



CHANDLERKBS

A CUMMING AFFILIATE

PR24 RR5 and PD10 Tables
Methodology and Assurance Report
Northumbrian Water Limited
September 2023



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1. Background and Experience

Northumbrian Water Limited (NWL) required the services of a suitably qualified and experienced consultant to prepare the Tax Input tables as part of the Periodic Review (PR) 24 submission to Ofwat. The tables are Risk and Return 5 (RR5) and Past Delivery 10 (PD10).

ChandlerKBS has substantial experience in developing assessment methodologies to complete tax and other regulatory tables as part of the PR submission process. For PR24 we are advising 6 water and sewerage companies and 3 water only companies. We advised many of these companies during PR19, PR14 and previous price reviews. ChandlerKBS has delivered the service in line with our ISO 9001 accredited Quality Assurance procedures.

The service was provided by Senior Consultants with experience of the water industry, asset management plans, capital allowances, fixed assets and the completion of tax tables during numerous PR submissions.

2. The Requirement

The requirement is to review the proposed NWL Asset Management Plan 8 (AMP8) and to undertake project and programme level assessments, as required, to complete RR5 and PD10 in line with the Ofwat guidance based on the investment details provided by NWL.

Our remit consisted of the capital allowances allocations of the following,

- RR5 with regard to new capital expenditure (BP reference RR5.20 to RR5.25 and RR5.50 to RR5.97).
- PD10 with regard to the capital allowance super deductions for PR19 tax reconciliation (BP reference PD10.1 to PD10.10).

All other required inputs such as brought forward tax pools, tax liabilities, tax loss balance, deferred tax balances were completed direct by NWL.

3. Team

The service was provided by Senior Capital Allowances Consultants with direct experience in the water and sewerage sector. The team has advised NWL since 2012 and is very familiar with its procurement processes, assets and tax procedures.

Tony Evans, Senior Capital Allowances Consultant, prepared the project and programme level assessments and populated RR5. Tony has over 50 years' experience in the water sector, has advised NWL on capital allowances assessments since the 2012 and has prepared tax tables for 6 Periodic Reviews.

The ChandlerKBS Partner in charge was Dylan Davies. Dylan is a Chartered Surveyor and leads the Capital Allowances team. Dylan is managing the RR5 submission for 9 companies. Dylan has advised NWL on capital allowances since the 2012.

4. Scope

Our agreed scope is summarised below:

4.1 Prepare RR5 percentages of new capital expenditure qualifying for the following allowances,

- Main rate pool
- High level deduction main rate pool
- Special rate pool
- High level deduction special rate pool
- Structures and buildings allowances
- Expenditure not qualifying for any allowances
- Deferred Revenue Expenditure

Each pool is required to be split into the following price controls:

- Water Resources
- Water Networks
- Waste Water Networks
- Bio Resources

The above RR5 line references are RR5.20 to RR5 25 and RR5 50 to RR5.97.

- 4.2 Prepare PD10 tabulating the proportion of capital expenditure that qualifies for the super deduction main rate pool for PR19 tax reconciliation.

Each pool was required to be split into the following price controls:

- Water Resources
- Water Networks
- Waste Water Networks
- Bio Resources

The above BP reference items are PD10.1 to PD10.10

5. Methodology.

5.1 To populate the RR5 table, we referenced NWL's proposed delivery programme for the five-year AMP 8 period which included the following:

- Investment need
- Solution name
- Price Control Category
- Primary Functional Area
- Annual capex for each year between 2025/26 to 2029/30

The majority of the investment plan was assessed at the 'investment need level' using models and industry experience.

Where necessary, the investment plan line entries were supplemented with further project specific data. This allowed for a more detailed assessment at asset level.

The assessments are contained in a single excel workbook which includes,

- The source information from NWL
- The associated project or programme level capital allowances allocations
- A summary sheet and the inputs to the RR5 tables

There is an audit trail between the source information, the capital allowances allocations and the inputs to the RR5 tables.

5.2 To populate the PD10 table, we referenced the following company specific information:

- NWL's 2021/22 Qualifying Expenditure Schedule (QES)
- NWL's draft 2022/23 QES

The 2021/22 QES and the draft 2022/23 QES were used to calculate a split between expenditure qualifying for super deductions and expenditure qualifying for normal allowances (Plant and Machinery and Special Rate). This was then used to populate table PD10.

The inputs and outputs for the RR5 and PD10 tables are contained in two separate excel workbooks each of which contains the source information from NWL, the associated project or programme level capital allowances allocations, a summary sheet and the inputs to the tables.

For both tables there is an audit trail between the source information, the capital allowances allocations and the relevant line inputs.

6. Conclusions

The output generated from the methodology detailed in this assurance paper was reviewed internally in line with our ISO 9001 Quality Assurance procedures. Based on our review, we conclude that:

- The methodology is consistent with the approach taken by NWL when preparing its corporation tax return and is in line with current tax legislation, HMRC/WaterUK agreements and concessions and the law.
- The resultant percentages for each pool/price control are reasonable and generally in line with our expectations based on our experience across the water sector and NWL's historical capital allowances computations . The exception is the percentage for Special Rate allowances which is higher than anticipated. This is due to the proportionally high level of investment in the Combined Sewage Overflow programme contained in NWL's AMP8 Investment Plan compared to previous years.



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