

Chapter 36a

Expenditure comparisons by purpose

Sewerage 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 sewerage service for the base service provision, which includes base operating expenditure, infrastructure renewals and 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 service levels should represent expenditure solely for this purpose; and
 - Maintaining 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.

Guidance

This table facilitates capital and operating expenditure comparisons between company report year actual figures and those contained in the PC10 Final Determination (Company report year figures are copied directly from table 36. The company should include all expenditure, including that on new outputs obligations, in lines 16 and 17 of Table 36 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 36a, 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 efficiency 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.

The company is required to prepare commentary 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.

The commentary should demonstrate, taking into account any commentary already provided in the Board's Overview and table 16, 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 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.

Significant variations due to other reasons should also be justified in the commentary.

Variations which result in earlier expenditure in an investment category than assumed in the base projections should be justified in the commentary; 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 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.

Column definitions**Column units & precision**

Column 1 – PC10 forecast expenditure

£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 and 17)
column 1 x COPI factor (for capex) (lines 2, 3, 4, 5, 6, 8, 10, 11, 12, 14 and 16)}

Column 3 – Actual 2012-13 outturn.

£m (3dp)

Column 4 - column 3 minus column 2

£m (3dp)

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

% (2dp)

Table 36a line definitions

A BASE SERVICE PROVISION

1	Base operating expenditure	£m %	3dp 2dp
Definition	The level of operating expenditure on the sewerage network required to maintain the quantity and quality of outputs and levels of service provided by the sewerage service in the report year. 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.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 36 line 1, column 6.		
Responsibility	Comparative Efficiency and Performance Team		

2	Infrastructure renewals expenditure (net)	£m %	3dp 2dp
Definition	The presentation and, where necessary, the replacement of sewerage 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.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 36 line 2, column 6.		
Responsibility	Network Regulation Team		

3	MNI - gross of grants and contributions	£m %	3dp 2dp
Definition	The total expenditure required for the sewerage service for maintenance of non-infrastructure assets as defined in RAG2.03. Expenditure is for the presentation and where necessary the replacement, of sewerage service non-infrastructure assets to maintain serviceability.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 36 line 3, column 6.		
Responsibility	Network Regulation Team		

4	MNI - grants and contributions	£m %	3dp 2dp
Definition	Grants and capital contributions received by the company relating to sewerage maintenance non-infrastructure expenditure		
Primary Purpose	Informing relative performance and efficiency assessments		
Processing rule	Column 3 is copied from table 36 line 4, column 6.		
Responsibility	Network Regulation Team		

5	MNI - net of grants and contributions	£m %	3dp 2dp
Definition	Total net sewerage capital maintenance non-infrastructure (i.e. after deducting grants and contributions)		
Primary Purpose	Informing relative performance and efficiency assessments		
Processing rule	Column 3 is copied from table 36 line 5, column 6.		
Responsibility	Network Regulation Team		

B QUALITY ENHANCEMENTS

6	Capex: Total quality enhancement programme (sewerage)	£m %	3dp 2dp
Definition	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.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 36 line 7, column 6.		
Responsibility	Network Regulation Team		

7	Opex: Total quality enhancement programme (sewerage)	£m %	3dp 2dp
Definition	The additional operating required for the provision of new, or enhancement of existing, sewerage service assets to comply with legal obligations or Ministerial guidance.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 36 line 8, column 6.		
Responsibility	Network Regulation Team		

C ENHANCED SERVICE LEVELS

8	Capital expenditure	£m %	3dp 2dp
Definition	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 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 36 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 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 in expenditure in other purpose categories. Allocation of operating 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 36 line 10, column 6.		
Responsibility	Comparative Efficiency and Performance Team		

D MAINTAINING SUPPLY/DEMAND BALANCE

10	Capital expenditure supply/demand balance	£m %	3dp 2dp
Definition	The provision of local sewerage distribution 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.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 36 line 11, column 6.		
Responsibility	Network Regulation Team		

11	Total enhancement capital contributions	£m %	3dp 2dp
Definition	Total grants and capital contributions receivable to be deducted from capital expenditure on sewerage assets. This excludes the amount attributable as third party contributions in respect of adopted assets and assets required at nil cost for the sewerage service in the year.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 3 is copied from table 36 line 24, column 6.		
Responsibility	Network Regulation Team		

12	Capex net of enhancement capital contributions	£m %	3dp 2dp
Definition	Capital expenditure net of enhancement capital 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 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 36 line 15, column 6.		
Responsibility	Network Regulation Team		

E EXPENDITURE TOTALS

14	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 and excluding new outputs. 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.		
Responsibility	Network Regulation Team		

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

16	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, 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 14 column 1 Column 3: copied from table 36 line 25		
Responsibility	Network Regulation Team		

17	Total opex including new outputs	£m %	3dp 2dp
Definition	The total operational expenditure for the sewerage service.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Column 1: copied from line 15 column 1 Column 3: copied from table 36 line 21.		
Responsibility	Comparative Efficiency and Performance Team		

CHANGE CONTROL SHEET

CHAPTER 36a

2008/1.0	First issue of chapter for the SBP period.
2009/1.0	Second issue of chapter for the SBP period. – Minor typographical amendments.
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.
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 COPI and RPI figures for 2012-13.