south east water

Accounting Separation Methodolgy 2022/23

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Accounting Separation 2022/23

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1.1 Background and purpose

The purpose of this methodology statement is to illustrate the process and allocation procedures undertaken to complete the operating costs.

1.2 Overall Table Methodology

Overview / Data and System Integration

All costs come from a single source, the general ledger (Great Plains), and are exactly replicated within the cost allocation model. The general ledger exports an operating expenditure extract. This is converted into a Line Item Value (LIV) analysis and contains the following information:

- Account cost code
- Account description
- Responsibility centre number
- Responsibility centre description
- Sum of period balance
- Stat adjustments
- Adjusted sum of period balance

The LIV analysis includes ninety-four responsibility centres and this level of detail provides the platform to ensure costs are allocated to the correct business unit. The LIV is analysed and for each combination of responsibility centre and account cost code a resource driver is assigned. Cost aggregated against these resource drivers are later allocated to business unit, and activity line, by use of activity driver value (ADV) allocations.

Given this level of detail combination of responsibility centre and account code, cost can be specifically attributed to one business unit, and potentially to one activity line (i.e. the resource driver allocation would have a value of 100 per cent to one activity line). An example of this includes doubtful debt, which is a single account in the General Ledger, and a single line within the retail services table. Chemicals are another example of this allocation method, since these costs can be directly apportioned to the business unit "water treatment". Additionally, the detailed level of the LIV can also mean direct coding of labour resource to business unit.

From the original general ledger extract, approximately 48 per cent of cost is able to be directly attributed price control and activity. Where direct coding is not possible, the resource driver assigned can have multiple values to allocate cost across more than one business unit and/or activity line. In all cases the resource driver will always total 100 per cent to ensure all cost is allocated. When determining resource driver values appropriate driver data is sought to ensure robust allocation.

Driver Methodology

South East Water Activity Assessment

The purpose of this assessment is to understand South East Water personnel resource purpose in the company. The company is at a size which currently allows personnel review a feasible annual exercise and provides a robust analysis of activity across all business units and activity. The regulation and strategy team undertake an assessment with each responsibility centre manager and each member of staff is reviewed to understand their activity across the subject period. As outlined above a significant number of resources have a dedicated purpose to one business unit and are therefore directly assigned (e.g billing agent). Where resources are deemed to cross business units (or activities) then their time is appropriately allocated. Where this is the case we seek robust driver data (e.g. works management capture systems). Where direct driver data is not available then time is assessed by the responsibility centre manager.

Maximo Distribution / Leakage

Maximo is our works management system used to record activity spent within our distribution network. For each activity there is a specific jobplan. We have mapped each jobplan to business unit, and we are therefore able to aggregate hours of resource time spent to each business unit which is used to allocate associated cost. We review the jobplan mapping assessment annually to ensure the allocation remains appropriate and includes any additions of any new jobplans created. Specifically Maximo distribution/ leakage provides an assessment of resource time spent upon the treated water distribution network and conducting investigatory field visits to (retail) customers.

Energy kWh Analysis

Given the large proportion of cost attributed to energy the company invests a significant amount of time to energy management and optimisation. The benefit of this analysis provides a visibility of energy across the business units. We are constrained by the use of single point metering. The majority of key energy sites contribute all price control and business units: from water resource through to treated water distribution, which would include end of site high-lift pumps and network boosters. Via the cost-assessment approach the industry has made improvement with regard to average pumping head classification across the functions of accounting separation. In the absence of sub-metering, average pumping head therefore provides the best proxy use of energy across the management functions, and we have therefore aligned our cost to this allocation measure. We believe this provides the best consistency for industry comparison.

Water Quality Sampling

To assist with the allocation of water quality activity we use sampling numbers undertaken across the business units. Given the size and geography of the South East Water region we do not have a significant raw water network (i.e. the majority of abstraction and treatment is undertaken within a single site boundary). As such we assume no WQ samples are undertaken within a raw water network (i.e. samples are taken at either abstraction or within the treatment process).

Bulk Supplies

We receive both treated and untreated bulk supplies. We are aware of the RAG2 guidance to allocate bulk supply treatment across the relevant business functions. However we do not receive an allocated cost from either of our bulk suppliers (Affinity Water and Southern Water), and we are unable to establish a suitable allocation from their previous APRs. We are also concerned that using previous APRs would not be a suitable proxy of allocated cost since received volumes varies from scheme to scheme. We have therefore retained the previous allocation – i.e. untreated bulk supplies allocated to water resources; and treated bulk supplies allocated to water treatment. We are seeking collaboration from our bulk suppliers to improve their invoiced cost allocation for future periods.

IT Analysis

Analysis of key IT metrics are used to assist with the allocation of IT costs across business units and includes IT asset numbers and analysis of software licence costs.

GMEAV

The PR14 assessment of GMEAV has been used to allocate appropriate cost relating cumulo rates. We have updated the apportionment to take account of assets switching from water resources to network plus as per the revised regulatory accounting guidance in response to the pending water resources market. This has resulted in two surface reservoirs switching from water resources to raw water storage (network+).

Floor Area

Floor area has been used as an appropriate driver to allocate cost at office locations, for example local authority rates.

Fleet Vehicles

Numbers of direct vehicles is used to allocate associated cost (e.g. insurance).

Pension Deficit Recovery Payments

As per final determination all pension deficit recovery payments are allocated to the water resource and network plus price controls using the following allocations:

- Water Resources – 14%
- Network Plus – 86%

The PR19 final determination guidance outlined we no longer allocate the pension deficit recovery payment to the retail household price control. For the business units contained within network plus we have pro-rated according to allocations for 2019/20.

Operational Expenditure continued

1.3 Wholesale

Methodology

The overall methodology is consistently applied to both wholesale and retail, however outlined below is an overview of wholesale methodology specific to the wholesale function, including water resources, raw water distribution, water treatment, and treated water distribution.

The below table provides a brief methodology view of how operating costs are allocated, initially to table 4J, before being aggregated into 4D.

Operating expenditure

Table 4J

4J.1	Power	In the absence of sub-metering, energy cost is allocated using average pumping head.
4J.2	Income treated as negative expenditure	South East Water undertake an element of generator exporting to assist with grid balancing initiatives. We have allocated power to the APH allocation for the single site we operate.
4J.3	Bulk supply imports	Bulk supplies are a direct cost item at responsibility centre level and are therefore directly apportioned to either the water resources or water treatment function – since South East Water receive both non-potable and potable supplies from neighbouring companies.
4J.6	Other operating expenditure	Included within this line are (direct) employment, hired and contracted, materials and consumables (e.g. chemicals), plus all general and support function costs. Pension deficits recovery payments are excluded from employment costs within this line and as cash expenditure in 4D.16.
4J.7	Local authority rates	Cumulo rates are apportioned according to our GMEAV allocations, whilst local authority rates are apportioned according to floor area.
4J.9	Service charges	The majority of service charges relate to EA abstraction licences and are therefore directly attributable to the water resource function. A smaller element of expenditure relates to discharge consents, and is directly attributable to the water treatment function.
4J.11/12	Traffic Management Act / Lane rental schemes	By interrogation of invoices we are able to identify expenditure in the period for both traffic management act and lane rental scheme. All highway activity is allocated to the treated water distribution business unit.

Table 4D

4D.1	Base operating expenditure	Calculated sum from base operating costs in table 4J.
4D.2	Enhancement operating expenditure	Leakage activity – we calculate the enhancement as the variance between 2019/20 and reporting year costs for the leakage optimisation cost centre. Water efficiency – we calculate the enhancement as the variance between 2019/20 and reporting year costs for the leakage optimisation cost centre.
4D.3	Developer service operating expenditure	Developer activity relating to queries etc. is allocated as opex.

Wholesale Cost Variances

The wholesale cost allocation tables for 2020/22 have been disaggregated to provide more detail, and therefore cost comparison is not possible across all lines. However, the following lines are retained along with their percentage movement:

Table 4J operating (real) cost variances for key lines from the previous reporting year is as follows:

Ref	Line	% line increase	% of opex increase
4J.1	Power	+26.5%	+5.7%
4J.2	Income treated as negative expenditure	+58.3%	+0.0%
4J.3	Bulk supply	+30.0%	+1.6%
4J.6	Other operating expenditure	+43.7%	+21.5%
4J.7	Local authority and Cumulo rates	-8.1%	-1.5%
4J.9	Environment Agency / discharge consents	+25.5%	+0.8%
4J.11	Costs associated with Traffic Management Act	-26.8%	-0.2%
4J.12	Costs associated with lane rental schemes	-47.8%	-0.1%

Trigger levels for comment regarding significant change includes line fluctuation exceeding 2 per cent of total operating expenditure (either wholesale or retail expenditure), and also individual line cost which has changed by more than 30 per cent of the prior year figure. Items for comment therefore include:

- South East Water has not been immune to the volatile UK energy market. Increases have been restricted given the forward hedge of purchased power, however in the reporting year power costs have increased by 27 per cent (£5.9 million).
- Income treated as negative income – expenditure related to grid balancing opportunities restricted to one site only utilising existing resilience generator. Income is reflective of opportunities available, which increased in the reporting year leading to a 58 per cent increase in negative expenditure.
- Bulk supplies of water from neighbouring companies decreased in volume, however costs are reflective of energy and chemical prices – this has been driver for the increase in cost.
- Other operating expenditure has increased by £22.2 million for the report year. A number of factors led to a decrease in other operating expenditure for the report year:

  Increases are largely driven by incident costs, specifically a consequence of the 2022 summer heat wave and the freeze thaw event in December 2022 – these include increased reactive maintenance costs but also associated costs such as bottled water, compensation, water efficiency measures, and communication campaigns.
- Cost associated with lane rental schemes – decreased by £100k from the previous report year, but is however a marginal difference against total operating expenditure. Cost is reflective of activity in the highway, but also whether activity impact local lane rental schemes.

Operational Expenditure continued

1.4 Household Retail

Methodology

We continue to internally report customer services to a greater level of detail than required from table 2C, allowing extra granularity of customer service costs to include: 1) billing; 2) payment handling; 3) vulnerable activity; 4) query and complaints; 5) onsite customer investigations; and 6) and other customer services costs.

The majority of household retail expenditure is directly calculated via direct cost centres that are solely for the household price control. However, an element of household cost is derived by cost allocation. For example, wholesale distribution cost centres undertake an element of investigatory visits, and meter reading at customer properties. For this example we are able to allocate cost accurately via use of appropriate activity analysis recorded in Maximo against relevant jobplans. A number of support services also allocate cost between the various prices controls, and are allocated appropriately.

The below table confirms the level of detail, and how we aggregate to table 2C.

Activity	Table 2C mapping	Comment
Billing	2C.1 Customer services	Costs derived directly from retail HH cost centre
Payment handling	2C.1 Customer services	
Vulnerable customers schemes	2C.1 Customer services	Costs derived directly from retail HH cost centre, with some allocation from the Wholesale Customer Insight team
Non-network customer queries	2C.1 Customer services	Costs derived directly from retail HH cost centre
Network customer queries	2C.1 Customer services	Costs derived directly from retail HH cost centre
Investigatory visits	2C.1 Customer services	Costs allocated from wholesale distribution team
Other customer services	2C.1 Customer services	Costs derived directly from retail HH cost centre
Debt management	2C.2 Debt management	Costs derived directly from retail HH cost centre
Doubtful debt	2C.3 Doubtful debts	Costs derived directly from retail HH cost centre
Meter reading	2C.4 Meter reading	Costs derived directly from retail HH cost centre
Services to developers	2C.5 Services to developers	Exempt – no incumbent NHH retailer
Charitable trust donations	2C.6 Other operating expenditure	Costs derived directly from retail HH cost centre
Demand-side water efficiency	2C.6 Other operating expenditure	Costs allocated from the water resource and communication teams
Customer side leaks	2C.6 Other operating expenditure	Costs allocated from wholesale distribution team
Other direct costs	2C.6 Other operating expenditure	Costs derived directly from retail HH cost centre
IT general & support	2C.6 Other operating expenditure	Costs allocated from appropriate support service cost centres
Vehicle general & support	2C.6 Other operating expenditure	Costs allocated from appropriate support service cost centres
Finance etc general & support	2C.6 Other operating expenditure	Costs allocated from appropriate support service cost centres
Executive directors	2C.6 Other operating expenditure	Directorate activity assessment
Facilities etc general & support	2C.6 Other operating expenditure	Costs allocated from appropriate support service cost centres
Other general & support	2C.6 Other operating expenditure	Costs allocated from appropriate support service cost centres
Other business activities	2C.6 Other operating expenditure	Costs allocated from appropriate support service cost centres
Local authority rates	2C.7 Local authority rates	Central Gov't rates – GMEAV Local Auth' rates – Floor space

Household Cost Variances

Percentage (nominal) variances from the previous year regarding household costs are outlined below:

Ref	Line	% line increase	% of opex increase
2C.1	Customer services	+3.0%	+1.0%
2C.2	Debt management	-34.3%	-1.0%
2C.3	Doubtful debts	+3.7%	+0.9%
2C.4	Meter reading	+57.5%	+2.7%
2C.5	Service to developers	n/a	n/a
2C.6	Other operating expenditure	+13.2%	+3.7%
2C.7	Local authority and cumulo rates	+0.0%	+0.0%

Previous 2019/20 values have not been adjusted for inflation, hence percentage variances are calculated on a nominal price basis. Trigger levels for comment regarding significant change includes line fluctuation exceeding 2 per cent of total operating expenditure (either wholesale or retail expenditure), and also individual line cost which has changed by more than 30 per cent of the prior year figure.

Items for comment therefore include:

I. **Debt management has decreased by £221k in the year, which is driven by a reduction in debt management fees.**

II. **Meter reading costs have increased by £591k in the reporting year – primarily driven by an increase from our meter reading contractors. Meter reading costs have increased by £591k in the reporting year primarily driven by an increase from our meter reading contractors, whilst some increase is also driven by growth.**

1.5 Non-Household Retail

South East Water no longer operate a non-household retail function.

2 Capital Expenditure

2.1 Background and Purpose

The purpose of this methodology statement is to illustrate the process and allocation procedures undertaken in order to calculate the capital costs necessary to complete tables; 2B (totex analysis for wholesale), 2C (cost analysis for retail), 2D (historic cost analysis of tangible fixed assets for wholesale and retail), 2J (infrastructure network reinforcement costs), 2K (infrastructure charges reconciliation), 2O (historic cost analysis of intangible assets for the wholesale and retail business), 4D (wholesale totex analysis), 4F (major project costs for wholesale), 4J (base expenditure for wholesale), 4L (enhancement expenditure for wholesale), 4N (developer services price control expenditure for wholesale), 4P (non-price control diversions expenditure for wholesale).

The Regulatory Accounting Guidelines ("RAGs") require the company to look at each individual asset and determine to which price control(s) and business unit(s), as defined by Ofwat, they belong by reference to the assets' use. The purpose of the fixed asset accounting separation tables within the Annual Performance Report ("APR"), as stated above, are to split the entire asset register of South East Water Limited ("SEWL") into the applicable groupings as shown in the table below:

Water Resources		**Water Network+**					
Abstraction Licences	Raw Water Abstraction	Raw Water Transport	Raw Water Storage	Water Treatment	Treated Water Distribution	Retail Household	Retail Non-household

2.2 Overall Table Methodology

As prescribed by Ofwat, the Regulatory Accounts for the finance year 2022/23 have been prepared on an historic cost basis.

The following describes the methodology and procedures used in preparing and adjusting the data to be entered into the tables relating to fixed assets within the Annual Performance Report. Also included below are explanations of any material movements or variances in cost which have arisen in the year.

The primary data source for the fixed asset tables is the company's fixed assets accounting system, including the register of assets in use and work in progress, where assets currently under construction are recorded. The majority of our asset values are brought forward from the prior year.

At the end of the finance year, data is downloaded from our fixed assets accounting system detailing the transactions that have occurred during the year. These downloads are then converted into excel files, which in turn are used in order to calculate the figures to be entered into the Annual Performance Report.

These calculation files have been audited by our reporter, Atkins, to provide assurance with our regulatory compliance.

2.3 Additions

Additions form a major part of both the wholesale totex analysed in table 4D and the historic cost analysis of fixed assets completed in table 2D of the APR. Additions are accruals based and reflect the total capital expenditure of the company over the past year.

As mentioned earlier, a download is run from the company's fixed assets accounting system which encompasses the total capital expenditure over the year. The costs downloaded excludes interest on general borrowing charged to capital projects, as required by IAS 23. This data is then analysed in order to allocate the expenditure to the applicable price control and business unit. Additionally, the nature of the capital project being completed is identified, enabling capital expenditure to be split between base, enhancement and developer services and infrastructure or non-infrastructure works.

In order to allocate capital expenditure accurately, the company builds the records held within its fixed asset accounting system based upon Capital Expenditure Requests ("CERs"). The CERs form the basis on which capital expenditure is allocated. For each capital project, the project manager is required to describe in detail the nature of the expenditure and the correct

regulatory allocation, including business unit, asset type and asset life. This information is then sense checked by the Capital Programme Management team and Finance department before being added to the company's fixed asset records, ensuring capital expenditure is recorded against the appropriate criteria.

In addition to the checks completed on recording capital projects in the company's fixed asset accounting records, the download is reviewed by the Capital Programme Management team, who use their expertise and knowledge of the capital works to ensure capital expenditure is allocated correctly. In any instances where errors are found within the download file, they are corrected manually within the file and appropriate adjustments are later made to the records held within the company's fixed asset accounting system.

Determining Business Unit

During the authorisation process of capital projects, project managers are required to identify on the CERs which business unit or units the asset being constructed will be used by. All future expenditure incurred in the construction of the asset is then allocated to the business unit(s) as specified by the project manager.

As an additional part of the authorisation process, the Capital Programme Management team and Finance department review each CER in order to ensure their accuracy before being recorded in the company's fixed asset accounting system. Project data recorded within the fixed asset accounting system is periodically reviewed by both the Finance department and the Capital Programme Management team to ensure records are correct and remain up to date as part of the company's accounting records, minimising the risk of miss reporting capital expenditure.

Unlike assets that are used by a single price control and are therefore allocated to a single business unit within the company's fixed asset register. Where an asset is expected to be used by more than one business unit, it is recorded in the company's fixed asset accounting system against the business unit identified as being the principal user for which the asset will be used as stated on the relevant CER. A trigger is applied against these assets within the accounting system in order to differentiate it from assets that are expected to be used by one single price control. Doing so enables the Finance department to identify projects within the system download files, where it is necessary for the cost to be recharged across multiple business units. In this instance the data included within the download files is cross referenced to the CER in order to then recharge the cost of the asset between the various business units as applicable, any such amendments are then reviewed by the Capital Programme Management team to ensure their accuracy.

Expenditure on projects designated as general and support is allocated to business units based on the same cost drivers as used in the operating cost tables and described above. Each project is assigned to a specific cost driver dependant on the asset generated from completing the project, for example, expenditure incurred in acquiring new IT software or hardware would be based on the IT cost driver.

Capital Expenditure continued

Determining Asset Type

The allocation of capital expenditure between infrastructure, operations and other assets is based upon the information provided by the project managers when completing the CERs. If the project involves the construction of an asset which covers more than one asset type, the costs are split by asset type based on the percentage allocated to each asset type by the project manager. Again, this information would be sense checked by the Capital Programme Management team and Finance department as part of the approval process in order to identify any discrepancies prior to being recorded in the company's fixed asset accounting system.

When completing the CER, the project manager must select whether the nature of the asset relates to infrastructure, operations or other along with the expected asset life depending on the asset being constructed. This selection is prescriptive based upon the category of asset being constructed in order to help ensure the accuracy of data provided by project managers in relation to the nature of the asset and its expected life. The table to be completed within the CER by the project manager is shown below.

	Asset Life (years)	Category	Cost (£)	% Split
INFRA	0	Surface (Impounding Reservoirs)		
INFRA	60	Meter Boxes		
INFRA	100	Mains		
OPS	Non Depreciating	Land		
OPS	0 – 10	Fixed Plant (Light)		
OPS	7	Mobile Plant		
OPS	10	Telemetry Equipment		
OPS	15 – 20	Fixed Plant (Light)		
OPS	20	Meters		
OPS	21 – 30	Fixed Plant (Light)		
OPS	35 – 60	Fixed Plant (Heavy)		
OPS	60	Wells & Boreholes		
OPS	80	Building-Non		
OPS	80	Service Reservoirs & Water Towers		
OTHER	1 – 5	Consultants		
OTHER	3 – 5	Computer Hardware		
OTHER	3 – 7	Computer Software		
OTHER	4	Vehicles		
OTHER	5	Office Equipment		
OTHER	5	Furniture & Fittings		
OTHER	6	Lab Equipment		
		Total		

Determining Asset Enhancement or Maintenance

When completing a CER, the project manager must detail as to whether the project in question relates to the construction of a new asset, the enhancement of a current asset, maintenance of a current asset or the reinforcement of a current asset as the result of new connections or developments. Though in the majority of instances assets would fall into one single category, if the project relates to the construction of an asset which falls into more than one of the above categories, the costs are split over the different categories based upon the percentage split provided by the project manager.

The information provided by the project manager would be sense checked by the Capital Programme Management team and Finance department as part of the approval process to ensure the accuracy of the CER before the project is recorded in the company's fixed asset accounting system. The data recorded in the fixed asset accounting system is periodically sense checked by the Capital Programme Management team in order to ensure its accuracy, feeding back any issues they have to the Finance department who are then able to make any changes to the accounting system as necessary.

The table to be completed by the project manager as part of the CER is shown below.

	Infra Assets %	Non-Infra Assets %	Total %
Additions – New Assets (Enhanced)			
Drinking Water Quality inc. SEMD			
Enhanced Service Levels			
Supply Demand Balance			
Base Service Provision			
Maintenance Non Infrastructure			
Maintenance Infrastructure			
Infrastructure Network Reinforcement (New Connections/Developments)			
Distribution & Trunk Mains			
Pumping & Storage Facilities			
Other			

Capital Expenditure continued

2.4 Disposals

Disposals reported in the historic cost analysis of fixed assets table (2D) in the Annual Performance Report represent both the fixed assets sold and those no longer used by the company. The assets disposed of by the business in the year are deducted from the asset balances of business units based upon the value of costs and depreciation removed from the company's fixed asset accounting system.

In order to calculate this a download is run from the company's fixed asset register, detailing the assets disposed of during the year along with the cost of acquisition and the life to date depreciation. This download is then analysed in order to split the cost and depreciation of disposals between the various business units.

The basis on which disposals are allocated between the different business units varies dependant on the type of asset being disposed. For instance, mains abandonments are allocated wholly to the treated water distribution business unit, whereas disposals of vehicles, IT equipment and office furniture are allocated to the relevant business units on a cost driver basis. Other types of assets are then allocated in line with the treatment of similar assets in the additions analysis.

This process allows the company to accurately show the impact of disposals on the fixed assets held by the business, as reported in table 2D of the APR file.

2.5 Retail Table Assets

The retail capital expenditure reported in tables 2C and 2D is calculated following the same method as that used for wholesale detailed within section 3.3.

2.6 HCA Depreciation

For the household retail cost analysis completed in table 2C in the Annual Performance Report, depreciation charged for the year calculated on an historic cost accounting basis is split between fixed assets acquired before or after the 1 April 2015.

In order to split the depreciation charged for the reporting year a download is produced from the company's fixed assets accounting system which encompasses the total depreciation charged in the year on each asset along with the year in which the asset was acquired. From the total depreciation charged in the year, per our fixed asset register, we then deduct the depreciation of capitalised interest which is apportioned between the price controls based on the split of the depreciation charge to arrive at the total depreciation charge in accordance with the regulatory guidelines.

2.7 Contributions

Following the company's adoption of IFRS15 in April 2018, contributions are initially taken to the balance sheet as a liability on receipt and then released in full as income to the income statement once works to which the contributions relate have been completed.

The company's approach to recording contributions in the regulatory accounts differs from that of the financial accounts. As the economic life of the relevant asset is often 100 years, it was decided that it was more appropriate for the regulatory accounts for contributions to be recognised and offset against totex in the year in which they are received.

2.8 Analysis of Fixed Asset Movements

The following tables and accompanying explanations detail the major differences between the fixed asset movements on capital additions, disposals and depreciation charged in year in relation to the current reporting year compared to the previous year. The financial data analysed below has been prepared following historic cost accounting rules.

The table below compares additions in the year to the previous year based on historic costs.

Description	2023 £m	2022 £m	Variance £m	Variance %
Water Resources additions	8.0	6.8	1.2	17.6
Water Network+ additions	91.9	89.8	2.1	2.3
Retail additions	0.3	0.2	0.1	50.0
Total additions	**100.2**	**96.8**	**3.4**	**3.5**

The mix of asset types attracting capital expenditure changes from year to year. In the year we saw an increase in additions in each area of the business, covering a number of different areas such as water treatment maintenance, new mains and water quality driven projects. The spending in the retail business continues to be mainly on IT software and equipment.

The table below compares disposals in the year to the previous year based on historic costs.

Description	2023 £m	2022 £m	Variance £m	Variance %
Water Resources disposals	(0.3)	(1.0)	0.7	(70.0)
Water Network+ disposals	(4.9)	(6.2)	1.3	(21.0)
Retail disposals	-	(0.1)	0.1	(100)
Total disposals	**(5.2)**	**(7.3)**	**2.1**	**(28.8)**

The disposals made in Water Network+ in the year comprise a number of low value assets including vehicle sales and the de-recognition and replacement various light plant.