



Best Practice Guidelines for the Production of Estimates, Quotations and Terms for the Provision of Water Mains on New Developments

Purpose

The purpose of this best practice guideline is to explain the means by which water mains may be provided for new development and set out the information that water companies should provide developers and Self Lay organisations (SLOs) when responding to requests for mains to service new development.

Providing a fully transparent estimate, quotation or terms as appropriate will allow developers to make a fully informed decision on their preferred option for provision of water mains to service their developments.

Statutory water undertakers may provide the information in a different format to the specimen template to accord with their existing documentation and corporate style. .

An undertaker will not be obliged to provide cost information in a form which may present a competitive advantage to a contractor tendering for an undertaker's mainlaying work.

This best practice guideline has been agreed by the Water UK HBF National Joint Industry Development Committee and is intended as a standard for statutory water undertakers to meet although it is not mandatory. They may provide additional information if they so wish.

This guideline refers to mains only and excludes service connections and infrastructure charges. The latter are set out in water companies charging schemes and are detailed on their websites.

Requisitioning and Self lay mains

If a proposed development requires a new water main for domestic purposes (cooking, cleaning, central heating or sanitary facilities), the owner or developer may ask the local statutory water undertaker to install the infrastructure. This is often referred to as 'requisitioning'. Alternatively, the owner or developer may choose their own contractor to do the work, which is then known as 'self-lay'. The statutory water undertaker will take over responsibility for (adopt) all self laid infrastructure that meets the terms of its agreement with the owner, developer or self-lay organisation that carries out the work.

The financial considerations for requisitioning new water mains are set out in s42 and s43 of the Water Industry Act 1991. These set out the ways in which any contribution the developer will have to make to the statutory water undertaker for the new mains are calculated. Either a Relevant Deficit (RD) amount is paid over a 12 year period, or a single sum known as a "discounted aggregate deficit sum" (DADS) is payable following installation of the new main.

The remainder of the cost of the new mains is funded from actual revenue that is collected by the statutory water undertaker over the 12 year period for an RD, or estimated revenue over the 12 year period for a DADS calculation.

In order to simplify administration, remove the need for financial reconciliation following installation of the new mains and provide certainty of costs for developers some statutory water undertakers offer developers a non-statutory option of making a single advance payment equal to the DADS. This is often referred to as a Commercial Commuted Sum (CCS).

For self-lay schemes the financial terms are set out in s51A of the Water Industry Act 1991. This requires statutory water undertakers to make a payment in respect of the Asset Value (AV) of the water mains that have been laid by a third party and vested in the undertaker on commissioning of the new mains. The Asset value payment (also known as the discounted offset amount) is the lesser of the estimated water charges revenue for each of twelve years following provision of the main or the annual borrowing costs of a loan¹ to provide the main, less any allowable costs incurred by the statutory water undertaker in undertaking non-contestable works.

The level of information provided to developers by statutory water undertakers regarding the calculation of the RD, DADS and AV has varied and some developers may have found it difficult to make an informed decision on their best option for the provision of water mains on their development sites.

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¹ The capital cost that is used for the purposes of calculating the AV payment or discounted offset amount is the statutory water undertaker's reasonable estimate of the value of mains to be laid and not the cost which the provider of the mains may actually incur.

Appendix 1

Water UK/HBF National Joint Industry Development Committee Standard Estimate/Quotation/Terms for New Water Mains

Development Details

Development Address	Applicant Details
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Total Scheme Costs

Location	Description	Cost	Total Cost
Branch Connections to Existing Network			
Sub Total			
Spur / Off-site Mains			
Sub Total			
On-site Mains			
Sub Total			
Ancillary Costs			
Design			
Wayleaves/easements			
Sun Total			
Grand Total			

Water Mains Diversions

Location	Description	Cost
Grand Total		

Network Reinforcements

Location	Description	Cost
Grand Total		

Financial Variables and Assumptions

Description	Value
Total scheme cost	
Number of properties	
Basic income per property	
Borrowing interest rate / Discount rate	
Inflation rate	
Number of applicable years	
Annuity factor (total of annual discount factors)	
Annual capital repayment (total scheme cost/annuity factor)	

Occupancy Rate (estimated)

Year	1	2	3	4	5	6	7	8	9	10	11	12
No.												

Relevant Deficit and Discounted Aggregate Deficit Sum Calculation

Year	Basic Revenue	Inflation	Projected Revenue	Capital Repayments	Projected Relevant Deficit	Discount Factor	Statutory Commuted Sum
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
Total							

Estimated Relevant Deficit Charge / Security Payment

Estimated DADS Charge /Security Payment

Commercial Commuted Sum

Commercial Statutory Commuted Sum – Developer excavates on site

Asset Payment Calculation

Year	Basic Revenue	Inflation	Projected Revenue	Capital Repayments	Discount Factor	Annuity Factor	Asset Payment
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
Total							

Non-Contestable Charges

Item	Description	Cost
Grand Total		

Estimated Gross Asset Value Payment

Estimated Net Asset Value Payment
(After deduction of non-contestable charges)