

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

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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:**
 - Quality Enhancements: 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 PC10 (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 PC10. Company report year figures are copied directly from table 35. The company should include all expenditure, including that on new outputs/ obligations, in lines 18 and 19 of Table 35 for reconciliation purposes. If the company receives an interim determination or there has been a major change control which amends the overall budget or allocation by purpose during the report year, it should submit revised figures for table 35a, as appropriate.

Capital expenditure reported in this table should exclude any expenditure on PPP assets which forms part of the unitary charge payments reported in Table 42 but should include all other capital investment by NI Water.

If the reported expenditure includes investment in PPP assets which the company does not consider to be part of the unitary charge payment reported in Table 42, this should be clearly stated and explained in the commentary.

Actual and PC10 Final Determination forecast

Comparisons between company actuals and PC10 assumptions will be made in report year prices. PC10 forecast figures for the report year (in PC10 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 revised Construction Output Price Index (COPI); and
- Operating expenditure will be adjusted to report year prices using the Retail Price Index (RPI).

For the purpose of completing the table, the following inflation index values should be used.

Year	RPI Index	Annual % change
2007-08	208.59	4.1
2008-09	214.78	3.0
2009-10	215.77	0.5
2010-11	226.48	5.0
2011-12	237.34	4.8
2012-13	243.98	2.8

1987-01 = 100

Year	COPI Index	Annual % change
2007-08	111.30	4.8
2008-09	113.98	2.4
2009-10	110.48	-3.1
2010-11	107.38	-2.8
2011-12	109.95	2.4
2012-13	112.60	2.4

2005 = 100

For both RPI and COPI the 2012-13 figure is provisional as final values are yet to be released. The 2011-12 figure for COPI is also provisional subject to figures being finalised. The company should use the given figures in the table above to complete the AIR table. However, NI Water should be aware that the Regulator will revise the calculations using the finalised inflation factors for the purpose of the annual Cost and Performance Report.

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 PC10. 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; 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 PC10;
- 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 PC10 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 confirm that the request has been made where no response is obtained; and
- assess the company's comments on its ability to deliver outputs given any variation in actual expenditure from PC10.

Water service - expenditure comparisons by purpose

Column definitions

Column units & precision

Column 1 – PC10 forecast expenditure for the report year in PC10 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, 17, and 19) *Deletion (L15)*
 column 1 x COPI factor (for capex) (lines 2, 3, 4, 5, 6, 8, 10, 11,12, 16 and 18) } *Deletion (L14)*

Column 3 – Actual 2012-2013 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 6.		
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 RAG2.03 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 6.		
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 RAG2.03. 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 6.		
Responsibility	Network Regulation Team		

4	MNI – grants and contributions	£m %	3dp 2dp
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 6.		
Responsibility	Network Regulation Team		

5	MNI - net of grants and contributions	£m %	3dp 2dp
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 6.		
Responsibility	Network Regulation Team		

B QUALITY ENHANCEMENTS

6	Capex: Total quality enhancement programme	£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 PC10 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 6.		
Responsibility	Network Regulation Team		

7	Opex: Total quality enhancement programme	£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 PC10 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 6.		
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 6.		
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 6.		
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 and to improve security of supply.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: Column 3 is the sum of table 35 line 11, column 6 and table 35 line 16, column 6.		
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 6.		
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 and security of supply.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: Column 3 is the sum of table 35 line 15, column 6 and table 35 line 17, column 6.		
Responsibility	Network Regulation Team		

14	Not used
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15	Not used
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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 and 10. Deletion		
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 and 13. Deletion		
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.
2010/1.0	Third issue of chapter for the SBP period. - Clarification of PPP reporting.
2011/1.0	First issue of chapter for the PC10 period. - Reinstatement of opex lines. - Introduction of specified RPI and COPI values.
2011/2.0	- Revision of processing rule for lines 10 and 13. - Removal of the requirement to complete lines 14 and 15.
2012/1.0	Second issue of chapter for the PC10 period. - Updated COPI and RPI figures for 2011-12. - Use of all new figures for COPI given the revision to the index. - Comparison to take account of any agreed change control
2013/1.0	Third issue of chapter for the PC10 period - Updated figures for COPI and RPI. - Processing rules for lines 10 and 13 changed to 'calculated' to reflect AIR11 changes and colour of cell in table amended accordingly. - Processing rules for lines 16 and 17 amended to reflect removal of lines 14 and 15. - Reference to lines 14 and 15 removed from general guidance on application of inflation factors to reflect their removal from the table.