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AMP 8 Investment Plan
PR24 RR5 and PD10 tables – Assurance and
Methodology Report
South Staffordshire Water
September 2023



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1. Introduction

South Staffordshire Water (SSW) 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 titled 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 the review of the proposed 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 SSW.

Our remit consisted of the capital allowances allocations for the following:

- RR5 with regard to the opening balances (BP reference RR5.26 to RR5.43) and 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 tax liabilities, tax loss balance, deferred tax balances were completed direct by SSW.

3. The Team

The service was provided by Senior Capital Allowances Consultants with direct experience in the water and sewerage sector. The team has advised SSW since 2018 and is very familiar with SSW's procurement processes, assets and tax procedures.

Wayne Norfolk, Associate, prepared the project and programme level assessments and populated RR5. Wayne has over 25 years' experience in the water sector, has advised SSW on capital allowances assessments since 2018 and has prepared the RR5 tables for 2 other companies.

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 SSW on capital allowances since 2018.

4. Scope

Our agreed scope is summarised below:

- RR5 opening capital allowances balance for the main rate pool, special rate pool and structures and buildings.

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

- Water Resources
- Water Networks

The above BP reference items are RR5.26 to RR5.43.

- RR5 proportions of new capital expenditure qualifying for the main rate pool, high level deduction main rate pool, special rate pool, high level deduction special rate pool and structures and buildings.

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

- Water Resources
- Water Networks

The above BP reference items are RR5.20 to RR5.25 and RR5.50 to RR5.97.

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

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

- Water Resources
- Water Networks

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

5. Methodology

5.1. RR5 Opening Pool Positions (BP reference items are RR5.26 to RR5.43).

To populate these tables, we referenced the following company specific information:

- Capital allowance pools brought forward as at 31 March 2022.
- Stafford & Cambs QES 2023 – Draft Audit Provision.
- Y4 Y5 (23/24 and 24/25) Capex Budget.
- The proportion of each of the two price controls based on the RCV.

ChandlerKBS undertook a capital allowance assessment of each scheme on the 'Y4 Y5 Capex Budget' split into price controls. Where applicable, existing assessments from the 22/23 Qualifying Expenditure Schedule (QES) were applied to the schemes. For new schemes in the year, where no previous assessment exists, a new analysis was derived based on the scheme name and scheme comments.

The capital allowance pools as at 31 March 2022, the additions from the Stafford and Cambs QES 2023 and the additions from the assessments for the Y4 and Y5 capex budgets were written down and carried forward to 01 April 25.

There was no brought forward value at 31 March 2022 for Structures and Buildings Allowances (SBA's). For the opening position at 01 April 2025, we have included the 'in-use' SBA additions from the 2022/23 QES and 50% of the SBAs identified in the year 4 and year 5 capex budget assessments.

The proportions of the price controls as per the latest available RCV were applied to the value of each pool as at 01 April 2025.

5.2. New Capital Expenditure (BP reference items RR5.20 to RR5.25 and RR5.50 to RR5.97).

To populate these tables, we referenced the following company specific information:

- SSW's delivery programme for the five-year AMP 8 period.

The project/programme data (contained in two spreadsheets; one covering Capital Maintenance and the other covering Enhancement) provided the following information which was used to derive the capital allowances assessments:

- Investment
- Alternative/Investment description
- Enh Case Group (Enhancement)
- Portfolio (Enhancement)
- Bundle (Maintenance)
- Price Control Category
- Annual capex for each year between 2025/26 to 2029/30

ChandlerKBS applied a capital allowance assessment for each investment line on the 'Draft AMP8 investment program' split into price controls. In certain instances, additional information relating to the nature of the work for some investment lines was provided by SSW where requested. This provided the required data to populate table RR5.

Please note the following:

- SBAs are low on the AMP8 Investment plan compared to the 21/22 QES and 22/23 QES. There were two large WTWs being constructed during 21/22 and 22/23 which resulted in a higher level of SBAs compared to the anticipated levels in AMP8. These schemes should be completed before AMP8 and thereafter the anticipated value of SBAs will reduce.
- Lines RR5.20 to RR5.25 Proportion of new capital expenditure qualifying for a full deduction – opening. These relate to the Annual Investment Allowance (AIA) and research and development allowances and as agreed no expenditure has been included on the RR5 table for these.

5.3. Table PD10 - Capital allowance super deductions for PR19 tax reconciliation

To populate these tables, we referenced the following company specific information:

- SSW's 2021/22 QES.
- SSW'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 assessments for the above are contained in a single excel workbook which contains the source information from SSW, 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.

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 SSW when preparing the corporation tax return and is in line with current tax legislation and HMRC/WaterUK agreements and concessions.
- The resultant percentages for each pool/price control are reasonable and in line with our expectations based on our experience across the water sector and SSW's historical capital allowances computations.



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