# Accounting separation Methodology Statement

Part 1 of this methodology relates to the analysis of operating costs. The methodology used for the analysis of fixed assets, capital expenditure and depreciation is covered in part 2. The information provided by both parts applies to the price control tables and those showing additional segmental reporting and regulatory information in the Annual Performance Report (APR) and it conforms to the latest Ofwat guidance.

1. **Operating cost analysis tables**
   1. **Wholesale Methodology Overview**

The Company’s financial accounts are held on SAP. SAP reports are the source data used to populate the relevant APR and cost assessment tables in notes 2B, 2C, 4D, 4J, 4P and 5B of the Regulatory Accounts, with subsequent allocations made outside of SAP on a spreadsheet.

Operating costs are assigned cost centres and general ledger account codes within SAP. The cost centre denotes the managerial area in which the cost has been incurred; the account code denotes the type of expenditure.

A SAP report is produced which shows the operating costs by cost centre and account code, and it is exported to a spreadsheet. In the spreadsheet, cost centres are assigned an Ofwat business unit, or the operating cost analysis table headings, (see appendix 1) as follows:

* Water Resources
* Raw Water Distribution
* Water Treatment
* Treated Water Distribution
* Retail (household and non-household, measured and unmeasured)
* General and Support
* Allocation (used where a cost centre straddles more than one business unit)
* Rates
* Other Business Activities
* Third Party
* Not used

76% of costs are allocated directly to the headings listed above, with 24% being allocated to “allocation”. The headings include appropriate costs as per the most recent definitions provided by Ofwat in section 2 of RAG 2.09. Where cost centres have more than one method of allocation the methodology table in appendix 1 reflects this.

Costs are allocated to the appropriate Ofwat business unit (Water Resources, Raw Water Distribution, Water Treatment, Treated Water Distribution and Retail), which determines the price control or segment in which the expenditure should appear. Where cost centres are not directly allocated to an Ofwat business unit reallocations are made. The basis of allocation for each cost centre is shown in appendix 1.

The principal cost types, for the purposes of the opex table lines are Power, Income treated as negative expenditure, Bulk supply, Infrastructure renewals, Local authority and cumulo rates and Other operating expenditure (including general and support costs)

**Power** - Power is allocated using the direct allocations in our management accounts, which are split on an estimated basis derived from flows, and then amended based on actual flow data for the year. Where the power costs relate to boreholes a further split is applied based on average pumping head.

**Bulk Supply** - Bulk Supply relates to the water provided to Bristol Water by Wessex to cover the area near Frome not covered by our network. These costs are split across the Ofwat business units based on Wessex’s prior year APR submission (table 4J).

**Infrastructure Renewals** - Infrastructure renewals expensed in the year are the Infrastructure Renewals Expenditure (IRE) charged to opex, split between Ofwat business units (table 4J).

**Non-infrastructure renewals** expensed in the year are nil as this relates to expenditure on infrastructure assets and is not applicable to non-infrastructure assets (table 4J).

**Local authority and cumulo rates** - Rates are reallocated using the proportion of the prior years MEAV values for the Cumulo rates, and FTEs for sewerage rates.

**Other Costs** – 38.5% of the Other operating costs category found in table 4J are directly allocated with the remainder either requiring analysis to allocate, a management estimated split or another means of allocation.

**General and Support** - The General and Support costs are reallocated to the appropriate Ofwat business unit, as are allocation costs according to the agreed methodology for each cost centre in those categories. The percentage split of the general and support costs across the price control units is 92.9% wholesale, 6.7% Retail Household and 0.4% Retail Non-household. (subsequently reallocated)

The general and support costs are identified in appendix 1. General and support wholesale costs are allocated according to the appropriate driver identified in RAG 2.09, for example FTEs.

General and support retail costs are allocated according to total customer numbers, to household, non-household, measured and unmeasured headings.

The type of cost allocation methodology applied is based on the following hierarchy:

1. Direct Allocation: 100% allocation to a single business unit as defined in the cost centre accounts
2. Activity based allocation: An activity based analysis to allocate cost centres across the differing business units
3. Managers assessment of time: Senior manager estimate based largely on estimate of time related to cost centre activity in a business unit
4. Pro-rated to primary costs: allocation of cost centre costs with reference to ratio of costs to a defined measure e.g. direct costs or full time equivalents. In some instances there can be exceptions to the standard hierarchy, where pro rating is more appropriate than a management estimate (e.g. general and support costs)

Other Business Activities (the incremental cost of regulation) is allocated according to

1. Managers’ assessment of time
2. Full time equivalents in each business unit
3. 17% of regulatory costs are allocated to Retail in line with the most recent regulatory guidelines.

**Third Party costs** - Third Party costs are individually analysed into business units.

* 1. **Retail Methodology**

Retail costs are allocated to the household, measured and unmeasured categories according to the appropriate cost driver for the retail heading, as identified in RAG 2.09. Examples of our allocations include allocating general and support costs according to customer numbers, and Network customer enquiries and complaints are allocated according to the volume of network customer enquiries and complaints.

The sequence of allocation is that costs, identified by the cost centre on which the cost has been collected are first allocated to their retail headings, based on a management estimate where necessary.

The retail costs are then identified as household retail using the appropriate driver identified in the OFWAT guidelines. Retail costs resulting from the management fee charged by our billing company are directly allocated to household retail, with management estimates for the separation of measured and unmeasured costs, reflect the measured and unmeasured split for each department. Where there are unexpected variances in either value or allocation, these management estimates are challenged, and amended as required.

Table 2C allocates Retail costs between Household and Non-household.

In 24/25 the Retail Non-household costs are nil, with the expectation that this will be the position going forward.

The BWBSL management charge forms a large part of our retail costs. These costs are broken down by category and the cost in each category is split between Bristol Water and Wessex Water at a fixed percentage rate where we incur around 20% of the metering costs incurred by BWBSL. This reflects the agreement and actual costs incurred.

* 1. **Other Cost Analysis**

Debt written off (table 2C) is allocated directly to unmeasured and measured household, a small amount is allocated to wholesale.

This is in line with Ofwat’s guidance that these line items are an approximation for the old IRE (which would have been prepared on UK GAAP).” and under this there was no non-infrastructure IRE. This is in line with the majority of other water and sewerage companies.

Atypical expenditure (4D) includes any material expenditure usually identified on the Central Items cost centre that would be considered exceptional items in the statutory accounts. A general threshold of £1m movement or greater is used to determine materiality, though smaller values can be included if they are deemed to be pertinent.

Cash expenditure figures are identified and drawn from the Management accounts (table 4D).

The costs associated with the Traffic Management act (4J.11) include both opex permit fees and road closures. Additionally, we have excluded fines and penalties as per Ofwat’s guidance in RAG 4.12.

For 4J.18 Projects incurring costs associated with Traffic Management Act we have assumed that each job (or works order) counts for 1 irrespective of number of permit requests; 100% discounted permit costs still count as permits; assume all Permits relate to TMA, and we only count jobs that are actually undertaken.

Statutory water softening is nil as we do not soften the water we supply as drinking water.

* 1. **Water Resources operating cost analysis, and Table 5B**

Table 5B requires the Water Resources business unit to be split into further detail. We identify each category of cost by cost centre or category, and then allocate the costs either directly, by analysis, by management estimate or by prorating, in that order of preference.

Bulk Supply charges are allocated to Water Resources and split between categories based on Wessex APR figures from the appropriate tables in their prior year APR.

* 1. **Changes to methodology in the year**

There have been some minor changes this year. We have tried to keep the process as consistent as possible to facilitate easier comparison and reduce potential errors.

The main changes are;

Power has reverted again to be driven by its allocation in the management accounts as invoices are now being charged directly to the appropriate cost centres.

* 1. **Operating cost variations year on year**

Real variations between 23/24 and 24/25 operating costs are shown in appendix 2.

* 1. **Further analysis required for totex analysis of wholesale water (4D)**

Each Ofwat business unit has been mapped to the accounting services using the criteria stated in the latest Regulatory Accounting Guidelines.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Wholesale** | **Ofwat Business Unit** | **Service** | **Operating Costs** | **Fixed Assets** |
| Water Resources | Resources | Abstraction licence | Cost of abstraction licenses from BWB and EA. | Not applicable to fixed asset register. Abstraction licences through opex only |
| Raw water abstraction | Contains all resources costs except abstraction licenses. | Includes all resources assets |
| Network + | Raw water distribution | Raw water transport | Includes all raw water distribution assets except less than 15 day raw water impounding reservoir | Includes all raw water distribution assets except less than 15 day raw water impounding reservoir |
| Raw water storage | Assets identified as raw water impounding reservoir with less than 15 day storage | Assets identified as raw water impounding reservoir with less than 15 day storage |
| Treatment | Water treatment | Includes all treatment costs | Includes all treatment assets |
| Treated water distribution | Treated water distribution | Includes all treated water distribution costs, including Highlift pumps | Includes all treated water distribution costs, including Highlift pumps |

* 1. **OPERATING COST ANALYSIS TABLE METHODOLOGY**

EXPENDITURE ASSIGNED COST CENTRE

AND GL ACCOUNT CODE ON SAP

REPORT EXPORTED FROM SAP SHOWING

EXPENDITURE BY COST CENTRE AND ACCOUNT

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| FUNCTIONAL LOCATION REPORTS |  | IMPORTED TO SPREADSHEET |  | ALLOCATION ASSESSMENTS |

COST CENTRES ALLOCATED TO ACCOUNT CODES ASSIGNED TO

OFWAT BUSINESS UNITS ROWS

FIRST GENERATION REALLOCATIONS PERFORMED

SECOND GENERATION REALLOCATIONS PERFORMED

RETAIL ALLOCATED BETWEEN HOUSEHOLD

NON-HOUSEHOLD, MEASURED & UNMEASURED

SUMMARISE DATA PER OPERATING COST ANALYSIS TABLE LINE ENTRIES

1. **Fixed Assets, Capital Expenditure & Depreciation Analysis**
   1. **Reporting Requirement:**

To complete various data lines in the APR tables 2A, 2B, 2C, 2D, 2O, 4D, 4J in line with the latest reporting guidance documents.

* 1. **Purpose**

This document describes the method of extracting the fixed asset data from our SAP system and using this data to provide figures for each capital expenditure and depreciation line in the relevant categories in APR tables above. It aims to show the basis of the Ofwat business unit mapping of our assets to enable reporting and the checks and controls involved on completion of the tables.

* 1. **Analysis of Fixed Assets - Overview**

The fixed asset register is held on SAP. Fixed assets are created in SAP once the projects are completed and in service, please refer to Appendix 4 for our capitalisation policy.

A suite of reports is available in SAP to provide fixed asset movements, showing additions and cumulative totals along with additional data such as business unit. These reports are the source data used to populate the capital expenditure lines and depreciation values in APR tables 2A, 2B, 2C, 2D, 2O, 4D and 4J of the Regulatory Accounts with subsequent allocations made outside of SAP on a spreadsheet.

The fixed asset register in SAP holds both Historic cost and Current cost fixed assets.

Each asset within the fixed asset register is assigned a CCA class. The CCA class determines the type of asset and whether an asset is an:

* Infrastructure asset
* Operational asset
* Other asset

The CCA classes have been mapped to the Ofwat Business Units using the Ofwat guidance. This is detailed in Appendix 3 to this commentary.

Additional flags have been set up on the fixed asset register which hold the Ofwat Business unit to aid the completion of the tables in the regulatory accounts. These are assigned to each asset. The Ofwat Business Unit flags used are:

* Water Resources
* Raw Water Distribution
* Water Treatment
* Treated Water Distribution
* Retail
* Retail household
* Retail non household (no longer in use)
* General and Support
* To be allocated (used where an asset straddles more than one business unit)

These flags can then identify where each asset sits within the following table showing the wholesale price control unit segments:

| **Wholesale** | **Ofwat Business Unit** | **Service** | **Operating Costs** | **Fixed Assets** |
| --- | --- | --- | --- | --- |
| Water Resources | Resources | Abstraction licence | Cost of abstraction licenses from BWB and EA. Does not include Purchase of Water (imports). | Not applicable to fixed asset register. Abstraction licences through opex only |
| Raw water abstraction | Contains all resources costs except abstraction licenses | Includes all resources assets |
| Network + | Raw water distribution | Raw water transport | Includes all raw water distribution assets except less than 15 day raw water impounding reservoir | Includes all raw water distribution assets except less than 15 day raw water impounding reservoir |
| Raw water storage | Assets identified as raw water impounding reservoir with less than 15 day storage | Assets identified as raw water impounding reservoir with less than 15 day storage |
| Treatment | Water treatment | Includes all treatment costs | Includes all treatment assets |
| Treated water distribution | Treated water distribution | Includes all treated water distribution costs, including Highlift pumps | Includes all treated water distribution costs, including Highlift pumps |

* 1. **Process - Throughout the year**

When assets are created, they are given the appropriate flags within SAP as set out above. When allocating these flags to the assets, we consider criteria such as, what type of asset, the project it relates to and the location of the asset. The physical site and type of asset is used as a reference point in establishing the business unit to which an asset is allocated. Further information on the mapping of different type of asset classes and the appropriate business unit can be found in Appendix 3.

Assets that cannot be attributed a specific business unit within wholesale or retail price control units are given either Gen&Sup flag or TBA flag dependent on whether it is an operational asset e.g. pumping asset or general asset e.g. computers. These are then allocated based on the most appropriate method or as stated within the latest RAGs at year end.

* 1. **Process - At year end reporting**
* In SAP, run the asset movement report (SAP transaction ZHCA\_ASSET\_MOVEMENTS) for the financial year ending date. This report will list all assets in our fixed asset register line by line. It also shows the opening cost, additions, disposals, cost year end, depreciation charge and cumulative and net book value,
* Change the layout of the report in SAP to include the data fields for CCA class, Ofwat Business Unit, Base or Enhancement. These are the flags that have been maintained throughout the year.
* Export report to excel
* Roll forward the file from prior year ‘Accounting Separation - HCA including intangibles (FY)’ within the finance, Regulatory accounts folder. Update dates, copy final working table from prior year to final year tab for the opening b/f values.
* Paste the data exported from SAP to the HCA 2022-23 tab
* Update the ‘FTE’ tab (full time equivalent) for the year taken from the operating expenditure analysis working spreadsheet to ensure consistency.
* Update tab ‘RWST working’ tab for the Raw water dist split for raw water storage column.
* Update tabs for: Contributions, Third party additions, New supplies and adjustments. These tabs flow to the ‘wholesale table year total HCA’ tab.
* The main data downloaded entered on tab HCA (year) in the working spreadsheet is where the data automatically flows to the ‘wholesale table (year) total HCA’ tab to show the totals by business unit. The proforma tables e.g. 4D, link to this wholesale table tab.
* The total figures on the ‘wholesale table (year) total HCA’ tab are reconciled;
  + against management accounts totals and
  + delivery (capital) plan figures.
* Any corrections are identified and corrected and adjustments such as post year end accruals are added.
  1. **Allocation to wholesale and retail**

In line with the latest guidelines, assets have been directly attributed to one of the price control units - wholesale water and household retail. Since 2017/18 reporting, we no longer hold any retail non household assets in our Fixed Asset Register The assets with a retail flag are included in retail household price control unit only and no recharge is necessary as no non household activity is carried out.

Where an asset is used by more than one of these price control units, then they have been reported based on their principal use.

The assets affected are those identified with business unit flag general and support. The general and support assets are wholly included in wholesale water price control unit. A recharge is calculated within the working spreadsheet and reported to/from wholesale and retail household using appropriate allocation basis. This is further split into water resource and Network+ categories.

The general and support element is allocated to Ofwat business units in proportion to full time equivalents employed in those business units excluding the retail element or as a percentage of directly allocated assets for example, vehicles. The full time equivalent including the retail element percentage was used to calculate the recharges.

Where appropriate, allocations are consistent with the Operating cost analysis table allocations.

The following table shows the percentage of allocated assets in comparison to the total gross cost at year end and net book value. This analysis is taken from HCA including intangibles spreadsheet which produces table 4D and 2B.

|  |  |  |
| --- | --- | --- |
| **Assets** | **Gross Cost at Year End** | **NBV** |
| General & Support | 6.58% | 2.51% |
| To be allocated | 0.72% | 0.23% |
| **Total** | **7.30%** | **2.74%** |

The above table shows that over 92% of the total gross cost at year end and over 97% of the net book value is directly assigned to Ofwat business units.

The largest asset categories in ‘General and Support’, which account for 89% of the total gross cost and 92% net book value at year end of ‘General and Support’ assets, are computers, general equipment and land and buildings. The table below shows that, for example, 28% of computer assets are allocated directly to Ofwat business units, and 72% (£41.3) to general and support. The general and support element is allocated to Ofwat business units in proportion to full time equivalents employed in those business units excluding the retail element.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Gross Cost Year End** | | | **Net Book Value** | | |  |
| **Assets** | **Directly allocated** | **Allocated to General and support** | | **Directly allocated** | **Allocated to General and support** | | **Basis of Allocation** |
|  | **%** | **%** | **£m** | **%** | **%** | **£m** |  |
| Computer | 28% | 72% | 41.264 | 57% | 43% | 4.666 | Full time equivalent % |
| General equipment | 29% | 71% | 9.201 | 32% | 68% | 2.601 | Full time equivalent % |
| Land & Bldgs | 20% | 80% | 19.108 | 23% | 77% | 10.119 | Full time equivalent % |
| Other general and support |  |  | 8.626 |  |  | 1.529 | Based on % of directly allocated assets |
| Total general and support |  |  | 78.199 |  |  | 18.915 |  |

Where appropriate, allocations are consistent with the Operating cost analysis table allocations.

For tables 2B and 4D general and support assets were allocated wholly to wholesale across the business units by using full time equivalent excluding the retail element or as a percentage of directly allocated assets for example, vehicles. The full time equivalent including the retail element percentage was used to calculate the recharges in table 2C. The recharges split between wholesale and retail are shown in table 2A. The following table shows the total depreciation charge of general and support assets and the percentage included as a recharge for retail household, non-household segments.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Gen&Sup depreciation total** | **Gen&Sup - retail element recharge** |  |
|  | **£m** | **£m** | **%** |
| Total General and support depreciation charge | 4.613 | 0.368 | 8.0% |
|  | | | |
| Recharge - Retail household |  | 0.368 | 100.0% |

Analysis of all retail assets was carried out to produce figures for Retail table and to calculate the recharge figure in table 2C those that could be identified as principally or wholly retail was given a retail flag and attributed to retail household price control. The following table shows in more detail the types of asset within retail.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | | | | |  | |
| **Assets type** | | | | **Gross cost Retail** | **NBV Retail** | | **Depn charge** | |
|  | | | | **£m** | **£m** | | **£m** | |
| General equipment | | | | 0.054 | 0.015 | | -0.001 | |
| Computer | | | | 14.016 | 5.938 | | -0.093 | |
| Land & Buildings | | | | 0.243 | 0.182 | | 0.005 | |
| Vehicles & Mobile Plant | | | | 0.390 | 0.143 | | -0.049 | |
| Total | | | | 14.703 | 6.279 | | -0.138 | |  |
|  | |  |

* 1. **Changes to reporting 24/25**

No allocation changes were identified in 2024/25.

There were some changes to the APR templates for 2024/25 but did not affect the capital expenditure, fixed asset, or depreciation lines:

* 1. **Significant Capital Expenditure Schemes – 2024-25**

The additions within the year totalled £45.6 including retail and were largely within the treated water distribution business unit (£10.3m non infra and £26.8m infra). The following shows details of schemes which had significant spend in 2024-25 along with their business unit.

**Scheme Spend Business**

**£m Unit**

GAC Replacement 0.3 Treatment (base)

TW civil inspections/Base maintenance 1.9 Treatment (base)

Purton Clarifiers 1.5 Treatment (base)

Clevedon UV 0.1 Treatment (base)

Charterhouse TW Rebuild 0.1 Treatment (base)

3.9

Appointed Lakeside/recreations/trails 0.1 Resources (base)

NEP – Catchment/Investigations etc 0.6 Resources (enhn)

Eel protection 0.1 Resources (enhn)

Biodiversity Action Plan and Invasive species 0.2 Resources (enhn)

Cheddar 2 Impounding Res 2.3 Resources (enhn)

Large Impounding reservoirs stat main 0.3 Resources (IRE Capex)

3.6

Active Leakage control 1.0 TW Dist (Infra enhn)

Lead CP replacement (Quality/Nurseries ) 0.3 TW Dist (Infra enhn)

AIDP Lead Free Project 0.5 TW Dist (Infra enhn)

Leakage adjustment to Enhn from Base 2.0 TW Dist (Infra enhn)

Self Lay payments 0.2 TW Dist (Infra dev line)

Communication pipes New supplies 4.2 TW Dist (Infra dev line)

Infrastructure mains 0.3 TW Dist (Infra dev line)

Domestic & Ind Onsite/Offsite 1.4 TW Dist (Infra dev line)

Forum – Shepton Mallet Reinforcement 0.4 TW Dist (Infra dev line)

10.3

Lead Communication pipe replacement 3.3 TW DIST (IRE Capex)

Stop tap replacement 5.2 TW DIST (IRE Capex)

Mains replacement/relining/repairs 9.6 TW DIST (IRE Capex)

Leakage adjustment from base to enhn -2.0 TW DIST (IRE Capex)

16.1

Metering 3.5 TW Dist (Non Infra enhn)

Metering Base Maint 0.3 TW Dist (Non Infra base)

Service Res Maint/Potable structures 1.4 TW Dist (Non Infra base)

Leakage 0.3 TW Dist (Non infra base)

Loggers (HWM & Gutermann Acoustic 3.0 TW Dist (Non infra base)

8.5

Price review 0.1 General & Support

PS Base maintenance 0.4 various

Software application development 0.5 General & Support

1.0

Pelican 0.2 Retail

* 1. **CAPEX METHODOLOGY**

CREATE CAPITAL

PROJECT ON SAP

EXPENDITURE RECORDED

AGAINST PROJECT

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| CREATE AUC  ON SAP |  | SETTLEMENT OCCURS  EXPENDITURE TRANSFERRED TO AUC |  | AUC ALLOCATED  CCA CLASS OFWAT BUSINESS UNIT |

PROJECT COMPLETED

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | CREATE FIXED ASSET ON SAP |  | ASSET ALLOCATED CCA CLASS  OFWAT BUSINESS UNIT |
|  |  | Run SAP asset movements report |  |  |

LISTS ASSETS SHOWING CCA CLASS AND OFWAT BUSINESS UNIT

IMPORT TO SPREADSHEET

|  |  |  |
| --- | --- | --- |
| ‘General and Support’  assets reallocated | ‘To be allocated’  assets reallocated | ‘Retail’ assets attributed  to household or non-household |

SUMMARISE DATA PER TABLE LINE ENTRIES

ADD ANY ADJUSTMENTS

TO SAP DATA

1. **Data Assurance**

* The total capital expenditure lines are checked against the delivery plan at year end to ensure accuracy of the total and the correct category e.g. infrastructure enhancement. This is confirmed with a member of the Financial Planning & Analysis team who oversee the delivery plan.
* All totals are reconciled to the management accounts along with the regulatory adjustments required by the current RAGs.
* A reconciliation of the enhancement capital expenditure with the regulatory adjustments required are provided to the table owner for 4L
* A reconciliation of the Developer services expenditure with the regulatory adjustments required are provided to the table owner for 4N.
* Validation checks within the APR tables are reviewed.
  1. **Reviewer**

The Head of Finance is the reviewer for the above tables and checks the tables against the Management accounts and other regulatory tables.

* 1. **External Assurance**

PWC provide external assurance on all financial tables

* 1. **Directors’ approval**

This table is approved by the directors as part of the approval process for the Regulatory Accounts.

* 1. **Processes and Systems**

The fixed asset register is maintained on the SAP system. Assets added in the year are updated as per the ‘throughout the year’ process section above.

* 1. **Improvement plan**

No further improvements have been identified which will enhance reporting for the analysis of the fixed asset register at present.

* 1. **Capitalisation policy**

This is included in appendix 4

**APPENDIX 1 – Operating Cost Allocation methodology**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cost Centre** | **Description** | **Basis of Allocation/direct** | **General and Support** | **Allocation type** | **W Res %** | **RW Dist %** | **W Treat %** | **TW Dist %** | **Retail %** |
| 1005 | Bad Debts | Direct |  | 1 |  |  |  | 2% | 98% |
| 1006 | Customer Relationships | Direct |  | 1 |  |  |  |  | 100% |
| 1006 | Customer Relationships | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 1010 | Wholesale Services | Ratios of service analysis direct costs | General & support | 3 | 21% | 7% | 28% | 44% | 0% |
| 2004 | Production Management | Manager Estimated % |  | 3 | 11% | 11% | 65% | 11% | 2% |
| 2015 | Asset Information Management Team | Manager Estimated % |  | 3 | 5% | 10% | 50% | 35% |  |
| 2015 | Asset Information Management Team | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 2018 | Programme Management | Manager Estimated % |  | 3 | 5% | 10% | 75% | 10% |  |
| 2020 | Production ICA | Manager Estimated % |  | 3 | 1% | 4% | 55% | 40% |  |
| 2100 | Purton | Direct and Analysis of flows for pretreatment |  | 2 | 0% |  | 100% |  |  |
| 2110 | Purton - catchment | Direct |  | 1 | 100% |  |  |  |  |
| 2120 | Purton Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2140 | Production North | Analysis of works orders |  | 2 | 8% | 7% | 74% | 11% |  |
| 2150 | Prod North TW | Direct |  | 1 |  |  | 100% |  |  |
| 2160 | Prod North Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2170 | Prod North Catchment Sites | Direct |  | 1 | 100% |  |  |  |  |
| 2180 | Shipton Moyne TW | Direct |  | 1 |  |  | 100% |  |  |
| 2181 | Shipton Moyne Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2182 | Shipton Moyne Catchment | Direct |  | 1 | 100% |  |  |  |  |
| 2190 | Purton High Lift Pumping Station | Direct |  | 1 |  |  |  | 100% |  |
| 2200 | Littleton | Direct |  | 1 |  |  | 100% |  |  |
| 2260 | Littleton Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2300 | Barrow | Direct |  | 1 |  |  | 100% |  |  |
| 2301 | Barrow Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2310 | Barrow - catchment | Direct |  | 1 | 100% |  |  |  |  |
| 2320 | Stowey TW | Direct |  | 2 |  |  | 100% |  |  |
| 2321 | Stowey Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2340 | Prod East | Analysis of works orders |  | 2 | 8% | 7% | 74% | 11% |  |
| 2350 | Prod East TW | Direct |  | 1 |  |  | 100% |  |  |
| 2360 | Prod East Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2370 | Prod East Catchment Sites | Direct |  | 1 | 100% |  |  |  |  |
| 2420 | Banwell | Direct |  | 1 |  |  | 100% |  |  |
| 2421 | Banwell Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2422 | Banwell Catchment Sites | Direct |  | 1 | 100% |  |  |  |  |
| 2430 | Axbridge | Direct |  | 1 | 100% | 0% |  |  |  |
| 2440 | Prod West | Analysis of works orders |  | 2 | 8% | 7% | 74% | 11% |  |
| 2450 | Prod West Treatment Works | Direct |  | 1 |  |  | 100% |  |  |
| 2460 | Prod West Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2470 | Prod West Catchment Sites | Direct |  | 1 | 100% |  |  |  |  |
| 2480 | Cheddar TW | Direct |  | 1 |  |  | 100% |  |  |
| 2481 | Cheddar Raw Water Pumping Stations | Direct |  | 1 |  | 100% |  |  |  |
| 2482 | Cheddar Catchment Sites | Direct |  | 1 | 100% |  |  |  |  |
| 2610 | Treated water pumping | Direct |  | 1 |  |  | 0% | 100% |  |
| 2540 | Control Centre (ops room) | Manager Estimated % |  | 3 | 10% | 10% | 35% | 40% | 5% |
| 3099 | Asset Info Projects | Manager Estimated % |  | 3 | 5% | 5% | 12% | 78% | 0% |
| 3120 | NM Contract Repair & Maintenance | Direct |  | 1 |  |  |  | 100% |  |
| 3140 | NM Contract New Mains and Services | Direct |  | 1 |  |  |  | 100% |  |
| 3200 | O&M North | Analysis of works orders |  | 2 |  |  |  | 90% | 10% |
| 3205 | Network Rechargeable Works | Direct |  | 1 |  |  |  | 100% |  |
| 3210 | O&M North Dist | Analysis of works orders |  | 2 |  |  |  | 90% | 10% |
| 3212 | Network Flushing | Direct |  | 1 |  |  |  | 100% |  |
| 3213 | Network Air Valve | Direct |  | 1 |  |  |  | 100% |  |
| 3220 | O&M North Trunk Mains | Direct |  | 1 |  |  |  | 100% |  |
| 3221 | Operations AM1 | Direct |  | 1 |  |  |  | 100% |  |
| 3230 | O&M North Raw Water Mains | Direct |  | 1 |  | 100% |  |  |  |
| 3240 | O&M North Leakstop | Direct |  | 1 |  |  |  | 100% |  |
| 3250 | O&M North Service Reservoirs | Direct |  | 1 |  |  |  | 100% |  |
| 3260 | O&M North Pumping Stations | Direct |  | 1 |  |  |  | 100% |  |
| 3270 | Distribution Management | Analysis of works orders |  | 2 |  |  |  | 90% | 10% |
| 3280 | Strategic Ops Management | Direct |  | 1 |  |  |  | 100% |  |
| 3290 | Leakage & Technical mangement | Direct |  | 1 |  |  |  | 100% |  |
| 3450 | Cost management | Ratios of service analysis direct costs | General & support | 4 | 21% | 7% | 28% | 44% | 0% |
| 3800 | Network Management | Analysis of cost centre totals |  | 2 | 0% | 0% | 0% | 92% | 8% |
| 3801 | Stores Overheads | Direct |  | 1 |  |  |  | 100% |  |
| 3802 | Rechargeable Overheads | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 3803 | Water Regulations | Direct |  | 1 |  |  |  | 100% |  |
| 3805 | Rechargeable Work | Direct |  | 1 |  |  |  | 100% |  |
| 3805 | Rechargeable Work S.185 Diversions | Direct |  | 1 |  |  |  | 100% |  |
| 3806 | Op Customer Services | Direct |  | 1 |  |  |  |  | 100% |
| 3806 | Op Customer Services | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 3808 | Procurement Service | Ratio of materials/consumables costs | General & support | 4 | 2% | 1% | 81% | 15% | 0% |
| 3811 | Rech other- FPQ | Direct |  | 1 |  |  |  | 100% |  |
| 3813 | Network Schedulers | Base on work of staff being scheduled |  | 2 | 0% | 0% | 0% | 91% | 9% |
| 3816 | Standpipe Hire Costs | Direct |  | 1 |  |  |  | 100% |  |
| 3817 | Ret NHH non primary | Manager Estimated % |  | 3 |  |  |  | 100% |  |
| 4001 | Civils / Mains Projects | Ratios of service analysis direct costs | General & support | 4 | 21% | 7% | 28% | 44% | 0% |
| 4002 | Land Surveyor | Ratios of service analysis direct costs | General & support | 4 | 21% | 7% | 28% | 44% | 0% |
| 4003 | H/O Maint | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 4004 | Development Services | Direct |  | 1 |  |  |  | 100% |  |
| 4005 | New Supplies | Direct |  | 1 |  |  |  | 100% |  |
| 4005 | New Supplies | Direct |  | 1 |  |  |  | 100% |  |
| 4102 | Drawing & Mapping | Manager Estimated % |  | 3 | 5% | 5% | 12% | 78% | 0% |
| 4103 | Network Planning | Direct |  | 1 |  |  |  | 100% |  |
| 4200 | Abstraction Charges | Direct and analysis of bulk import |  | 2 | 98% |  | 1% | 1% |  |
| 4308 | FM Services | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 4309 | Non-spec op sites | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 4311 | Projects | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 4312 | FM Salaries | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 4500 | H/O Heat and Light | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 4503 | Telecoms | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 4504 | Power | Analysis of electricity costs by site |  | 2 | 8% | 23% | 27% | 43% |  |
| 5000 | Information Systems management | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 5002 | Process Science | Manager Estimated % |  | 3 | 20% | 5% | 40% | 30% | 5% |
| 5002 | Process Science | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 5003 | Business Resilience | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 5004 | Scientific Services | Manager Estimated % |  | 3 | 24% | 0% | 38% | 26% | 12% |
| 5006 | Environment Manager | Ratios of service analysis direct costs | General & support | 4 | 21% | 7% | 28% | 44% | 0% |
| 5006 | Environment Manager | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 5100 | Financial Accounts | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 5100 | Financial Accounts | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 5101 | Regulation & Change | Management estimate |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 5101 | Regulation & Change - innovation fund | Management estimate |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 5101 | Regulation & Change | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 5103 | Insurance and Compensation | Pro rata, with Employees liability by FTE |  | 4 | 20% | 7% | 32% | 39% | 2% |
| 5109 | Central items | Analysis |  | 2 | 37% | 4% | 26% | 41% | -8% |
| 5109 | Central items - manpower costs | Manpower costs |  | 2 | 6% | 3% | 19% | 65% | 7% |
| 5109 | Central items - General and Support | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 5111 | Admin Sals Recovs | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 5114 | Rates | MEAV allocations (cumulo) /FTE (local) |  | 2 | 24% | 4% | 5% | 68% | 0% |
| 5120 | Periodic Review | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 5124 | Business Services | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 5126 | Business Improvement | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 5127 | Strategic Asset Management | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 5131 | Transformation Prog | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 5133 |  |  |  | 2 | 15% | 5% | 28% | 50% | 2% |
| 5200 | General Management | Directors Remuneration by managers estimate (Retail estimate and FTE) | General & support | 3 | 5% | 2% | 16% | 56% | 20% |
| 5201 | Human Resources | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 5202 | Corporate Affairs | Direct |  | 1 |  |  |  |  | 100% |
| 5202 | Corporate Affairs | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 5202 | Corporate Affairs | Ratios of service analysis direct costs | General & support | 4 | 21% | 7% | 28% | 44% | 0% |
| 5203 | Recreations Amenities | Direct |  | 1 | 100% |  |  |  |  |
| 5206 | General Legal | Ratios of direct costs | General & support | 4 | 19% | 7% | 26% | 40% | 9% |
| 5206 | General Legal | Allocation on basis of Time Spent |  | 3 | 15% | 1% | 18% | 49% | 17% |
| 5209 | Health & Safety | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 5210 | Training | Manpower figures - FTE | General & support | 4 | 6% | 3% | 19% | 65% | 7% |
| 5212 | Community and Charities | Ratios of service analysis direct costs | General & support | 4 | 21% | 7% | 28% | 44% | 0% |
| 5400 | Shared Services | Ratio of materials/consumables costs | General & support | 4 | 2% | 1% | 81% | 15% | 0% |
|  | Borehole maintenance allocation | Analysis of works orders |  | 2 | 60% | 0% | 40% | 0% |  |

|  |  |
| --- | --- |
| **Key to allocation type** | |
| 1 | Direct Allocation |
| 2 | Activity based Allocation |
| 3 | Management estimate applied |
| 4 | Other means e.g. pro rata |

**APPENDIX 2 - Real variations between 23/24 and 24/25 operating costs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **2023/24** | **2023/24 inflated to 2024/25 prices** | **2024/25** | **Change in costs in real terms** |
|  |  | **£m** | **£m** | **£m** | **£m** |
| **Wholesale** | Operating expenditure | 63.5 | 65.5 | 71.4 | +5.9 |
| **Retail** | Operating expenditure | 9.7 | 10.0 | 10.7 | +0.7 |
|  | **Total operating costs** | **73.2** | **75.5** | **82.1** | **+6.6** |

The real increase in total operating costs is £6.7m. This consists of:

| Table 1 | One-off variances | | Wholesale Opex variances | | | Total  £m |
| --- | --- | --- | --- | --- | --- | --- |
| Power | 0.0 |  | 2.0 | Increase in power costs largely due to price as DI is in line with prior year | | 2.0 |
| Hired and Contracted Services | 0.0 |  | 0.9 | Increase in Production Consultancy and Hired Plant 0.8m of this related the Purton incident, and hiring two ozone generators. | | 0.9 |
| Employment costs | 0.0 |  | 2.9 | Increases mainly due to 1.8m in non-underlying costs, but additional increases in Network of 0.8m, and 0.3m of other. | | 2.9 |
| Service Charges |  |  | 0.1 | Increase in CRT abstraction passthrough costs from EA | | 0.1 |
| Other direct costs |  |  | 0.4 | Increase in insurance and compensation costs | | 0.4 |
| Materials and consumables |  |  | -1.3 | Decrease in chemical costs | | -1.3 |
| General and support expenditure | 0.0 |  | 0.5 | 0.2  0.3 | Reduction in capitalisation of Network Projects  Increase in Finance cost, primarily relating to Finance Transformation outsourcing | 0.2  0.3 |
| Third Party Services | 0.0 |  | 0.4 | Increase in mains diversions work of 0.2m as well as increase in costs associated with third party bulk billing. | | 0.4 |
| Wholesale Opex | **0.0** |  | **5.9** |  | | **5.9** |

Retail operating cost variances identified below.

| Table 2 | One-off variances | | Retail Opex variances | | Total  £m |
| --- | --- | --- | --- | --- | --- |
|  | £m | Explanation | £m | Explanation |
| Network/non-network customer enquiries and complaints | 0.0 |  | 0.2 | Increase of 0.2m in costs related to both network customer enquiries and complaints and in non-network customer enquiry and complaint costs of 0.1m | 0.2 |
| Doubtful debts | 0.0 |  | 0.4 | Increase resulting from higher billing | 0.4 |
| Other operating expenditure | 0.0 |  | 0.1 |  | 0.1 |
| Retail Opex | **0.0** |  | **0.8** |  | **0.7** |

**APPENDIX 3 - CCA Allocation methodology**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **CCA Class** | **Asset Class Name** | | **Asset Inventory Category** | | | **Ofwat business units** | | | | | | | | | | | | | | | | | |
|  |  | |  | | | Water Resources | | Raw Water Distribution | | Water Treatment | | Treated Water Distribution | | Retail | | Retail Household | | Retail Non Household | | General and Support | | To be allocated | | Not Used |
| COHS | Company Houses | | Other Management and General | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | | ∆ | |  | |  |
| COMP | Computers | | Computers | | | ∆ | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | | ∆ | |  | |  |
| CP3 | C.P. 3rd Party Conts | | *Grants & Contributions* | | |  | |  | |  | |  | |  | |  | |  | |  | |  | | √ |
| CPX3 | C.P. (Ex. 3rd Party Conts) | | Water Mains Ancillaries- customer (Infra) | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |
| CRES | Collection Reservoirs | | Dams & Impounding Reservoirs | | | ∆ | | ∆ | |  | |  | |  | |  | |  | |  | |  | |  |
| CRSN | Collection Reservoirs Non-Infra | | Dams & Impounding Reservoirs | | | ∆ | | ∆ | |  | |  | |  | |  | |  | |  | |  | |  |
| DM | District Meters | | Other Management and General | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |
| GENE | General Equipment | | Other Management and General | | | ∆ | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | | ∆ | |  | |  |
| HHM | Household Meters | | Water Mains Ancillaries – Customer (Non-Infra) | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |
| HODB | HO & Depot Buildings | | Offices & Laboratories, Depots and Workshops | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | | ∆ | |  | |  |
| INFR | Infra-Rev | | *Infrastructure renewals spend* | | |  | |  | |  | |  | |  | |  | |  | |  | |  | | √ |
| L3PC | Land Third Party Conts | | *Grants & Contributions* | | |  | |  | |  | |  | |  | |  | |  | |  | |  | | √ |
| LAND | Land Specialised | | Depots, Res, TW-W3, Other, Offices, Booster PS | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | | ∆ | |  | |  |
| LBNS | Land & Buildings Non-specialised | | Depots, Intake & Source PS, Res, Dams/Impounding Res, Water TWR, TW-W2, W3 & W4 | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | | ∆ | |  | |  |
| LBSP | Land & Buildings Specialised | | Booster, Source & Intake PS, Res, Dams/Impounding Res, Water TWR, TW-SD, W2, W3 & W4 | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | | ∆ | |  | |  |
| MN3P | Mains 3rd Party Conts | | *Grants & Contributions* | | |  | |  | |  | |  | |  | |  | |  | |  | |  | | √ |
| MNX3 | Mains excl 3rd Party Conts | | Potable Mains and Other Mains | | |  | | ∆(1 asset) | |  | | √ | |  | |  | |  | |  | |  | |  |
| NHHM | Non Household Meters | | Water Mains Ancillaries – Customer (Non-Infra) | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |
| NIAB | Non Infra Assets Buildings | | *Grants & Contributions* | | |  | |  | |  | |  | |  | |  | |  | |  | |  | | √ |
| NIAD | Non Infra Assets Def Income | | *Grants & Contributions* | | |  | |  | |  | |  | |  | |  | |  | |  | |  | | √ |
|  | |  | |  |  | |  | |  | |  | |  | |  | |  | |  | |  | |
| **CCA Class** | **Asset Class Name** | | **Asset Inventory Category** | | | **Ofwat Business Units** | | | | | | | | | | | | | | | | | |
|  |  | |  | | | Water Resources | | Raw Water Distribution | | Water Treatment | | Treated Water Distribution | | Retail | | Retail Household | | Retail Non Household | | General and Support | | To be allocated | | Not Used |
| NIN3 | Non Infra Contributions | | *Grants & Contributions* | | |  | |  | |  | |  | |  | |  | |  | |  | |  | | √ |
| NONA | Non-appointed Assets | | *Non-appointed assets* | | |  | |  | |  | |  | |  | |  | |  | |  | |  | | √ |
| OM | Operational Meters | | Other Management and General | | |  | | ∆ | | ∆ | | ∆ | |  | |  | |  | |  | | ∆ | |  |
| PBB | Pumping Buildings Booster | | Booster Pumping stations | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |
| PBI | Pumping Buildings Intake | | Intake Pumping stations | | | ∆ | | ∆ | |  | |  | |  | |  | |  | |  | |  | |  |
| PBS | Pumping Buildings Source | | Source Pumping stations | | | ∆ | |  | |  | | ∆ | |  | |  | |  | |  | |  | |  |
| PMBL | Pumping Buildings | | Intake, Source & Booster Pumping Stations | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | |  | | ∆ | |  |
| PPB | Pumping Plant Booster | | Booster Pumping stations | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |
| PPI | Pumping Plant Intake | | Intake Pumping stations | | | ∆ | | ∆ | |  | |  | |  | |  | |  | |  | |  | |  |
| PPS | Pumping Plant Source | | Source Pumping stations | | | ∆ | |  | |  | | ∆ | |  | |  | |  | |  | |  | |  |
| PMPT | Pumping Plant | | Intake, Source & Booster Pumping Stations | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | |  | | ∆ | |  |
| RWT | Raw Water Tunnels | | Raw Water Aqueducts | | | ∆ | | ∆ | |  | |  | |  | |  | |  | |  | |  | |  |
| SCRT | Security | | Other Management and General | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | | ∆ | |  | |  |
| SRC | Sources | | Other Management and General | | | √ | |  | |  | |  | |  | |  | |  | |  | |  | |  |
| SVRS | Service Reservoirs | | Service Reservoirs | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |
| TELE | Telemetry | | Telemetry Systems and Other | | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | |  | | ∆ | |  | |  |
| TWCV | Treatment Works - Civils | | SD, W1, W2, W3, W4 Treatment works | | |  | |  | | √ | |  | |  | |  | |  | |  | |  | |  |
| TWPT | Treatment Works - Plant | | SD, W1, W2, W3, W4 Treatment works | | |  | |  | | √ | |  | |  | |  | |  | |  | |  | |  |
| VCMP | Vehicles/Mobile Plant | | Vehicles | | | ∆ | | ∆ | | ∆ | | ∆ | | ∆ | |  | |  | | ∆ | |  | |  |
| WTTW | Water Towers | | Water Towers | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |
| WWM | Waste Water Meters | | Other Management and General | | |  | |  | |  | | √ | |  | |  | |  | |  | |  | |  |

**Key:** √ - Assets directly allocated to Business Unit by CCA class

∆ - Assets allocated by asset description or site – Gen&Sup/To be allocated assets allocated across business units by appropriate allocation method

**APPENDIX 4 – Capitalisation Policy**

1. **capitalisation accounting Policies**
   1. **Definition of a Fixed Asset**

An asset is an item that Bristol Water owns and uses in the course of its business. A fixed asset is an asset that we retain for more than a year. Some common examples within Bristol Water are treatment plant, pumps, land and buildings, water mains and services, office equipment, e.g. photocopiers, vehicles and computer hardware and software. It does not include consumable and stock items.

* 1. **Infrastructure Assets**

Infrastructure expenditure falls into two categories:

1. Costs in respect of the provision of additional infrastructure capacity or enhancement of the network are capitalised (these include projects such as new water mains, new connections and work on impounding reservoirs).
2. Other infrastructure to do with repair and replacement such as boundary mains replacement, network analyses, lead replacements and high-risk crossings.

**Types of Infrastructure assets**

Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. Expenditure on such assets relating to increases in capacity and enhancements are included at cost. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs, which are incremental to the Company.

* 1. **Other assets**

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. These are generally categorised as non-infrastructure assets. All are included at cost. The cost of other assets is their purchase cost together with incidental expenses of acquisition and commissioning and any directly attributable labour costs, which are incremental to the Company.

* 1. **Current Cost Accounting**

We have maintained the CCA fixed asset register for future reference.

* + 1. **Tangible fixed assets**

The valuation of all assets, except vehicles and mobile plant (see ‘other fixed assets’ note below), is based on the modern equivalent asset valuation produced by the Asset Management Plan (AMP) valuation at 31 March 2008, as amended for additions, disposals, and retail price index adjustments after this date to the period ended 31 March 2022. This equates to a proxy for depreciated replacement cost of their operating capability.

To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and to the extent that some of those assets would, on replacement, be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

* + 1. **Land and buildings**

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 2008 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 2008 were valued at the lower of depreciated replacement cost and recoverable amount and have been restated by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received since 31 March 1990 is deducted in arriving at net operating assets (as described below).

The valuation of land and buildings for both specialised and non-specialised properties is undertaken by a Chartered Surveyor employed by the company.

* + 1. **Infrastructure assets**

Mains, impounding and pumped raw water storage reservoirs and dams are valued at a proxy replacement cost determined principally on the basis of data provided for the Asset Management Plan. A continuing process of refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. This is in conjunction with the determination of price limits by Ofwat at 5 yearly intervals. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

* + 1. **Other fixed assets**

All other fixed assets are valued periodically at depreciated replacement cost. The last valuation included being at 31 March 2008. Between periodic reviews, values are restated for inflation as measured by changes in the RPI. Vehicles and mobile plant were stated at depreciated historical cost until 31 March 2008 as differences between historical cost and current cost values were not considered material. From 1 April 2008 RPI has been applied to vehicles and mobile plant, following a revaluation of assets at 31 March 2008 showed a significant difference between the historic and current cost values of these assets.

* + 1. **Surplus land**

Surplus land is valued at recoverable amounts taking into account that part of any proceeds are to be passed on to customers under Condition B of the Licence of Appointment.

* 1. **Fixed Asset Register**

The Fixed Asset register is the Company’s primary record of capitalised expenditure on fixed assets. It is part of the SAP computer system. The fixed asset register is managed by the Financial Control team.

Capital costs are defined as those costs, which are incurred in providing an additional, or a replacement, non-infrastructure asset. In addition, costs in respect of the provision of additional infrastructure capacity or enhancement of the network are also capitalised. These costs are incorporated in the Balance Sheet as additions to fixed assets. Where non-infrastructure assets have been replaced their cost is removed from the Balance Sheet. There is no rule which requires capitalisation of any costs in excess of a specific value however it is unlikely that items with a value less than £1000 in total would be capitalised.

* 1. **Fixed Asset Register Purpose and Scope**

To manage Bristol Water’s Fixed Assets Register and to depreciate the assets in this register over their natural lives allowing for any disposal or unplanned deterioration in their value.

1. **PROCEDURES AND INTERNAL GUIDANCE FOR CAPITALISATION** 
   1. **Initiating a Project**

The need for new assets or modifications to existing assets is wholly business driven. The five yearly Company Business Plan, against which OFWAT sets the Company funding level, sets out the major projects and the sums available for Capital Maintenance. Whilst the Business Plan will form the basis of the Capital Programme, the Asset Management Team will liaise with Operating and Engineering departments to identify the individual infrastructure and non-infrastructure projects.

* 1. **Procedures governing Projects**

There are policies held on our document management system and on Sharepoint:

* + 1. **Project Management Reference Book**

The purpose of this procedure is to state how Engineering Projects shall be managed. It provides an overview of the requirements at each stage of the project. It is not prescriptive at a detailed level; the Project Manager shall detail the requirements appropriate to each project. It is currently held on Sharepoint,

* + 1. **RDENGEN-02 Code of Practice on Business Investment**

This Code of Practice summarises the process necessary for implementation of the investment schemes. It is not prescriptive at a detailed level and should be read in conjunction with the detailed procedures covering specific areas of project management, particular, the Procedure for Management of Engineering Projects.

* 1. **One off Projects and Rolling Schemes**

The Company splits its capital expenditure programme into individual Projects. Projects are set up in SAP and comprise a unique project definition and a lower level work breakdown structure (WBS) against which costs are collected. Projects can have a defined life to build for example a treatment process or they can be “rolling schemes” such as underground water mains for new housing developments, vehicles and meters that have no finite life. A budget is set for each project for each financial year.

1. **CHECKS ON PROCEDURES AND GUIDANCE**

* 1. **Approval Process**

Projects have to go through an approval process, the form of which depends on their value and the type of scheme. The approval process takes the form of a number of project gateways which are defined in the Project Managers’ Reference Book. The appropriate project gateway (PG) form must be completed and approved to allow the project to progress.

The Programme Governance Committee (PGC) shall consider all new projects and shall approve projects estimated to cost up to £250,000. Investment Approval Group (IAG) shall consider and approve new projects estimated to cost more than £250,000.

The designated Asset Planning Engineer shall prepare the relevant PG papers for the approval groups evaluating alternative solutions to meet the project objective and recommend a preferred option. PGC and/or IAG support is required for the Project to proceed.

Individual contracts with a value over £1m will be referred up to the Board for final approval. Projects are regularly reviewed by the PGC and/or IAG when they are ready to proceed to the next gateway, or if the scope has changed requiring additional budget or different outputs.

* 1. **Project Budget release**

Before budget is released on projects the Engineer responsible for the project will complete a SF0002 Capital Scheme Approval Form, which has to be approved by the appropriate person depending on the level of expenditure. Total Budget is not necessarily released all at once.

**Authorization limits**

|  |  |  |
| --- | --- | --- |
| Initial, subsequent or Baseline | Head of Department | ≤ £100k |
| Director | ≤ £1m |
| Board | > £1m |
| Change control | Head of Department | ≤ 20% of approved budget and/or ≤ £100k |
| Director | ≤ 20% of approved Budget and/or >£100k |

* 1. **Reporting of Capital Expenditure (CAPEX)**

Progress on implementing the delivery plan is updated monthly by the program managers. This is reported to the relevant Director and then also to the Board.

* 1. **Capitalisation Tests**

When the Financial Control team is capitalising a project they will look at all aspects of the project. Part of this review will be to assess if the expenditure is Capital and having some long-term economic benefit for the company. Revenue items can be filtered out and will be recoded.

On large projects the relevant project manager will review the depreciation and capitalisation of assets. Ensuring compliance with the assignment to capex categories identified in the Regulatory Accounting Guidelines.

* 1. **Revenue Tests**

Periodically the Financial Planning and Analysis Team will check to see if expenditure is revenue or should be classified as capital expenditure on certain cost centres. Large items of revenue expenditure will be investigated. The budget centre manages will also investigate expenditure for example repairs, which are not thought to be revenue. If such expenditure is spotted the FP&A team will liaise with the Financial Control team and the relevant Department Head to identify a suitable Project they the expenditure should be coded to.

1. **LABOUR, OVERHEADS AND ABSORPTION RATES**

**Labour and Overhead apportionment**

We apportion overheads, over the assets where the cost has been incurred. Where appropriate we will use a percentage apportionment over the assets. We will match the overhead to the most appropriate asset.

* 1. **Apportionment of Labour, pensions, capital salaries**

Labour is capitalised via jobs in SAP on an hourly basis. Capital Salaries are capitalised on a monthly basis in SAP by an automated apportionment and manual journals. The apportionment rates from cost centres to projects are set by department Heads and the Financial Planning and Analysis team and are reviewed half yearly. Pension costs follow labour/salaries to which they relate.

* 1. **Apportionment of Transport Costs**

Transport costs are coded to revenue cost centres. The transport costs are then re-apportioned to the capital schemes where the existing cost centre costs have been charged.

* 1. **Store Overhead**

The stores overhead is split over revenue and capital projects based on analysis of current year’s expenditure.

1. **CAPITALISATION POLICY REVIEW**

The Audit and Risk Committee (ARAC) considers reports from management, internal and external auditors on the system of internal control and any material control weaknesses identified. The AC will discuss with management the actions taken on any problem areas identified by Board members and management or in the internal and external auditor reports.

Periodically the Company will review its expenditure and apply the capitalisation and review tests as detailed in Section 3. Reference is also made to the Regulatory Accounting Guidelines to ensure they are still applicable. New projects also prompt this type of review and examination.

The procedures governing projects are reviewed every one to two years are as necessary.

The guidance that is in place and the internal procedures enable accurate and timely reporting of expenditure under the correct categorisation.

A new governance process to oversee capital investment is being implemented by the Chief Financial Officer, to strengthen financial controls and understanding across the company.