



# **Methodology Statement for Accounting Separation 2018/19**

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Affinity Water Limited

June 2019

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# 1 Introduction

## 1.1 Purpose

The purpose of this document is to set out our approach on accounting separation ('AS') and the systems, processes and allocation assumptions used to prepare the AS tables within the company's regulatory accounts. Ofwat requires this document to be submitted alongside our regulatory annual performance report ('APR').

## 1.2 Scope

This document relates to the appointed business of Affinity Water Limited ('AWL'). However within this document we explain how we calculate and remove any non-appointed business activity from financial information presented in our statutory accounts to only leave the appointed business.

## 1.3 Overview

Each company is required to present a baseline level of financial information for different parts of their appointed business for which Ofwat sets the price controls for 2015-2020.

AWL does not organise or manage its business on the same basis as reported in the APR tables and, therefore, some costs are not directly attributable to either a price control unit or Wholesale business unit. Where no direct allocation is possible, the guidance contained in the Regulatory Accounting Guidelines ('RAGs') is followed.

This document should be read in conjunction with Ofwat's guidelines on AS contained within RAG 2.07, 4.08 and 5.07, and information presented in our APR published as part of AWL's annual report and financial statements for the year ended 31 March 2019, which can be found on our website: [stakeholder.affinitywater.co.uk/investor-library.aspx](http://stakeholder.affinitywater.co.uk/investor-library.aspx).

## 1.4 Cost allocation principles

Our approach to AS applies the general principles set out by Ofwat in RAG 2.07 and RAG 5.07, as follows:

Principle	Ofwat's requirement	Our approach
Transparency	The cost attribution and allocation methods applied to allocate costs within the APR need to be transparent. This means that the costs and revenues apportioned to each price control unit or business unit should be clearly identifiable. The cost and revenue drivers used within the system should be clearly explained to enable robust assurance against this guidance.	Direct costs are identifiable and can be traced back to our accounting ledgers. Every effort has been made to minimise costs and revenues not directly allocated and this methodology statement is transparent in detailing our approach to indirect cost allocation. This year we have addressed concerns raised by Ofwat in relation to chosen cost allocation methods not being properly justified (refer to section 1.5.2 for further details).

Principle	Ofwat's requirement	Our approach
Causality	Cost causality requires that costs (and revenues) are attributed or allocated to those price control or business units that cause the cost (or revenue) to be incurred. This requires that the attribution or allocation of costs and revenues to price control or business units should be performed at as granular a level as possible.	Where possible, costs are directly allocated to price control or business units that cause the cost to be incurred. If this is not possible, the allocation guidelines contained in RAG 2.07 have been followed, as described in this methodology statement.
Non-discrimination	The attribution or allocation of costs and revenues should not favour any price control unit or appointed/non-appointed business and it should be possible to demonstrate that internal transfer charges are consistent with the prices charged to external third parties.	We allocate costs in an objective way that reflects as much as possible the cost burden on each price control unit or business unit, or relating to the appointed/non-appointed business.
No cross subsidy between price controls	Following the introduction of separate binding price controls at the 2014 price review ('PR14'), companies cannot transfer costs between the price control units in setting prices and preparing the APR. Transfer prices should be based on market price unless no market exists, in which case transfer prices should be based on cost.	<p>Costs are compliant with RAG 5.07 guidelines for transfer pricing and no costs are transferred between price control units.</p> <p>Our methodology for recharging the cost of providing support services to another group company is detailed in section 3.2.2.</p>
Objectivity	The cost and revenue attribution criteria need to be objective and should not intend to benefit any price control unit or appointed/non-appointed business. Cost allocation must be fair, reasonable and consistent.	The basis of cost allocation and revenue attribution are as objective as possible and are not designed to favour any price controls, appointed/non-appointed business or associated companies. 11% of our 2018/19 costs (13% of 2017/18 costs) are allocated based on management estimates (refer to the table on page 17).
Consistency	Costs should be allocated consistently by each company from year to year to ensure meaningful comparison of information across the sector and over time. Any changes to the attribution and allocation methodology from year to year should be clearly justified and documented.	We have been consistent in our methodology. Any changes are detailed and justified in section 1.5.2.
Principal use	Where possible, capital expenditures and associated depreciation should be directly attributed to one of the price control units. Where this is not possible as the asset is used by more than one price control unit, it should be reported in the price control unit of principal use with recharges made to the other price control units that use the asset reflecting the proportion of the asset used by the other price control units.	Where possible assets and associated depreciation are directly attributed to a price control unit. The majority of shared use assets are classified under the Wholesale – Network+ business unit with a recharge of depreciation made between price controls and business units in proportion of their use, as detailed in section 4.1.

## 1.5 Significant changes year on year

### 1.5.1 Total operating expenditure

We prepared our financial statements in accordance with Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101') for both 2018/19 and 2017/18.

Operating cost for price control unit	2018/19 £m	2017/18 £m	Movement £m
Wholesale – Water Resources	16.02	15.55	0.47
Wholesale – Water Network+	157.55	141.80	15.75
Retail Household	27.11	30.32	(3.21)
Retail Non-household	-	-	-
<b>Total</b>	<b>200.68</b>	<b>187.67</b>	<b>13.01</b>

#### Wholesale – Water Resources

Wholesale – Water Resources operating expenditure has increased by £0.47m (3%) compared to the prior year. The increase can be explained by the factors below. Note explanations for significant variances (greater than 10% or over £0.50m) have been provided.

- £0.18m (6%) increase in Power costs.
- £0.04m (100%) decrease in income treated as negative expenditure, as the associated contracts came to an end in the prior year and so no such income was recognised in 2018/19.
- £0.15m (4%) increase in Abstraction charges / discharge consents.
- £0.12m (9%) decrease in Bulk Supply costs.
- £0.27m (5%) increase in Other Operating Expenditure.
- £0.06m (3%) decrease in Local Authority and Cumulo Rates.

## Wholesale – Water Network+

Wholesale – Water Network+ operating expenditure has increased by £15.75m (11%) compared to the prior year. The increase can be explained by:

- £1.10m (6%) increase in Power costs associated with increased demand during the summer's hot, dry weather.
- £0.27m (100%) decrease in income treated as negative expenditure, as none recognised in 2018/19.
- £0.56m (9%) decrease in Bulk Supply costs due to a credit recognised in the year relating to prior years imports of bulk water from Grafham reservoir more than offsetting an underlying year-on-year increase associated with increased imports, especially during the summer to meet the higher peak demands.
- £2.66m (18%) increase in Renewals expensed in the year (Infrastructure) due to the split between capital and operational infrastructure projects completed in the year.
- £11.87m (14%) increase in Other Operating Expenditure due to increased staff costs, as a result of higher headcount and an increase in the number of operational jobs completed during the year, as well as an increase in our defined benefit pension plan service cost as a result of the court ruling in October 2018 to remove historical gender inequalities in relation to Guaranteed Minimum Pensions ('GMP'); and higher contractor costs due to increased number of operational jobs in the year due to higher maintenance and repair job volumes and increased leakage detection. £1.68m of the increase relates to the costs of a one-off reorganisation and a further £1.04m relates to one-off costs associated with the substitution of our Cayman Islands financing entity with a UK entity in the year (disclosed separately as atypical expenditure in table 4J in line with RAG 4.08).
- £0.18m (1%) decrease in Local Authority and Cumulo rates.
- £0.58m (27%) increase in third party costs due to a higher number of contractors working on these projects in the year.

## **Retail household**

Retail household operating expenditure has decreased by £3.21m (11%) compared to the prior year. The decrease can be explained by:

- £0.09m (1%) increase in Customer Services.
- £0.07m (3%) increase in Debt Management costs.
- £2.13m (25%) decrease in Doubtful Debts. The decrease in our bad debt charge reflects an improvement in debt recovery associated with an initiatives programme to drive improved cash collection against some of our oldest debt, as well as identifying and crediting invoices raised against empty properties during the year.
- £1.68m (58%) decrease in Meter Reading cost. The decrease largely reflects a change in methodology to allocate a proportion of meter reading costs to non-appointed operating costs to reflect the element of sewerage commission received that relates to the company reading customer meters (refer to section 1.5.2 below).
- £0.44m (5%) increase in Other Operating Expenditure due to one-off reorganisation costs, offset by a reduction in headcount during the year.

## **Retail non-household**

AWL exited the non-household retail market on 1 April 2017. No costs have been identified for allocation to this area since this date.

## 1.5.2 Changes to accounting methodology

Amendments have been made to certain allocations to ensure we are compliant with Ofwat's revisions to the RAGs for 2018/19 and to address Ofwat's concerns in relation to cost allocation set out in its 2018 Company Monitoring Framework assessment report published in January 2019. See below for a list of changes made this year:

1. Following circulation of the final 2017/18 APR industry datashare in November 2018, we benchmarked our meter reading costs for the Retail household business unit. We identified that we had the highest meter reading cost per measured customer in 2017/18 across the industry (£3.98 per measured customer compared to an average across the rest of the industry of £2.22 per measured customer). We were even more of an outlier when compared with other water only companies (the average meter reading cost per measured customer for other water only companies in 2017/18 was £1.72).

On reviewing the 2017/18 accounting separation methodology statements for other companies as part of a process to understand further why we were an outlier, we identified that companies procuring meter reading services from other companies within the industry are including the commission paid for these services in their operating expenditure for their Retail household business units. We bill and collect charges in respect of sewerage and infrastructure within our supply area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited, which includes reading the meters of their measured customers. The commission that we receive is allocated to our non-appointed business in line with RAG 4.08. However, we have not been allocating any of our meter reading costs to our non-appointed business to reflect the treatment of the associated commission, thereby leading to an overstatement of meter reading costs relating to our appointed business and therefore across the industry as a whole. A proportion of meter reading costs has been allocated from Retail household to non-appointed operating costs to reflect the element of sewerage commission received that relates to reading meters. This is consistent with the methodology applied by water and sewerage companies to allocate commission paid to water only companies across retail activities.

In addressing this issue, we have used customer numbers as a cost driver to reflect the element of sewerage commission received that relates to reading meters. The below table summarises the impact of this methodology change on Retail household meter reading costs reported in previous APRs since 2012/13:

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Meter reading costs per table 2C of previous APRs	2.990	2.834	3.245	2.876	2.880	2.894
Restated meter reading costs	1.858	1.786	2.016	1.808	1.810	1.469
Change	1.132	1.048	1.229	1.068	1.070	1.425
Change (%)	37.9%	37.0%	37.9%	37.2%	37.1%	49.2%



The proportion of meter reading costs relating to properties billed by the company for both water and wastewater services has been calculated using property numbers with this cost then allocated 50%:50% between our Retail household and non-appointed business units.

This methodology change brings meter reading costs per customer more in line with industry averages (for 2017/18 the restated cost per measured customer is £1.96). This also decreases our tax in relation to the appointed business reported in table 1A, and increases our return on regulatory equity ('RORE') reported in table 4H, proportion of dividends allocated to the appointed business reported in tables 1A and 1F, and total shareholder return reported in table 1F (there is no impact on retained value figures reported in table 1F). The AMP6 average data for RORE and financial flows included tables 4H and 1F of our 2018/19 APR are calculated based on restated figures.

2. We have re-assessed recharges made from Wholesale to Retail household for the shared use of fixed assets principally used by Wholesale disclosed in table 2A following a benchmarking exercise of the value of Retail household recharges in 2017/18, which indicated that our recharges per customer were above industry average (£1.40 per customer compared to a rest of industry average of £1.06 per customer and other water only company average of £0.64).

To understand further why we were an outlier when compared to water only companies in particular, we reviewed the assets identified as shared use assets from our fixed asset register and identified a few assets that are not being used by the Retail household business unit. These assets included costs capitalised in relation to market reform, our new fieldwork management system and IT assets associated with the delivery of our Water Saving Programme (our universal metering and water efficiency programme), for which, following the company's exit of the non-household retail market in 2017 there is now greater clarity that these assets are entirely used by the Wholesale business unit.

These assets have now been removed from the calculation, reducing the recharges from Wholesale to Retail household. Had this methodology for identifying shared use assets been adopted in the prior year, the recharge from Wholesale to Retail household would have reduced by £1,043,000 from £1,914,000 to £871,000 (£0.64 per customer, bringing this more in line with industry averages). We note that we have not changed our methodology of calculating recharges once shared use assets have been identified but have just revisited the assets identified as shared use assets.

3. Table 2K has been presented for the first time in our APR. The inputs for this table are derived entirely from tables 2E and 2J. An analysis performed by the company's developer services team of connections performed in the year alongside the invoices raised has not identified any discounts applied to infrastructure charges during the year. Our policy is to apply a discount if the new connection was a reconnection and had been disconnected within the past five years. In line with RAG 4.08, the variance brought forward for this infrastructure charges reconciliation for 2018/19 has been assumed as £nil.
4. Other income presented in table 4G now excludes income attributable to the retail business, consisting of income from providing developer information and administration of new connections, in line with the revised definition for this line in RAG 4.08.
5. We have refined the methodology of allocating direct and indirect employment cost in table 4V, bringing our methodology in line with that used for Price Review 2019 ('PR19') data submissions. This has resulted in a shift of costs and full-time equivalent ('FTE') from indirect to direct.

6. Ofwat confirmed in their revisions to RAG 4.08 for 2018/19 reporting that Traffic Management Act costs disclosed in table 4V should include the associated administration costs but exclude any fines. This has led to the identification of an additional £0.04m of administration costs in the year (fines were previously and continue to be excluded), although Traffic Management Act costs have reduced overall since the prior year as a result of a lower value of permits obtained under the Traffic Management Act.
7. Ofwat expressed concern in its 2018 Company Monitoring Framework assessment report over the number of cost allocations still based on management estimate and chosen cost allocation methods not being properly justified in our accounting separation methodology statement. 11% of our 2018/19 costs (13% of our 2017/18 costs) are allocated based on management estimate (refer to the table on page 17).

A hierarchy of cost drivers to be used is set out in RAG 2.07, which permits the use of management estimates as a cost driver where information is unavailable to use the preferred cost driver. However, when this is the case, there should be a supporting commentary included in the accounting separation methodology statement to justify why the management estimate is appropriate.

There were six references to management estimates and two instances of where we consider chosen cost allocation methods were not properly justified in our 2017/18 accounting separation methodology statement. These are set out in the table below together with revised explanations included in this accounting separation methodology statement.

Section	Narrative in 2017/18 methodology statement	Narrative in 2018/19 methodology statement
3.2.1 Sewerage billing, cash collection and infrastructure commission	<p>Staff costs within our debt collection team and other support teams. We assume our debt collection team spends 45% of their time on sewerage collections on average. Our support teams who process weekly payments and provide other analysis keep a record of the time they have spent on sewerage activities. This percentage is then applied to the relevant employment cost.</p> <p>Debt collection agency cost. We assume debt collection agency cost is split in the same proportion as an average customer's total water and sewerage bill.</p> <p>Other smaller costs such as bank fees for cash transfers, Hi-Affinity (our billing system) license fees and audit fee are also considered.</p>	<p>Staff costs within our debt collection team and other support teams. We assume our debt collection team spends 49% of their time on sewerage collections on average based on the percentage of sewerage collections in relation to our total cash collected for the financial year. Our support teams who process weekly payments and provide other analysis keep a record of the time they have spent on sewerage activities. This percentage is then applied to the relevant employment cost.</p> <p>Debt collection agency cost is split in the same proportion as an average customer's total water and sewerage bill for the financial year.</p> <p>General overheads are allocated to the non-appointed business based on the percentage of non-appointed revenue in relation to our total revenue for the financial year.</p> <p>Other smaller costs such as bank and audit fees relating to our joint billing contracts with Thames Water and</p>

Section	Narrative in 2017/18 methodology statement	Narrative in 2018/19 methodology statement
		Anglian Water are allocated directly to our non-appointed business based on their cost.
3.2.2 Recharges for support services	Services per the agreement charged at a fixed annual fee, calculated using the actual cost to the business per employee and the estimated time commitment for the service.	<p>Finance and procurement services and IT support: Services per the agreement charged at a fixed annual fee, calculated as the actual cost to the business using a number of different drivers dependent on the service being recharged, including revenue, staff numbers, transaction count and property numbers.</p> <p>Legal support, HR and regulation support and customer relations support: Services per the agreement charged at a fixed annual fee, calculated as the actual cost to the business per employee and the time commitment for the service using employee timesheets. Additional support services provided outside of the agreement are recharged at cost per hour using employee timesheets.</p> <p>Fleet services: Fixed charge per vehicle based on cost incurred by the business.</p>
3.4.1 General and support - Legal and Insurance	<ol style="list-style-type: none"> <li>1. Management estimate on insurance premium and claim history</li> <li>2. Number of FTEs for remaining cost</li> </ol>	<ol style="list-style-type: none"> <li>1. Direct allocation of public liability premium and uninsured claims to Wholesale – Water Network+ - Treated Water Distribution.</li> <li>2. Remaining premiums (largest ones being employer liability, motor insurance and property damage) are allocated based on number of FTEs.</li> <li>3. Staff cost allocated based on management estimate of time spent within each business unit considering the level of legal support provided to each business unit in the year.</li> </ol>
3.4.2 Indirect costs - Other business activity (Regulation)	This cost is allocated on an even basis across the five original business units; water resources, raw water distribution, water treatment, treated water distribution and retail.	This cost is allocated on an even basis across the five original business units in line with the most recent regulatory guidance in RAG 2.07; water resources, raw water distribution, water treatment, treated water distribution and retail.

Section	Narrative in 2017/18 methodology statement	Narrative in 2018/19 methodology statement
3.5.1 Operating cost analysis for wholesale business - Other Operating Expenditure - Direct cost	Employment, Materials, Hired & Contracted, Other Direct Cost: If a cost centre covers more than one business unit, costs are allocated based on management estimate of the costs.	Direct allocation of Employment, Materials, Hired & Contracted, Other Direct Cost based on expenditure type.  If a cost centre covers more than one business unit, costs are allocated based on activity drivers listed in the table on page 17.
3.5.1 Operating cost analysis for wholesale business - Other Operating Expenditure - Indirect cost	General & Support costs are applied pro-rata to direct employees within each business unit, direct allocation or split based on management estimates.	General & Support costs are allocated directly where possible and then based on the number of FTE in each business unit.
3.5.1 Operating cost analysis for wholesale business - Other Operating Expenditure - Indirect cost	Scientific Services – costs are allocated all to wholesale and split into business unit by management estimate.	Scientific Services – costs are allocated all to wholesale and split into business unit by management estimate of activity carried out by each individual employee.
3.5.1 Operating cost analysis for wholesale business - Third Party Services	Special agreements – separately calculated to reflect management estimates of resources consumed to deliver the business unit.	The costs of the agreement with South East Water are all allocated to Wholesale – Water Network+ - Treated Water Distribution. Costs are calculated to reflect agreed contractual assumptions of resources consumed to deliver the service.

## 1.6 Planned changes to accounting methodology for 2019/20

Potential changes which will be considered in the year to 31 March 2020 to ensure continuous improvement in our reporting are as follows.

### Analysis of employee time

We plan to collect further detail from employees working in key teams where staff cost is allocated based on an estimate of time spent on different activities at an individual employee level.

### Activity Based Costing

A project has been underway over the last few years to enable the business to use Activity Based Costing within our Oracle E Business Suite ('Oracle') system (see detailed in section 2.1 on systems), to allow the business to review regional variances in costs. This is enabling the business to perform more detailed analysis on figures.

## 2 System and structures

### 2.1 System

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The company uses Oracle E Business Suite ('Oracle') as its primary financial and business management system. Oracle has been designed to meet the reporting needs of the business and prepare financial statements in accordance with the Companies Act 2006, the requirements of which differ from the RAGs issued by Ofwat and the Accounting Separation tables discussed herein.

### 2.2 Structures

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Our operating expenditure is primarily divided into eight main directorates. These are:

1. Wholesale Operations (split into Operations and Developer Services)
2. Asset Strategy
3. Retail - Household
4. Information Technology
5. Regulation and Corporate Affairs
6. People Team
7. Legal, Risk & Compliance
8. Finance and Corporate

The costs in these areas are split further by the use of cost centres which have individual budget holders allocated to them.

Alongside directorate reporting we also report total operating expenditure by cost type. The key cost types are:

1. Employment
2. Power
3. Rates
4. Chemicals
5. Subcontracting
6. Bad debt charge
7. Environmental charges
8. Bulk water purchases

## 3 Operating expenditure allocation assumptions

### 3.1 Approach taken

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The core data for the model is taken from the year end Trial Balance ('TB') prepared in Oracle. Each line of the TB is individually allocated either to a business unit (as defined by Ofwat in RAG 4.08 – Water Resources - Abstraction Licence, Water Resources - Raw Water Abstraction, Raw Water Distribution - Raw Water Transport, Raw Water Distribution - Raw Water Storage, Water Treatment, Treated Water Distribution and Retail), classified as a Balance Sheet item, as Not Applicable or as an Overhead. This allows a clear audit trail back to the audited accounts.

### 3.2 Removal of non-appointed cost

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Before each line is individually allocated to a business unit, non-appointed costs are deducted from the TB to leave only appointed costs.

Non-appointed costs are calculated within a separate model using various assumptions. The adjustments are shown within table 1A of the APR. Our three non-appointed activities are:

1. Sewerage meter reading, billing, cash collection and infrastructure commission
2. Recharges for support services
3. Unregulated income (value added services)

#### 3.2.1 Sewerage meter reading, billing, cash collection and infrastructure commission

The main costs associated with sewerage commission are:

Meter reading costs. The proportion of meter reading costs relating to properties billed by the company for both water and wastewater services is calculated using property numbers with this cost then allocated 50%:50% between our Retail household business unit and non-appointed business.

Staff costs within our debt collection team and other support teams. We assume our debt collection team spends 49% of their time on sewerage collections on average based on the percentage of sewerage collections in relation to our total cash collected for the financial year. Our support teams who process weekly payments and provide other analysis keep a record of the time they have spent on sewerage activities. This percentage is then applied to the relevant employment cost.

Debt collection agency cost is split in the same proportion as an average customer's total water and sewerage bill for the financial year.

General overheads are allocated to the non-appointed business based on the percentage of non-appointed revenue in relation to our total revenue for the financial year.

Other smaller costs such as bank and audit fees relating to our joint billing contracts with Thames Water and Anglian Water are allocated directly to our non-appointed business based on their cost.

### 3.2.2 Recharges for support services

Affinity Water Limited has a service agreement with group company Affinity for Business (Retail) Limited, a non-household retailer, to provide support services to the company. These services include finance and procurement services, IT support, legal support, HR and regulation support, customer relations support, and fleet services.

There is a signed Corporate Service Agreement (the 'agreement') between Affinity Water Limited and Affinity for Business (Retail) Limited, which includes details of the nature of the services provided, terms of the supply and the charges. Separate detailed TB codes are used to recognise the recharges to the non-household retailer and these are removed from the TB with other non-appointed activities. Both the recharge and costs are treated as non-appointed for regulatory reporting.

Service	Basis of cost recharge
Finance and procurement services and IT support	Services per the agreement charged at a fixed annual fee, calculated as the actual cost to the business using a number of different drivers dependent on the service being recharged, including revenue, staff numbers, transaction count and property numbers.
Legal support, HR and regulation support and customer relations support	Services per the agreement charged at a fixed annual fee, calculated as the actual cost to the business per employee and the time commitment for the service using employee timesheets. Additional support services provided outside of the agreement are recharged at cost per hour using employee timesheets.
Fleet services	Fixed charge per vehicle based on cost incurred by the business.

The above recharges are calculated based on cost to the appointed business, in line with section 7 of RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors, where there is no market for the services provided.

### 3.2.3 Unregulated income (value added services)

The main costs associated with unregulated income are direct costs and staff costs. A record of the time spent by staff on non-appointed activity is maintained and allocated accordingly.

### 3.2.4 General and support

With the exception of the recharges for support services, which are recharged at cost and deducted from the TB directly, an element of general and support costs associated with running the remaining non-appointed activity is allocated.

We apportion these costs based on the percentage of unregulated income compared to total income for AWL. This treatment is consistent with 2017/18.

### 3.3 Direct cost

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The first level driver for this allocation is the cost centre number. However, where the cost centre does not match directly to a business unit, there is a degree of percentage allocation based on cost centre manager assessment or other analysis as appropriate.

The second level for cost allocation is the detail code used to describe an expenditure type. This allocation is used for the wholesale tables (2B, 4D, 4J and 4V (operating cost analysis only)), where we have to report costs at the following level of detail:

1. Power
2. Income treated as negative expenditure
3. Abstraction charges / discharge consents
4. Bulk supply / bulk discharge
5. Renewals expensed in year (split between infrastructure and non-infrastructure)
6. Other operating expenditure (such as employment, hired and contracted, materials, associated companies and other direct costs)
7. Local Authority and Cumulo rates

In order to simplify the model we have grouped together, wherever possible, cost centres and detail codes into 20 allocation categories. Each category has a percentage allocation assumption, allocating costs to the various business units. These percentages are periodically reviewed and we continue to ensure the managers have supporting evidence for this split. Please refer to the table on the next page for details, which also identifies the amount of cost within each category allocated based on management estimate.

Each cost centre is given an allocation category, this drives the percentage allocation applied and the output is a financial value allocated to each business unit, per TB line. These detail codes have been analysed and allocated to one of the allocation categories detailed, in a consistent manner.

This is fully detailed in the Appendix.



Ref	Type	Business unit allocation cost driver	Last reviewed	Water Resources		Raw Water Distribution		Water Treatment	Treated Water Distribution	Retail	General & Support	Total
				Abstraction licenses	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Trunk treated water distribution			
1	Balance Sheet / Revenue / Not Applicable	N/A	Mar-19									0.00%
2	Power	Pump head analysis	Mar-19	0.00%	14.00%	15.00%	0.00%	12.00%	59.00%			100.00%
3	Supply Management	Management estimate of activity by employee	Mar-19	0.00%	33.82%	1.84%	1.84%	2.90%	59.59%			100.00%
4	Abstraction Charges	Direct to Abstraction Licenses	Mar-19	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%			100.00%
5	Bulk Supply	Average cost of exporting company per their APR	Mar-19	12.11%	4.66%	0.00%	0.00%	83.22%	0.00%			100.00%
6	Atypical	Annually review depending on nature of cost	Mar-19						27.26%	9.79%	30.18%	67.22%
7	Estates Management	Based on proportion of direct allocation of large maintenance contracts	Mar-19	0.00%	7.59%	7.75%	8.45%	34.41%	41.80%			100.00%
8	Chemicals	Direct to Water Treatment	Mar-19	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%			100.00%
9	Production	Management estimate of activity by employee	Mar-19	0.00%	11.50%	1.50%	0.25%	55.25%	31.50%			100.00%
10	Network Services	Based on job type	Mar-19	0.00%	0.00%	0.04%	0.00%	0.00%	99.96%			100.00%
11	Customer Operations	Based on job type	Mar-19	0.00%	0.00%	0.04%	0.00%	0.00%	99.96%			100.00%
12	Leakage	Direct to Treated Water Distribution based on Leakage Measurement	Mar-19	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%			100.00%
13	Asset Management	Management estimate of activity by employee	Mar-19	0.00%	29.60%	0.00%	0.00%	31.80%	38.60%			100.00%
14	Water Quality	Management estimate of activity by employee	Mar-19	0.00%	10.00%	1.00%	0.00%	36.00%	53.00%			100.00%
15	Rates	Current Cost Gross Book Value per Ofwat Guidance	Mar-19	0.00%	12.65%	2.18%	0.00%	18.90%	66.27%			100.00%
16	Regulation	1/5 per Ofwat guidance	Mar-19	10.00%	10.00%	10.00%	10.00%	20.00%	20.00%	20.00%		100.00%
17	Retail	Direct to Retail	Mar-19							100.00%		100.00%
18	Overheads	Direct to Overhead	Mar-19	0.05%	3.16%	0.22%	0.09%	5.88%	24.28%	1.41%	64.92%	100.00%
19	Third Party Cost	Direct to Treated Water Distribution based on export cost model	Mar-19	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%			100.00%
20	Other - Landfill Tax	Annually review depending on nature of cost	Mar-19					100.00%				100.00%

Total Operating Cost (£m) - Excluding IRE)	Cost based on management estimate (£m)	Management estimate
21.93	0.00	0.00%
2.30	2.30	100.00%
3.96	0.00	0.00%
6.88	0.00	0.00%
3.51	0.00	0.00%
2.76	1.15	41.69%
2.00	0.00	0.00%
8.72	8.72	100.00%
38.36	0.00	0.00%
6.31	0.00	0.00%
5.07	0.00	0.00%
2.10	2.10	100.00%
5.53	5.53	100.00%
15.77	0.00	0.00%
4.69	0.00	0.00%
21.44	0.00	0.00%
27.71	1.26	4.54%
2.70	0.00	0.00%
1.60	0.00	0.00%
<b>183.37</b>	<b>21.07</b>	<b>11%</b>

## 3.4 Indirect costs

Every effort has been made to minimise the number of TB lines that are not directly allocated to a business unit; however there are four expense categories that require proportional allocation across the business units. These are:

- General and Support ('G&S')
- Other business activity (Regulation)
- Local Authority and Cumulo rates
- Customer Service Technicians

### 3.4.1 General and support

We have six main cost types within General and Support costs totalling £27.71m. These costs are allocated amongst each of the business units and Other Business Activity (Regulation). The below tables show what type of costs are included in General and Support and basis of allocation. Note that timesheets are not formally kept by the business and therefore is not a basis of allocation for a number of costs where this is prescribed by Ofwat as the preferred driver.

Type of cost	Basis of allocation	Total cost (£m)
Human Resources	<ol style="list-style-type: none"> <li>1. Direct allocation of staff, training and recruitment cost</li> <li>2. Number of FTEs for remaining cost</li> </ol>	2.09
Head Office Facilities Management and Property Rent	Floor space of Head Office	2.56
Procurement	Hired & contracted, material cost and other smaller values general ledger codes deemed to be influenced by the activities of the procurement department	0.54
Information Technology	<ol style="list-style-type: none"> <li>1. Direct allocation of key systems</li> <li>2. Number of FTEs for remaining cost (assuming each FTE has one device)</li> </ol>	7.62
Legal and Insurance	<ol style="list-style-type: none"> <li>1. Direct allocation of public liability premium and uninsured claims to Wholesale – Water Network+ - Treated Water Distribution</li> <li>2. Remaining premiums (largest ones being employer liability, motor insurance and property damage) are allocated based on number of FTEs</li> </ol>	4.04

Type of cost	Basis of allocation	Total cost (£m)
	3. Staff cost allocated based on management estimate of time spent within each business unit considering the level of legal support provided to each business unit in the year	
Other: Finance, General Management, Corporate Services, Health and Safety and External Communication	1. Direct allocation of employees where applicable 2. Number of FTEs for remaining cost	10.86

The General and Support, scientific services and regulatory costs are allocated to the price control units in the following proportions:

Price control unit	Costs allocated to unit £m	% allocated to each price control unit
Wholesale – Water Resources	1.60	6%
Wholesale – Water Network+	22.14	80%
Retail – Household	3.97	14%

### 3.4.2 Other business activity (Regulation)

This cost includes direct allocation from the regulation cost centre plus an element of general and support cost based on the allocation mentioned above. This cost is then allocated on an even basis in line with the most recent regulatory guidance in RAG 2.07 across the five original business units: water resources, raw water distribution, water treatment, treated water distribution and retail.

Within water resource and raw water distribution this cost has been further split evenly across the additional business units.

### 3.4.3 Local Authority and Cumulo Rates

Cumulo Rates are allocated based on an assumption of rateable value attributed to the wholesale and retail business units.

Head office building rates are allocated on the floor space of head office.

### 3.4.4 Customer Service Technicians

Customer Service Technician costs are allocated between wholesale and retail business units based on the split of time spent on each activity.

## 3.5 Operating cost analysis for the wholesale business

The table below shows how costs are allocated to each line in tables 2A, 2B, 4D, 4J and between lines in table 4V.

### 3.5.1 Allocation to cost driver

Table line	Activity / cost type	Cost driver	Allocation to business unit ('BU')
Power	Power	Direct allocation by use of specific expenditure codes and cost centres.	Aggregated Average Pumping Head data for each BU.
Income treated as negative expenditure	Power	Direct allocation by use of specific expenditure codes and cost centres.	Aggregated Average Pumping Head data for each BU.
Abstraction Charges / Discharge Consent	Abstraction Charge	Actual charges from the Environment Agency allocated to wholesale.	Direct allocation to Water Resources – Abstraction Licenses by use of specific expenditure codes and cost centres.
Bulk Supply Imports	Bulk Supply Import	Direct allocation by use of specific expenditure codes and cost centres.	Costs split between water resources and water treatment based on the average cost of the exporting company for supply and treatment per their regulatory annual performance report for the year ended 31 March 2018 (last publicly available information).
Other Operating Expenditure	<b>Direct cost</b> Employment Materials Hired & Contracted Other Direct Cost	Costs directly allocated to wholesale.	Direct allocation of employment, materials, hired & contracted and other Direct Cost based on expenditure type.  If a cost centre covers more than one business unit, costs are allocated based on activity drivers listed in the table on page 17.  Other direct costs are all allocated to individual BUs via cost centres and expenditure codes. This includes cost such as Vehicle Expenditure (excluding fuel), Mobile Phone and Other Sundry items.

Table line	Activity / cost type	Cost driver	Allocation to business unit ('BU')
	<p><b><u>Indirect Cost</u></b></p> <p>Executive and non-executive director remuneration</p> <p>General and Support (including Doubtful Debt)</p> <p>Scientific Services</p> <p>Other Business Activity</p>	<p>Costs indirectly allocated to wholesale.</p>	<p>Executive and non executive director costs have been allocated based on the total number of FTEs. We consider this best determines the time spent by the team as detailed timesheets are not maintained.</p> <p>General &amp; Support costs are allocated directly where possible and then based on the number of FTE in each business unit.</p> <p>Scientific Services – costs are allocated all to wholesale and split into business unit by management estimate of activity carried out by each individual employee.</p> <p>Other Business Activity – allocated on an even basis across the business units.</p>
<p>Local Authority and Cumulo Rates</p>	<p>Local Authority and Cumulo Rates</p>	<p>Actual charge from Local Authority.</p> <p>Cumulo Rates allocation based on rateable value attributed to wholesale.</p>	<p>Cumulo Rates are allocated to each BU based on GMEAVs.</p> <p>Head Office Building Rates are allocated based on floor space.</p>
<p>Third Party Services</p>	<p>Total cost relating to serving Third Party Services</p>	<p>Direct allocation by use of specific expenditure codes and cost centres.</p>	<p>Non-potable water – all in raw water distribution.</p> <p>Rechargeable works – all in treated water distribution.</p> <p>The costs of the agreement with South East Water are all allocated to Wholesale – Water Network+ - Treated Water Distribution. Costs are calculated to reflect agreed contractual assumptions of resources consumed to deliver the service.</p>

### 3.5.2 Wholesale other operating expenditure

Please see the below table for a breakdown of cost categories and values that we have included in Other operating expenditure:

Cost centre description	Total (£m)	Nature of cost
Employment costs	26.60	Employment costs (including £1.75m atypical costs associated with a one-off reorganisation, as disclosed in table 4J) within the wholesale business unit
Hired and contracted services	34.36	Costs for contractors and equipment hire
Materials and consumables	5.15	Costs for materials
General support costs and business activities	32.17	General support costs (including £1.15m of atypical costs associated with the substitution of our Cayman Islands financing entity with a UK entity as part of simplifying our group structure, as disclosed in table 4J), scientific services and other business activities allocated to wholesale. These costs also include £1.75m defined benefit pension plan past service cost associated with the impact of the court ruling in October 2018 to remove historical gender inequalities in relation to Guaranteed Minimum Pensions ('GMP'), which have been allocated entirely to the wholesale business unit.
Vehicles	1.87	Cost for vehicle leasing and maintenance
Telephones	0.40	Cost for mobile telephones
Streetworks	2.56	Cost of permits, fines/fees and consequential damage to highway
Water Efficiency Audit Cost	1.15	Cost of carrying out water audits on customer properties as a part of the Water Saving Program
Other Leases	0.92	Other operating leases
<b>Total</b>	<b>105.18</b>	

### 3.5.3 Power

Power costs are allocated to the Wholesale business units by directly coded cost centres. No power costs are allocated proportionally.

	Proportion of directly coded costs	Proportion of allocated costs
Power costs	100% - £21.93m	0% - £nil

Power and maintenance costs related to borehole pumping are allocated to the business units based on pumping head. For high lift pumping, all power and maintenance costs are allocated to Wholesale – Water Network+ - Treated Water Distribution.

### 3.5.4 Other operating expenditure (excluding renewals)

Other operating expenditure (excluding renewals) consists of a number of cost codes, some costed directly to price control units and others proportionally allocated. The total costs and percentage split of the directly coded and allocated costs are shown below:

	Proportion of directly coded costs	Proportion of allocated costs
Other operating expenditure	66% - £69.25m	34% - £35.93m

### 3.5.5 Unit cost information

In table 4D we are required to submit volumes (megalitres 'ML') for each wholesale business unit.

- For Water Resources – Abstraction Licences we have used licences for water (ML) available to us. This gives a unit cost of £11.56/ML (2018: £13.30/ML); which has decreased by 13% primarily due to lower other operating expenditure excluding renewals in relation to this wholesale business unit, as a result of lower time spent by employees in relation to this wholesale business unit in the year.
- For Water Resources – Raw Water Abstracted we have used volume of water (ML) abstracted. This gives a unit cost of £30.67/ML (2018: £28.99/ML) which has increased by 6% primarily due to higher other operating expenditure excluding renewals in relation to this wholesale business unit, as a result of increased staff costs; and the atypical costs of a one-off reorganisation and costs associated with the substitution of our Cayman Islands financing entity with a UK entity.
- For Raw Water Distributed – Raw Water Transported we have used volume of water transported. This gives a unit cost of £48.10/ML (2018: £65.11/ML); which has decreased by 26% primarily due to lower other operating expenditure excluding renewals in relation to this wholesale business unit, as a result of a lower operational jobs completed in the year relating to raw water transportation and lower estates maintenance expenditure relating to this wholesale business unit.

- For Raw Water Distributed – Raw Water Storage we have no volume of water that is in storage. We do, however, have dormant assets (reservoirs), which need to be maintained due to the requirement from various regulatory bodies.
- For Water Treatment we use distributed input water volumes (ML). This gives a unit cost of £79.08/ML (2018: £83.30/ML); which has decreased by 5% primarily due to a credit recognised in the year relating to prior years imports of bulk water from Grafham reservoir. This credit more than offsets the atypical costs of a one-off reorganisation and costs associated with the substitution of our Cayman Islands financing entity with a UK entity included in other operating expenditure excluding renewals for this wholesale business unit this year.
- For Treated Water Distribution we use distributed input water volumes (ML). This gives a unit cost of £356.93/ML (2018: £317.08/ML) which has increased by 13% due to higher renewals expensed in the year (infrastructure) owing to the split between capital and operational infrastructure projects completed in the year; an increase in other operating expenditure caused by increased staff costs, as a result of higher headcount and an increase in the number of operational jobs completed during the year, as well as an increase in our defined benefit pension plan service cost as a result of the court ruling in October 2018 to remove historical gender inequalities in relation to GMP; higher estates maintenance expenditure relating to this wholesale business unit; higher contractor costs due to higher treated water distribution maintenance and repair jobs in the year and increased leakage detection; and the atypical costs of a one-off reorganisation and costs associated with the substitution of our Cayman Islands financing entity with a UK entity in the year.

## 3.6 Operating cost analysis for the retail business

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The retail costs include direct allocation of cost centres within our customer service department and specific transfers of cost, which are accounted for in our wholesale business to comply with RAG 2.07.

An apportionment of General and Support, Local Authority and Cumulo Rates and Other Business Activity (Regulation) costs are allocated to retail based on the allocation discussed in section 3.4.

Owat requires the cost within retail to be split further into household and non-household, then household split into unmeasured and measured. There are no costs remaining in the non-household retail business, see the detail in the next section.

### 3.6.1 Allocation to cost driver between household and non-household

Following the opening of the non-household retail market from 1 April 2017 onwards, the company exited the non-household retail market. The company offers a support service, as detailed in section 3.2. New cost centre codes were set up to allow for non-household support services to be recorded and accurately recharged at cost. These are treated as non-appointed costs and income, with no allocation of costs performed. AWL does not incur any other non-household retail costs.



### 3.6.2 Retail other operating expenditure

The table below provides a breakdown of cost categories and values that we have included in Other operating expenditure.

Cost centre description	Total (£m)	Nature of cost
Demand side water-efficiency initiatives	0.35	Retail element of encouraging efficient water use by customers
Customer side leaks	0.61	Retail element of cost to investigate customer leaks
General and support and other business activities	5.13	General support costs and other business activities allocated to retail. These costs do not include any allocation of the £1.75m defined benefit pension plan past service cost associated with the impact of the court ruling in October 2018 to remove historical gender inequalities in relation to GMP, which have been allocated entirely to the wholesale business unit.
Local authority rates	0.15	Local authority taxes
Customer Services Management	1.78	Employment cost of Customer Service Management team including £0.60m atypical costs associated with a one-off reorganisation
Customer Experience Planning	0.86	Employment costs of delivering Customer Service systems enhancements and upgrade, coaching team, and resource & planning team
Voice of the Customer	0.30	Employment costs for administering customer feedback systems
Other direct costs	0.37	Aggregated other direct costs
<b>Total</b>	<b>9.55</b>	

### 3.6.3 Allocation to cost driver between household unmeasured and measured

To allocate the split between measured and unmeasured costs, cost centres have been used where possible and the remaining costs have been allocated using various assumptions detailed in this section.

The table below shows how costs are allocated to each line in table 4F between household unmeasured and measured.

Table line	Activity / cost type	Cost driver	Rationale for cost driver
Customer Services	Billing	Number of household unmeasured and measured bills raised.	The cost for billing activity is directly linked to the number of bills raised. The number of bills is based on assumptions of the annual billing cycles for unmeasured and measured customers.
Customer Services	Payment handling, remittance and cash	Number of household unmeasured and measured receipts.	Costs for payment handling is assumed to be directly linked to type of receipt processed.
Customer Services	Charitable trust donations	Number of household unmeasured and measured customers.	We have no cost in 2018/19.
Customer Services	Vulnerable customer schemes	Number of household unmeasured and measured customers on our Low Income Tariff ('LIFT').	Cost of dealing with vulnerable customers can be linked to our larger vulnerable customers who are on the LIFT tariff.
Customer Services	Non-network customer queries and complaints	Volume of contact based on all enquires and complaints by household unmeasured and measured customers.	Costs vary in proportion to the number of contacts made by customer type.
Customer Services	Network customer queries and complaints	Volume of contact based on all enquires and complaints by household unmeasured and measured customers.	Costs vary in proportion to the number of contacts made by customer type.

Table line	Activity / cost type	Cost driver	Rationale for cost driver
Customer Services	Investigatory visits / first visits to the customer	Volume of contact based on all enquires and complaints by household unmeasured and measured customers.	Costs vary in proportion to the number of contacts made by customer type.
Debt Management	Debt Management	Debt outstanding for more than 30 days by household unmeasured and measured customers.	Costs assumed to vary with the proportion of debt outstanding for more than 30 days for each customer type.
Doubtful Debts	Doubtful Debts	Actual write-offs and movement in provision based on customer type.	The charge for the year is split based on actual write-offs and movement in the bad debt provision which we have split between household unmeasured and measured customers.
Meter Reading	Meter Reading	All household measured.	Actual charge is wholly attributable to household measured customers only.
Other Operating Expenditure	Demand Side Water Efficiency Initiatives Customer Side Leaks Other Direct Costs Executive and non-executive director remuneration General & Support Other Business Activities	Number of household unmeasured and measured customers.	We are unable to allocate directly therefore it has been assumed that costs vary with customer numbers.
Local Authority and Cumulo Rates	Cumulo Rates Head Office Building Rates	Number of household unmeasured and measured customers.	We are unable to allocate directly therefore it has been assumed that costs vary with customer numbers.

## 4 Capital expenditure

### 4.1 Key principles

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Expenditure is recorded at a project level with each project being individually and specifically allocated to the relevant accounting separation category. Capital projects go through a formal approval process, as follows:

- project managers submit project authorisation documents ('PADs') outlining the operating and capital expenditure, and including detail on the regulatory accounting category;
- programme Boards discuss and review the project;
- finance team analysts scrutinise PADs and assess whether operating costs and capital expenditure have been allocated correctly in accordance with relevant statutory and regulatory accounting guidelines. In the event that they disagree with the proposed accounting treatment, the project manager is advised accordingly; and
- the Investment Committee, which consists of the Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Change and Capital Programmes Director, Asset Strategy, Data and Innovation Director, Director of Legal and Assurance, Director of Regulation, Head of the Programme Management Office and Commercial Director, initiate programmes identified in regulatory business plans (through the approval of PADs).

A download of the capital programme is reviewed at the year-end by the asset strategy team and finance team analysts to identify any expenditure which may have been coded incorrectly at source so this can be corrected.

Where more than one business unit utilises an asset, it is allocated on the basis of principal use in accordance with guidelines set out in RAG 2.07. A cross charge is then made to the other business units. This is discussed in more detail in the paragraph headed "Recharges between price control units" at the end of this section.

As a consequence, when completing table 4D (and subsequently tables 2B and 4J, which are derived from 4D) we have followed the process as detailed below.

Maintaining the long term capability of the assets – infra: Infrastructure Renewals Expenditure ('IRE') is allocated based on principal use. In the case of IRE, it is allocated to Treated Water Distribution given the nature of the projects.

Expenditure is also allocated across the following categories based on the assignment of the individual project.

- (i) Maintaining the long term capability of the assets – non infra.
- (ii) Other Capital Expenditure Infra.
- (iii) Other Capital Expenditure – non infra.
- (iv) Infrastructure network reinforcement.

## Exceptions

There are a number of projects that are set up to collect costs of a “general” nature such as overhead support costs etc. These are exceptions to the principal use approach as no single business unit has principal use.

These are therefore allocated “pro-rata” across the different business units based on the totals of directly allocated expenditure.

## Third party services

We own assets that are utilised in providing water to our third party customer, South East Water. This expenditure is allocated across the categories in exactly the same way as our investments in other assets.

## Grants and contributions

Grants and contributions are generally only received in relation to Wholesale – Network+ - Treated Water Distribution. Receipts are analysed for any exceptions to this rule. Grants and contributions for new connection charges, infrastructure charge receipts, diversions and other contributions are coded directly to distinct TB codes.

The treatment of contributions with respect to High Speed 2 (‘HS2’), which are allocated between Water Resources – Raw Water Abstraction and Network+ - Treated Water Distribution, is detailed at the end of this section.

## Infrastructure network reinforcement costs and infrastructure charges reconciliation

The total of these costs (as presented in table 2J) is brought into the infrastructure charges reconciliation (table 2K) in line with RAG 4.08. Ofwat requires companies to balance their revenues from infrastructure charges with the costs they are intending to recover over a five-year cumulative period as far as is reasonably possible. In line with RAG 4.08, the variance brought forward for this infrastructure charges reconciliation for 2018/19 has been assumed as £nil.

We have not identified any discounts applied to infrastructure charges received during the year that would require presentation in table 2K. Our policy is to apply a discount if the new connection was a reconnection and had been disconnected within the past five years.

## Fixed asset register

We maintain our fixed asset register in our Oracle accounting system. Each fixed asset is detailed by its asset number, useful life, depreciate start date and the cost of the asset. The asset register then details the major category, sub category and analysis codes to allow the register to be analysed and allocated to the price control units. This is based on project numbers allocated to each asset on project commencement identifying the nature of the asset. This also applies to Work in Progress assets.

The fixed assets and deprecation charges are calculated for each price control unit in line with the International Financial Reporting Standards basis of accounting, with the exception of table 4G that is based on current cost accounting.

The allocation of fixed assets to each price control unit in the fixed asset register enables the business to directly populate the wholesale totex reported in tables 2A and 2B.

The business has third party assets for bulk water supply. These have been identified in the fixed asset register and the depreciation for these assets is disclosed separately in table 2D. Given the nature of the third party assets and their principal use, these assets and the corresponding depreciation have been allocated to Water Network+.

### Analysis of fixed assets movements

The following tables show and explain the major variances between the movement in fixed assets for each price control, based on historic cost.

Water Resources	2019 £m	2018 £m	Variance £m	Variance %
Additions	13.595	4.093	9.502	232
Disposals	-	-	-	-
Depreciation	(1.673)	(1.120)	(0.553)	(49)
<b>Total movement</b>	<b>11.922</b>	<b>2.973</b>	<b>8.949</b>	<b>301</b>

Water Resources additions have increased predominantly due to the construction of assets by the company under the HS2 programme, some of which have been commissioned during the year and are being depreciated over a five-year period, explaining the higher depreciation charge in the year.

Water Network+	2019 £m	2018 £m	Variance £m	Variance %
Additions	90.328	105.070	(14.742)	(14)
Disposals	(1.714)	(2.180)	0.466	21
Depreciation	(56.543)	(51.541)	(5.002)	(10)
<b>Total movement</b>	<b>32.071</b>	<b>51.349</b>	<b>(19.278)</b>	<b>(38)</b>

Water Network+ additions have decreased largely due to reduced spend in relation to our Water Saving Programme and a pesticide removal project at one of our water treatment works. Water Network+ depreciation has increased primarily due to completed work on the Water Saving Programme now depreciating.

Retail household	2019 £m	2018 £m	Variance £m	Variance %
Additions	0.212	0.268	(0.056)	(21)
Disposals	-	-	-	-
Depreciation	(0.015)	(0.016)	0.001	6
<b>Total movement</b>	<b>0.197</b>	<b>0.252</b>	<b>(0.055)</b>	<b>(22)</b>

Retail household additions have decreased by less than £0.1m (21%) due to an aggregate reduction of expenditure on low value items.

## Recharges between price control units

Where more than one business unit utilises an asset, it is allocated on the basis of principal use in accordance with guidelines set out in RAG 2.07. A cross charge is then made to the other business units to account for the depreciation of the asset. The recharges are calculated by apportioning the relevant costs based on FTE head count.

The methodology of calculating recharges has not changed from prior year.

Recharges	2019 £m	2018 £m	Variance £m	Variance %
From Water Network+ to Retail Household	0.732	1.914	(1.182)	(62)
From Water Network+ to Water Resources	0.127	0.331	(0.204)	(62)

The recharges made from Wholesale Network+ to Retail Household for the shared use of fixed assets principally used by Wholesale Network+ have decreased, as we identified a few assets previously included in the calculation of the recharge that were not being used by the Retail Household business unit and are fully used by the Wholesale business (refer to section 1.5 for further details). This has also led to the increase of recharges made from Wholesale Network+ to Water Resources.

## Boundary allocations

Assets are allocated to each price control based on the requirements of RAG 4.08 and identified as such in the fixed asset register.

For historical assets and capital expenditure associated with normal borehole pumping, the capital expenditure is allocated in full to water resources based principal use. For high lift pumping, all capital expenditure is allocated to distribution.

## Current Cost Accounting and Depreciation ('CCA' and 'CCD')

The current cost of the Infrastructure Renewals Charge ('IRC') has been based on a forecast 60% of the total infrastructure renewals expenditure. This is deemed a more accurate estimate of the IRC than the methodology detailed in RAG 1.08, which outlined that the IRC charge should be based on the estimated split between IRE and IRC as per the PR14 business plan.

Table 4G uses the CCD figure brought forward from the previous year's regulatory accounts, amended by RPI and CCD on new wholesale additions to calculate the new CCD figure.

## Other tables

When completing table 2A, the segmental income statement, we have again used principal use as the basis of calculating depreciation and then have recharged between the business units.

When completing table 2C, the operating cost analysis – retail, we have recognised that the principal use of our retail investments has been within the household business following AWL's exit from the non-household retail market on 1 April 2017; therefore, all retail depreciation is shown as household. Furthermore, when completing table 4F (operating cost analysis – household retail), we have used the proportion of unmeasured and measured customers to split both the capital expenditure and depreciation.

Table 2D (Historic cost analysis of fixed assets – wholesale & retail) shows brought forward figures based on principal use. No assets are therefore allocated to the non-household column as no assets were principally used by this business unit in previous years.

Table 4L details enhancement capital expenditure by purpose. Capital expenditure is accounted by project, each which has an individual project number, coded by expenditure purpose. These projects are then directly allocated to the relevant headings in the table. The depreciation start dates on the fixed asset register are used as the completion dates of the project to allow recording of cumulative expenditure on schemes completed in the year.

Table 4V splits depreciation across the Water Resource price control. These costs have been split across Impounding Reservoir, Pumped Storage, River Abstractions, Groundwater excluding managed aquifer recharge ('MAR') water supply schemes, Artificial Recharge ('AR') water supply schemes and Aquifer Storage and Recovery ('ASR') water supply schemes on a proportional basis, using the proportion of distribution input derived from each of the Water Resource areas.

## 4.2 HS2

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The expenditure towards HS2 is directly coded and distinguished from other capital items. There are separate project codes for HS2 Water Resources – Raw Water Abstraction and Network+ - Treated Water Distribution expenditure. Related contributions received during the year are analysed between Water Resources – Raw Water Abstraction and Network+ - Treated Water Distribution using a breakdown of contributions by work order from the company's HS2 programme team, which are allocated to either Network+ or Water Resources. Both the expenditure incurred and the contributions received during the year are included within the APR tables.

## 4.3 Cash expenditure

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In table 4D we distributed the pension deficit recovery payment using the apportionment of how the International Accounting Standard ('IAS') 19 pension service cost is allocated across cost centres within the wholesale business units.

We have used the other cash items line in table 4D to true up and convert the IAS 19 pension service cost into total cash contribution (ongoing plus deficit recovery payment). This is because our operating cost uses IAS 19 pension service cost estimates and we populate our cost based on accruals expenditure, not on a cash basis. Therefore, we use other cash items to convert to total cash contribution. We distributed this amount using the apportionment of how the IAS 19 pension service cost is allocated across cost centres within the wholesale business units.



## 5 Billing and collection

### 5.1 Outsourced activities

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Affinity Water does not outsource any of its billing and collection where the risk of collection is transferred to a third party.

Affinity Water has outsourced the following elements:

- Customer Services back office correspondence workload (primarily home movers) to Steria Limited based in India.
- In parallel with in-house early collection activity, we use a UK-based collection agency, Credit Link Account Recovery Solutions Limited ('CARS'), to provide outbound dialler services.
- After initial debt recovery action has taken place, we use a combination of the following UK-based debt collections agencies to provide a combination of letter, digital and telephony techniques to recover customer debt:
  - Orbit Services – first and second placement, as well as field visits;
  - The Zinc Group – first and second placement;
  - CARS – first and second placement, and closed accounts;
  - Inter Credit – legacy first placement and a reducing stock of historically closed accounts; and
  - UK Search – for trace and collect activity on closed accounts.

### 5.2 Billing in name of “The Occupier” and vacated properties

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Affinity Water classifies unoccupied bulk owner properties as 'occupied' if they are empty for less than 26 weeks for short-term situations such as refurbishment or change of tenancy. These properties are billed in full and then a percentage is deducted from the amount owed to recognise that some properties will have been empty. Where properties are unoccupied for more than 26 weeks, the agreement with the bulk owner provides that the Local Authority will notify the company so that the property can be formally recorded as 'empty' on the company's billing system and, therefore, will not be billed.

Affinity Water no longer raises bills addressed to “The Occupier” when there is no consumption detected at the property. The company's assumption is that these properties are not occupied. The company makes further enquiries and when the company receives information that the property has become occupied the status of the account is amended, the customer's name applied to the account and billing commences.

In each of the above cases, if a bill is sent, Affinity Water will recognise it within revenue in the regulatory accounts.

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as revenue. If the developer is no longer responsible for the property and no new occupier has been identified the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

## 5.3 Bad debt provisioning

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At each reporting date, the company evaluates the collectability of trade receivables and records a provision for impairment based on experience. The provision for impairment is charged to operating costs to reflect the company's assessment of the risk of non-recovery of trade receivables. The provision for impairment is calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of receivable. Higher percentages are applied to those categories of receivable which are considered to be of greater risk and also to trade receivables of greater age. The value of the provision for impairment is sensitive to the specific percentages applied. The specific percentages applied are updated annually to reflect the latest collection performance data from the company's billing system. All trade receivables greater than five years old are fully provided for. Actual amounts recovered may differ from the estimated levels of recovery which could impact on operating results.

Our policy is to write-off closed and live accounts that fall under the following categories: bankruptcy, liquidation, debt relief orders, deceased accounts where there is no estate, failed legal action and debts from customers who have moved out of the property with no forwarding address or are no longer responsible for payment of a water bill.

Accounts are written off following all internal recovery activity and subsequent external debt collection agency activity, except as follows:

- Closed accounts under £15 are written off without any internal recovery activity.
- Closed accounts under the name of "The Occupier" are written off without any internal recovery action.
- Closed accounts under £50 are written off following all internal recovery activity where we have a forwarding address for the customer.
- Closed accounts under £100 are written off following all internal recovery activity where we have no forwarding address for the customer.

Amounts are also written off on accounts where we are still supplying the customer and where all reasonable internal and external debt collection activities have been undertaken. Under these circumstances if the total debt contains amounts over six years old, the amount over six years old, or more, is written off.

Affinity Water adopted International Financial Reporting Standard 9: 'Financial instruments' ('IFRS 9') for the current reporting period and management has concluded that, the procedure currently in place to assess the impairment of trade receivables detailed above is deemed sufficient under the IFRS 9 expected credit loss model; historical recoverability of trade receivables has shown to be a good indicator of future expected losses, both in the next 12 months and across the lifetime of the instrument. Therefore, no adjustment has been made to provisions for impairment as a result of adopting IFRS 9 and the policy for provision for impairment has remained unchanged. The policy has been consistently applied in the current and prior year.

## 6 Revenue, other operating income and other income

### 6.1 Key principles

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As per Ofwat guidelines (RAG 4.08) income is categorised as follows:

1. Appointed revenue and other operating income included in price control
  - Wholesale
  - Retail Household
2. Third party revenue – non-price control
3. Non-appointed revenue
4. Other income

### 6.2 Approach taken

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#### 6.2.1 Appointed revenue and other operating income included in the price control

This includes wholesale and retail tariff income from water.

Our Hi-Affinity billing system does not allow us to view a breakdown of household revenue by wholesale and retail charges. We therefore extract the total billed value by tariff for household customers from Hi-Affinity and use the Charging Scheme 2018/19 (submitted to Ofwat) to apportion the revenue between wholesale and retail charges.

Charges for wholesale water to non-household retailers are set by the Market Operator. These are allocated in full to the wholesale price control.

#### 6.2.2 Wholesale

In accordance with the RAGs, wholesale revenue is allocated in full to Water Network+.

Other operating income is allocated between Water Resources and Water Network+ using the following methodology:

- Profits or losses on disposal of fixed assets are allocated to price control units based on the principal use of the asset disposed of.
- Income earned from laboratory sampling services is allocated between Water Resources and Water Network+ on a consistent basis to the allocation of costs associated with the service.

#### 6.2.3 Third party revenue – non-price control

This includes bulk supplies and rechargeable work. This is directly allocated to wholesale appointed revenue.

## **6.2.4 Non-appointed revenue**

This includes sewerage billing and cash collection, recharges for support services, infrastructure commission and unregulated income (value added services). This is directly allocated to non-appointed revenue.

## **6.2.5 Other income**

This includes connection charges income, income from providing developer information and administration of new connections, amortisation associated with deferred grants and contributions, rental and sundry income. This is directly allocated to wholesale other income, as disclosed in table 4G except for income from providing developer information and administration of new connections, which relates to retail appointed activities and therefore has been excluded from wholesale other income in line with RAG 4.08.

## 7 Assurance

Overall, in their 2018 Company Monitoring Framework assessment report, Ofwat considered that AWL met their expectations regarding transparency and consistency of information published in relation to the year ended 31 March 2018, noting that an error made to the post-tax return on regulated equity error was not material and was not considered to have had an impact on the overall confidence of the information presented. An additional check of all formulae in workbooks to RAG 4.08 line definitions (as opposed to just where there have been changes to the RAG definitions from prior year) was performed by the finance team this year to further minimise the risk of error. We have continued to work with our external assurance provider, PricewaterhouseCoopers LLP ('PwC'), this year to refine the scope of their assurance procedures in order to target these on areas of perceived risk.

Ofwat did have, however, minor concerns in their January 2019 Company Monitoring Framework report regarding AWL's cost assessment and raised several queries to seek explanation for data variances where there was no supporting commentary, which led to minor data corrections. These queries were largely in relation to non-financial data included in tables 4P and 4Q (including energy consumption and the number of meters installed) that led to the restatement of these figures following the publication of the annual report and financial statements for the year ended 31 March 2018 at the end of June 2018.

A workshop was held by the regulation team in conjunction with WS Atkins and the finance team with data contributors and their managers to refocus colleagues on the importance of providing high quality data to stakeholders and promoting understanding that this is a key task for a regulated water company. We consider that it is important this message is understood by all tiers of management; that the people responsible for producing data are given appropriate resources with which to carry out the task; and that the task is given an appropriate priority amongst their objectives.

We have also sought to address Ofwat's other concerns in the area of cost allocation regarding the number of cost allocations still based on management estimate and chosen cost allocation methods not being properly justified in our accounting separation methodology statement, as set out in section 1.5.2.

To address Ofwat's concern that there was also no mention of the assurance that had been undertaken on the accounting separation methodology other than a statement that the accounting separation data can be traced back to the audited accounts through the company's accounting systems, we have set out on the following page the internal and external assurance procedures performed in relation to the information presented in this methodology statement and associated tables presented in our 2018/19 APR.

The following internal assurance procedures have been performed:

- where relevant, totals in APR tables have been reconciled to the statutory accounts along with the regulatory adjustments required by the current RAGs;
- core data for the accounting separation model has been taken from the year end TB prepared in Oracle and reconciled to the statutory accounts after taking into account the regulatory adjustments;
- cost drivers disclosed in this methodology statement have been compared to the preferred cost drivers listed in the RAGs and to those used in the accounting separation model to check application;
- data for cost drivers used in the accounting separation model supplied by contributors outside of the finance team has been reviewed for appropriateness against the requirements of the RAGs by the finance team;
- validation checks are set up within the APR tables, which were reviewed once all tables were populated;
- a structured review process has been undertaken with APR tables and this methodology statement reviewed by the Head of Economic Regulation, Financial Controller, Chief Financial Officer and the Audit Committee; and
- this methodology statement has also been presented to the Audit Committee to aid their review of the APR.

The following external assurance procedures have been performed:

- an external audit by PwC of tables 1A, 1B, 1C, 1D, 1E, 1F, 2A, 2B, 2C, 2D, 2E, 2F, 2G, 2I and 2J has been performed (refer to the independent auditor's report in our APR);
- an external review by WS Atkins of the procedures used to collect and report the information in tables 4D (capital expenditure information only) and 4L has been performed (refer to the statement of risk and compliance in our APR);
- agreed upon procedures have been performed by our external auditor, PwC, over tables 4B, 4C, 4D, 4F, 4G, 4H, 4J, 4L and 4V, including checking application of the guidance in the RAGs, reviewing the principles on which this accounting separation methodology has been prepared against the relevant RAGs, comparing cost drivers stated within the methodology statement against the preferred cost drivers listed in the RAGs, checking application of this methodology statement, checking consistency with other tables within the APR and reviewing the calculation of current year data where numbers do not directly extract from other tables. We have considered the report provided by PwC and are satisfied with the accuracy of the data reported; and
- agreed upon procedures have been performed by PwC over the compliance with RAG 5.07. The procedures included reviewing the Corporate Services Agreement between group entities and ensuring that the recharges are in compliance with RAG 5.07, checking the consistency of the disclosures in the notes in the APR, ensuring the wholesale water charges to group entities are in line with the 'settlement report' provided by the Market Operator and ensuring the mathematical accuracy of the charges.

# Appendix

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## Cost centre allocations

### Abstraction Licences

21142 COS - Reg - Production - Karstic Sites  
 21152 COS - Reg - Production - Surface Works Maintenance  
 21161 COS - Reg - Production - Control  
 21191 COS - Reg - Production - Energy  
 21212 COS - Reg - Community Operations - Operational Contact Centre - Gen.- SEast  
 21301 COS - Reg - Asset Management - General

### Raw Water Abstraction

21100 COS - REG - PRODUCTION & SUPPLY  
 21112 COS - Reg - Production -Small Sites  
 21113 COS - Reg - Production  
 21115 Wholesale Operations Commercial (Team)  
 21117 COS - REG – Production Misbourne  
 21121 Wholesale Operations Commercial (Team)  
 21122 Wholesale Operations Commercial (Team)  
 21123 COS - Reg - Production - Estates  
 21125 Wholesale Operations Aerial Sites  
 21126 Wholesale Operations Catchment and Treatment  
 21127 COS - Reg - Production - Treatment - General - East  
 21127 COS - Reg - Production - Treatment - General - E  
 21129 COS - Reg - Production - Stort  
 21132 COS - Reg - Production - Technical Services  
 21133 COS - Reg - Production - Supply - General - Eas  
 21135 COS - Reg - Production - Supply - General - SEa  
 21142 COS - Reg - Production - Karstic Sites  
 21147 COS - REG – Production Iver  
 21152 COS - Reg - Production - Surface Works Maintenance  
 21152 COS - Reg - Production - Surface Works Mainten  
 21161 COS - Reg - Production - Control  
 21171 COS - Reg - Production - Engineering Support  
 21172 COS - REG – Production Planning  
 21173 COS - REG – Production ICA  
 21181 COS - Reg - Production - Supply Management  
 21191 COS - Reg - Production - Energy  
 21195 COS - Reg - Asset Delivery



21196 COS - Reg - CIAM Asset Delivery  
 21212 COS - Reg - Community Operations - Operational Contact Centre - Gen.- SEast  
 21212 COS - Reg - Community Operations - Operational C  
 21221 Mains Renewals & Trunk Mains  
 21225 COS - Reg - Network - Maintenance - General - East  
 21232 Construction Assurance  
 21243 COS - Reg - Community Operations - Network - Str  
 21246 COS Reg – Community Operations – Stores  
 21301 COS - Reg - Asset Management - General  
 21303 COS - Reg - Asset Management - General - East  
 21304 COS - REG – Asset Management- Non-Infrastructur  
 21305 COS - REG – Asset Management- Infrastructure St  
 21306 COS - REG – Asset Management- Business Intellig  
 22100 COS - OUTSOURCING - OPERATION OF ASSETS  
 22200 COS - OUTSOURCING - ASSET WORKS  
 23103 COS - Administrative - FI. Computer Consumables

#### Raw Water Treatment

21112 COS - Reg - Production -Small Sites  
 21113 COS - Reg - Production  
 21117 COS - REG – Production Misbourne  
 21123 COS - Reg - Production - Estates  
 21125 Wholesale Operations Aerial Sites  
 21127 COS - Reg - Production - Treatment - General - East  
 21127 COS - Reg - Production - Treatment - General - E  
 21129 COS - Reg - Production - Stort  
 21132 COS - Reg - Production - Technical Services  
 21133 COS - Reg - Production - Supply - General - Eas  
 21135 COS - Reg - Production - Supply - General - SEa  
 21142 COS - Reg - Production - Karstic Sites  
 21147 COS - REG – Production Iver  
 21152 COS - Reg - Production - Surface Works Maintenance  
 21152 COS - Reg - Production - Surface Works Mainten  
 21161 COS - Reg - Production - Control  
 21171 COS - Reg - Production - Engineering Support  
 21172 COS - REG – Production Planning  
 21173 COS - REG – Production ICA  
 21181 COS - Reg - Production - Supply Management  
 21191 COS - Reg - Production - Energy

21195 COS - Reg - Asset Delivery  
 21211 COS - Reg - Network - Operational Contact Centre  
 21211 COS - Reg - Network - Operational Contact Centre - Gen.  
 21212 COS - Reg - Community Operations - Operational Contact Centre - Gen.- SEast  
 21212 COS - Reg - Community Operations - Operational C  
 21213 COS - Reg - Community Operations - Operational Contact Centre - Gen.- East  
 21213 COS - Reg - Community Operations - Operational C  
 21217 COS - Reg - WSP Wholesale  
 21223 COS - Reg - Network - Maintenance - General - SEast  
 21223 COS - Reg - Network - Maintenance - General - SE  
 21225 COS - Reg - Network - Maintenance - General - East  
 21225 COS - Reg - Network - Maintenance - General - Ea  
 21226 COS - Reg - Network - Leakage - East  
 21231 COS - Reg - Network - Support Functions - General  
 21231 COS - Reg - Network - Support Functions - Genera  
 21241 COS - Reg - Community Operations - Network - Management & Contracts  
 21241 COS - Reg - Community Operations - Network - Man  
 21242 COS - Reg - Community Operations - Network - Direct Labour Force  
 21242 COS - Reg - Community Operations - Network - Dir  
 21243 COS - Reg - Community Operations - Network - Streetworks  
 21243 COS - Reg - Community Operations - Network - Str  
 21244 COS - Reg - Community Operations - Network - Fixed Overhead Recharge - Finance  
 21244 COS - Reg - Community Operations - Network - Fix  
 21245 COS - Reg - Community Operations - Adhocs  
 21246 COS Reg – Community Operations – Stores  
 21251 COS - Reg - Community Operations - Asset Management - Leakage Support  
 21251 COS - Reg - Community Operations - Asset Managem  
 21252 COS - Reg - Community Operations - Asset Management - Leakage Operations  
 21252 COS - Reg - Community Operations - Asset Managem  
 21253 COS - Reg - Community Operations - Asset Management - Network Support  
 21253 COS - Reg - Community Operations - Asset Managem  
 21254 COS - Reg - Community Operations - South Rechargeables  
 21254 COS - Reg - Community Operations - South Recharg  
 21302 COS - Reg - Asset Management - General - SEast  
 21303 COS - Reg - Asset Management - General - East  
 21421 COS - Reg - Customer - Meter Reading  
 21457 COS - REG - Customer Relations - Meter Installation  
 21457 COS - REG - Customer Relations - Meter Installat  
 21471 COS - REG - Community Operations - South Custome  
 21474 COS - Reg - Community Operations - South Rechargeables  
 21474 COS - Reg - Community Operations - South Recharg

21475 COS - Reg - Community Operations - Contractor Re  
 21475 COS - Reg - Community Operations - Contractor Rechargeables  
 21476 Community Operations – New Connections  
 40961 G&A EXPENSES - Community Operations - Direct Labour Force Recharges  
 40961 G&A EXPENSES - Community Operations - Direct Lab

### Raw Water Storage

21112 COS - Reg - Production -Small Sites  
 21113 COS - Reg - Production  
 21117 COS - REG – Production Misbourne  
 21123 COS - Reg - Production - Estates  
 21125 Wholesale Operations Aerial Sites  
 21127 COS - Reg - Production - Treatment - General - East  
 21127 COS - Reg - Production - Treatment - General - E  
 21129 COS - Reg - Production - Stort  
 21132 COS - Reg - Production - Technical Services  
 21133 COS - Reg - Production - Supply - General - Eas  
 21135 COS - Reg - Production - Supply - General - SEa  
 21142 COS - Reg - Production - Karstic Sites  
 21147 COS - REG – Production Iver  
 21152 COS - Reg - Production - Surface Works Maintenance  
 21152 COS - Reg - Production - Surface Works Maintenanc  
 21161 COS - Reg - Production - Control  
 21171 COS - Reg - Production - Engineering Support  
 21172 COS - REG – Production Planning  
 21173 COS - REG – Production ICA  
 21181 COS - Reg - Production - Supply Management  
 21212 COS - Reg - Community Operations - Operational Contact Centre - Gen.- SEast  
 21212 COS - Reg - Community Operations - Operational C  
 21243 COS - Reg - Community Operations - Network - Str  
 21246 COS Reg – Community Operations – Stores  
 21303 COS - Reg - Asset Management - General - East

## Water Treatment

21100	COS - REG - PRODUCTION & SUPPLY
21112	COS - Reg - Production -Small Sites
21113	COS - Reg - Production
21115	Wholesale Operations Commercial (Team)
21117	COS - REG – Production Misbourne
21121	Wholesale Operations Commercial (Team)
21122	Wholesale Operations Commercial (Team)
21123	COS - Reg - Production - Estates
21125	Wholesale Operations Aerial Sites
21126	Wholesale Operations Catchment and Treatment
21127	COS - Reg - Production - Treatment - General - East
21127	COS - Reg - Production - Treatment - General - E
21129	COS - Reg - Production - Stort
21132	COS - Reg - Production - Technical Services
21133	COS - Reg - Production - Supply - General - Eas
21135	COS - Reg - Production - Supply - General - SEa
21142	COS - Reg - Production - Karstic Sites
21147	COS - REG – Production Iver
21152	COS - Reg - Production - Surface Works Maintenance
21152	COS - Reg - Production - Surface Works Mainten
21161	COS - Reg - Production - Control
21171	COS - Reg - Production - Engineering Support
21172	COS - REG – Production Planning
21173	COS - REG – Production ICA
21181	COS - Reg - Production - Supply Management
21191	COS - Reg - Production - Energy
21195	COS - Reg - Asset Delivery
21196	COS - Reg - CIAM Asset Delivery
21212	COS - Reg - Community Operations - Operational Contact Centre - Gen.- SEast
21212	COS - Reg - Community Operations - Operational C
21221	Mains Renewals & Trunk Mains
21225	COS - Reg - Network - Maintenance - General - Ea
21225	COS - Reg - Network - Maintenance - General - East
21232	Construction Assurance
21241	COS - Reg - Community Operations - Network - Man
21243	COS - Reg - Community Operations - Network - Str
21246	COS Reg – Community Operations – Stores
21301	COS - Reg - Asset Management - General
21303	COS - Reg - Asset Management - General - East

21304 COS - REG – Asset Management- Non-Infrastructur  
 21305 COS - REG – Asset Management- Infrastructure St  
 21306 COS - REG – Asset Management- Business Intellig  
 21471 COS - REG - Community Operations - South Customer Operations  
 22100 COS - OUTSOURCING - OPERATION OF ASSETS  
 22200 COS - OUTSOURCING - ASSET WORKS  
 23103 COS - Administrative - FI. Computer Consumables  
 40209 G&A Expenses - Finance - Corporate  
 40220 G&A Expenses - Finance - General Management  
 40505 G&A Expenses - Health & Safety

### Treated Water Distribution

21100 COS - REG - PRODUCTION & SUPPLY  
 21112 COS - Reg - Production -Small Sites  
 21113 COS - Reg - Production  
 21115 Wholesale Operations Commercial (Team)  
 21117 COS - REG – Production Misbourne  
 21121 Wholesale Operations Commercial (Team)  
 21122 Wholesale Operations Commercial (Team)  
 21123 COS - Reg - Production - Estates  
 21125 Wholesale Operations Aerial Sites  
 21126 Wholesale Operations Catchment and Treatment  
 21127 COS - Reg - Production - Treatment - General - East  
 21127 COS - Reg - Production - Treatment - General - E  
 21129 COS - Reg - Production - Stort  
 21132 COS - Reg - Production - Technical Services  
 21133 COS - Reg - Production - Supply - General - Eas  
 21135 COS - Reg - Production - Supply - General - SEa  
 21142 COS - Reg - Production - Karstic Sites  
 21147 COS - REG – Production Iver  
 21152 COS - Reg - Production - Surface Works Maintenance  
 21152 COS - Reg - Production - Surface Works Maintenanc  
 21161 COS - Reg - Production - Control  
 21171 COS - Reg - Production - Engineering Support  
 21172 COS - REG – Production Planning  
 21173 COS - REG – Production ICA  
 21181 COS - Reg - Production - Supply Management  
 21191 COS - Reg - Production - Energy  
 21195 COS - Reg - Asset Delivery

21196 COS - Reg - CIAM Asset Delivery  
 21211 COS - Reg - Network - Operational Contact Centre  
 21211 COS - Reg - Network - Operational Contact Centre - Gen.  
 21212 COS - Reg - Community Operations - Operational Contact Centre - Gen.- SEast  
 21212 COS - Reg - Community Operations - Operational C  
 21213 COS - Reg - Community Operations - Operational Contact Centre - Gen.- East  
 21213 COS - Reg - Community Operations - Operational C  
 21217 COS - Reg - WSP Wholesale  
 21221 Mains Renewals & Trunk Mains  
 21222 COS - Reg - Network - Leakage  
 21223 COS - Reg - Network - Maintenance - General - SEast  
 21223 COS - Reg - Network - Maintenance - General - SE  
 21225 COS - Reg - Network - Maintenance - General - East  
 21225 COS - Reg - Network - Maintenance - General - Ea  
 21226 COS - Reg - Network - Leakage - East  
 21231 COS - Reg - Network - Support Functions - General  
 21231 COS - Reg - Network - Support Functions - Genera  
 21232 Construction Assurance  
 21241 COS - Reg - Community Operations - Network - Management & Contracts  
 21241 COS - Reg - Community Operations - Network - Man  
 21242 COS - Reg - Community Operations - Network - Direct Labour Force  
 21242 COS - Reg - Community Operations - Network - Dir  
 21243 COS - Reg - Community Operations - Network - Streetworks  
 21243 COS - Reg - Community Operations - Network - Str  
 21244 COS - Reg - Community Operations - Network - Fixed Overhead Recharge - Finance  
 21244 COS - Reg - Community Operations - Network - Fix  
 21245 COS - Reg - Community Operations - Adhocs  
 21246 COS Reg – Community Operations – Stores  
 21251 COS - Reg - Community Operations - Asset Management - Leakage Support  
 21251 COS - Reg - Community Operations - Asset Managem  
 21252 COS - Reg - Community Operations - Asset Management - Leakage Operations  
 21252 COS - Reg - Community Operations - Asset Managem  
 21253 COS - Reg - Community Operations - Asset Management - Network Support  
 21253 COS - Reg - Community Operations - Asset Managem  
 21254 COS - Reg - Community Operations - South Rechargeables  
 21254 COS - Reg - Community Operations - South Recharg  
 21301 COS - Reg - Asset Management - General  
 21302 COS - Reg - Asset Management - General - SEast  
 21303 COS - Reg - Asset Management - General - East  
 21304 COS - REG – Asset Management- Non-Infrastructur  
 21305 COS - REG – Asset Management- Infrastructure St

21306 COS - REG – Asset Management- Business Intellig  
 21421 COS - Reg - Customer - Meter Reading  
 21457 COS - REG - Customer Relations - Meter Installation  
 21457 COS - REG - Customer Relations - Meter Installat  
 21471 COS - REG - Community Operations - South Customer Operations  
 21471 COS - REG - Community Operations - South Custome  
 21472 COS - REG - Community Operations - East Customer  
 21472 COS - REG - Community Operations - East Customer Operations  
 21473 COS - REG - Community Operations - West Customer Operations  
 21473 COS - REG - Community Operations - West Customer  
 21474 COS - Reg - Community Operations - South Rechargeables  
 21474 COS - Reg - Community Operations - South Recharg  
 21475 COS - Reg - Community Operations - Contractor Re  
 21475 COS - Reg - Community Operations - Contractor Rechargeables  
 21476 Community Operations – New Connections  
 22100 COS - OUTSOURCING - OPERATION OF ASSETS  
 22200 COS - OUTSOURCING - ASSET WORKS  
 23103 COS - Administrative - FI. Computer Consumables  
 40961 G&A EXPENSES - Community Operations - Direct Labour Force Recharges  
 40961 G&A EXPENSES - Community Operations - Direct Lab

### General and Support

21481 COS - REG - Finance - Accounts Management  
 21482 COS - REG - Finance - General Management  
 21484 COS - REG - Finance - Rechargeables  
 21486 COS - Expenses - Finance - Corporate  
 23302 COS - Administrative - Insurance - General  
 23303 COS - Administrative - Legal, Land Sale Cost  
 23401 COS - Administrative - Procurement - General  
 23402 COS - Purchase Order Support - General  
 23504 COS - Administrative - Education Support  
 23601 COS - Administrative - IT - Commercial  
 23602 COS - Administrative - IT - Development  
 23603 COS - Administrative - IT CIO  
 23604 COS - Administrative - IT - Architecture  
 23604 COS - Administrative - IT BRM  
 23605 COS - Administrative - IT Application Delivery  
 23606 COS - Administrative - IT PMO  
 23608 COS - Administrative - IT Security & Risk

23608	COS - Administrative - IT Security & Ris
23611	COS - Administrative - IT Infrastructure
23612	COS - Administrative - IT Services Management
23614	COS - Administrative - IT - Asset Information
23801	COS - Administrative - HR - Office Stationery & Suppl
23701	COS - Administrative - Facilities Man.
23702	COS - Administrative - Facilities Man. - SEast
23703	COS - Administrative - Facilities Man
23802	COS - Administrative - HR - Graduates
23803	COS - Administrative - HR - Recruitment
30101	Selling - Expenses
40110	G&A - Production Services
40201	G&A Expenses - Finance - General
40209	G&A Expenses - Finance - Corporate
40218	G&A Expenses - Finance - Accounts Management
40219	G&A Expenses - Finance - Chairman
40219	G&A Expenses - Finance - Chairman
40220	G&A Expenses - Finance - General Management
40221	G&A Expenses - Finance - Group Services
40223	G&A Expenses - Finance - Organisational Develop
40223	G&A Expenses - Finance - Organisational Development
40224	G&A Expenses - Finance - Rebranding
40301	G&A Expenses - Legal, Insurance, Audit - General
40302	G&A Expenses - Legal
40304	G&A Expenses - Internal Audit
40401	G&A Expenses - Procurement
40505	G&A Expenses - Health & Safety
40701	G&A Expenses - Facilities Man. - General
40702	G&A Expenses - Facilities
40703	Wholesale Other Income
40801	G&A Expenses - HR
40803	G&A Expenses - HR - Training
40804	G&A Expenses - HR - Private Health
40805	G&A Expenses - Payroll
40806	G&A Expenses - HR - Organisational Development C
40806	G&A Expenses - HR - Organisational Development Change
40901	Corporate Affairs
40902	G&A Expenses - Corporate Communications
40911	G&A Expenses - South Rechargeables



## Retail

13001	REV - Other Revenues
21351	COS - REG - AFB MAJOR CUSTOMERS
21352	COS - REG - AFB WATER EFFICIENCY
21353	COS - REG - AFB SERVICE ENABLEMENT
21354	COS - REG - AFB BILLING SERVICES
21355	COS - REG - AFB DEBT MANAGEMENT
21356	COS - REG - AFB OPERATIONAL CONTACT CENTRE
21357	COS - REG - AFB METER READING
21358	COS - REG - AFB BILLING CONTACT CENTRE
21361	COS - REG - AFB MANAGEMENT
21362	COS - REG - AFB MARKETING & COMMS.
21366	COS - REG - AFB RETAIL SERVICE DESK
21400	COS - REG - CUSTOMER EXPERIENCE
21410	COS - REG - CUSTOMER - CONTACT CENTRE
21411	COS - Reg - Customer - Contact Centre - General
21420	COS - REG - CUSTOMER - READING, BILLING, COLLECT
21420	COS - REG - CUSTOMER - READING, BILLING,
21422	COS - Reg - Customer - Debt Collection
21423	COS - REG – CR Meter Reading Retail
21426	VWEL - COS - Debt Collection Dpt.
21431	COS - Reg - Customer Relations - Income Services
21432	COS - REG – CR Digital Customer Journey
21435	COS - REG – CR Resource Planning
21436	COS - REG – CR Website
21437	COS - REG – CR QA
21440	COS - REG - CUSTOMER - SUPPORT FUNCTIONS
21451	COS - REG - Customer Relations - Customer Relati
21451	COS - REG - Customer Relations - Customer Relations Management
21452	COS - REG - Customer Relations - Special Care Team
21452	COS - REG - Customer Relations - Special Care Te
21453	COS - REG - Customer Relations - Directors Office
21453	COS - REG - Customer Relations - Directors Office
21454	COS - REG - Customer Relations - Customer Services
21454	COS - REG - Customer Relations - Customer Servic
21455	COS - REG - Customer Relations - Chargeable Cont
21455	COS - REG - Customer Relations - Chargeable Control
21456	COS - REG - Customer Relations - CE Planning
21458	COS - REG - Customer Relations - Billing Service
21458	COS - REG - Customer Relations - Billing Services

21459 Voice of the Customer  
21460 COS - REG - Customer Relations - Commercial Serv  
21460 COS - REG - Customer Relations - Commercial Services Cost  
21461 COS - REG - Customer Relations - Commercial Services  
21461 COS - REG - Customer Relations - Commercial Serv  
40205 G&A Expenses - Account Processing - Customer Pay  
40205 G&A Expenses - Account Processing - Customer Payments  
40224 G&A Expenses - Finance - Rebranding  
40962 G&A EXPENSES - Customer Relations - Contractor R