

# AffinityWater

## Methodology Statement for Accounting Separation 2022/23

July 2023



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# 1 Introduction

## 1.1 Purpose

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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

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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

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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 2020-2025 ('AMP7')

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 2.09, 4.11 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 2023, which can be found on our website: [affinitywater.co.uk/corporate/investors/library](https://affinitywater.co.uk/corporate/investors/library).

## 1.4 Cost allocation principles

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Our approach to AS applies the general principles set out by Ofwat in RAG 2.09 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	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

<b>Principle</b>	<b>Ofwat's requirement</b>	<b>Our approach</b>
	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.	allocated and this methodology statement is transparent in detailing our approach to indirect cost allocation. 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).
<b>Principle</b>	<b>Ofwat's requirement</b>	<b>Our approach</b>
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 2.09 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	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.	Costs are compliant with RAG 5.07 guidelines for transfer pricing and no costs are transferred between price control units.  Our methodology for recharging the cost of providing support services to another group company is detailed in section 3.2.4.
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	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

Principle	Ofwat's requirement	Our approach
	business. Cost allocation must be fair, reasonable and consistent.	business or associated companies. 11% of our 2022/23 costs (14% of 2021/22 costs) are allocated based on management estimates (refer to the table on page 13).
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 base operating expenditure

We prepared our financial statements in accordance with Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101') for both 2022/23 and 2021/22.

Total operating expenditure for price control unit	2022/23 £m	2021/22 £m	Movement £m
Wholesale – Water Resources	21.71	18.57	(3.15)
Wholesale – Water Network+	196.66	179.37	(17.29)
Retail Household	31.36	28.43	(2.93)
Retail Non-household	-	-	-
<b>Total</b>	<b>249.74</b>	<b>226.37</b>	<b>(23.37)</b>

#### Wholesale – Water Resources

Wholesale – Water Resources total operating expenditure has increased by £3.15m (17%) compared to the prior year. The increase can be explained by the factors below.

- £0.85m (18%) increase in power costs due to the increasing price of energy
- £2.15m (53%) increase in abstraction charges / discharge consents due to increase in charges set by the Environmental Agency .
- £0.57m (48%) increase in bulk supply costs due to higher imports required in the year.
- £0.37m (6%) decrease in other operating expenditure.
- £0.01m (1%) decrease in local authority and Cumulo rates.
- £0.04m (10%) decrease in enhancement operating expenditure.

There was £nil movement in renewals expensed in year (infrastructure), renewals expensed in year (non-infrastructure), developer services expenditure and third party services costs as there were no charges for these categories for Wholesale – Water Resources.

## Wholesale – Water Network+

Wholesale – Water Network+ total operating expenditure has increased by £17.29m (10%) compared to the prior year. The increase can be explained by:

- £4.32m (14%) increase in power costs due to the increasing price of energy.
- £2.69m (37%) increase in bulk supply costs due to higher imports required in the year.
- £1.04m (35%) decrease in renewals expensed in the year (infrastructure) due to the split of operating and capital expenditure.
- £7.27m (8%) increase in other operating expenditure primarily due to higher chemicals costs and additional provisions.
- £1.72m (25%) increase in enhancement operating expenditure due to increased spend on water efficiency projects.
- £1.95m (19%) increase in developer services operating expenditure due to a slow down in activity in the prior year as a result of COVID-19 which has recommenced in the current year.
- £0.38m (18%) increase in third party services in the year.

Local authority and Cumulo rates costs were the same as in the prior year.

There was £nil movement in renewals expensed in year (non-infrastructure) as there were no charges for this category for Wholesale – Water Network+.

## Retail household

Retail household operating expenditure has increased by £2.93m (10%) compared to the prior year. The increase can be explained by:

- £0.67m (24%) decrease in debt management costs due to higher recharges to non-appointed activities and partial re-classification of costs as "Other Operating Expenditure".
- £0.72m (9%) decrease in customer services costs due to re-classification of costs as "Other Operating Expenditure".
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- £4.14m (59%) increase in doubtful debts due to worsened collection rates.
- £0.24m (17%) increase in meter reading costs due to an increase in the customer base for measured customers.
- £0.57m (5%) increase in other operating expenditure.



- £0.01m (4%) decrease in other local authority and Cumulo rates.
- £0.62m (147%) decrease in PU opex recharge.

There was £nil movement in third party services operating expenditure as there were no charges for this category in Retail – Household.

### **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 ensure we are compliant with Ofwat's new published regulatory guidelines for AMP7. We have applied the guidance in the RAGs and prepared the information under the new proforma templates. No changes have been made to our cost allocations detailed in this methodology statement following the publication of RAG 2.09. Prior year numbers for enhancement operating expenditure and developer services operating expenditure have been prepared on the same basis as the current year numbers.

Where additional lines have been added into the new AMP7 tables, guidance in RAG 4.11 has been followed to ensure we are accounting for and treating costs in these lines correctly. In the year to 31 March 2021, the company updated its system and has therefore been reporting under an Oracle Fusion management system in the current and prior year. The company transferred historic and current data into the new system and is able to continue to prepare the Regulatory Financial Statements using the new system.

The company has undergone an exercise to review and recategorise expenditure between base and enhancement spend. A number of projects have been restated between base and enhancement expenditure following a review of table 4L in the APR, communicated with Ofwat following the 2021/22 query process and republished on our website. Leakage expenditure has been recategorised as base expenditure, having previously been treated incorrectly as enhancement expenditure.

Improvements have been identified to ensure consistency and accuracy of reporting in the future. We have provided clearer guidance to project teams on the categorisation of base and enhancement activity, including decision trees to support the identification of the correct category prior to the project being set up in our system. We have introduced additional review and approval processes to project documentation to validate the selected category on the system and have implemented additional review processes for tables within the APR.

Overheads are now also allocated between base and enhancement expenditure. Using data from our Oracle Financials system, where each Project is coded to the appropriate



base or enhancement category in line with the Business Plan and determination, overheads are then allocated on a pro-rata basis between base and enhancement.

## 1.6 Planned changes to accounting methodology for 2023/24

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Updates to reporting tables that will be consulted on during 2023/24 will be implemented into our 2023/24 reporting.

## 2 System and structures

### 2.1 System

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During the year to 31 March 2021, the company migrated to a new primary financial and business management system called Oracle Fusion, having previously used Oracle E Business Suite. Oracle Fusion 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 12 main directorates. These are:

1. Production and Supply
2. Energy
3. Community Operations
4. Customer Experience
5. Developer Services
6. Information Technology
7. Asset Strategy and Capital Delivery
8. Regulation and Strategy
9. Finance and Business Services
10. Corporate
11. People
12. General Counsel

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. Subcontracting
4. Rates
5. Bulk water purchases
6. Chemicals
7. Environmental charges
8. Bad debt charge

## 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 Fusion. Each line of the TB is individually allocated either to a business unit (as defined by Ofwat in RAG 4.11 – Water Resources, Raw Water Transport, 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 non-appointed activities are:

1. Sewerage meter reading, billing, cash collection and infrastructure commission
2. Unregulated income (value added services)
3. Innovation fund activities

#### 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 50.3% 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 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.

### 3.2.3 General and support

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 2021/22.

### 3.2.4 Recharges for support services

following the sale of Castle Water (Southern) Limited outside of the group on 1 April 2020, the former trade receivables of Castle Water (Southern) Limited were transferred into Affinity Water Capital Funds Limited, a fellow group company, as part of the sales proceeds. Affinity Water Limited employs a team to collect this outstanding debt and recharges Affinity Water Capital Funds Limited for the services provided. These recharges are calculated based on cost to the appointed business.

### 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, 4J and 5B (operating cost analysis only in all tables)), where we have to report costs at the following level of detail:

1. Power
2. Income treated as negative expenditure
3. Bulk supply/bulk discharge
4. Renewals expensed in year (split between infrastructure and non-infrastructure)
5. Other operating expenditure (such as employment, hired and contracted, materials, associated companies and other direct costs)
6. Local Authority and Cumulo rates
7. Service charges (abstraction charges)
8. Location specific costs (Traffic Management Act, lane rental schemes and statutory water softening)

In order to simplify the model we have grouped together, wherever possible, cost centres and detail codes into 18 direct allocation categories and 9 indirect (overhead) 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 or detail code 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. All 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 transport	Raw water storage	Water treatment	Trunk treated water distribution	Retail	Total
1	Balance Sheet	N/A	Mar-23	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	Not required P&L codes	N/A	Mar-23	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3	Supply	Management estimate of activity by employee	Mar-23	26.01%	1.42%	1.42%	2.23%	68.92%	0.00%	100.00%
4	EA Charges	Direct to Abstraction Licenses	Mar-23	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
5	Imports	Average cost of exporting company per their APR	Mar-23	15.17%	2.26%	0.11%	20.81%	61.64%	0.00%	100.00%
6	Power	Pump head analysis	Mar-23	13.90%	15.60%	0.00%	9.50%	61.00%	0.00%	100.00%
7	Estates	Based on proportion of direct allocation of large maintenance contracts	Mar-23	11.20%	0.30%	0.70%	23.70%	64.10%	0.00%	100.00%
8	Chemicals	Direct to Water Treatment	Mar-23	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	100.00%
9	Production	Management estimate of activity by employee	Mar-23	16.42%	2.43%	0.15%	58.40%	22.60%	0.00%	100.00%
10	Network Services	Based on job type	Mar-23	0.00%	0.08%	0.00%	0.00%	99.92%	0.00%	100.00%
11	Customer Operations	Based on job type	Mar-23	0.00%	0.08%	0.00%	0.00%	99.92%	0.00%	100.00%
12	Leakage	Direct to Treated Water Distribution based on Leakage Measurement	Mar-23	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	100.00%
13	Asset Management	Management estimate of activity by employee	Mar-23	30.96%	0.00%	0.76%	20.99%	47.29%	0.00%	100.00%
14	Water Quality	Management estimate of activity by employee	Mar-23	6.00%	1.00%	1.00%	28.00%	64.00%	0.00%	100.00%
15	IRE	Direct to Treated Water Distribution	Mar-23	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	100.00%
16	Regulation	1/5 per OFWAT Guidance	Mar-23	16.67%	16.66%	16.66%	16.67%	16.67%	16.67%	100.00%
17	Retail	Direct to Retail	Mar-23	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%
18	Third Party Cost	Direct to Treated Water Distribution based on export Cost Model	Mar-23	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
19	Overheads - HR	Direct to overhead	Mar-23	6.79%	0.56%	0.35%	11.62%	58.77%	21.90%	100.00%
20	Overheads - Facilities	Direct to overhead	Mar-23	2.24%	0.18%	0.11%	3.83%	54.59%	39.04%	100.00%
21	Overheads - Procurement	Direct to overhead	Mar-23	3.49%	0.32%	0.15%	15.23%	75.31%	5.51%	100.00%
22	Overheads - IT	Direct to overhead	Mar-23	4.55%	4.70%	1.29%	6.99%	53.45%	29.02%	100.00%
23	Overheads - Legal/Insurance	Direct to overhead	Mar-23	2.36%	0.19%	0.12%	4.04%	89.40%	3.88%	100.00%
24	Overheads - Other	Direct to overhead	Mar-23	6.77%	0.56%	0.35%	11.58%	58.58%	22.17%	100.00%
25	Overheads - Wholesale	Direct to overhead	Mar-23	8.70%	0.71%	0.45%	14.88%	75.26%	0.00%	100.00%
26	Overheads - Business Rates	Direct to overhead	Mar-23	13.16%	2.08%	0.00%	18.84%	65.93%	0.00%	100.00%
27	Overheads - Hub Rates	Direct to overhead	Mar-23	2.24%	0.18%	0.11%	3.83%	54.59%	39.04%	100.00%

Total Operating Cost (£m)	Cost based on management estimate (£m)	Management estimate %
3.89	3.89	100.00%
6.19	0.00	0.00%
11.67	0.00	0.00%
40.23	0.00	0.00%
3.65	0.86	23.43%
7.18	0.00	0.00%
12.62	12.62	100.00%
24.30	0.00	0.00%
26.38	0.00	0.00%
11.41	0.00	0.00%
1.56	1.56	100.00%
6.10	6.10	100.00%
21.21	0.00	0.00%
3.76	0.00	0.00%
27.24	0.00	0.00%
2.50	0.00	0.00%
3.37	0.00	0.00%
0.65	0.00	0.00%
0.35	0.00	0.00%
7.85	0.00	0.00%
7.13	0.00	0.00%
-0.45	0.00	0.00%
5.56	1.56	28.04%
14.79	0.00	0.00%
0.60	0.00	0.00%
<b>249.74</b>	<b>26.59</b>	<b>10.65%</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 £24.47m. These costs are allocated amongst each of the business units. 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>	3.37
Head Office Facilities Management and Property Rent	Floor space of Head Office	0.65
Procurement	Hired & contracted, material cost and other smaller values general ledger codes deemed to be influenced by the activities of the procurement department	0.35
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>	7.85
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> </ol>	7.13



Type of cost	Basis of allocation	Total cost (£m)
	<ol style="list-style-type: none"> <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>	
Other: Finance, General Management, Corporate Services, Health and Safety and External Communication	<ol style="list-style-type: none"> <li>1. Direct allocation of employees where applicable</li> <li>2. Number of FTEs for remaining cost</li> </ol>	5.11

The General and Support 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	1.23	5%
Wholesale – Water Network+	19.77	81%
Retail – Household	3.47	14%

### 3.4.2 Other business activity (Regulation)

This cost includes direct allocation from the regulation cost centre, and is allocated in line with the most recent regulatory guidance in RAG 2.09, with one sixth to Retail, one sixth to Water Resources, three sixths to Water Network+ and one sixth to Developer Services.

Within Water Network+ 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 2B, 4J and 5B (operating cost analysis only in all tables).

### 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	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

Table line	Activity / cost type	Cost driver	Allocation to business unit ('BU')
			year ended 31 March 2022 (last publicly available information).
Renewals expensed in year (infrastructure)	Renewals expensed	Costs directly allocated to wholesale.	Direct allocation to Water Network+ - treated water distribution by use of specific expenditure codes and cost centres.
Renewals expensed in year (non-infrastructure)	Renewals expensed	Costs directly allocated to wholesale.	Direct allocation to Water Network+ - treated water distribution by use of specific expenditure codes and cost centres.
Other Operating Expenditure	<p><b>Direct cost</b></p> <p>Employment</p> <p>Materials</p> <p>Hired &amp; Contracted</p> <p>Scientific Services</p> <p>Other Direct Cost</p> <p><b>Indirect Cost</b></p> <p>Executive and non-executive director remuneration</p> <p>General and Support (including Doubtful Debt)</p>	<p>Costs directly allocated to wholesale.</p> <p>Costs indirectly allocated to wholesale.</p>	<p>Direct allocation of employment, materials, hired &amp; contracted, scientific services and other Direct Cost based on expenditure type.</p> <p>If a cost centre covers more than one business unit, costs are allocated based on activity drivers listed in the table on page 13.</p> <p>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.</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</p>

Table line	Activity / cost type	Cost driver	Allocation to business unit ('BU')
	Other Business Activity		<p>possible and then based on the number of FTE in each business unit.</p> <p>Other Business Activity – allocated on an even basis across the business units.</p>
Local Authority and Cumulo Rates	Local Authority and Cumulo Rates	<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>
Third Party Services	Total cost relating to serving Third Party Services	Direct allocation by use of specific expenditure codes and cost centres.	<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	27.26	Employment costs within the wholesale business unit
Hired and contracted services	35.62	Costs for contractors and equipment hire
Materials and consumables	10.05	Costs for materials
General support costs and business activities	25.54	General support costs, scientific services and other business activities allocated to wholesale
Telephones	-0.19	Cost for mobile telephones
Streetworks	1.95	Cost of permits, fines/fees and consequential damage to highway
Other Leases	0.10	Other operating leases
<b>Total</b>	<b>100.33</b>	

Note the table above includes costs associated with the Traffic Management Act, shown on a separate line in table 4J in the APR.

### 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% - £40.23m	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	74.55% - £74.80m	25.45% - £25.54m

## 3.6 Operating cost analysis for the retail business

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 2.09.

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.

Ofwat 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.

### 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
Customer side leaks	0.99	Retail element of cost to investigate customer leaks
General and support and other business activities	3.92	General support costs and other business activities allocated to retail
Customer Services Management	0.75	Employment cost of Customer Services Management team
Customer Experience Planning	1.08	Employment costs of delivering Customer Services systems enhancements and upgrade, coaching team, and resource & planning team
Voice of the Customer	0.77	Employment costs for administering customer feedback systems
Other direct costs	1.53	Aggregated other direct costs
<b>Total</b>	<b>9.04</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 between household unmeasured and measured.



<b>Table line</b>	<b>Activity / cost type</b>	<b>Cost driver</b>	<b>Rationale for cost driver</b>
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 2022/23.
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 non-network 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 network 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	Costs assumed to vary with the proportion of debt outstanding for

Table line	Activity / cost type	Cost driver	Rationale for cost driver
		unmeasured and measured customers.	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 Financial Officer, Director of Asset Strategy & Capital Delivery, Head of Investment Programme Management, Head of Financial Planning and Analysis, and Head of Procurement 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 2.09. 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 tables 2A and 2C, we have followed the process as detailed in the section "Recharges between price control units" further on in this document. When completing table 4J (and subsequently table 4D.8, which is derived from 4J.17) 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 (Table 4J line 4J.15).

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 (Table 4J, line 4J.16)

- (ii) Other Capital Expenditure Infra (Table 4L Total – part)
- (iii) Other Capital Expenditure – non infra (Table 4L Total – part)
- (iv) Infrastructure network reinforcement (Table 4N, line 4N.7).

### **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**

Excluding High Speed 2 ('HS2') which is detailed below, 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 4.11. 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 4.11, the variance brought forward for this infrastructure charges reconciliation in the prior year was £5.33m, with a variance of £4.57m carried forward into 2023/24 where we have received less in revenue than we have spent. Our infrastructure costs have been front loaded in AMP7 and we plan to recover the balance of the contributions in years 4 & 5.

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 Fusion management 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 depreciation charges are calculated for each price control unit in line with the International Financial Reporting Standards basis of 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 tangible fixed assets movements

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

Water Resources	2022/23 £m	2021/22 £m	Variance £m	Variance %
Additions	7.392	26.582	-19.190	-72%
Disposals	-0.330	-0.004	-0.326	8159%
Depreciation	-8.339	-2.700	-5.639	-209%
<b>Total movement</b>	<b>1.277</b>	<b>23.878</b>	<b>25.155</b>	<b>-105%</b>

Water Resources additions decreased during the year due to the reduction of construction of assets by the company under the HS2 programme. Depreciation has increased due to incurring, for the first time, a full year's depreciation on some of the larger scale HS2 assets at Amersham, Northmoor and West Hyde.

Water Network+	2022/23 £m	2021/22 £m	Variance £m	Variance %
Additions	108.608	112.215	-3.607	-3%
Disposals	-1.352	-1.013	-0.338	-33%
Depreciation	-65.284	-61.431	-3.853	-6%

Water Network+	2022/23 £m	2021/22 £m	Variance £m	Variance %
<b>Total movement</b>	<b>41.972</b>	<b>49.771</b>	<b>-7.799</b>	<b>-16%</b>

Water Network+ additions have decreased marginally from prior year whilst Water Network+ depreciation has remained at a consistent level.

Retail household	2022/23 £m	2021/22 £m	Variance £m	Variance %
Additions	-	0.906	-0.906	-100%
Disposals	-	-	-	-
Depreciation	-	-0.001	0.001	100%
<b>Total movement</b>	<b>-</b>	<b>0.905</b>	<b>-0.905</b>	<b>-100%</b>

There have been no tangible retail household additions in the year.

## 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 2.09. This includes right-of-use assets that have been capitalised under IFRS 16: 'Leases' ('IFRS 16'). A cross charge is then made to the other business units to account for the depreciation of the asset. The recharges for all assets, including right-of-use assets are calculated by apportioning the relevant costs based on FTE head count.

The methodology of calculating recharges has not changed from prior year, however recharges are shown differently on the face of table 2A as recharges between the wholesale units are already included in the line Operating expenditure - including PU recharge impact.

Recharges	2022/23 £m	2021/22 £m	Variance £m	Variance %
From Wholesale to Retail Household	-0.199	0.421	-0.620	-147%

## Boundary allocations

Assets are allocated to each price control based on the requirements of RAG 4.11 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.

## 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 2B, the capital expenditure lines in this table pull directly from the base capital expenditure in 4J, the enhancement capital expenditure in table 4L and the developer services capital expenditure in 4N.

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 2C (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 2O (Historic cost analysis of intangible 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. Assets included on this table are those identified as intangible (essentially computer software). These are referred to in the earlier "Exceptions" paragraph and as such are split pro-rata across the business units.

Table 4D shows expenditure by category and business unit. A complete listing of all expenditure on capital projects is downloaded from Oracle Fusion complete with the appropriate business unit and capital expenditure category (infrastructure / non-infrastructure, enhancement / maintenance or network reinforcement) as identified by the project manager upon set up. Expenditure at Egham for the benefit of South East Water is identified and allocated to the third party services line. We are showing the % of this expenditure that equals the % charge out rate for the financing of these assets.

In addition to capital projects, leased assets are similarly added to the table. These are our head office building in Hatfield, vehicles and our IT data centre. All totals are checked against the relevant fixed asset notes in the statutory accounts.

These details are then checked and reviewed by the finance team against the provisions of RAG 4.11 with the assistance of project managers and experts within AWL. Items that are not for a specific business unit (typically IT) are apportioned on a pro-rata basis.



Table 4F details major project expenditure, split into major capital expenditure by purpose and major operating expenditure by purpose. The tables were populated by first identifying the major projects in line with the guidance and then detailing the costs for each. We have included projects for our Strategic Resource Options.

Table 4J details capital expenditure maintaining the long term capability of the assets, split by infra and non-infra, and allocated across the price controls. The tables were populated by identifying which expenditures relate to infrastructure and non-infrastructure maintenance and within which price control at the outset of each project. Expenditure is then appropriately allocated to 4J.15 and 4J.16.

Table 4L details enhancement capital expenditure by EA/NRW environmental programme (WINEP/NEP), supply-demand balance, metering expenditure and other enhancement expenditure. The table populated by the data set used for 4D is also used for 4L. Using data from our Oracle Financials system, where at the outset, each Project is coded to the appropriate Base or Enhancement category in line with the Business Plan and determination, spend is allocated to the relevant headings in the table with any non-specific projects (typically IT) again being allocated on a pro-rata basis. Overheads are now also allocated between Base and Enhancement using the same methodology. Expenditure in the report year total ties back to the total of enhancement expenditure in Table 4D. Following a review, Leakage Opex, previously recognised as Enhancement has been re-categorised as Base as there was no allowance for such spend in the determination.

Table 4N details developer services expenditure in the year. See section 4.4 for details on how developer services expenditure has been allocated.

Table 6F has been prepared using the same data set and methodology as table 4L, with overheads also allocated to expenditure lines.

## 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.

#### 4.4 Developer Services expenditure

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Developer services expenditure in table 4N, and tables 2B and 4D which are dependent on 4N, is populated based on the nature of the service provided to developers. Direct expenditure on new connections and requisitioned mains is treated as Treated Water Distribution as these services are to connect a property to an existing water main, or to provide a new water main entirely. Indirect expenditure, for example the proportion of Other Business Activity (Regulation) costs are reallocated evenly across the business units.

Infrastructure network reinforcement expenditure relates to the provision or upgrading of infrastructure network assets such as water mains, tanks, service reservoirs, to provide for new customers with no net deterioration of existing levels of service. These costs have been allocated as per RAG 4.11 to the same categories of expenditure that were used to calculate infrastructure charges for English companies.

#### 4.5 Bulk supply expenditure

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Bulk supply expenditure in table 4A has been populated using directly coded costs split into categories as per the bulk supply register.

#### 4.6 Innovation competition expenditure

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Revenue included in line 9A.2 is the amount billed and charged to customers for the innovation competition. It has not been adjusted for revenue that has not yet been collected.

£0.679m costs have been included in table 9A relating to bids awarded in the year to 31 March 2023. Where bids have been awarded after 31 March 2023, these will be included in subsequent APRs.

## 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 placement;
  - CARS – first and second placement, and closed accounts;
  - UK Search – for trace and collect activity on closed accounts;
  - QDR Solicitors – for pre-litigation and litigation activity; and
  - Court Enforcement Services – High Court enforcement post county court judgement.
- Previously written off debt is sold on to JC International Acquisition LLC.

### 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 adopts International Financial Reporting Standard 9: 'Financial instruments' ('IFRS 9') 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 under normal economic circumstances. Our bad debt provision increased during the year due to additional amounts provided for as a result of the decline in cash collection rates seen with the ongoing cost of living crisis. This was offset by the debt sale that took place, where fully provided for debt was sold outside of the company. There has been a resultant increase in the provision from £33,037,000 at 31 March 2022 to £36,968,000 at 31 March 2023 as a result of the above reasons.

## 6 Revenue, other operating income and other income

### 6.1 Key principles

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As per Ofwat guidelines (RAG 4.11) 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 2022/23 (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

Wholesale revenue has been allocated between Water Resources and Water Network+ based on an apportioning method, using the split of allowed revenue as determined in our Final Determination for AMP7 and applying that percentage to actuals.

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.



## 7 Assurance

We set out below the internal and external assurance procedures performed in relation to the information presented in this methodology statement and associated tables presented in our 2022/23 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 Fusion 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 Financial Controller, Chief Financial Officer and the Audit, Risk and Assurance Committee; and
- this methodology statement has also been presented to the Audit, Risk and Assurance 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, 2I, 2J, 2K, 2L, 2M, 2N and 2O has been performed (refer to the independent auditor's report in our APR);
- an external review by Atkins of the procedures used to collect and report the information in tables 4D, 4F, 4J and 6F (capital expenditure information only) to ensure appropriate allocation; and
- agreed upon procedures have been performed by our external auditor, PwC, over tables 4A (operating costs and revenue columns), 4B, 4C, 4D, 4F, 4H, 4I, 4J, 4L, 4N, 4P, 4V, 4W, 5B, 6D, 6F and 9A 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.

Our draft Assurance Plan for AMP7 has been published on our website at [affinitywater.co.uk/corporate/about/governance-assurance](http://affinitywater.co.uk/corporate/about/governance-assurance).

# **Methodology statement for Accounting Separation 2022/23**

## **Appendix**

## Water resources

21112	COS Production Lee
21115	COS Wholesale Operations Commercial
21117	COS Production Misbourne
21118	COS Production HS2
21121	COS Commercial Team
21123	COS Estates
21126	COS Catchment and Treatment
21127	COS Production Brett
21129	COS Production Stort
21142	COS Production Pinn
21147	COS Production Iver
21152	COS Production Wey
21161	COS Production Control Operations
21171	COS Telemetry Systems
21173	COS Production Capital Maintenance
21174	COS Production Instrumentation, Control and Automation
21181	COS Production Leadership
21182	COS Production Demand Incident
21191	COS Production Raw Materials
21193	COS Production Other
21195	COS Asset Strategy Central
21196	COS CIAM Asset Delivery
21212	COS Production Dour
21221	COS Mains Renewals and Trunk Mains
21225	COS Network Maintenance East
21253	COS Leakage Data Insight and Analysis
21301	COS Asset Management Water Strategy
21304	COS Asset Management NonInfrastructure Assets
21305	COS Asset Management Infrastructure Strategy
21306	COS Asset Management Business Intelligence
21307	COS Asset Strategy Graduates
21440	ADM Billing Contact Centre
21452	ADM Advanced Care
21481	COS Corporate Accounts Management
21484	COS Corporate Rechargeables
21485	ADM Regulation
22100	COS Outsourcing Operation of Assets
23302	COS Insurance
23401	ADM Procurement
23502	COS Water Quality
23503	COS Labs AQC
23505	COS Network Regulations
23506	COS Labs Samplers
23507	COS Labs Chemistry
23526	COS Labs Commercial

23602	ADM IT Development
23603	ADM IT Management
23604	ADM IT Architecture
23605	ADM IT Application Delivery
23606	ADM IT Project Management Office
23608	ADM IT Security and Risk
23611	ADM IT Infrastructure
23612	ADM IT Services Management
23614	ADM IT Geographical Analysis
23802	ADM HR Graduates
23803	ADM HR Recruitment
40201	ADM Finance General
40209	ADM Corporate General
40213	ADM Corporate Regulation
40218	ADM Corporate Accounts Management
40220	ADM Corporate General Management
40221	ADM Journey to 2025
40223	ADM Marketing and Experience
40302	ADM Legal
40304	ADM Internal Audit
40505	ADM Health and Safety
40506	ADM Business Planning
40511	ADM Licence Fees
40701	COS Facilities General
40703	ADM Wholesale Other Income
40801	ADM HR Management
40803	ADM HR Training
40804	ADM HR Medical
40805	ADM Payroll
40806	ADM Organisational Development Change
40901	ADM Corporate Affairs
40902	ADM Internal Communications

#### Raw Water Transport

21112	COS Production Lee
21117	COS Production Misbourne
21118	COS Production HS2
21123	COS Estates
21127	COS Production Brett
21129	COS Production Stort
21142	COS Production Pinn
21147	COS Production Iver
21152	COS Production Wey
21161	COS Production Control Operations
21171	COS Telemetry Systems

21173	COS Production Capital Maintenance
21174	COS Production Instrumentation, Control and Automation
21181	COS Production Leadership
21182	COS Production Demand Incident
21191	COS Production Raw Materials
21193	COS Production Other
21212	COS Production Dour
21214	COS Operational Service Desk
21217	COS Water Savings Programme
21218	COS Lead Replacement
21223	COS Network Maintenance South East
21225	COS Network Maintenance East
21241	COS Network Management and Contracts
21242	COS Network Direct Labour Force
21243	COS Resource Planning – Field Ops
21245	COS Development Experience Adhocs
21246	COS Stores
21251	COS Leakage Support
21252	COS Leakage Operations
21440	ADM Billing Contact Centre
21452	ADM Advanced Care
21454	ADM Wholesale Operations Service Desk
21457	ADM Meter Installation
21471	COS South Customer Operations
21476	COS Development Experience New Connections
21481	COS Corporate Accounts Management
21484	COS Corporate Rechargeables
21485	ADM Regulation
23302	COS Insurance
23401	ADM Procurement
23502	COS Water Quality
23503	COS Labs AQC
23505	COS Network Regulations
23506	COS Labs Samplers
23507	COS Labs Chemistry
23526	COS Labs Commercial
23602	ADM IT Development
23603	ADM IT Management
23604	ADM IT Architecture
23605	ADM IT Application Delivery
23606	ADM IT Project Management Office
23608	ADM IT Security and Risk
23611	ADM IT Infrastructure
23612	ADM IT Services Management
23614	ADM IT Geographical Analysis
23802	ADM HR Graduates
23803	ADM HR Recruitment

40201	ADM Finance General
40209	ADM Corporate General
40213	ADM Corporate Regulation
40218	ADM Corporate Accounts Management
40220	ADM Corporate General Management
40221	ADM Journey to 2025
40223	ADM Marketing and Experience
40302	ADM Legal
40304	ADM Internal Audit
40505	ADM Health and Safety
40506	ADM Business Planning
40511	ADM Licence Fees
40701	COS Facilities General
40703	ADM Wholesale Other Income
40801	ADM HR Management
40803	ADM HR Training
40804	ADM HR Medical
40805	ADM Payroll
40806	ADM Organisational Development Change
40901	ADM Corporate Affairs
40902	ADM Internal Communications

#### Raw Water Storage

21112	COS Production Lee
21115	COS Wholesale Operations Commercial
21117	COS Production Misbourne
21118	COS Production HS2
21121	COS Commercial Team
21123	COS Estates
21126	COS Catchment and Treatment
21127	COS Production Brett
21129	COS Production Stort
21142	COS Production Pinn
21147	COS Production Iver
21152	COS Production Wey
21161	COS Production Control Operations
21171	COS Telemetry Systems
21173	COS Production Capital Maintenance
21174	COS Production Instrumentation, Control and Automation
21181	COS Production Leadership
21182	COS Production Demand Incident
21193	COS Production Other
21195	COS Asset Strategy Central
21196	COS CIAM Asset Delivery
21212	COS Production Dour

21221	COS Mains Renewals and Trunk Mains
21225	COS Network Maintenance East
21253	COS Leakage Data Insight and Analysis
21301	COS Asset Management Water Strategy
21304	COS Asset Management NonInfrastructure Assets
21305	COS Asset Management Infrastructure Strategy
21306	COS Asset Management Business Intelligence
21307	COS Asset Strategy Graduates
21481	COS Corporate Accounts Management
21484	COS Corporate Rechargeables
21485	ADM Regulation
22100	COS Outsourcing Operation of Assets
23302	COS Insurance
23401	ADM Procurement
23502	COS Water Quality
23503	COS Labs AQC
23505	COS Network Regulations
23506	COS Labs Samplers
23507	COS Labs Chemistry
23526	COS Labs Commercial
23602	ADM IT Development
23603	ADM IT Management
23604	ADM IT Architecture
23605	ADM IT Application Delivery
23606	ADM IT Project Management Office
23608	ADM IT Security and Risk
23611	ADM IT Infrastructure
23612	ADM IT Services Management
23614	ADM IT Geographical Analysis
23802	ADM HR Graduates
23803	ADM HR Recruitment
40201	ADM Finance General
40209	ADM Corporate General
40213	ADM Corporate Regulation
40218	ADM Corporate Accounts Management
40220	ADM Corporate General Management
40221	ADM Journey to 2025
40223	ADM Marketing and Experience
40302	ADM Legal
40304	ADM Internal Audit
40505	ADM Health and Safety
40506	ADM Business Planning
40511	ADM Licence Fees
40701	COS Facilities General
40703	ADM Wholesale Other Income
40801	ADM HR Management
40803	ADM HR Training

40804 ADM HR Medical  
40805 ADM Payroll  
40806 ADM Organisational Development Change  
40901 ADM Corporate Affairs  
40902 ADM Internal Communications

## Water Treatment

21112 COS Production Lee  
21115 COS Wholesale Operations Commercial  
21117 COS Production Misbourne  
21118 COS Production HS2  
21121 COS Commercial Team  
21123 COS Estates  
21126 COS Catchment and Treatment  
21127 COS Production Brett  
21129 COS Production Stort  
21142 COS Production Pinn  
21147 COS Production Iver  
21152 COS Production Wey  
21161 COS Production Control Operations  
21171 COS Telemetry Systems  
21173 COS Production Capital Maintenance  
21174 COS Production Instrumentation, Control and Automation  
21181 COS Production Leadership  
21182 COS Production Demand Incident  
21191 COS Production Raw Materials  
21193 COS Production Other  
21195 COS Asset Strategy Central  
21196 COS CIAM Asset Delivery  
21212 COS Production Dour  
21221 COS Mains Renewals and Trunk Mains  
21225 COS Network Maintenance East  
21242 COS Network Direct Labour Force  
21253 COS Leakage Data Insight and Analysis  
21301 COS Asset Management Water Strategy  
21304 COS Asset Management NonInfrastructure Assets  
21305 COS Asset Management Infrastructure Strategy  
21306 COS Asset Management Business Intelligence  
21307 COS Asset Strategy Graduates  
21440 ADM Billing Contact Centre  
21452 ADM Advanced Care  
21481 COS Corporate Accounts Management  
21484 COS Corporate Rechargeables  
21485 ADM Regulation  
22100 COS Outsourcing Operation of Assets



23302 COS Insurance  
23401 ADM Procurement  
23502 COS Water Quality  
23503 COS Labs AQC  
23505 COS Network Regulations  
23506 COS Labs Samplers  
23507 COS Labs Chemistry  
23526 COS Labs Commercial  
23602 ADM IT Development  
23603 ADM IT Management  
23604 ADM IT Architecture  
23605 ADM IT Application Delivery  
23606 ADM IT Project Management Office  
23608 ADM IT Security and Risk  
23611 ADM IT Infrastructure  
23612 ADM IT Services Management  
23614 ADM IT Geographical Analysis  
23802 ADM HR Graduates  
23803 ADM HR Recruitment  
40201 ADM Finance General  
40209 ADM Corporate General  
40213 ADM Corporate Regulation  
40218 ADM Corporate Accounts Management  
40220 ADM Corporate General Management  
40221 ADM Journey to 2025  
40223 ADM Marketing and Experience  
40302 ADM Legal  
40304 ADM Internal Audit  
40505 ADM Health and Safety  
40506 ADM Business Planning  
40511 ADM Licence Fees  
40701 COS Facilities General  
40703 ADM Wholesale Other Income  
40801 ADM HR Management  
40803 ADM HR Training  
40804 ADM HR Medical  
40805 ADM Payroll  
40806 ADM Organisational Development Change  
40901 ADM Corporate Affairs  
40902 ADM Internal Communications

#### Trunk Treated Water Distribution

21112 COS Production Lee  
21115 COS Wholesale Operations Commercial  
21117 COS Production Misbourne

21118 COS Production HS2  
21121 COS Commercial Team  
21123 COS Estates  
21126 COS Catchment and Treatment  
21127 COS Production Brett  
21129 COS Production Stort  
21142 COS Production Pinn  
21147 COS Production Iver  
21152 COS Production Wey  
21161 COS Production Control Operations  
21171 COS Telemetry Systems  
21173 COS Production Capital Maintenance  
21174 COS Production Instrumentation, Control and Automation  
21181 COS Production Leadership  
21182 COS Production Demand Incident  
21191 COS Production Raw Materials  
21193 COS Production Other  
21195 COS Asset Strategy Central  
21196 COS CIAM Asset Delivery  
21211 ADM Customer Side Leakage  
21212 COS Production Dour  
21214 COS Operational Service Desk  
21217 COS Water Savings Programme  
21218 COS Lead Replacement  
21221 COS Mains Renewals and Trunk Mains  
21222 COS Non Infrastructure Programme Delivery  
21223 COS Network Maintenance South East  
21225 COS Network Maintenance East  
21241 COS Network Management and Contracts  
21242 COS Network Direct Labour Force  
21243 COS Resource Planning – Field Ops  
21245 COS Development Experience Adhocs  
21246 COS Stores  
21251 COS Leakage Support  
21252 COS Leakage Operations  
21253 COS Leakage Data Insight and Analysis  
21301 COS Asset Management Water Strategy  
21304 COS Asset Management NonInfrastructure Assets  
21305 COS Asset Management Infrastructure Strategy  
21306 COS Asset Management Business Intelligence  
21307 COS Asset Strategy Graduates  
21440 ADM Billing Contact Centre  
21452 ADM Advanced Care  
21454 ADM Wholesale Operations Service Desk  
21457 ADM Meter Installation  
21471 COS South Customer Operations  
21472 COS East Customer Operations

21476 COS Development Experience New Connections  
21481 COS Corporate Accounts Management  
21484 COS Corporate Rechargeables  
21485 ADM Regulation  
22100 COS Outsourcing Operation of Assets  
23302 COS Insurance  
23401 ADM Procurement  
23502 COS Water Quality  
23503 COS Labs AQC  
23505 COS Network Regulations  
23506 COS Labs Samplers  
23507 COS Labs Chemistry  
23526 COS Labs Commercial  
23602 ADM IT Development  
23603 ADM IT Management  
23604 ADM IT Architecture  
23605 ADM IT Application Delivery  
23606 ADM IT Project Management Office  
23608 ADM IT Security and Risk  
23611 ADM IT Infrastructure  
23612 ADM IT Services Management  
23614 ADM IT Geographical Analysis  
23802 ADM HR Graduates  
23803 ADM HR Recruitment  
40201 ADM Finance General  
40209 ADM Corporate General  
40213 ADM Corporate Regulation  
40218 ADM Corporate Accounts Management  
40220 ADM Corporate General Management  
40221 ADM Journey to 2025  
40223 ADM Marketing and Experience  
40302 ADM Legal  
40304 ADM Internal Audit  
40505 ADM Health and Safety  
40506 ADM Business Planning  
40511 ADM Licence Fees  
40701 COS Facilities General  
40703 ADM Wholesale Other Income  
40801 ADM HR Management  
40803 ADM HR Training  
40804 ADM HR Medical  
40805 ADM Payroll  
40806 ADM Organisational Development Change  
40901 ADM Corporate Affairs  
40902 ADM Internal Communications

## General and Support

21420	ADM User Acceptance Testing Team
21481	COS Corporate Accounts Management
21484	COS Corporate Rechargeables
23302	COS Insurance
23401	ADM Procurement
23402	ADM Procurement Support
23504	ADM Education Support
23601	ADM IT Commercial
23602	ADM IT Development
23603	ADM IT Management
23604	ADM IT Architecture
23605	ADM IT Application Delivery
23606	ADM IT Project Management Office
23608	ADM IT Security and Risk
23611	ADM IT Infrastructure
23612	ADM IT Services Management
23614	ADM IT Geographical Analysis
23701	ADM Facilities Finance
23802	ADM HR Graduates
23803	ADM HR Recruitment
40110	ADM Production Services
40201	ADM Finance General
40209	ADM Corporate General
40213	ADM Corporate Regulation
40218	ADM Corporate Accounts Management
40219	ADM Corporate Chairman
40220	ADM Corporate General Management
40221	ADM Journey to 2025
40223	ADM Marketing and Experience
40302	ADM Legal
40304	ADM Internal Audit
40503	ADM Strategy and Engagement
40505	ADM Health and Safety
40506	ADM Business Planning
40701	COS Facilities General
40703	ADM Wholesale Other Income
40801	ADM HR Management
40803	ADM HR Training
40804	ADM HR Medical
40805	ADM Payroll
40806	ADM Organisational Development Change
40901	ADM Corporate Affairs
40902	ADM Internal Communications

## Retail

21410 COS Operational Contact Centre  
21421 COS Meter Reading  
21422 ADM Performance & Resource Planning – Contact Centre  
21423 ADM Meter Reading Retail  
21426 ADM Debt Collections  
21431 ADM Income Services  
21432 ADM FS and SD CSL Contact Centre  
21436 ADM Product and Change  
21440 ADM Billing Contact Centre  
21451 ADM Customer Experience Management  
21452 ADM Advanced Care  
21453 ADM Customer Relations  
21456 ADM Quality Assurance  
21458 ADM Billing Services  
21459 ADM Customer Engagement and Research  
21460 ADM Commercial Services Cost  
21461 ADM Commercial Services  
21462 ADM Demand Management PCC  
21463 ADM Demand Management Marketing  
21481 COS Corporate Accounts Management  
21484 COS Corporate Rechargeables  
21485 ADM Regulation  
23302 COS Insurance  
23401 ADM Procurement  
23602 ADM IT Development  
23603 ADM IT Management  
23604 ADM IT Architecture  
23605 ADM IT Application Delivery  
23606 ADM IT Project Management Office  
23608 ADM IT Security and Risk  
23611 ADM IT Infrastructure  
23612 ADM IT Services Management  
23614 ADM IT Geographical Analysis  
23802 ADM HR Graduates  
23803 ADM HR Recruitment  
40201 ADM Finance General  
40205 ADM Customer Payments  
40209 ADM Corporate General  
40218 ADM Corporate Accounts Management  
40220 ADM Corporate General Management  
40223 ADM Marketing and Experience  
40224 ADM Corporate Rebranding  
40302 ADM Legal  
40304 ADM Internal Audit  
40505 ADM Health and Safety

40506 ADM Business Planning  
40511 ADM Licence Fees  
40701 COS Facilities General  
40801 ADM HR Management  
40803 ADM HR Training  
40804 ADM HR Medical  
40805 ADM Payroll  
40806 ADM Organisational Development Change  
40901 ADM Corporate Affairs  
40902 ADM Internal Communications