- our estimate of Retail Price Inflation; and
- new operating costs.

4.1.2. Total allowed for operating costs are set out in Table 4.1.

Table 4.1 - Total Allowed for Operating Costs (Nominal Prices) (£m)

	2013-14	2014-15
Total allowed for operating costs	143.0	137.9
Note: includes atypical costs		

5 Allowed Costs of Public Private Partnerships

5.1.1. Table 5.1 shows the allowed for PPP costs.

Table 5.1 - Allowed for PPP Costs (Nominal Prices) (£m)

	2013-14	2014-15
Allowed for PPP costs	46.5	47.6

6 Taxation

6.1.1. NI Water has identified a risk in the PC13 Business plan relating to cash tax becoming payable during the PC13 period, but not included it in revenue requirement calculations. Tax computations relating to all years dating back to 2007/08 have been submitted to HMRC and remain open due to an ongoing debate between the UK water industry and HMRC.

6.1.2. We agree that the magnitude, liability and timing of any cash tax becoming payable are too uncertain at the time of writing and have also excluded it from revenue considerations.

6.1.3. NI Water has also hardcoded entries to the financial model as their deferred tax computation is now based on IFRS rather than UK GAAP accounts.

6.1.4. We agreed with NI Water prior to the submission of the business plan we would delay any updates to the financial model until PC15. This decision was based on the assumption that the risk of cash tax becoming payable was low and this remains our current understanding. We have therefore reinstated the model formulae and all calculations are running on a consistent basis with PC10.

7 Calculation of Allowed Revenue

7.1.1. This section summarises the building blocks discussed above and calculates the allowed revenue to be used in setting price limits for PC13.

Table 7.1 - Revenue Caps 2013-15 (Nominal Prices) (£m)

	2013-14	2014-15
Operating Costs	143.0	137.9
PPP costs	46.5	47.6
Current Cost Depreciation (after Broad Equivalence)	47.6	47.6
Infrastructure Renewals Charge	33.3	33.3
Return on the RCV	75.0	79.4
Tax	0	0
Calculated Revenue	**345.4**	**345.8**
Smoothing Adjustment	-7.3	7.6
Total Revenue (smoothed)	**352.7**	**338.2**
Note: Figures may not add up due to rounding.		

7.1.2. We have included a smoothing adjustment to revenue following the building blocks calculation. This ensures consistent K factors are applied to price changes in each year. Without this adjustment, prices could be subject to greater fluctuation and we are aware that customers value having stable charges. Other regulators within the water sector follow a similar approach.

8 Monitoring Financial Performance

8.1.1. One of our primary duties is to ensure that NI Water is able to finance their functions and we believe that NI Water's financial strength should be appropriate to the governance framework within which it operates.

8.1.2. As a yardstick for financial sustainability we have adopted a series of ratios, an approach used by other regulators, the investment community and rating agencies.

8.1.3. NIW have questioned the use of financial ratios to assess financial sustainability, given that the current status of NDPB and non-ability to generate suitable reserves.

8.1.4. The requirement for NI Water to obtain a credit rating has also been set aside in light of the absence of a secure revenue source, a consequence of the decision to defer domestic water charges.

8.1.5. However, we still see merit in assessing NI Water's financial strength as measured by financial ratios and for this we have adopted Ofwat's targeted values. In Table 7.9 we set out the value of each targeted ratio and our calculation of the NI Water position based on the this draft determination.

Table 8.1 - Financial Performance 2013-15

Financial Ratio	Targeted Value	2013-14	2014-15
Cash Interest Cover	Around 3 times	3.0	2.8
Adjusted Cash Interest Cover	Around 2 times	1.6	1.5
Funds from operations: debt	Greater than 13%	11.4%	10.0%
Retained Cashflow: debt	Greater than 8%	9.0%	7.9%
Gearing (adjusted for PPP asset / liability)	Less than 55%	51.5%	52.0%

8.1.6. While observing that NI Water have failed many the Ofwat targeted values, we consider the values achieved to be appropriate for the governance framework within which NI Water is currently operating. We are of the view that under the current governance framework, achieving financial ratios around a 25% to 30% margin of the target set by Ofwat for private companies is adequate.

9 Other financial assumptions and considerations

9.1. Inflation

9.1.1. We have accepted the NI Water inflation assumptions with the exception of COPI in year 2011/12 for which we have used an updated figure. This also has an impact on the financial year average for future years.

9.1.2. The RPI and COPI assumptions used throughout the draft determinations are set out in tables 9.1 and 9.2 below.

Table 9.1 - Retail Price index (RPI)

	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
FY Average	200.317	208.592	214.783	215.767	226.475	237.342	244.177	250.428	256.839
% increase		4.131	2.968	0.458	4.963	4.798	2.880	2.560	2.560

Table 9.2 - Construction Output Price index (COPI)

	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
FY Average	106.175	111.300	113.975	110.475	107.375	109.800	112.545	115.359	118.243
% increase		4.827	2.403	-3.071	-2.806	2.258	2.500	2.500	2.500

9.1.3. We will continue to monitor inflation prior to our final determination and make appropriate adjustments if necessary.

9.2. Borrowing

9.2.1. NI Water has identified a risk in the PC13 Business plan relating to existing loan note facility which is due to expire in 2014. The business plan assumes that a loan note facility, similar to the current arrangement, will be put in place by DRD and DFP, to ensure stability of funding.

9.2.2. The Utility Regulator has also assumed that a similar arrangement will be put in place. Cost of debt calculations within the overall cost of capital have based on this assumption.

9.3. Dividends

9.3.1. The Utility Regulator has adjusted NI Water forecast dividend assumptions for the reduced cost of capital of 4.00% to maintain a consistency of assumptions within the financial model.

9.3.2. This equates to reduced dividends of £23.7m and £25.0m for years 2013/14 and 2014/15 compared to the NI Water business plan of £27.5m and £29.2m. In line with current practice dividends are assumed to be paid one year in arrears.

9.3.3. The actual level of dividend that NI Water pays in any one year is a matter for NI Water. Condition F 6.12 of the licence states that:

- The dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business; and,
- Under a system of incentive regulation, dividends would be expected to reward efficiency and the management of economic risk.

9.4. Public Expenditure Reconciliation

9.4.1. NI Water is required to operate within Public Expenditure limits set by the NI Executive for the PC13 period.

9.4.2. Table 9.3 and 9.4 set out the reconciliation of the draft determination to Public Expenditure limits alongside the figures submitted by NI Water within its PC13 business plan.

Table 9.3 – DRD Resource Funding

DRD Resource Funding Levels	NIW PC13 BP		UR PC13 DD	
	2013/14	2014/15	2013/14	2014/15
Total Resource DEL (Budget 2010-15)	194.2	193.7	194.2	193.7
less: SHU / WPD	-1.8	-1.8	-1.8	-1.8
less: tuition fees	-1.4	-1.4	-2.5	-3.3
Adjusted Resource DEL	**191.0**	**190.5**	**189.9**	**188.6**

9.4.3. DRD have provided updated tuition fee figures which reduce the amount of resource DEL available to NI Water. We understand similar amounts are being top sliced off all departmental budgets.

Table 9.4 – PE Reconciliation

PE Reconciliation	NIW BP		UR DD	
	2013/14	2014/15	2013/14	2014/15
Operating Costs (including PPP)	199.2	204.3	181.8	177.5
Unappointed Costs	3.0	3.0	3.0	3.0
Non-Domestic Income	-71.3	-71.5	-64.7	-61.3
Unappointed Income	-2.7	-2.8	-2.7	-2.8
IFRS (capex to opex)	1.0	1.0	1.0	1.0
Non Infrastructure Depreciation	37.4	39.5	37.4	39.6
PPP Depreciation (Alpha only)	3.1	3.1	3.1	3.1
Release of Grants & Contributions	-0.8	-0.8	-0.8	-0.8
Infrastructure Depreciation	15.8	16.7	15.9	16.7
Utilisation of Provisions	6.7	0.0	6.7	0.0
Sub-total	**191.4**	**192.5**	**180.8**	**176.0**
PE Allowance (to manage risk)	-	-	5.0	5.0
Total requirement	**191.4**	**192.5**	**185.8**	**181.0**
Adjusted Resource DEL	191.0	190.5	189.9	188.6
Deficit / Surplus	**-0.4**	**-2.0**	**4.1**	**7.6**

9.4.4. To facilitate the management of risk and for the interim determination process to operate, we have included a public expenditure allowance of £5m in each year of the price control. This will not be reflected in charges.

9.4.5. The other main changes result from our challenge on operating expenditure and the associated impact on income.

10 Summary Financial Statements

10.1. Summary Income and Expenditure Accounts 2013-15

Table 10.1 - Summary Income and Expenditure Accounts 2013-15 (Current Cost basis, Nominal Prices) (£m)

	2013-14	2014-15
Turnover	352.7	338.2
Operating Costs	-143.0	-137.9
PPP	-26.4	-27.0
Infrastructure Renewals Charge	-33.3	-33.3
Current Cost Depreciation (before application of broad equivalence)	-97.9	-98.2
Amortisation of PPP	-3.8	-3.9
Amortisation of Deferred Income	4.1	4.3
Current Cost Profit / Loss on disposal of fixed assets	-0.5	-5.4
Operating surplus before working capital adjustments	**51.91**	**36.8**
Working Capital adjustments	1.5	1.6
Operating surplus before interest	**53.4**	**38.3**
Net interest payable	-58.4	-62.0
Current Cost financing adjustment	31.3	33.3
Surplus before taxation	**26.3**	**9.6**
Deferred Taxation	-11.9	-7.9
Dividends	-28.7	-23.7
Current Cost Surplus (Loss) for financial year	**-14.3**	**-22.0**
Note: Figures may not add due to rounding		

10.2. Summary Balance Sheets 2013-15

Table 10.2 - Summary Balance Sheets 2013-15 (Current Cost Basis, Nominal Prices) (£m)

	2013-14	2014-15
Tangible assets	8623.8	8874.3
PPP assets	115.6	114.6
Third Party Contributions	-225.2	-232.5
Working Capital	-60.8	-61.1
Cash (net of overdrafts)	1	1
Infrastructure prepayment (accrual)	5.2	5.2
Net operating assets	**8459.6**	**8701.6**
Short term liabilities	8.7	8.7
Investments	0.1	0.1
Government Loans	-955.7	-1036.7
PPP creditor	-82.4	-74.4
Other creditors	-1.4	-1.4
Total Provisions	-190.8	-198.7
Net assets employed	**7238.0**	**7399.0**
Income and expenditure account	-228.1	-250.2
Current cost reserves	6794.3	6977.5
Other reserves and share capital	671.7	671.7
Total Capital and Reserves	**7238.0**	**7399.0**
Note: Figures may not add due to rounding		

10.3. Summary Cashflow Statements 2013-15

Table 10.3 - Summary Cashflow Statements 2013-15 (Current Cost Basis, Nominal Prices) (£m)

	2013-14	2014-15
Current cost operating profit	53.4	38.3
Total depreciation, amortisation and infrastructure charges	130.9	131.1
Change in working capital and working capital adjustment	2.0	-1.3
Other non cash profit and loss items	-6.5	0
Current cost profit / loss on sale of assets	0.5	5.4
Net cash flow from operations	**180.2**	**173.6**
Cash changes in non operating debtors / creditors	0	0
Net cashflow from returns on investment and servicing of finance	-58.4	-62.0
Net cash outflow from investing activities (including IRE)	-161.7	-160.9
Retained earnings paid	-28.7	-23.7
Net cash flow before financing	**-68.5**	**-73.0**
New Government loans	76.8	81.1
PPP capital repayments	-7.7	-8.1
Net cash inflow from financing	**69.1**	**73.0**
Increase (decrease) in cash and cash equivalents	**0.6**	**0**
Note: Figures may not add due to rounding