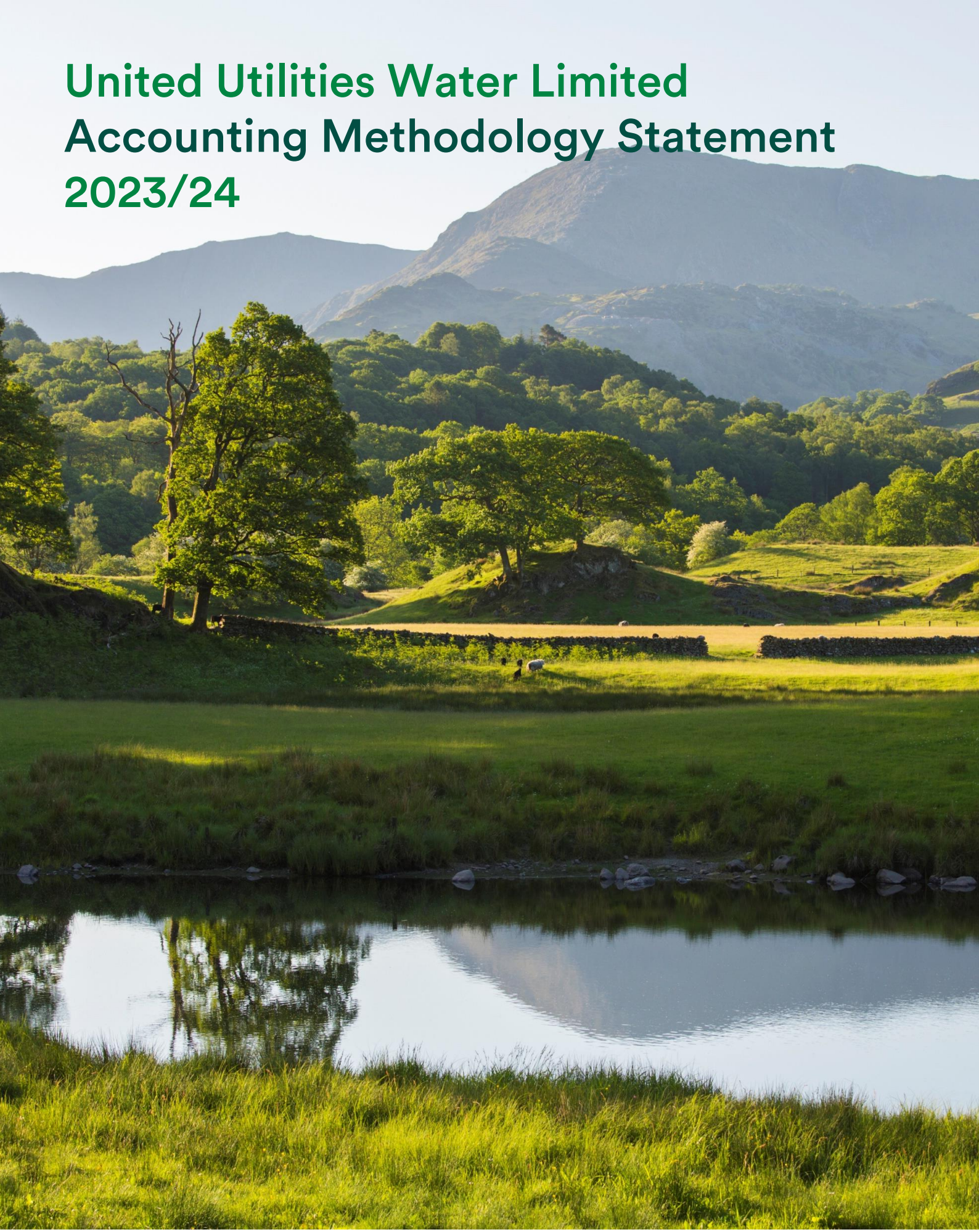
United Utilities Water Limited
Accounting Methodology Statement
2023/24



United Utilities

Water for the North West

Contents

1. Introduction

The economic regulator of the water sector in England and Wales (Ofwat) requires companies to publish an annual performance report (APR) including the regulatory accounting standards. The APR is designed to provide customers and other stakeholders with a detailed and transparent commentary on our performance. The purpose of this methodology statement is to describe the systems and processes followed by United Utilities Water Limited (UUW, the company) to report disaggregated costs and asset data within the APR, including any changes year on year. More specifically, it covers the cost allocation within the following APR tables for the year ended 31 March 2024:

Section 2: Price review and other segmental reporting
- 2B – Totex analysis – wholesale
- 2C – Cost analysis – retail
- 2D – Historic cost analysis of tangible fixed assets
- 2I – Revenue analysis
- 2O – Historic cost analysis of intangible fixed assets

Section 4: Additional regulatory reporting – service level
- 4D – Totex analysis – water resources and water network+
- 4E – Totex analysis – wastewater network+ and bioresources
- 4J – Base expenditure – water resources and water network+
- 4K – Base expenditure – wastewater network+ and bioresources

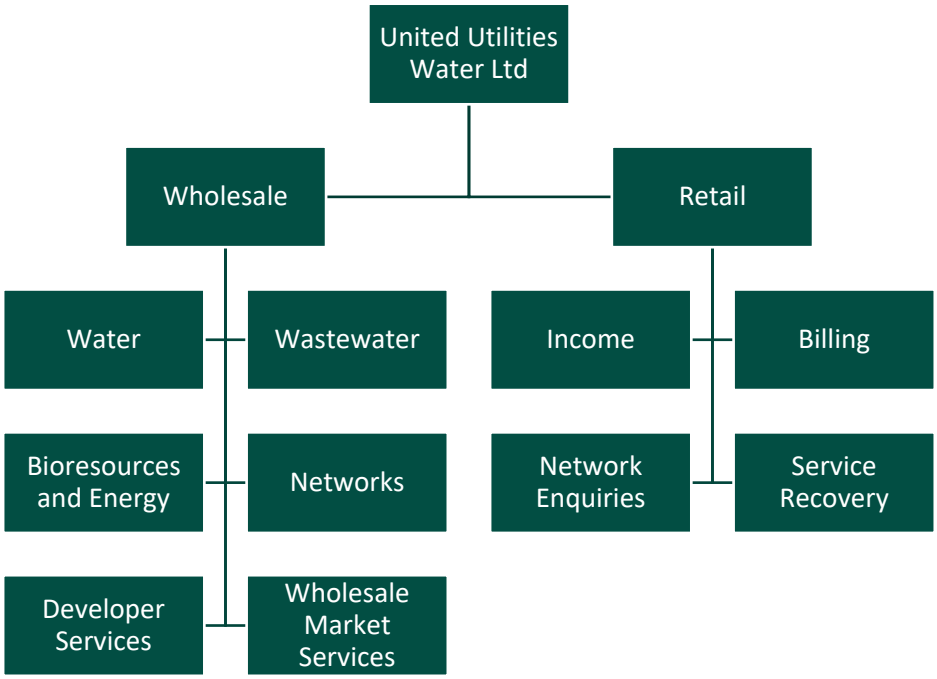
To meet the requirements of RAG 3.14, this methodology statement has been split into the following sections:
- Section 2: High level overview
- Section 3: Cost allocation process for both price controls and upstream services
- Section 4: Cost allocation performed – allocation bases used, with reference to the relevant APR tables.
- Section 5: Variance analysis of operating and capital costs year on year

2. High level overview

This section gives details of the company's structure and systems for producing disaggregated cost and asset data. It outlines the governance processes in place to ensure adherence to, and consistent application of, the RAGs, and also outlines how the company has responded to the cost allocation principles within RAG 2.08.

2.1 Business structure

United Utilities Water operates in two main business areas: wholesale and retail.



UUW's business retail operations were transferred to Water Plus Group Limited (Water Plus) in 2016.

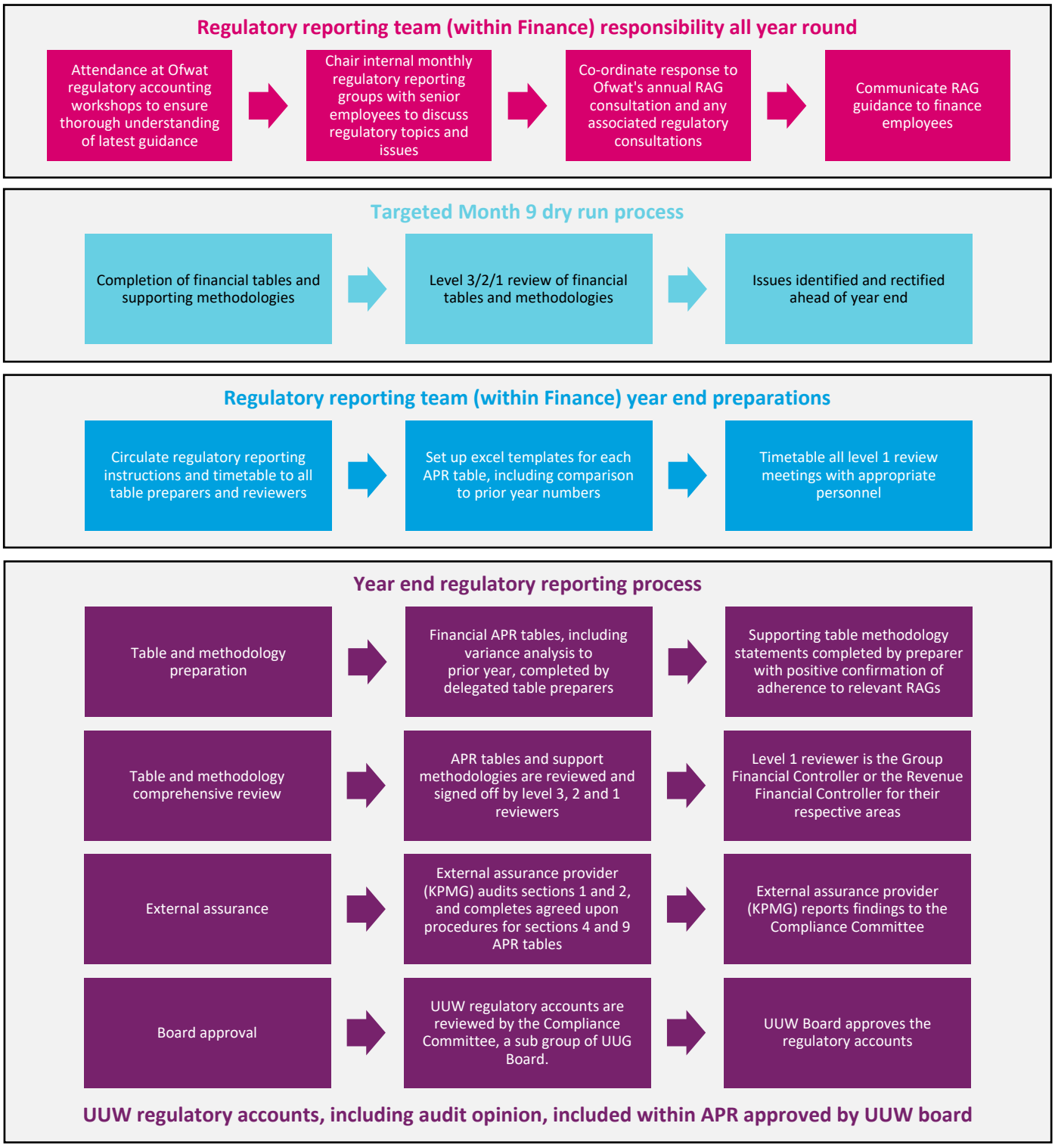
2.2 Outsourced functions

The company has not outsourced complete functions, but the following activities are performed by third parties (primarily in North West England):

- Bill printing and posting
- Retail cash processing
- Debt collection
- Billing and cash collection for wastewater service provision to cross boundary properties
- Capital programme construction
- Network repairs and maintenance
- Facilities management
- Capital programme estimating
- IT system support (partial)

2.3 Governance processes

We have a well-established, robust, governance structure underpinning the production of our APR.



2.4 Cost allocation principles

Within RAG 2.08 'Guideline for classification of costs across the price controls', Ofwat have set out the following principles which should underpin the attribution and allocation of costs. These principles have been adhered to during the preparation of the regulatory accounts.

Principle	RAG 2.08 guidance	UUW response
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 service or segment should be clearly identifiable. The cost and revenue drivers used within the system should be clearly explained to enable robust assurance against this guidance.	Transparency is provided by the production of this methodology statement.
Causality	Cost causality requires that costs (and revenues) are attributed or allocated to those activities and services that cause the cost (or revenue) to be incurred. This requires that the attribution or allocation of costs and revenues to activities and services should be performed at as granular a level as possible. Allocating costs in relation to the way resources are consumed provides a means of building up service and product costs. This approach views a business as a series of activities, each of which consumes resources and, therefore, generates costs. An activity-based approach should result in the majority of the total costs being attributed or allocated on a meaningful basis. All operating and capital costs must ultimately be attributed or allocated.	Our costs are directly allocated, as far as practically possible, to activities that cause the cost to be incurred. Some costs (for example general and support costs) are more remote from the activities that cause the cost. The methods applied to allocating such costs are described in Section 4 of this methodology statement.
Non-discrimination	Companies should ensure that no undue preference or discrimination is shown by water undertakers and sewerage undertakers in relation to the provision of services by themselves or other service providers (this is consistent with the new duty in section 2 of the Water Industry Act 1991 that has been (or, in relation to Welsh water companies, will be) inserted by section 23 of the Water Act 2014). Therefore, 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.	Objective cost allocation bases are utilised which meet the requirements of the Ofwat guidance and regulatory accounting principles, without any intention of discrimination.
No cross subsidy between price controls	Price reviews have separate binding price controls. Companies cannot transfer costs between the price control units in setting prices and preparing the APR. The revenue allowance for each price control is determined by the costs specific to that particular price control. Rules on transfer pricing are detailed in RAG 5.	The company has procedures in place to ensure that the relevant individuals are aware of the requirements of RAG 5, and that transactions between price controls are affected and recorded appropriately in compliance with RAG 5.

Principle	RAG 2.08 guidance	UUW response
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.	Objective cost allocation bases are utilised which meet the requirements of the Ofwat guidance and regulatory accounting principles, without any intention of benefitting either any price control or the non-appointed business.
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, • that regulatory incentives from comparative analysis apply fairly across companies, • to enable monitoring of companies' performance against price control assumptions; and, • any changes to the attribution and allocation methodology from year to year should be clearly justified and documented in the Accounting Separation Methodology Statement.	The company keeps the methodology as consistent as possible from year-to-year, with changes most likely to occur in order to comply with updated Ofwat guidance or utilising enhanced management information to provide improvements in allocation. Significant methodology changes from the prior year are explained in Section 3.7 of this document.
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 service, it should be reported in the service of principal use with recharges made to the other services that use the asset reflecting the proportion of the asset used by the other services.	Capital expenditures and depreciation have been attributed or allocated in line with RAG 2.08 requirements, with particular reference to cost allocation to price control unit by principal use where expenditure cannot be directly attributed, and recharges made. This is detailed in Section 4.4.

3. Cost allocation process

Cost allocation to price controls is performed in compliance with the Ofwat document 'RAG 2.08 – Guideline for classification of costs across the price controls', as outlined in the previous section. This section summarises the activities and processes to allocate costs and assets to each of the five price controls, and by upstream service. Methodology changes since 2022/23 are detailed within Section 3.7.

3.1 IT systems

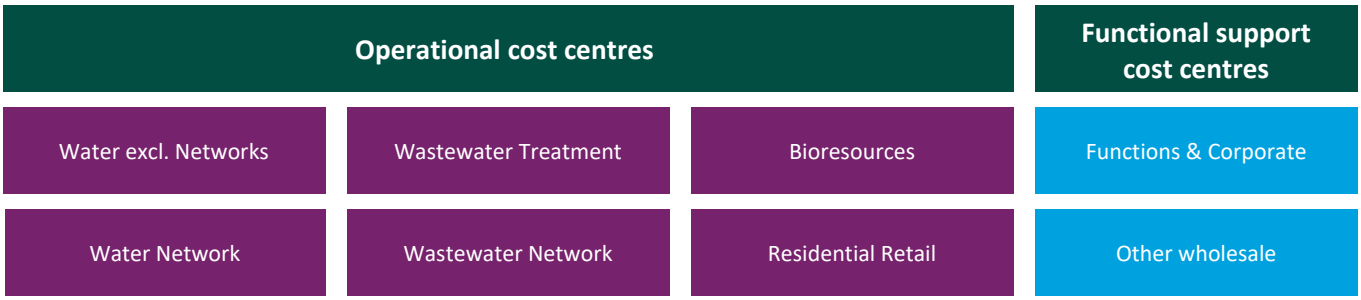
There are three key IT systems used to populate the Section 2 and Section 4 tables of the APR:

- SAP – Core financial accounting system
- CostPerform – Bespoke activity-based costing software solution used to allocate operating expenditure to upstream service
- Capital Project Management System (CPMS) – Central repository for the project management of capital expenditure within UUW

3.2 Operating expenditure

The three key steps in allocating operating expenditure to price controls and upstream services are illustrated below.

Step 1: SAP captures data (IFRS basis) at a cost centre level. Costs centres within UUW are structured into the following areas:



The operational cost centres largely align with Ofwat's five price controls for 2020-25, although the water resources and water network plus price controls are both included within the 'Water excluding Networks' operational cost centres. Other wholesale includes business areas which predominately relate to the wholesale business, but have a more overarching remit than the more specific operational cost centres, for example Developer Services. See Section 4.3 for other areas included within Other wholesale. The functional support cost centres are mapped to the five relevant price controls using CostPerform (see below).

The costs in each area are reviewed by the relevant budget managers.

Step 2: Some adjustments are required to the IFRS position to convert it to a regulatory accounting basis in accordance with RAG 1.09, for example:

- Renewable Obligation Certificate (ROC) income, reported in other income on an IFRS basis is directed to 'Income treated as negative expense' within the Sludge Treatment upstream service.

Some cost reallocations are required from operational cost centres to different price controls and upstream services, for example:

- The cost for the treatment of water sludges at wastewater treatment works are reallocated from the wastewater to the water price control.

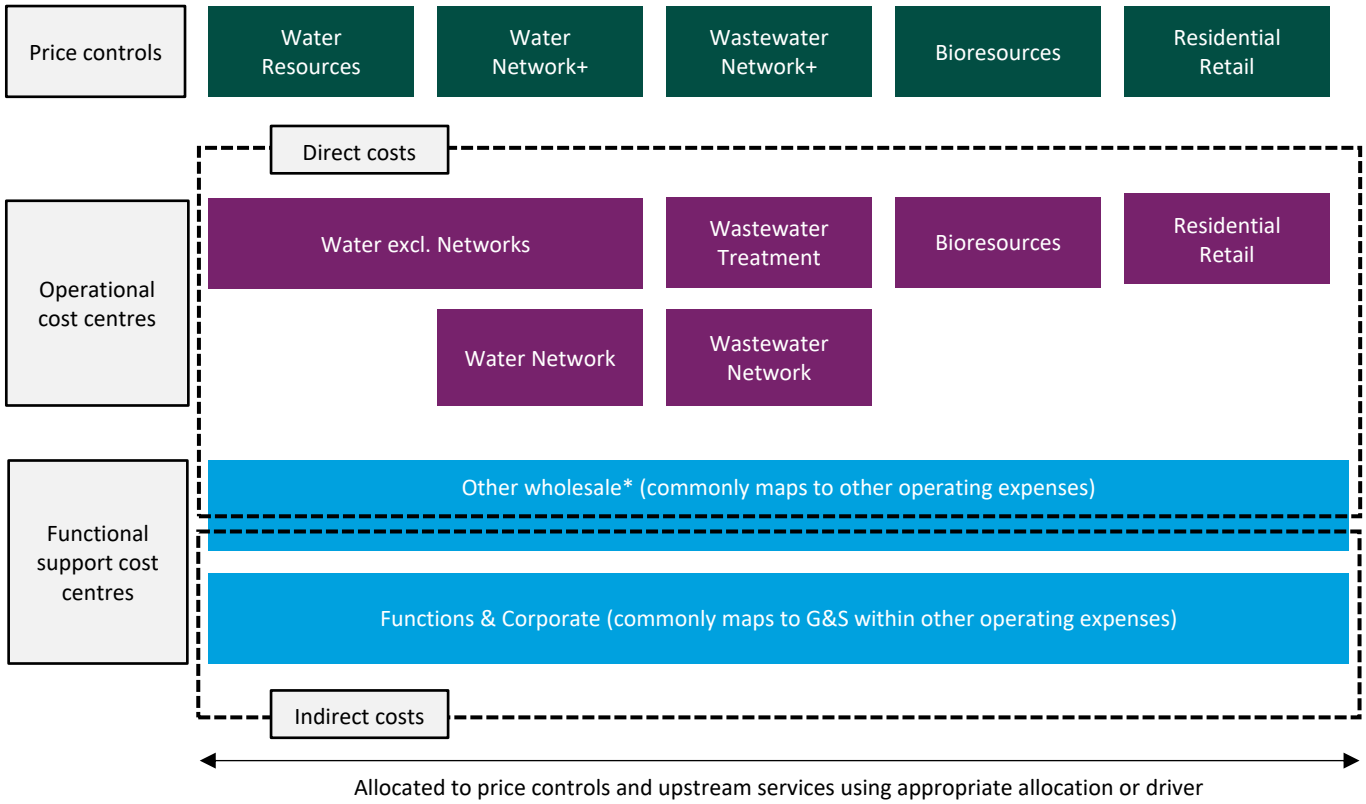
Non-appointed and third-party costs recorded within UUW's cost centres are identified, with reference to the RAG 4.12 Appendix 1 Income Categorisation, and mapped accordingly.

Step 3: The CostPerform reporting solution takes the operating expenditure outputs from SAP, plus adjustments required within step 2, groups the costs of each cost centre by expense type e.g. employment, power, materials and consumables, etc. It then applies established allocation rules to attribute costs to price control, and ultimately, to upstream service within wholesale.

Where costs within a cost centre can be directly mapped to a specific upstream service (or price control for retail) and cost line, then no allocations are required, and the costs will be mapped directly in CostPerform. Otherwise, costs are allocated across price controls, and to upstream services, using an appropriate driver or allocation rule.

Cost drivers and allocation rules are provided by the operational budget manager or finance representative responsible for those costs and are completed in accordance with RAG 2.08. These are also reviewed by the relevant budget managers and/or finance business partner. See Section 4 for details of how costs are allocated.

This process results in cost centres being principally allocated to the five price controls as below:



*Other wholesale also contains the abstraction charge which is mapped directly to the Abstraction Licence upstream service within Water Resources, making up the vast majority of costs within that upstream service.

A more detailed review of the cost allocation and allocation bases used in year is given within Section 4.

3.3 Capital expenditure

Data from SAP and the Capital Project Management System (CPMS) is used to attribute or allocate capital expenditure. CPMS is the central repository for the project management of capital expenditure within UUW. The data within the system includes spend, milestones and regulatory investment categories.

The regulatory accounting guidelines cover the classification of expenditure and the allocations are used for the completion of the annual regulatory reporting returns, company business plan setting, capital investment programme build and internal programme performance reporting.

There is a mandatory requirement of CPMS project creation, functionality and the company's project approval process for each capital project to be assigned to one or more investment category.

Project expenditure can be assigned to a single investment category or, particularly for the complex project solutions, across multiple investment categories reflecting the various enhancement drivers which the project fulfils together with any associated maintenance investment.

All projects must have asset/investment classification assignments to a total of 100% with a prime indicator assigned, reflecting the principal driver for the project.

There is a defined relationship between the categories and the APR financial table requirements.

The relationship is held as a rule within CPMS and allows the analysis and allocation of project and programme level data in a consistent and comparable manner and, importantly, allows reporting across AMP periods and changing reporting requirements by:

- regulatory price controls and/or upstream services;
- investment drivers (Maintenance, Quality, Supply & Demand and Enhanced Levels of Service); and
- asset classifications (e.g. infrastructure, civils and mechanical & electrical).

An important feature of the defined relationship is the ability to report across multiple tables and business units.

The use of investment categories and asset classifications within SAP and CPMS is an established process which has been reviewed each year as part of the annual regulatory reporting exercise and provides a robust framework for cost reporting and validation of project costs across multiple years and AMP periods. As part of the PR24 submission and this year's regulatory reporting, the list of investment categories has been reviewed and extended to include drivers specific to the AMP8 programme.

3.4 Grants and contributions

Data from SAP and CPMS is used to identify the following characteristics for each income project:

- infrastructure/non-infrastructure/infrastructure renewals (IRE) status;
- income type (connection charges, infrastructure charges, diversions, requisitioned mains, requisitioned sewers, other); and
- regulatory price control and/or upstream service

This information is then used to populate the grants and contributions lines, which is further explained in Section 4.1.

3.5 Fixed assets

The company maintains its fixed asset register in the SAP accounting system. All fixed asset and depreciation information in the APR is presented on an IFRS (historical cost) basis of reporting, adjusted for the removal of capitalisation of borrowing costs under IAS23, as required under RAG 1.09.

Each commissioned asset in the SAP register is assigned to a business unit which determines the price control unit that the asset/depreciation is allocated to in the Annual Performance Report (using the 'principal use' method). The business unit is assigned to the asset on commissioning in conjunction with the project team.

Additional processes are followed to allocate assets under construction, shared assets and year-end adjustments:

- **Fixed Asset Report** – A fixed asset report is run in SAP as at year end. For every commissioned asset it details the movements in the year from opening cost to closing net book value.
- **Assets Under Construction (AUC) allocation** – AUC are posted to summary AUC asset classes in SAP which cannot be used to allocate to asset types. The investment categorisation from CPMS is used to further allocate across price control units/upstream services and asset types.
- **Shared asset reallocation** – Shared assets are allocated to Management & General ("M&G") service areas. These M&G service areas determine the allocation percentages across the direct business units and therefore price control units and upstream services allocations as determined by operational management in conjunction with the Fixed Asset Accounting Team. Further information on these drivers is included in Section 4.4.
- **Year-end adjustments** – Allocations of year-end adjustments (opening and closing journal accruals) are individually reviewed to allocate across the price control and upstream services.

3.6 Revenue

Table 2I sets out the actual build-up of the wholesale revenue for 2023/24 by price control. Companies are required to split wholesale revenues by the four wholesale price controls; a new requirement for AMP7. Our annual tariffs are set based on our latest view of forecast customer numbers and consumption. If each tariff is multiplied by the forecast number of customers and consumption for that tariff, we would expect to recover the allowed revenue for each price control. The tariff split between price controls varies depending upon the characteristics of each individual tariff and is predominantly based on the underlying costs forecast to be incurred in providing that particular service to customers.

3.7 Methodology changes since 2022/23 and planned improvements for future years

A thorough review of operating cost allocations and processes is completed each year to ensure compliance with the RAGs.

Consistent with RAG 4.12, we are now required to report expenditure delivering the AMP8 accelerated infrastructure delivery programme and proposed PR24 transition schemes in the appropriate enhancement expenditure lines in new columns in tables 4L or 4M. As such, reporting of enhancement expenditure has been aligned to the updated line definitions in tables 4C, 4D, 4E, 4L and 4M.

UUW will continue to make further enhancements to its cost allocation processes in the future and the methodology for preparing these tables will be reviewed again as part of Regulatory Accounting Guidelines published for 2024/25. Our continued participation in the Water UK FC forum may also help us to identify methodologies or allocation methods which are an improvement or which provide greater consistency across the sector.

4. Cost allocation performed

The systems and processes used to perform cost allocations have been outlined in the previous sections. This section provides more granular detail of what this process actually means in practice, and with reference to the relevant APR tables.

4.1 Wholesale

The following tables show the cost drivers/allocations used to populate each line of the APR tables for wholesale Water by upstream service (4D) and wholesale Wastewater by upstream service (4E). Cost allocations to upstream services follow the boundary points and assets defined in RAG 4.12. The data in these tables is derived from the underlying financial records as follows:

- Cost Driver A = costs can be mapped directly from a cost centre (or service area for fixed assets) to the relevant upstream service
- Cost Driver B = costs can be mapped directly from a cost centre to water or wastewater and then costs are apportioned to an upstream service using a specific cost driver or in proportion to the level of direct costs
- Cost Driver C = costs are apportioned to water and wastewater using a specific cost driver and then apportioned to an upstream service using another specific cost driver or in proportion to the level of direct costs

The following tables describe how costs are split between Water, Wastewater and Residential Retail, and subsequently to upstream services within wholesale, mirroring the operation of the CostPerform reporting solution. In explaining the allocations to individual upstream services, this is also effectively explaining the allocations to the four wholesale price controls reported in the Section 2 tables of the APR (i.e. Water resources, Water network+, Wastewater network+ and Bioresources), since these tables are created by summing the respective upstream service totals within each price control.

Additional Disclosures Required Under RAG 3.14, Appendix 2

Power costs are split between 62% directly coded to a price control and 38% involving some allocation between price controls (unchanged to the equivalent split in 2022/23). This split is derived from a complete mapping of every cost line from the SAP system download (described in Section 3.2) which feeds into the power reporting line.

Other operating costs are split between 70% directly coded to a price control and 30% involving some allocation between price controls (unchanged to the equivalent split in 2022/23). This split is derived from a complete mapping of every cost line from the SAP system download (described in Section 3.2) for all other operating costs excluding IRE. IRE is based on a direct mapping from the Capital Project Management System (CPMS) system (described in Section 3.3).

The method of disaggregating power costs consumed at sites that cover more than one price controls is described for water and wastewater in the following sections of this document.

4.1.1 Water (APR Tables 4D &4J)

Base operating expenditure (4J)

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Power	A/B/C	Power cost allocation is allocated on an MPAN meter basis to an upstream service applying asset classifications within RAG 4.12 and where necessary RAG 2.08 Appendix 2. Where this is not possible, for sites that include an element of power in relation to more than one business unit or upstream service the costs are apportioned based on management assessment at a site level. Power for support buildings is apportioned based on floor space. Fuel costs are split based upon the average electricity upstream services percentage split calculated from the above.
Income treated as negative expenditure	A	Direct cost
Bulk supply	B	Direct cost – Allocated to upstream service based on prior year cost allocations from the receiving company as shown in the annual performance report.
Renewals expensed in year (infrastructure)	A	Direct allocation to the business unit based on investment categories assigned to each project in the Capital Project Management System (CPMS), by the project manager.
Renewals expended in year (non-infrastructure)	n/a	Nil operating costs
Other operating expenditure excluding renewals		
– Employment costs	A	• Water network costs – Direct costs are charged to the individual sites and upstream service.
– Hired and contracted Services	A/B	• Water treatment works – Direct costs are charged to the individual sites against process level cost centres. These process level cost centres directly map to an upstream service. Where costs cannot be directly allocated to process level, they are apportioned pro-rate to the level of directly allocated costs.
– Materials and consumables	B	• Water senior leadership and production managers – Cost are apportioned pro-rate to the level of directly allocated costs at Water Network and Water Treatment works.
– Other Direct costs	B	• Other water activities recorded in water profit centre hierarchy – Costs allocated to upstream service based upon the activity of individual teams workload and management estimate where necessary. These costs are not directly allocated to either upstream service or site level.
	B/C	• Non G&S costs recorded within the other wholesale profit centre hierarchy (e.g. operational technology, Wholesale market services) – Cost allocated to price control based on assessment of work undertaken or using an appropriate cost driver. Costs allocated to upstream service within water using specific cost driver or in proportion to the level of direct costs.
– General and support (G&S) expenditure	C	Indirect general and support costs are allocated across the relevant upstream service as analysed out in Section 4.3.
– Scientific services	C	Costs are allocated across water and sewerage based upon laboratory test numbers taken relevant to each business unit activity.
– Other business activities	C	8/9ths of the Regulatory costs (including Ofwat licence fees) are allocated to wholesale, 1/9th to retail, in line with RAG 2.08 Ofwat guidance. This is with the exception of DWI costs directly attributed to the water service. Where not directly allocated, costs are then allocated equally between water and wastewater. Regulation team time is split based on management's estimate of time spent on particular areas. Subsequent allocation to upstream service is done proportional to the level of direct costs for each upstream service.
– Meter maintenance/ installation non capex	A	Direct allocation of costs to wholesale treated water distribution.
– Principal use recharges	C	Based on the allocation of Management and General assets using the most appropriate driver as described in Section 4.4.
– Exceptional items	C	Exceptional items are allocated to price control and upstream service based upon the nature of expenditure and using an appropriate cost driver.
Local authority and cumulo rates	B/C	Rates are split proportionally based on the Gross Modern Equivalent Asset Value (GMEAV) of those assets attracting rates. Rates for support buildings are apportioned based on floor space.
Canal & River Trust abstraction charges/ discharge consents	A	Direct cost
Environmental Agency/ NRW abstraction charges / discharge consents	A	Direct cost
Other abstraction charges / discharge consents	A	Direct cost
Costs associated with Traffic Management Act	C	Cost allocated across Water Network+ and Wastewater Network + primarily based on the number of permits, and to treated water distribution for Water Network + specifically.
Costs associated with lane rental schemes	n/a	Nil costs associated with lane rental schemes
Statutory water softening	n/a	Nil costs associated with statutory water softening.
Base operating expenditure	n/a	Sum of above

Water Resources and Water Network+ totex analysis (4D)

Total operating expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Base operating expenditure	n/a	Detailed within Section 4.1.1 above.
Enhancement operating expenditure	n/a	Costs allocated on the same basis as those in base operating expenditure. Includes actual spend incurred on innovation fund projects allocated to price control based upon the nature of the project.
Developer services operating expenditure	A	Directly allocated to Treated Water Distribution (TWD) upstream service.
Third party services	A	Costs are directly allocated to upstream service based upon the nature of expenditure.
Total operating expenditure	n/a	Sum of above

Grants and contributions – operating expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Grants and contributions – operating expenditure	A	Direct allocation to upstream service based on the Capital Project Management System (CPMS).

Capital expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Maintaining long term capability of the assets – infrastructure	n/a	Nil capital expenditure, all expensed.
Maintaining long term capability of the assets – non infrastructure	A/C	Direct attribution to price control based on the Capital Project Management System (CPMS). Price control of principal use is used where assets cannot be directly attributed with recharges made to other price control services as appropriate to reflect the proportion of the asset used.
Base capital expenditure	n/a	Sum of above
Enhancement capital expenditure	n/a	Costs allocated on the same basis as those in base capital expenditure.
Developer services capital expenditure	A	Direct attribution to upstream service based on the Capital Project Management System (CPMS).
Third party services	A	Direct attribution to upstream service based on the Capital Project Management System (CPMS).
Total gross capex expenditure	n/a	Sum of above

Grants and contributions – capital expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Grants and contributions – capital expenditure	A	Direct allocation to upstream service based on the Capital Project Management System (CPMS).

Cash expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Pension deficit recovery payments	n/a	Nil pension deficit repair contributions.
Other cash items	n/a	Nil other cash items.

4.1.2 Wastewater (APR Tables 4E &4K)

Base operating expenditure (4K)

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Power	A/B/C	• Wastewater – Direct costs at co-located sites are allocated based on either sub metering (where available) or engineering's assessment of power usage by asset, which are then apportioned across upstream services. All other costs are allocated directly to the individual sites. Power for support buildings is apportioned based on floor space. An adjustment is made to give the full benefit of CHP generation to sludge treatment. • Liquor treatment – a proportion of the sewage treatment business unit power costs were classified as liquor treatment based on engineering assessments at each co-located site. • Sewage collection – allocated to upstream service based on GMEAV of network assets.
Income treated as negative expenditure	A	Direct cost
Bulk supply	A	Direct cost
Renewals expensed in year (infrastructure)	A	Direct allocation to the business unit based on investment categories assigned to each project by the project manager in the Capital Project Management System (CPMS).
Renewals expended in year (non-infrastructure)	n/a	Nil operating costs
Other operating expenditure excluding renewals		
– Employment costs	B	• Wastewater treatment works (Co-located sites) - Direct costs are charged to the individual sites against process level cost centres. These process level cost centres directly map to an upstream service. Where costs cannot be directly allocated to process level, they are apportioned pro-rate to the level of directly allocated costs.
– Hired and contracted Services	A/B	• Wastewater treatment works (Sewage Treatment only) - Direct costs are charged to the individual sites and upstream service. Where costs cannot be directly allocated to site, they are apportioned pro-rate to the level of directly allocated costs.
	B	• Sewage collection – Direct costs are allocated based on number of incidents in the Wastewater Incident Recording System database which identifies if they relate to Foul, Surface Water Highway Drainage (SWHD) or combined. SWHD is split between SW and HD based on the split of the total UU area which drains to UU sewers between SW and HD, based on information from UU Geographical Information Systems (GIS) for land use / type and hydrology models for the area drained.
– Materials and consumables	B	• Wastewater senior leadership, area business managers and production managers – Costs are apportioned pro-rate to the level of directly allocated costs at Sewerage treatment works and Co-located sites.
– Other Direct costs	B	• Other wastewater activities within wastewater profit centre hierarchy – Costs are allocated to upstream services based on the activity of the individual teams workload and management estimate where necessary. These costs are not directly allocated to individual Sewerage treatment works.
	B/C	• Non-G&S costs recorded within the other wholesale profit centre hierarchy (e.g. operational technology, Wholesale market services) – Cost allocated to price control based on assessment of work undertaken or using an appropriate cost driver. Costs allocated to upstream service within wastewater using specific cost driver or in proportion to the level of direct costs.
– General and support expenditure	C	Indirect general and support costs are allocated across the relevant upstream service as analysed out in Section 4.3.
– Scientific services	C	Costs are allocated across water and sewerage based upon laboratory test numbers taken relevant to each business unit activity.
– Other business activities	C	8/9ths of the Regulatory costs (including Ofwat licence fees) are allocated to wholesale, 1/9th to retail, in line with Ofwat RAG 2.08 guidance. This is with the exception of DWI costs directly attributed to the water service. Where not directly allocated, costs are then allocated equally between water and wastewater. Regulation team time is split based on management's estimate of time spent on particular areas. Subsequent allocation to upstream service is done proportional to the level of direct costs for each upstream service.
– Support for trade effluent compliance	B	Direct costs are charged to specific cost centres and allocated to upstream services based on the activity of the individual teams workload and management estimate where necessary.
– Principal use recharges	C	Based on the allocation of Management and General assets using the most appropriate driver as described in Section 4.4.
– Exceptional items	C	Exceptional items are allocated to price control and upstream service based upon the nature of expenditure and using an appropriate cost driver.
Local authority and cumulo rates	B/C	Rates are split proportionally based on the Gross Modern Equivalent Asset Value (GMEAV) of those assets attracting rates. Rates for support buildings are apportioned based on floor space.
Canal & River Trust discharge consents	B	Canals & Rivers trust payment allocated based on the split of non marine outfalls.
Environment Agency / NRW discharge consents	A	Direct from a cost centre to an upstream service.
Other discharge consents	A	Direct from a cost centre to an upstream service.

Costs associated with Traffic Management Act	C	Cost allocated across Water Network+ and Wastewater Network+ primarily based on the number of permits, and to upstream within Wastewater Network+ based on a specific cost driver.
Costs associated with lane rental schemes	n/a	Nil costs associated with lane rental schemes
Costs associated with Industrial Emissions Directive	A	Costs are specifically identifiable at site level and allocated to upstream service on that basis.
Base operating expenditure	n/a	Sum of above

Note that we have continued to use the same methodology as AMP6 for the reporting cost of imported sludge liquors in table 4K. Separately, we have continued to apply Jacob's methodology for the shadow reporting of the sludge liquor recharge in APR table 8C. We have also included the sludge liquor recharge within functional expenditure reported in APR tables 7A, 7B and 8B in accordance with RAG 4.12 guidance (this was introduced in the guidance in 2022/23).

Wastewater Network+ and Bioresources totex analysis (4E)

Total operating expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Base operating expenditure	n/a	Detailed in Section 4.1.2 above.
Enhancement operating expenditure	n/a	Costs allocated on the same basis as those in base operating expenditure. Includes actual spend incurred on innovation fund projects allocated to price control based upon the nature of the project.
Developer services operating expenditure	B	Directly allocated to sewerage collection and then to upstream by the appropriate driver.
Third party services	A	Expenditure for providing 3rd party services, e.g. bulk supplies and the repair of damages caused to the wastewater network (Sewage Collection) by a third party. Costs offset by income from 3rd party damages.
Total Operating expenditure	n/a	Sum of above

Grants and contributions – operating expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Grants and contributions – operating expenditure	A/B	Income directly allocated to sewerage collection and then by upstream service by GMEAV.

Capital expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Maintaining long term capability of the assets – infrastructure	n/a	Nil capital expenditure, all expensed.
Maintaining long term capability of the assets – non infrastructure	A/C	Direct attribution to price control based on the Capital Project Management System (CPMS). Price control of principal use is used where assets cannot be directly attributed with recharges made to other price control services as appropriate to reflect the proportion of the asset used.
Base capital expenditure	n/a	Sum of above
Enhancement capital expenditure	n/a	Costs allocated on the same basis as those in base capital expenditure.
Developer services capital expenditure	A	Direct attribution to upstream service based on the Capital Project Management System (CPMS).
Third party services	A	Direct attribution to upstream service based on the Capital Project Management System (CPMS).
Total gross capex expenditure	n/a	Sum of above

Grants and contributions – capital expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Grants and contributions – capital expenditure	A/B	Directly allocated to sewerage collection and then by upstream service by GMEAV.

Cash expenditure

Expenditure line item	Cost driver	Allocation basis to price control and upstream service
Pension deficit recover payments	n/a	Nil pension deficit repair contributions.
Other cash items	n/a	Nil other cash items.

4.2 Residential Retail

Operating expenditure (APR Table 2C)

The below table shows how costs are attributed to Residential Retail operating cost lines which form the basis for APR table 2C. As the below table shows, the majority of costs are directly mapped from specific cost centres within the retail cost centre hierarchy to a specific cost line in accordance with line definitions specified in RAG 4.12.

Certain costs, such as investigatory visits, are mapped from wholesale cost centres, where the costs are initially recorded. Other centrally recorded costs, such as general and support expenditure, have an apportionment to Residential Retail. These mappings and apportionments are completed in accordance with cost categorisation per price control, as specified in RAG 2.08.

Expenditure line item	Allocation basis
Customer services:	
– Billing	Largely directly attributed within the Retail cost centre hierarchy. In addition, allocations of: • Internally generated correspondence based on FTE • Local authority commission based on associated direct costs • Postage, printing and cash management costs based on cost type and volumes of bill types/letters to correct activity line • Senior leadership team costs per individual based on associated direct costs of activities they are involved in
– Payment handling, remittance and cash handling	Largely directly attributed within the Retail cost centre hierarchy plus an allocation of local authority commission; postage, printing and cash management costs; and senior leadership team costs (allocation basis for all these as described above).
– Vulnerable customer schemes	Vast majority directly attributed within the Retail cost centre hierarchy plus an allocation of senior leadership team costs based on associated direct costs of activities they are involved in.
– Non-network customer enquiries and complaints	Vast majority directly attributed within the Retail cost centre hierarchy plus an allocation of senior leadership team costs based on associated direct costs of activities they are involved in less internal generated correspondence allocation moved to Billing.
– Network customer enquiries and complaints	Vast majority directly attributed within the Retail cost centre hierarchy plus an allocation of senior leadership team costs based on associated direct costs of activities they are involved in.
– Investigatory visits	Direct cost transfer of activity related costs from wholesale water and wastewater to residential retail.
Debt management	Largely directly attributed within the Retail cost centre hierarchy plus an allocation of local authority commission; postage, printing and cash management costs; and senior leadership team costs (allocation basis for all these as described above).
Doubtful debts	Directly attributed within the Retail cost centre hierarchy plus an IFRS to regulatory accounts adjustment for bad debt associated with revenue recognition.
Meter reading	Directly attributed within the Retail cost centre hierarchy, plus an allocation of senior leadership team costs.
Service to developers	Nil costs.
Other operating expenditure	
– Demand side water efficiency initiatives	Nil cost. All expenditure recorded in wholesale as incurred to meet wholesale outcomes.
– Customer side leaks	Nil costs – fully funded by wholesale.
– General and support expenditure	There are no direct general and support costs within the Retail price control. Indirect general and support costs are allocated across the relevant price controls as shown in Section 4.3.
– Other business activities	Where not directly attributable, 8/9ths of the regulatory costs (including Ofwat licence fees) are allocated to wholesale, 1/9th to residential retail, in line with Ofwat guidance. Regulation team time is split based on management's estimate of time spent on particular areas.
– Exceptional items	Price control exceptional items are attributed to water, sewerage or retail. If the exceptional item relates to functional support, the cost is apportioned across water, wastewater and retail using an appropriate driver.
– Other direct costs	Direct mapping from the retail cost centres less specific management employment costs which are allocated to other lines.
Local authority and Cumulo rates	Rates for sites specifically used by residential retail are directly attributed. Shared central office rates allocated based on floor space occupied.
Depreciation and amortisation	100% attributable to residential retail where price control of principal use, as per service area field in the SAP fixed asset register.
Recharges and income from wholesale assets	100% attributable to residential retail where price control of principal use, as per service area field in the SAP fixed asset register.
Third party services operating expenditure	Nil costs.

Pension deficit repair costs	Nil pension deficit repair contributions.
Debt written off	Derived from bad debt control account.
Capital expenditure	100% attributable to residential retail as per business unit asset commissioned to within SAP fixed asset register.

Billing and collection

The company outsources a small amount of debt collection where the risk is transferred to third parties. In 2023/24 the outsourced amount equated to 0.3% of the total 2023/24 appointed revenue.

The company does not issue bills addressed to "the occupier".

Where a customer has vacated a property, leaving amounts unpaid, the UUW policy is that the customer will be charged up to the date of the change of tenancy. This debt is then placed with debt collection agencies for trace and collection. If new information is obtained by the agencies, advising us of a more accurate date of vacation, the account will be amended accordingly. If debt collection is ultimately unsuccessful, the debt will subsequently be written off.

Bad debt is written off when all economically viable efforts to recover outstanding amounts have been fully exhausted or, alternatively, when the write-off of such amounts forms part of customer rehabilitation processes (subject to acceptance criteria and customer "matching" payments). Please refer to page 134 of the APR for details of the bad debt policy.

4.3 General and Support expenditure

General & Support (G&S) costs are all recorded within UUW's functional support cost centres, split by 'Functions & Corporate' and 'Other wholesale'. CostPerform apportions these G&S costs across the five relevant price controls; water resources, water network+, wastewater resources, bioresources and residential retail price controls, in accordance with RAG 2.08 cost classification guidelines, and subsequently to upstream service within the wholesale price controls.

The tables below show the basis of allocation per cost type along with the resulting %'s by price control. Full-Time Equivalents (FTEs), including all full-time staff and contractors/temporary staff directly employed, is the most commonly used cost driver.

Functions and corporate profit centres

Expenditure line item	Allocation to price control and subsequent upstream service (where wholesale)	Water Res	Water Net+	WW Net+	Biores-ources	Retail	Non-app
Finance	Costs in relation to treasury and tax are allocated based on the regulatory capital spend profile for water, wastewater and residential retail. Remaining costs split by team allocated by management assessment of most appropriate split/driver (predominantly FTE). Upstream service allocation pro-rate to the level of direct employment costs with the exception of tax and treasury which are split pro-rate to total direct costs.	3.0%	35.7%	39.7%	8.5%	12.3%	0.8%
HR	Costs allocated to price control using default FTE driver. Upstream service allocation pro-rate to direct employment costs.	2.8%	35.1%	36.3%	9.4%	15.5%	0.9%
Learning & Development	Allocation to price control based on a management assessment of time spent. Upstream service allocation pro-rate to direct employment costs.	2.6%	33.7%	34.4%	8.9%	20.4%	0.0%
General Counsel	Directly attributable to price control where possible. Remaining costs allocated to price control by FTE. Upstream service allocation pro-rate to direct employment costs.	2.8%	36.3%	37.6%	9.7%	13.1%	0.5%
Corporate Affairs	Costs allocated to price control using default FTE driver. Upstream service allocation pro-rate to direct employment costs.	2.8%	35.1%	36.3%	9.4%	15.5%	0.9%
Commercial	Costs allocated to price control primarily using default FTE driver. Upstream service allocation pro-rate to direct employment costs.	2.8%	35.2%	36.9%	9.2%	15.0%	0.9%
Executive directors remuneration	Allocated to price control based on a management estimate of time spent. Upstream service allocation pro-rate to total direct costs.	4.3%	32.2%	47.2%	5.5%	10.0%	0.8%

Non-executive directors remuneration	Allocated to price control based on a management estimate of time spent. Upstream service allocation pro-rate to direct employment costs.	4.3%	32.2%	47.2%	5.5%	10.0%	0.8%
Reward and pensions	Allocated to price control either based on an ongoing number of pensions members or FTE by price control. Upstream service allocation pro-rate to direct employment costs.	2.8%	35.3%	36.0%	9.3%	15.5%	1.1%
Other central costs	Allocated direct to price control where possible. All remaining costs are allocated based on the proportion of FTEs. Upstream service allocation pro-rate to total direct costs or to the level of direct employment costs, depending on cost type.	3.1%	39.0%	35.3%	9.1%	12.5%	1.0%

Other wholesale profit centres

Expenditure line item	Allocation to price control and subsequent upstream service (where wholesale)	Water Res	Water Net+	WW Net+	Biores-ources	HH Retail	Non-app
Fleet management costs	Allocated to price control and upstream service based on fleet servicing cost breakdown.	3.6%	34.7%	26.2%	32.0%	3.3%	0.2%
Facilities management and Accom.	Allocated to business area based on floor space occupied. Other wholesale business area subsequent price control and upstream service allocations follow cost allocations each sub-area.	4.0%	39.0%	32.7%	9.8%	13.8%	0.8%
Grounds maintenance	Vast majority of costs are directly attributed to specific water/wastewater sites. Where not directly attributable, allocated pro-rate to the level of employment costs for each upstream service.	0.4%	46.1%	48.1%	5.4%	0.0%	0.0%
Insurance	Claim costs directly attributed where possible. Insurance premium costs allocated using cost drivers reflective of the basis of the insurance charge per area e.g.: - Asset values used for property insurance - Turnover used for Public Liability and Professional Indemnity insurance Costs not directly attributable to an upstream service are subsequently allocated by total direct costs.	7.8%	67.0%	20.0%	2.7%	0.4%	2.1%
Innovation	Existing innovation costs within UUW, and not those incurred under the PR19 Ofwat Innovation Competition. Allocated to price control based on an assessment of the portfolio of projects in the year. Upstream service allocation pro-rate to total direct costs.	10.3%	45.2%	22.6%	21.9%	0.0%	0.0%
Technology services including IT software costs	IT software costs are directly allocated where possible. Where span more than one area allocated based on the most appropriate driver for each system e.g. FTE, capital spend. Employment costs and other IT costs are most commonly allocated by FTE. Subsequent upstream service allocations pro-rate to direct employment costs.	2.3%	33.6%	39.6%	7.8%	15.9%	0.8%
Asset Management	Directly attributed where possible. Otherwise allocated based on management assessment using the most appropriate driver. General costs most commonly split by reference to FTEs or capital expenditure. Where not directly attributed, allocated to upstream service pro-rate to employment costs or total direct costs depending on the nature of the costs.	13.5%	31.8%	46.2%	8.5%	0.0%	0.0%
Remaining indirect other wholesale costs e.g. legal, tech support		11.9%	43.0%	28.3%	7.1%	4.6%	5.1%

4.4 Fixed assets

Allocation of tangible and intangible fixed assets between price controls (Table 2D and Table 2O)

All fixed assets recorded in UUW's SAP register are allocated to price control, as defined in RAG 4.12. All mappings are direct to price control, with the exception of Management & General (M&G) assets, for which the mapping is described below.

Management and General assets

In accordance with RAG 2.08, where an asset is utilised in more than one price control, the asset and its associated depreciation is recorded in the price control of principal use.

As at 31 March 2024, there are approximately 35 live M&G allocations which require an assessment, based on the most appropriate driver, to identify percentage allocations which determine the price control of principal use. Examples of these allocations are as follows:

Service area	Key assets	Drivers
Head office allocation	Head office buildings	Floor space occupation
Corporate systems	SAP system/Workforce Management systems	Number and type of licence/users
Billing systems	Alto billing system	System utilisation
Capital/Project related assets	Project/Investment/Treasury/Tax systems	Total AMP capex
IT assets used by all employees	Microsoft, printer, internet, video conferencing	FTE allocation
IT assets supporting all systems	Infrastructure, servers, data centre, IT networks	Weighted average based on the specifically allocated MG codes

Where the principal use changes during the year, to ensure consistency of reporting, we will continue to record the shared asset as being 'owned' by the original 'principal use' price control unit for the AMP period rather than transferring these assets across price controls.

Overall c.9% of depreciation and amortisation relates to assets used by more than one price control. This depreciation is charged on a principal use basis to the following price controls:

Price Control	Water Resources	Water Network+	Wastewater Network+	Bioresources	Residential Retail	Total
Depreciation (%)	-	20.8%	70.9%	2.0%	6.3%	**100.0%**
Depreciation (£m)	-	8.0	27.2	0.8	2.4	**38.4**

Principal use recharge impact to price control for use of fixed assets (Table 2A)

As noted above, the depreciation charge for each asset is recorded in the price control of principal use. Separately, APR table 2A (Segmental income statement) also shows principal use recharges impact to each price control for the shared use of that asset. In accordance with RAG 4.12, the principal use recharges are also included in base operating expenditure within the detailed cost tables (4D, 4E, 4J and 4K), and disclosed on line 4 'PU opex recharge' of table 2A. The recharge amount per asset is equal to the amount of depreciation which would have been recorded by that price control on a proportional allocation basis. These are the same allocation percentages used to determine the price control of principal use as detailed above.

See Section 5.4 for commentary on the movement in recharges compared to the prior year.

5. Commentary on cost variances 2023/24

5.1 Wholesale Water

Operating expenditure

Wholesale Water year on year movements in operating expenditure (£m)	Water Resources	Water Network+				Water Services Total
		Raw water transport	Raw water storage	Water treatment	Treated water distribution	
2022/23 total operating expenditure	**86.0**	**19.3**	**1.4**	**118.9**	**260.5**	**486.2**
Power price increases	1.8	1.4	0.0	5.2	3.3	**11.7**
Power volume primarily due to the wetter weather in current year	-2.0	-0.7	0.0	-1.4	-1.4	**-5.6**
Timing of delivery of infrastructure renewal expenditure to deliver Impounding Reservoir projects (water resources), and combination of price and activity of mains cleaning and leakage (treated water distribution)	-3.1	-0.3	0.0	0.0	10.2	**6.8**
Chemical price impacts	0.0	0.0	0.0	2.8	-1.6	**1.2**
Chemical volume movements due to variation in raw water quality	0.1	0.0	0.0	1.5	0.5	**2.1**
Reduced incident costs primarily as a result of freeze thaw incident in prior year	-0.3	-0.1	0.0	-1.5	-5.1	**-6.9**
Reduction in compensation paid in year in response to network related incidents	0.0	0.0	0.0	0.0	-4.8	**-4.8**
Movement in provisions and insurance	-2.5	0.2	0.0	1.9	-3.5	**-4.0**
Reduction in SaaS projects and IT related costs	-0.2	-0.1	0.0	-0.5	-1.6	**-2.5**
Increase in regulatory fees	0.2	0.1	0.0	0.6	0.3	**1.2**
Movement in principal use recharges	-0.4	-0.1	0.0	-1.0	-0.9	**-2.4**
Reduction in business rates due to lower rateable values	-3.6	-0.5	-0.1	-1.7	-7.6	**-13.4**
Enhancement - increased number of grants (treated water distribution) and profiling and nature of schemes	0.3	0.0	0.0	-0.4	0.3	**0.2**
Developer services – increased s185 diversions activity	0.0	0.0	0.0	0.0	1.8	**1.8**
Other year on year movements	-1.0	-0.2	0.2	-1.5	1.0	**-1.4**
2023/24 total operating expenditure	**75.3**	**19.0**	**1.5**	**122.9**	**251.4**	**470.2**

Capital expenditure

	Water resources		Water Network+				Total
Line description	**Abstraction licences**	**Raw water abstraction**	**Raw water transport**	**Raw water storage**	**Water treatment**	**Treated water distribution**	
2022/23 total capital expenditure	**0.0**	**12.9**	**0.8**	**0.0**	**73.8**	**173.6**	**261.1**
Base variance	0.0	0.6	0.7	0.0	53.6	-26.1	28.7
Enhancement variance	0.0	4.5	1.3	0.0	-12.8	-9.0	-16.0
Developer services variance	0.0	0.0	0.0	0.0	0.0	**-1.0**	**-1.0**
2023/24 total capital expenditure	**0.0**	**18.0**	**2.8**	**0.0**	**114.6**	**137.5**	**272.9**
Movement £m	**0.0**	**5.1**	**1.9**	**0.0**	**40.8**	**-36.1**	**11.8**
Movement %	**n/a**	**40%**	**250%**	**n/a**	**55%**	**-21%**	**5%**

In general, capital expenditure varies from year to year due to the different mix and levels of maturity of projects being delivered. As such there are multiple movements increasing and decreasing expenditure each year. The below explanations detail the significant reasons for growth or reductions in expenditure, however there are multiple other movements that offset each other.

There has been an increase in base expenditure of £28.7m in the year primarily due to the water treatment business unit reflecting the increased levels of spend on maintenance activity at Oswestry WTW and at Huntington WTW with the provision of a new surge vessel system. This increased spend is partly offset by lower levels of spend in the treated water distribution business unit as a consequence of the service reservoirs programme.

There has been a reduction in enhancement expenditure in the year of £16.0m.

The water resources business unit saw an increase in enhancement costs in the reported year of £4.5m. The increased spend is primarily associated with the delivery of the innovation programme, particularly investment associated with mainstreaming nature-based solutions together with continued higher levels of expenditure on the strategic regional water resources programme. The increased spend on raw water transport is also the consequence of the delivery of the innovation programme.

Water treatment saw a decrease in enhancement costs in the year of £12.7m. This is primarily associated with the completion of enhancement activity at Oswestry WTW.

Treated water distribution saw a decrease in enhancement costs in the year of £9.1m. This is primarily associated with demand-side improvements delivering benefits in 2020-2025 (excluding leakage and metering) programme, as a consequence of continued lower levels of activity on the West Cumbria future strategy project reflecting its maturity and late stages of project implementation.

There has been a £1.0m decrease in developer services expenditure mainly associated with slightly lower connections volumes in year.

5.2 Wholesale Wastewater

Operating expenditure

Wholesale Wastewater year on year movements in operating expenditure (£m)	Sewage collection			Sewage treatment		Bioresources			Waste-water Services Total
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge trans-port	Sludge treatment	Sludge disposal	
2022/23 total operating expenditure	**79.5**	**45.4**	**17.5**	**159.2**	**3.5**	**14.3**	**24.0**	**10.7**	**354.0**
Power price increases	2.0	0.9	0.3	14.3	1.2	0.0	-3.0	0.0	15.7
Power volume movements	1.9	0.9	0.3	4.3	0.0	0.0	0.9	0.0	8.3
Decreased power income from gas and electricity export	-0.1	0.0	0.0	0.0	0.0	0.0	2.9	0.0	2.8
Decrease in other power e.g. fuel	0.0	0.0	0.0	-0.6	0.0	0.0	-0.5	0.0	-1.1
Increased infrastructure renewals expenditure on our sewer repair and maintenance programme (excludes Fleetwood incident)	4.5	2.8	1.1	0.0	0.0	-1.3	-2.3	0.0	4.8
Decrease in chemicals principally due to reduced base volumes	-0.1	0.0	0.0	-3.7	0.0	0.0	0.1	0.0	-3.7
Liverpool incident in the prior year	0.0	0.0	0.0	0.0	0.0	0.0	-3.2	0.0	-3.2
Fractured outlet pipe at Fleetwood Wastewater Treatment Works (IRE and other opex)	6.2	5.6	2.2	23.6	0.0	0.0	0.0	0.0	37.6
Movement in provisions and insurance	-0.1	0.0	0.0	3.7	0.0	0.0	2.2	0.0	5.8
Logistics due to site closure and increased distances	0.0	0.0	0.0	0.0	0.0	1.7	0.0	0.0	1.7
Increase in regulatory fees	0.2	0.1	0.0	0.8	0.0	0.0	0.0	0.0	1.1
Movement in principal use recharges	-0.4	-0.5	-0.2	4.6	0.0	0.0	-0.5	0.0	3.0
Increase in Business rates following increase in rateable value	0.0	0.0	0.0	6.6	0.0	0.0	1.3	0.2	8.1
Enhancement resulting from the capital programme	8.2	2.4	0.9	2.9	0.0	0.1	0.0	0.0	14.5
Developer services – diversions activity	-0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	-0.6
Other year on year movements	0.8	0.0	0.4	2.8	0.1	-0.1	0.6	0.0	4.6
2023/24 total operating expenditure	**102.4**	**57.3**	**22.4**	**218.5**	**4.8**	**14.7**	**22.5**	**10.9**	**453.6**

Capital expenditure

Line description	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			Total
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
2022/23 total capital expenditure	**38.0**	**37.0**	**14.5**	**312.8**	**0.0**	**0.0**	**26.1**	**0.6**	**429.0**
Base variance	6.0	5.4	2.1	32.1	0.0	0.0	3.8	-0.5	48.8
Enhancement variance	2.8	0.8	0.3	-0.4	0.0	0.0	5.5	0.0	9.0
Developer services variance	2.3	1.9	0.8	0.0	0.0	0.0	0.0	0.0	5.0
2023/24 total capital expenditure	**49.1**	**45.1**	**17.6**	**344.4**	**0.0**	**0.0**	**35.4**	**0.1**	**491.8**
Movement £m	**11.1**	**8.1**	**3.2**	**31.6**	**0.0**	**0.0**	**9.3**	**-0.5**	**62.8**
Movement %	**29%**	**22%**	**22%**	**10%**	**n/a**	**n/a**	**36%**	**-83%**	**15%**

In general capital expenditure varies from year to year due to the different mix and levels of maturity of projects being delivered. As such there are multiple movements increasing and decreasing expenditure each year. The below explanations detail the significant reasons for growth or reductions in expenditure, however there are multiple other movements that offset each other.

There has been an increase of £48.8m in base expenditure. The sewage collection business unit saw an increase of £13.5m reflecting the higher levels of expenditure due to the delivery of the aesthetic screening programme and pumping station maintenance. The sewage treatment and disposal business unit incurred £32.1m more in the period, primarily due to investment to deliver our 'Better Rivers: Better North West' programme, the AMP7 Emergency Process Programme and higher levels of maintenance. The bioresources business unit has also seen an increase in costs of £3.3m due to the delivery of the AMP7 Emergency Process Programme.

There has been an increase in enhancement expenditure in the year of £9.0m. The increased spend in the year is primarily associated with the sewage collection business unit and the implementation of the schemes to increase storm tank capacity, particularly the sustainable drainage solutions scheme and expenditure on the accelerated programme, together with the storage in the network to reduce spill frequency at CSOs programme, most notably green recovery expenditure at Bury. The increased spend is partly offset by lower levels of activity in the sewage treatment business unit reflecting the completion and later stages of implementation of a number of high value schemes, for example Carlisle WwTW. The bioresources business unit shows an increase in the year of £5.5m reflecting the reassignment of IED expenditure to enhancement consistent with the PR24 business plan.

There has been an increase in developer services expenditure of £5.0m due to planned network reinforcement expenditure as shown in Table 2K 'Infrastructure charges reconciliation'.

5.3 Residential Retail

Table 2C Cost line	2023/24 (£m)	2022/23 (£m)	Movement (£m)	Movement (%)	Explanation
Customer services	23.6	21.9	1.7	8%	Customer services have increased predominately due to increased staff costs and postage; both due to inflation
Debt management	13.8	13.3	0.5	4%	£0.3m additional funding in FY24 to deliver void ODI plus £0.2m additional staff costs
Doubtful debts	53.7	42.2	11.5	27%	The regulatory bad debt charge as a % of revenue has increased from 3.3% to 3.8% based on our assessment of future collection over the remaining life of debt existing at 31st March 2024. Regulated revenue has increased c£110m year on year, leading to further increase in the value of the regulatory bad debt charge
Meter reading	3.7	3.3	0.4	12%	Meter reading staff costs have increased due to cost inflation
Other operating expenditure	15.1	15.2	-0.1	0%	Other operating costs have remained broadly in line with prior year
Total opex excluding third party services	**109.9**	**95.9**	14.0	15%	See above
Depreciation - tangible fixed assets	1.7	1.8	-0.1	-7%	Depreciation and amortisation have remained broadly in line with prior year
Amortisation - intangible fixed assets	6.1	6.0	0.1	0%	
Recharges from wholesale	2.4	3.1	-0.7	-23%	The recharges from Wholesale have reduced predominately due to various IT infrastructure assets coming out of life
Income from wholesale	-0.5	-0.5	0.0	0%	
Total retail costs excluding third party and pension deficit repair costs*	**119.6**	**106.3**	13.3	12%	See above
Debt written off	42.4	38.1	4.3	11%	Year on year increase in debt write offs
Capital expenditure	1.2	2.6	-1.5	-56%	An overall decrease in expenditure on Retail IT systems with some projects having been completed in the prior year

**Third party and pension deficit repair costs for 2023/24 were £nil.*

5.4 Principal use recharges

2023/24	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	Residential Retail £m	Total £m
Recharge from other segments	(1.2)	(11.3)	(2.5)	(2.6)	(2.4)	(20.00)
Recharge to other segments	1.5	3.1	14.8	0.1	0.5	20.0
Net recharge	0.3	(8.2)	12.3	(2.5)	(1.9)	-

2022/23	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	Residential Retail £m	Total £m
Recharge from other segments	(1.4)	(13.8)	(2.8)	(3.1)	(3.1)	(24.2)
Recharge to other segments	1.3	3.6	18.7	0.1	0.5	24.2
Net recharge	**(0.1)**	**(10.2)**	**15.9**	**(3.0)**	**(2.6)**	-

Variance	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	Residential Retail £m	Total £m
Recharge from other segments	0.2	2.5	0.3	0.5	0.7	4.2
Recharge to other segments	0.2	(0.5)	(3.9)	-	-	(4.2)
Net recharge	**0.4**	**2.0**	**(3.6)**	**0.5**	**0.7**	-

Overall principal use recharges of £20.0m for 2023/24 have decreased by £4.2m compared to the recharges in 2022/23. The majority of this reduction relates to shared use assets coming out of life since the prior year and reduced depreciation on shared use IT systems following a review of assets lives.

Recharges are also made from the appointed business to the non-appointed business and non-regulated businesses for the use of appointed assets by these businesses, e.g. for the use of IT assets by non-appointed staff.

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Water for the North West