



# **WATER INDUSTRY COMMISSION FOR SCOTLAND**

## **RULES AND GUIDELINES FOR CLASSIFICATION OF EXPENDITURE**

### **REGULATORY ACCOUNTING RULE 2**

**Operative: Financial Year 2007-08  
Version 4.0 April 2008**

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# PART ONE – ASSET CATEGORIES

## 1 Classification of expenditure

This Regulatory Accounting Rule covers the classification of expenditure by purpose category under infrastructure renewals accounting.

### Asset categories

#### 1.1 Infrastructure assets generally comprise:

- underground systems of mains and sewers;
- impounding and pumped raw water storage reservoirs;
- dams;
- sludge pipelines;
- sea outfalls; and
- information about infrastructure assets e.g. zonal investigations records.

All other assets, typically above ground, are classified as non-infrastructure.

#### 1.2 Non-infrastructure assets are depreciated in line with current accounting conventions, under historic or current cost accounting as appropriate, and the appropriate depreciation charge made to the profit and loss account to represent the economic consumption by the business during the year.

#### 1.3 Infrastructure assets are not depreciated. Instead, an infrastructure renewals charge (IRC) is made to the profit and loss account to represent the maintenance of asset value by the business during the year. The IRC should reflect Scottish Water's assessment of its medium to long-term capital maintenance needs to maintain infrastructure asset serviceability and operating capacity. The IRC is taken to the balance sheet as a provision (for liabilities and charges) and actual expenditure (IRE) on infrastructure assets is set off against this provision as it occurs. Any difference from year to year between IRC and IRE is accumulated in the balance sheet as a cumulative accrual (IRA) or prepayment as appropriate.

## PART TWO – EXPENDITURE CATEGORIES

### 2 Expenditure categories

2.1 Expenditure on each type of assets is categorised by purpose either as:

- **base service provision**, which is required to maintain the current (most recently established base) level of serviceability to customers; or as
- **enhancement** where there is a permanent increase in the current level of serviceability to a new "base" level.

Enhancement is further divided as follows:

- **quality** where expenditure is required to comply with **new** (i.e. since the base service level was established) legally enforceable quality obligations;
- **enhanced service level** where expenditure provides an identifiable, measurable and permanent step change in overall level of service to existing customers above the standard previously provided;
- **supply/demand balance** where expenditure
- provides water and sewerage services for new customers with no net deterioration from the current level of service provided to existing customers; and/or
- accommodates the increased use of water by existing customers at the current level of service.

2.2 Works to provide alternative means of maintaining the current level of serviceability to customers or to the environment should be reflected in infrastructure base service provision. Such expenditure will normally be reflected in infrastructure renewals expenditure but may also include infrastructure asset additions (for example where a network is extended or improved to enable flows to be transferred for efficiency or maintenance reasons).

2.3 Routine maintenance not included in capital expenditure and other maintenance expenditure arising in reactive way on a day-to-day basis are treated as an operating cost and taken directly to the profit and loss account. For full details, see the Annual Return Reporting Requirements and Definitions Manual Table M18W and M18WW.

2.4 Annex 1 to this Rule classifies the categories of capital expenditure in Tables D1, D2, G1 and G2 of the Annual Return as infrastructure/non-infrastructure and by purpose (Base, Qual, ESL, and SDB). The associated operating expenditure should appear in Table M18W or M18WW.

## **PART THREE – PROPORTIONAL ALLOCATION**

### **3 Proportional allocation**

- 3.1 Proportional allocation of capital expenditure is required between purpose categories as follows:
- base service provision, which includes all expenditure required to maintain current levels of serviceability to existing customers;
  - quality;
  - enhanced service level (ESL); and
  - supply/demand balance.
- 3.2 As noted above, the last three purpose categories represent an enhancement: a permanent increase in aggregate service level to existing customers and/or the provision to new customers of the current service level. Enhancement projects may serve several purposes and in most cases will involve an element of maintenance works being carried out earlier than otherwise necessary. This advanced maintenance element should be allocated to base service provision.
- 3.3 It should however be noted that where enhanced service levels arise from expenditure required for other purpose categories then only the incremental expenditure, if any, should be allocated to ESL. Allocation to ESL should represent expenditure incurred solely for the purpose of achieving an identifiable, measurable and permanent stepped improvement in aggregate service levels.
- 3.4 Schemes and projects under each service area should be allocated by proportion to each of the relevant purpose categories to at least the nearest 5%. However, scheme values above £100,000 must be proportionally allocated because of the effect that a large individual scheme may have on the allocation of expenditure to a particular purpose category.
- 3.5 Total scheme expenditure should be proportioned across the purpose categories in relation to the relative magnitudes of each element of the scheme. A single physical measure should be identified that is appropriate to all the relevant investment categories in a service area for example, rate of flow, equivalent population or hydraulic capacity.
- 3.6 Scottish Water should explain its allocation methodology.

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

#### WATER SERVICE AREAS

Water Resource Facilities  
Water Treatment Works  
Water Distribution Mains  
Service Reservoirs and Water Towers  
Booster Pumping Stations  
Management and General – Water Service

#### SEWERAGE SERVICE AREAS

Sewerage  
Sea Outfalls and Headworks  
Sewage Treatment Works  
Sludge Treatment  
Sludge Disposal  
In-line Pumping Stations  
Terminal Pumping Stations  
Management and General – Sewerage Service

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	WATER SERVICE – ALL AREAS	Expenditure Purpose Table, Line
D1, *, Total	Infra or Non-infra	Element of works solely to achieve an identifiable, measurable and permanent stepped improvement in service levels above the most recently established base service level.	<b>ESL G1.9</b>
D1, *, Total	Infra or Non-infra	Element of works required solely to meet demand from new customers and/or increased demand from existing customers.	SDB G1.13

Notes: Lines on table D1 (\*) to be between 1 and 52 according to service area(s);

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra Structure	WATER RESOURCE FACILITIES	Expenditure Purpose Table, Line
		All dams and impounding reservoirs holding raw water; all pumping stations in raw water systems including in-line transfer pumping, river intakes, boreholes, springs and wells requiring simple disinfection prior to forwarding into the supply system; and all mains or aqueducts associated with the transfer of raw water either between sources or from source to treatment.	
D1.1, D1.2, Total	Non-infra	RESOURCE DEVELOPMENT Refurbishment of boreholes, river intakes and related facilities.	Base G1.3
D1.1, Total	Infra	RESERVOIR MAINTENANCE INCLUDING SAFETY Repointing and repair of dam/spillway, extending height of dam wall and freeboard, extending/widening spillway, rehabilitation work.	Base G1.2
D1.14, D1.15, D1.16, Total	Non-infra	PUMPING STATIONS New/renewal of/other work to pumping stations size for size element and/or rationalisation	Base G1.3



## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	WATER RESOURCE FACILITIES Continued	Expenditure Purpose Table, Line
D1.3, Total	Infra	AQUEDUCT REFURBISHMENT Size for size/equivalent metric size element of mains Replacement irrespective of material.	Base G1.2
D1.3, Total	Infra	Scraping and lining/relining to address condition/pressure/flow /interruption problems.	Base G1.2
D1.33, Total	Infra	Relining arising solely from need for final water supplied to meet the terms of the Water Supply (Water Quality) (Scotland) Regulations 2001 and resulting in a pipe capable of delivering water to an appropriately increased standard. Note: Subsequent scraping and lining would be maintenance and therefore Base.	Qual G1.7
D1.3, Total	Infra	General preservation of the network including repointing, scouring, pipe bursting size for size and investigation of aqueduct condition.	Base G1.2
D1.3, Total	Infra	Refurbishment/replacement of pipe bridges, tunnels, conduits, valves and chambers.	Base G1.2
D1.3, Total	Infra	Works to secure/provide alternative supplies in order to maintain base service provision.	Base G1.2
D1.3, Total	Infra	Size for size element of diversions.	Base G1.2
		GENERAL	
D1.3, Total	Infra	Works to comply with Health and Safety legislation: - below ground;	Base G1.2
	Non-infra	- above ground.	Base G1.3
		Works to improve efficiency eg energy conservation:	
D1.3, Total	Infra	- below ground;	Base G1.2
	Non-infra	- above ground.	Base G1.3

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	WATER TREATMENT WORKS	Expenditure Purpose Table, Line
D1, (a), Total	Non-Infra	All water treatment works, but excluding both simple disinfection associated with groundwater boreholes/wells and also secondary disinfection included with the distribution system.	Base G1.3
D1, (a), Total	Non-Infra	Size for size element of additional/enhanced treatment facilities, renewals of existing works including Instrumentation Control and Automation.	Base G1.3
D1, (a), Total	Non-Infra	New Instrumentation Control and Automation to improve operational efficiency even if it improves treatment quality.	Base G1.3
D1, (b), Total	Non-Infra	Element of additional/enhanced treatment facilities arising solely to comply with legal quality obligations for the current works aggregate capacity and resulting in treatment works capable of supplying water to an appropriately increased quality standard.	Base G1.3
D1, (a), Total	Non-Infra	Works to comply with Health and Safety legislation.	Base G1.3
D1, (a), Total	Non-Infra	Works to improve efficiency eg energy conservation.	Base G1.3

Notes: Lines on table D1 (a) to be 4 to 11;

Lines on table D1 (b) to be 34 to 41.

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	WATER DISTRIBUTION MAINS	Expenditure Purpose Table, Line
		All mains associated with the supply of water for industrial and domestic uses including associated pipe bridges, tunnels/conduits, service tunnels, culverts, valves, chambers and system ancillaries.	
		<b>MAINS</b>	
		Diversion, duplication, new, relining, replacement, reinforcement, scraping and lining:	
D1,(a), Total	Infra	- size for size/equivalent metric size element, irrespective of material to maintain base service provision;	Base G1.2
D1,(b), Total	Infra	- element arising solely from the need for current capacity to comply with legal quality obligations and covered by undertaking given to the Drinking Water Quality Regulator for a strategic programme of work.	Qual G1.7
D1,(a), Total	Infra	Renewal of pipe bridges, tunnels, conduits, valves and chambers.	Base G1.2
		<b>CUSTOMER ANCILLARIES</b>	
D1,(a), Total	Non-Infra	Renewal/replacement of flow/pressure meters and chambers.	Base G1.3
		Replacement/enhancement of communication/ service pipes:	
D1,(a), Total	Infra	- element to address condition/pressure/ interruption problems;	Base G1.2
D1,(b), Total	Infra	- element arising solely from the need to replace lead communication pipes under the terms of a formal statement of intent for strategic or opportunistic programme, or successor documents.	Qual G1.7

Notes: Lines on table D1 (a) to be 17 to 21;

Lines on table D1 (b) to be 47 to 51.

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra Structure	WATER DISTRIBUTION MAINS Continued	Expenditure Purpose Table, Line
D1, (a), Total	Infra	OTHER WORK Zonal investigations.	Base G1.2
D1, (a), Total	Non-infra	Pressure and flow monitoring (incl. portable loggers)	Base G1.3
D1, (a), Total	Non-infra	Secondary disinfection.	Base G1.3
D1, (a), Total	Infra	Works to comply with Health and Safety legislation. - below ground;	Base G1.2
	Non-infra	- above ground.	Base G1.3
D1, (a), Total	Infra	Works to improve efficiency eg energy conservation - below ground;	Base G1.2
	Non-infra	- above ground.	Base G1.3

Notes: Lines on table D1 (a) to be 17 to 21;

Lines on table D1 (b) to be 47 to 51.

Asset Type Table, Line, Column	Infra/ Non-infra structure	SERVICE RESERVOIRS AND WATER Towers water service storage	Expenditure Purpose Table, Line
D1.12, Total D1.13, Total	Non-infra	All treated water service reservoirs and towers within the water supply system and water treatment works and secondary disinfection plant on reservoir sites. Include break pressure tanks. Renewal of/other work to service reservoirs and water towers.	Base G1.3
D1.12, Total D1.13, Total	Non-infra	Works to comply with Health and Safety legislation.	Base G1.3
D1.12, Total D1.13, Total	Non-infra	Works to improve efficiency eg energy conservation	Base G1.3

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	PUMPING STATIONS Treated water	Expenditure Purpose Table, Line
D1.14, Total D1.15, Total D1.16, Total	Non-infra	Pumping stations drawing on treated water storage, including those located on water treatment works sites.  Note: Pumping stations in raw water systems are included under Water Resource Facilities and interstage pumping stations at water treatment works under Water Treatment.  New/renewal of/other work to pumping stations size for size element and/or rationalisation.	Base G1.3
D1.14, Total D1.15, Total D1.16, Total	Non-infra	Works to comply with Health and Safety legislation.	Base G1.3
D1.14, Total D1.15, Total D1.16, Total	Non-infra	Works to improve efficiency eg energy conservation	Base G1.3

Asset Type Table, Line, Column	Infra/ Non-infra structure	MANAGEMENT AND GENERAL - WATER SERVICE	Expenditure Purpose Table, Line
[32,23,01]	Infra	General mapping and updating of network records and associated improvements in efficiency.	Base G1.2
[32,23,02]	Non-infra	New/extensions to existing land, buildings, laboratories, depots and workshops.	Base G1.3
[32,23,02]	Non-infra	New/renewal of telemetry/communications systems, leakage control/monitoring equipment, analytical/sampling plant and equipment, land, buildings, laboratories, depots and workshops.	Base G1.3
[32,23,02]	Non-infra	New/renewal of computers (pcs, mainframes and software), vehicles and mobile plant.	Base G1.3
[32,23,02]	Non-infra	Recreation/conservation.	Base G1.3
[32,23,02]	Non-infra	Site security.	Base G1.3
[32,23,02]	Non-infra	Works to comply with Health and Safety legislation.	Base G1.3
[32,23,02]	Non-infra	Works to improve efficiency eg energy conservation.	Base G1.3

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	SEWERAGE SERVICES – ALL AREAS	Expenditure Purpose Table, Line
D2, *, Total	Infra or Non-infra	Element of works solely to achieve an identifiable, measurable and permanent stepped improvement in service levels above the most recently established base service level.	<b>ESL G2.9</b>
D2, *, Total	Infra or Non-infra	Element of works required solely to meet demand from new customers and/or increased demand from existing customers.	SDB G2.11

Notes: Lines on table D2 (\*) to be between 1 and 52 according to service area(s);

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	SEWERAGE	Expenditure Purpose Table, Line
		All foul water, combined, relevant surface water and lateral sewers including interceptor sewers, manholes, overflows, sewage pumping mains, syphons, tank and transfer sewers.	
		Diversion/duplication/new /renewal/replacement/of sewers, interceptor sewers, storm overflows, storage capacity and step irons/manhole covers; drainage area investigations including flow surveys and catchment specific records upgrading.	
D2,(a),Total	Infra	- size for size/equivalent metric size element, rationalisation;	Base G2.2
D2,(a),Total	Infra	- element required solely either to improve unsatisfactory overflows or to comply with new discharge consents, in either case for current capacity and previously agreed with the Scottish Environment Protection Agency.	Qual G2.7
D2,(a),Total	Infra	Works to comply with Health and Safety legislation.	Base G2.2
D2,(a),Total	Infra	Works to improve efficiency eg energy conservation	Base G2.2

Notes: Lines on table D2 (a) to be 1 to 5;

Lines on table D2 (b) to be 31 to 35.

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### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	SEA OUTFALLS AND HEADWORKS	Expenditure Purpose Table, Line
D2.6,Total D2.7,Total	Infra	Sea outfalls include all pipelines/diffusers used for the disposal of foul and surface water and sewage effluent to the marine environment and comprise the length below the spring tide high watermark. Pipe above this watermark is included in sewerage.  Renewal/refurbishment/size for size element of other works/rationalisation of sea outfalls.	Base G2.2
D2.6,Total D2.7,Total	Non-infra	Headworks - renewal/refurbishment/size for size element of other works/rationalisation;	Base G2.3
D2.36,Total D2.37,Total	Non-infra	- element required solely to comply with legal quality obligations and previously agreed with the Scottish Environment Protection Agency that result in headworks of current capacity capable of treating effluent to the required more exacting quality standards.	Qual G2.7
D2.6,Total D2.7,Total	Non-infra	Renewal/new Instrumentation Control and Automation even if it improves treatment quality.	Base G2.3
D2.6,Total D2.7,Total	Infra	Works to comply with Health and Safety legislation - below ground;	Base G2.2
D2.6,Total D2.7,Total	Non-infra	- above ground.	Base G2.3
D2.6,Total D2.7,Total	Infra	Works to improve efficiency eg energy conservation - below ground;	Base G2.2
D2.6,Total D2.7,Total	Non-infra	- above ground.	Base G2.3



## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	SEWAGE TREATMENT WORKS	Expenditure Purpose Table, Line
		<p>Include all sewage treatment works with one or more treatment stages, interstage pumping facilities and sludge holding tanks with provision for dewatering.</p> <p>New treatment works/work carried out to existing works to increase treatment facilities/capacity</p>	
D2,(a),Total	Non-infra	- size for size element and rationalisation;	Base G2.3
D2,(b),Total	Non- infra	- element required solely either to comply with legal quality obligations that result in works of current capacity capable of treating effluent to the required more exacting quality standard as set down in the environmental programmes proposed by the Scottish Environment Protection Agency and confirmed by Ministers.	Qual G2.7
D2,(a),Total	Non-infra	New Instrumentation Control and Automation (ICA) to improve operational efficiency even if it improves Treatment quality, renewals of existing treatment works ICA, size for size element of other work carried out to existing works to improve treatment facilities/capacity.	Base G2.3
D2,(a),Total	Non-infra	Works to comply with Health and Safety legislation.	Base G2.3
D2,(a),Total	Non-infra	Works to improve efficiency eg energy conservation	Base G2.3

Notes: Lines on table D2 (a) to be 10 to 14;

Lines on table D2 (b) to be 40 to 44.

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### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	SLUDGE TREATMENT Excluding sludge holding tanks and pipelines	Expenditure Purpose Table, Line
		All sludge treatment plant which changes the nature of the raw sludge prior to its final disposal. Sludge holding tanks are included under Sewage Treatment Works.	
		New/enhanced treatment/storage facilities, renewal of existing sludge treatment works, pumping stations:	
D2,(a),Total	Non-infra	- size for size element and rationalisation;	Base G2.3
D2,(b),Total	Non- infra	- element required solely to comply with new legal quality obligations either on the disposal of existing amounts of sludge or for the increased amounts of sludge resulting from more exacting effluent quality standards.	Qual G2.7
D2,(b),Total	Non-infra	New Instrumentation Control and Automation to improve operational efficiency even if improves capacity.	Base G2.3
D2,(b),Total	Non-infra	Works to comply with Health and Safety legislation.	Base G2.3
D2,(b),Total	Non-infra	Works to improve efficiency eg energy conservation.	Base G2.3

Notes: Lines on table D2 (a) to be 15 to 20;

Lines on table D2 (b) to be 45 to 50.

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	SLUDGE DISPOSAL Excluding sludge disposal vehicles	Expenditure Purpose Table, Line
D2,(a),Total	Infra	Include all plant and transfer arrangements associated with the final disposal of treated sludge. Sludge disposal vehicle are included under Management and General.	
D2,(a),Total	Infra	Maintenance of existing long sea outfalls, short sea outfalls and other sludge pipelines.	Base G2.2
D2,(a),Total	Non-infra	Maintenance of existing headworks, sludge disposal plant.	Base G2.3
D2,(a),Total	Infra	Works to comply with Health and Safety legislation - below ground;	Base G2.2
D2,(a),Total	Non-infra	- above ground.	Base G2.3
D2,(a),Total	Infra	Works to improve efficiency eg energy conservation - below ground;	Base G2.2
D2,(a),Total	Non-infra	- above ground.	Base G2.3

Notes: Lines on table D2 (a) to be 15 to 20;

Asset Type Table, Line, Column	Infra/ Non-infra structure	IN-LINE PUMPING STATIONS	Expenditure Purpose Table, Line
D2.8,Total	Non-infra	All pumping stations associated with the sewer system but excluding terminal pumping stations.	
D2.8,Total	Non-infra	Renewal/rationalisation of structures, mechanical, electrical and telemetry equipment.	Base G2.3
D2.8,Total	Non-infra	Works to comply with Health and Safety legislation.	Base G2.3
D2.8,Total	Non-infra	Works to improve efficiency eg energy conservation	Base G2.3

## APPENDIX 1

### Classification of Expenditure by Asset type and Purpose

Asset Type Table, Line, Column	Infra/ Non-infra structure	TERMINAL PUMPING STATIONS	Expenditure Purpose Table, Line
		All terminal and storm pumping stations including those on sewage treatment work sites but excluding interstage pumping within treatment works.	
D2.9,Total	Non-infra	Renewal/rationalisation of structures, mechanical, electrical and telemetry equipment.	Base G2.3
D2.9,Total	Non-infra	Works to comply with Health and Safety legislation.	Base G2.3
D2.9,Total	Non-infra	Works to improve efficiency eg energy conservation	Base G2.3

Asset Type Table, Line, Column	Infra/ Non-infra structure	MANAGEMENT AND GENERAL - SEWERAGE SERVICE	Expenditure Purpose Table, Line
	Infra	General mapping and updating of network records and associated improvements in efficiency.	Base G2.3
	Non-infra	New/extensions to existing land, buildings, laboratories, depots and workshops.	Base G2.3
	Non-infra	New/renewal of telemetry/communications systems, leakage control/monitoring equipment, analytical/sampling plant and equipment, land, buildings, laboratories, depots and workshops.	Base G2.3
	Non-infra	New/renewal of computers (pcs, mainframes and software), vehicles and mobile plant.	Base G2.3
	Non-infra	Combined heat and power plants.	Base G2.3
	Non-infra	Site security.	Base G2.3
	Non-infra	Works to comply with Health and Safety legislation.	Base G2.3
	Non-infra	Works to improve efficiency eg energy conservation.	Base G2.3