Northern Ireland Water Ltd
Annual Information Return 2012

Part 1 of 10 containing:
Reporter's Report on the Board Overview

Public Domain Submission
3 December 2012

Halcrow

Reporter's Commentary on the Board Overview

1. Basis of Opinion

In accordance with its Instrument of Appointment, Northern Ireland Water Ltd (NI Water) has appointed Halcrow Management Sciences Ltd, a ring-fenced member of the Halcrow Group, to provide reporting services to the Northern Ireland Authority for Utility Regulation (UR). The UR regulates the appointment and work of Reporters by a Protocol which formally sets out the mechanism for appointment and the tasks that the UR requires of Reporters.

The Reporter for NI Water, Chris Turner, supported by a team of technical and operational specialists, has examined, tested and provided opinion on the information provided by the Company in its Annual Information Return 2012.

The Reporter's work includes:

- assessing the Company's compliance with the UR's reporting requirements and guidelines,
- ensuring that the Company's material assumptions have been exposed and explained, and
- the preparation of a written report, together with a professional opinion on the Company's processes for developing its submission and on the accuracy and reliability of the information.

In accordance with our appointment, we have carried out checks on the Company's reporting processes and examined the data in the context of our knowledge of NI Water's activities and the prevailing conditions in the regulated water sector. We have examined and provided opinion on the Company's tables, commentaries and other information forming its Annual Information Return 2012 to the UR.

We would like to thank NI Water for the time and assistance they have afforded throughout the 2011/12 audits. We have received full co-operation from NI Water and have had sufficient and timely access to the staff and information that we reasonably require to form our opinions. We have no reason to believe that any relevant information has been withheld.

2. NI Water's Governance of the Annual Information Return

In the Board's Overview, which accompanies the AIR12 submission, NI Water describes the processes and internal systems of control which have been applied to the preparation of their submission.

In accordance with our appointment, we have carried out checks on the Company's reporting processes and examined the data in the context of our knowledge of NI Water's activities and the prevailing conditions in the regulated water sector. We have examined and provided opinion on the Company's tables, commentaries, compilation methodologies and other information forming its Annual Information Return 2012 to NIAUR. Our audits confirm that NI Water continues to develop their line methodologies for all the non-financial information. To the extent we are required to audit and comment upon the financial measures information, we confirm that methodologies also exist for these tables. Any departures from their prescribed methodologies that we have identified during the course of our work have been brought to the Company's attention and, where material, are reported on in our detailed commentaries or where of concern, have been escalated into this report.

As stated in their Board's Overview, NI Water has compiled their AIR submission in accordance with their AIR Completion Manual (ACM). The ACM was updated in the year to accommodate new lines and tables; and changes in roles and responsibilities. We confirm that this document addresses our key observations and recommendations from AIR09 and AIR10 for enhancing the regulatory reporting processes and information quality.

All requirements and responsibilities are disseminated into the Directorates through the AIR Project Board. The project management team then communicates with the full team directly. We found that line authors, reviewers/checkers, and approvers (level 3 manager or above) were identifiable for all AIR entries. As AIR information is reported to the Finance and Regulation team and approvals from senior management are received, the data is locked down and thereafter a formal change control takes effect. Final AIR sign-off was effectively achieved at the NI Water Board meeting of 27th June 2012.

We note that NI Water continues to make enhancements to their approach, with associated benefits to their methodologies and quality assurance procedures, resulting in a greater understanding of, and confidence in, their reported data. In particular, the ACM requires assurance statements to be produced. These provide evidence of sign-off by the authors, reviewers and level 3 managers of the line methodologies, data and commentaries. At the close of the audit period, we checked a representative sample of tables to ensure that this was being implemented. We were satisfied that it was.

We also note that the actions pertaining to any recommendations made by the Reporter, Auditor, Internal Auditor or Regulator are now monitored by the Director of Finance and Regulation (a recommendation from 2010/11).

Queries and clarifications are co-ordinated by the Economic Regulation (project management) team but referenced and passed through to the relevant staff for information/resolution. The Economic Regulation team also maintain control of the definitive version of the AIR document, including the issue of any errata.

We have carefully considered the Board's statement on the compilation of the Annual Information Return and except as identified below or in our Main Report, we consider that:

- The measures and procedures they describe are consistent with those we observe being implemented during our audits of the AIR information
- Material assumptions embedded within the Company's procedures appear reasonable
- The report adequately represents NI Water's activities and performance in the Report Year
- The information reported in the AIR is consistent with the Reporting Requirements
- NI Water has established suitable procedures for collecting and reporting the required information with reasonable consistency and accuracy
- The processes of control of AIR information by the Finance and Regulation team appear to be sound, and simple but reasonable systems are in place to manage and check that the information they receive has been duly approved
- They continue to enhance their corporate governance and QA processes and have applied them to the preparation of this submission
- Senior managers and Directors are required to approve and thereby assume accountability for the integrity of the regulatory information provided.

We are also able to confirm the degree of involvement of the Board in the production and completion of the AIR submission. We have witnessed Board and Executive Team meeting minutes which demonstrate that Regulatory information submissions have been an important focus of their attention.

Despite the recent series of major disruptive events impacting on NI Water's operations and ability to deliver the services and outputs expected, significant time and resource is invested by NI Water in regulatory submissions. We consider that this is the result of the importance with which the supply of reliable, accurate and complete information is held, and also the speed at which the Company is trying to catch up by improving their fundamental systems and processes.

Our commentaries on each of the AIR tables provide further detail of our findings on the processes and methodologies, assumptions and sources of information which are employed to assemble the components of reported data and the degree of compliance (against the reporting guidelines) that has been achieved.

We therefore consider that NI Water's Annual Information Return process is appropriate for generating suitable information for the submission and has been effectively implemented for producing AIR12.

3. Consistency Checks

3.1 Reconciliation between the Board's Overview to AIR12

We confirm the consistency of the Report Year information in Tables A to E in the Board's Overview with the relevant information provided in the AIR tables as follows:

- Table A - Fully consistent.
- Table B - Fully consistent.
- Table C - Blocks A & B only checked. These are consistent except:
  - Line 2 should equal to T35, L28: **£84.067m**
  - Line 4 should equal to T36, L25: **£107.946m**
- Table D - Fully consistent except:
  - Line 7 should equal (T35, L2+L5+L29)*1000/(TD, L31): **£62.51/prop**
  - Line 12 would then become **£107.96/prop**
- Table E - Fully consistent, except:
  - Line 7 should equal (T36, L2+L5+L26)*1000/(TE, L25): **£92.90/prop**
  - Line 12 would then become **£171.63/prop**

3.2 Reconciliation between PC13 and AIR12

As part of their AIR12 submission, NI Water prepared '*20120705 AIR12-PC13 Variance Annex v1.3'* explaining the variances between related lines in AIR12 and PC13. This was passed to the Reporter for review.

The following provides a summary of our findings:

- The majority of variances are explained by PC13 11/12 forecasts being superseded by actual data for the Report Year. As expected, these variances appear to be relatively immaterial.
- In a small number of areas e.g. sewerage properties connected and sewage volume collected, the variance results from a different reporting approach being adopted in each submission. We have reviewed these instances and confirm the approach stated by the Company is stated within the notes included within the annex.
- We noted a material difference in the length of mains reported in Table 11 of the AIR and those reported in PC13. We identified in our AIR audit that the lengths reported in the draft table excluded trunk mains and new development mains. This explains the difference noted.
- Variances are noted in a number of capital outputs reported (e.g. trunk mains) and activities undertaken (e.g. length of new sewers) and we confirm the explanations given are consistent with our understanding.

- In relation to UID outputs, we noted that there is a discrepancy between the 11/12 outputs reported in PC13 (31) and AIR12 (44). NI Water advised that this difference is explained in their AIR12 Table 16 commentary, but was actually omitted. The Company acknowledged the omission and gave the following explanation.

  "The variance between the PC13 UID submission of 31 UID's and the AIR12 submission of 44 UID's is due to a combination of factors.

  The PC13 submission draws the list of UID's from the PE10 monitoring plan and the delivery at the point of the programme lockdown for PC13. AIR12 contains all UID's NI Water has completed and seeks to claim them as completions, even if they were not part of the PE10 monitoring plan for delivery in PC10. This leads to a greater claim of UID's in AIR12 than that seen in PC13 which was based on the delivery anticipated within the PE10 monitoring plan and excludes these extra UID's. NI Water is looking to improve the UID monitoring process in 12/13 in preparation for AIR13".

  We have reviewed this explanation and confirm this is consistent with our understanding of the Company's approach to UID reporting.

- We noted a number of variances in the reported capital tables (generally between Tables 35 and 36 of AIR and 3.4 of PC13). We have explained these variances in our Table 40 CIM commentary.

3.3 Table 44 – Overall performance assessment

Table 44 is consistent with other sections of the AIR and the processing rules have been followed.

Whilst line 26 DG5 – 'problems solved by ESL funding' is not consistent with Table 3 line 22 and line 29 DG5 – 'OPA' does not calculate because of this same inconsistency, we understand that the definitions for line 26 has been subject to consultation between NIAUR and NI Water and agreement reached that these lines should not reconcile.

4. Summary of Key Findings

In the following sections, we summarise the principal issues arising from our audit work. Further information and background is contained in our detailed table commentaries.

4.1 Levels of Service Information Tables

Table 1 - Water efficiency

The number of supply pipe repairs remained high despite the mild weather experienced in 2011-12. This was due to a carry-over of approximately 400 leak notices/repairs from the freeze-thaw incident in the winter of 2010-11.

As the Company does not offer a free supply-pipe repair or replacement service it is unable to distinguish between external supply pipe leakage repairs and internal plumbing losses. Analysis has determined that offering a free supply pipe repair/replacement policy is not cost beneficial.

The Company's Water Efficiency policies are in-line with those employed by water companies in England & Wales. NI Water makes more use of 'soft' measures, so would expect to achieve a higher installation rate and therefore be more efficient. However, the lack of domestic metering (customer have less incentives to save water) and not being funded to provide a free/subsidised supply-pipe repair/replacement policy, limit the success of some of the measures.

Table 2 - DG2 - Properties receiving pressure/flow below reference level

A net removal from the Register of 272 properties to 1,748 was achieved.

The DG2 Register contains full documentary evidence for properties that remain, are added or are removed from the register.

NI Water has investigated properties on the register with pressure below 7.5m, and this number has decreased by 40 to 133 properties.

NI Water has estimated the cost of removing properties, although this remains an approximation as the cost is derived from schemes that have a range of different investment drivers.

Table 2 - DG3 - Interruptions to supply

The effects of the winter weather had a significant impact on NI Water's DG3 reported performance in the previous two report years. The mild winter, alongside operational improvements, in the 11/12 Report Year has helped to improve supply interruption performance.

We are satisfied that the Company's interpretation of the guidance on planned and unplanned interruptions and overruns of planned interruptions is sound.

We believe that a review of how *planned* work is scheduled may help improve

customer satisfaction as there is a potential to reduce the impact of an interruption by reducing the overall number of customer hours lost.

Table 3 - Sewerage Service – Internal Flooding

The Company has continued to make considerable improvements and introduced further rigour to the overall flooding process for AIR12.

As a result of our AIR11 audit of DG5 related processes and data, we made a number of recommendations for process improvement. We are pleased to find that NI Water has responded to a number of these suggestions, particularly concerning issues within the Customer Response Centre (CRC). This appears to have had a positive effect on reported performance, with the number of DG5 contacts reducing by 40% from 687 (AIR11) to 419 (AIR12).

As performance has been relatively consistent over the past four years and we have a better understanding of the nature of the excluded DG5 contacts, we are increasingly comfortable that the overall performance is broadly in line with the reported data, suggesting that internal sewer flooding caused by non-extreme events is not a particular issue in Northern Ireland.

NI Water is an outlier in terms of FOC (blockage) performance, and despite experiencing circa 4 times more blockages/km than Scotland and E&W, continues to experience a very low number of FOC incidents.

Overall, we consider the DG5 Panel has tended to 'err on the side of caution' and allocated a number of properties to the 2-in-10 and 1-in-10 Flooding Registers, where addition to the 1-in-20 or External Registers could reasonably be argued, based on the evidence presented. We recommend that more comprehensive evidence packs are compiled for each property, including documentation of the 'DG5 Panel's' reasoning behind each decision.

171 suspected flooders are still subject to further review. As such the overall flooding register may still be subject to further movements.

Table 3a - External flooding

NI Water has reported 339 incidents of external flooding due to overloaded sewers for AIR12 and 2,715 incidents of external flooding due to other causes.

Raw contractor data was used to populate Table 3a and no verification of incidents was undertaken for AIR12.

As the Company are still in the early stages of developing an external flooding register, lines 12 to 25 have not populated.

Table 4 - DG6 - Response to billing contacts

The Company have embarked on a number of initiatives which appear to have reduced contact volumes and report an 11% reduction in billing contacts received.

NI Water is required to provide details on how DG6 contacts are reclassified to DG7

if they are recognised as complaints. We recommend details are provided to NIAUR at the earliest opportunity.

Table 5 - DG7 – Response to written complaints

Overall the number of written complaints has decreased by 45% or 1,987 written complaints in real terms. The Company has maintained a good level of performance in responding to these complaints.

Whilst we found no areas of mis-allocation, we suggest that some improvements would benefit the robustness of the reported data in this area, as follows:

- We recommend that routine checks should be implemented on contacts classified into non-reportable categories.
- No formal process exists to record written complaints received by PPP concessionaires (or other contractors working on NI Water's behalf). This is not in accordance with the reporting guidance. We recommend the volume of such complaints is investigated and methodologies are updated to include these in future years.

Table 5 - DG8 - Bills for metered customers

The annual performance (at 97.88%) of customers who received a bill based on a meter reading is ahead if the Company's PC10 target of 97.5% and is also an improvement on the previous year.

Table 5 - DG9 – Telephone contact

There have been improvements reported in the majority of the elements which make up the DG9 indicator. The qualitative customer satisfaction score is marginally worse than last year but the Company provided evidence to suggest this was a legacy issue from the 10/11 freeze thaw and scores in the latter half of the report year had improved.

Table 5 - Special assistance register

The number of customers registered on the scheme has increased significantly. We believe this is a combination of efforts to promote awareness amongst the customer base.

Table 5a - DG7 Response to Written Complaints (complaints data for CCNI)

We believe NI Water's methodology for the allocation of complaints to the various complaint categories is generally satisfactory. However, there is a risk of minor mis-classification as initial rather than the final (post-investigation) codings are used.

We raised concerns about the contact types reported under line 14 – 'CCNI investigations'. After consultation with CCNI, NI Water advised that additional codes in Rapid will ensure closer reporting under the CCNI's definitions going forward. Care should therefore be excised when using the 11/12 figures reported.

4.2 Water Service Information Tables

Table 7 - Non financial measures – Water population only

We were able to reconcile the property numbers reported to the Rapid extract presented by NI Water. However, there are some minor anomalies in the new connections data.

We believe that the confidence grades for property numbers should remain consistent with those agreed in Undertaking A.

Some of the Methodology Statements require further improvements.

Table 8 - Non financial measures – Water Metering

The Company has improved its process for completing line 12, the *number of meter installation requests outstanding for greater than three months*, we therefore support the improvement in the confidence grade from B3 to B2, which is now consistent with the other lines in this table.

The Company has not met their metering targets for non-households (747/1000). The Company has encountered data quality problems in identifying high consumption properties suitable for metering.

Table 9 - Non financial measures: Water quality

Water quality indicators generally remain good. A change in methodology is the principal cause of the apparent small deterioration in the mean zonal compliance indicator for water quality.

Table 10 - Water Delivered

Despite a revised property count which led to a reduction in night use allowances, the Company has reported a fall in leakage from 177 to 168 Ml/d.

The Company is part-way through a transfer to a new leakage management software package which will increase the robustness of leakage data for operational management and annual reporting. However, the revised method of calculation is expected to lead to an increase in leakage of between 10 and 30 Ml/d.

Table 10a - Security of Supply Index

NI Water has achieved a SOSI score of 100, which primarily results from a reduction in distribution input and a minor re-allocation of PPP output. These and other changes are consistent with the WRMP.

Table 11 - Water Service Activities

NI Water expects to exceed, by 10%, their PC10 target of 915km of mains renewals.

We are concerned by the delay in completion of the remaining zonal study models as these will provide support for prioritising the capital programmes in the PC15 period.

The reduction in the number of mains bursts reported (line 11) can largely be attributed to the mild weather experienced in 2011/12, the success of the mains renewal programme and continual improvements in data quality.

Table 11a - Water Serviceability Indicators

Water serviceability indicators suggest that the asset base is reasonably stable (ie neither deteriorating nor improving).

Table 12 - Water Explanatory Factors

NI Water continues to de-commission their small and remote treatment works supplied by borehole sources.

Steps have also been taken to improve pump head data reliability via new telemetry systems at key pumping sites.

4.3 Sewerage Service Information Tables

Table 13 - Non financial measures – Sewerage properties and population

We were able to reconcile the property numbers reported to the Rapid extract presented by NI Water. However, there are some minor anomalies in the new connections data.

We believe that the confidence grades for property numbers should remain consistent with those agreed in Undertaking A.

Some of the Methodology Statements require further improvements.

Table 14 - Non financial measures – Sewage collected

NI Water has improved the confidence grades for Lines 1 to 3 from C3 to A2. Line 7 is also improved from C3 to B3. However, we believe the confidence grades should remain as those assigned in AIR11 (see Table 7 detailed commentaries).

Table 15 - Non financial measures – Sewage treatment

Changes in the methodology and the sites included have resulted in material change in the trade effluent loads reported.

NI Water is continuing to invest in flow and load surveys to improve their understanding and the accuracy of the estimates used for this table.

Confidence grades for the reported values could be higher than reported for some lines as the methodologies in place are sound and in line with industry practice.

Table 16 - Sewerage service activities

No drainage area plans have been completed and there are none ongoing at present. This is a consequence of the expiry of the previous framework for studies and ongoing delays in procurement of a new framework causes concern over the pace of the planning of future work.

Table 16a - Sewerage service serviceability indicators

Methodologies, coverage and data quality continue to improve, but this, together with recent abnormalities in weather conditions, create significant underlying change in this data, which is predominantly used to identify trends in the condition and performance of the asset base. We believe that more time is needed to generate a sufficiently reliable and consistent data set for establishing serviceability trends.

Table 16b - Sewerage Serviceability Indicators

Overall, performance across all indicators appears to be reasonably stable.

Table 17a - Sewerage Sub-Area Explanatory Factors

NI Water is not able to disaggregate the data in this table into sub-areas, although work is ongoing to facilitate this.

Table 17b - Sewage Treatment Works – Large Works Information Database

The Company has identified 15 large works, each of which has its own location code to enable the identification of related costs.

Only one power meter exists at each site. Where a treatment works provides both sewerage and sludge treatment facilities the costs are split on the basis of the judgement of operational staff.

Table 17c – Sewage Treatment Works - Numbers

There are no material areas of concern regarding the data in this table.

Table 17d – Sewage Treatment Works – Loads

There are no material areas of concern regarding the data in this table.

Table 17f - Sewage Treatment Works - Costs

Costs have been assigned to individual WwTWs, in size bands 1 to 4, based on population equivalents. In the absence of better data we believe this approach is appropriate. It should be noted that the cost-to-serve project is seeking to disaggregate all costs down to location level. Although this has occurred for power, other costs for the smaller works have not yet been incorporated into the cost-to-serve process.

Table 17g - Sludge Treatment and Disposal Information

The costing data is extracted from the Company's general ledger system. Some assumptions are required to apportion costs between categories. We believe these are appropriate in the absence of more relevant data.

4.4 Financial Tables

Table 21 - Activity costing analysis – Water, and

Table 22 - Activity costing analysis - Sewerage

Total operating expenditure is reported at £171m, a further reduction of 7% on the previous year. Water service opex has reduced by 13% and Sewerage service opex has fallen by 2%. Water opex costs were higher in the previous year mainly due to the additional costs of the freeze/thaw. There has also been a further reduction in staff numbers.

The proportion of General and Support costs relative to direct costs is 52.5%. This is a reduction from 55% in AIR11. For equivalent companies in England and Wales, General and Support are in the region of 28% of total direct costs. This variation may be due to: differences in allocations as compared to England and Wales; and/or NI Water's current business transformational activities.

The Company continues to report a number of atypical costs.

The cost data relies on a combination of service activity codes, expense codes and responsibility codes. In the majority of cases this is sufficient to report data for the purposes of tables 21 and 22. However, some costs do not neatly fit into the coding structure and the coding requires additional definition to ensure that NI Water is able to report with sufficient accuracy at lower levels of granularity.

Table 25 - Analysis of fixed assets by asset type

The Company advised that it has not made any AMP adjustments in this table for AIR12. We note nevertheless that NIW has added some values to lines 12, 13 and 14 for infrastructure assets. These relate to disposals, charge for year and depreciation at 31 March. We understand from NI Water that the financial auditors consider that this approach conforms with the reporting standards.

Table 32 - Fixed asset additions and maintenance by asset type

NI Water has continued to develop, implement and improve their proportional allocation procedures.

Table 33 - Depreciation charge by asset type

We note significant accelerated depreciation in the year, which follows similar levels of acceleration reported in AIR11 and AIR10. We suggest that NI Water should aim to achieve a stable accelerated depreciation position.

This year, there were several areas of asset accounting which required discussion with NI Water and the Financial Auditors. In each case, we were provided with assurance that the treatments of these issues were deemed to be in accordance with the relevant accounting guidance:

- NI Water has made a one way downward adjustment for impaired assets which could impact on the value of the GMEAV.
- NI Water is putting through accelerated depreciation on infrastructure assets. This seems to be at odds with RAB and IRC type financing.
- NI Water has transferred some assets to the PPP operator, by means of an accelerated depreciation charge.

Historically the IRC was based on a 10 year average. However for PC10 the IRC calculation is based on the final determination for PC10 where the Utility Regulator has determined that the IRC and IRE would be the same for the three years covered by the PC10 determination.

Table 34 - Analysis of non-infrastructure fixed asset additions by life category

NIW has added additional asset lives to better allocate capital expenditure.

The appropriateness of the average asset lives was reviewed in our audits of the PC10 submissions in 2009. In general, these were deemed to be satisfactory and in line with assumptions employed elsewhere. We do believe however that the overall asset lives available should be extended to ensure that the economic life of an asset is more consistent with its financial life.

The audit trail for the basis of the split of assets is not transparent.

Table 35 - Water Service – Expenditure by Purpose

We note a 13% increase in overall capital expenditure in Year 2 of PC10, due to the re-profiling of Public Expenditure (PE) funding for 2011/12. We consider that variations to PE funding (both positive and negative) are difficult for the Company to effectively manage due to the long 'lead time' for most capital projects.

In terms of Infrastructure Renewals Expenditure (IRE), the expenditure incurred during the year is circa 40% above the PC10 forecast for IRE in Year 2. This reflects an increase of 48% in length renewed: 444km against a PC10 target of 300km for the year.

We found that the final PC10 WTW output, Killylane WTW study was delivered during the year and, whilst good progress has been made against the balance of the outstanding PC10 programme, five schemes have been deferred to PC13/PC15.

Table 35a - Water Service – Expenditure Variance from FD

NIAUR has provided a breakdown of the annual PC10 projections on the basis of QBEG, to enable population of Table 35a.

PC10 has been adjusted using actual COPI, resulting in a £1.3m reduction in expected expenditure for Year 2.

Whilst some variance has been reported amongst purpose categories, particularly

IRE, overall expenditure in Year 2 of PC10 is in line with the adjusted allowance for Year 2, with good progress made in the delivery of the PC10 water programme.

Table 36 - Sewerage Service – Expenditure by Purpose

We note that NI Water allocated a proportion of expenditure to Quality, based on the fact NIEA have requested additional investment to meet IPPC requirements (relating to odour control). Whilst this is a new regulatory requirement and thus Quality- related, in our experience work relating to odour has historically been funded within base maintenance.

Overall capital expenditure in Year 2 of PC10 (£107.5m) is broadly in line with the forecast PC10 expenditure profile for Year 2 (£116.47m).

The Sewer Mains Rehabilitation Programme was forecast to deliver 63km of critical and 9km of non-critical sewer improvements over PC10. We found that the Company are now only likely to deliver 20km of critical sewer improvements with the balance non-critical. We note that non-critical sewers are generally likely to be less expensive to rehabilitate.

NI Water has a large WwTW programme for PC10, with 14 PC10 WwTW outputs and 30 PC10 Carryover WwTW outputs forecast for delivery during the period. For AIR12, NI Water has delivered four PC10 carryover outputs and a further four 'new' PC10 schemes.

NI Water has committed to the delivery of a large UID programme over the PC10 period and, whilst significant progress was made during the year with 45 outputs delivered, the majority were not part of the original PC10 programme.

Table 36a - Sewerage Service – Expenditure Variance from FD

NIAUR has provided a breakdown of the annual PC10 projections on the basis of QBEG, to enable population of Table 36a.

PC10 has been adjusted using actual COPI, resulting in a £2.0m reduction in forecast expenditure for Year 2.

Whilst some variance has been reported amongst purpose categories, overall expenditure in Year 2 of PC10 is in line with the adjusted allowance for Year 2, with good progress made in both the delivery of the PC10 WwTW programme, and the UID programme.

Table 40 - Capital Investment Monitoring Return

The '16-box model' derived from Table 40 is materially consistent with Table 32 and Tables 35 and 36.

There is also reasonable consistency between Table 40 and Table 3.3 of the recent PC13 submission. The Company has provided a detailed account of the differences by sub-programme. However, it is clear that the PC10 assumptions have been materially superseded by the changes caused by the PE10 re-budgeting and it may

be more useful for AIR13, to compare the outputs and actual expenditure to PE10 Monitoring Plan.

We understand that WwTW schemes in the PC10 programmes have been/are being designed to new drivers/standards and that it is highly likely that there will be material cost implications which are currently being absorbed. We have not seen any clear mechanism which identifies and accounts for output and/or cost variations and recommend that an appropriate process is devised, agreed and put into effect as soon as is practicable.

It is also possible that the accommodation of such changes is resulting in some disruption to the design/construction processes and programming. We therefore re-affirm our recommendation that, as far as is practicable, NIEA, DWI, NI Water, NIAUR, DRD work together to formalise the full programme of improvements in reasonable time for them to be efficiently embraced in the business planning and delivery processes.

Table 42 - PPP Data

This data from the PPP sites is generally deemed to be of good quality

Aggregated data is generally similar to 2010/11 with the notable exception of sludge disposal where the disposal strategy has largely reversed the substantial volumes from ‘farmland advanced’ to ‘incineration’.

Table 43 - PPP Operating costs

Some data from external sources, some apportionments and assessments are required to report the data. Where these have been applied, we believe they are appropriate and likely to produce results that are reasonably reflective of the actual position.

4.5 Additional Information

Table 41 – Health & Safety – Policy & Performance

The Company improved in the 'days lost' rate significantly, while their 'occupational ill health' rate remains stable.

Table 45 – Carbon accounting

A Climate Change Mitigation Strategy to reduce energy usage and carbon emissions is in place to assist in achieving long term emissions reductions.

Improving the accuracy of the Flow to Full Treatment figure needs to be considered in the future.

CWJ Turner
Reporter for Northern Ireland Water Ltd

Halcrow Management Sciences Ltd
25th July 2012