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Jo Aston
Director of Water Regulation
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12 November 2012

Your Reference:
Our Reference: DF1-12-637513

Dear Jo

NI Water PC13 Draft Determination

DFP has now considered the Utility Regulator's draft PC13 Determination and in particular the Public Expenditure (PE) implications that it has for the Northern Ireland Block.

There were a number of issues which came to light which I would be grateful if you could consider:

1. I would like to begin by putting on the record that, while DFP recognises the Regulator's focus on seeking to deliver efficiencies to consumers, the level of Resource DEL efficiencies identified within the draft determination is disappointing, given the level of efficiencies being required from all Government Departments and other public bodies during the Budget 2011-15 period.

2. The £5 million "PE Allowance (to manage risk)" contained in table 9.4 of the draft Determination is intended to support a voluntary early retirement /voluntary severance (VER/VS) scheme, together with other business improvements which the Regulator would like NI Water to take forward during the PC13 period. You will be aware that budget allocations for proposals such as this are not built into department's baselines. As with any Central Government department or NDPB, a bid for a VER/VS scheme or other business improvement programme should be made by the sponsor department, in conjunction with an approved business case, when the proposal has been developed. This would then be considered during an in-year monitoring round or invest to save exercise

Currently DFP is very keen to support VER/VS schemes or any other "invest to save" proposals. When DRD make a bid, on behalf of NI Water, assuming the business case is submitted and approved, DFP will look on this favourably though the availability of resources will be a major factor.

3. You have confirmed that the majority of the reconciling items contained in table 9.4 were provided by NI Water i.e:

- Un-appointed cost and income
- IFRS (capex to opex)
- Depreciation (Infrastructure and non-infrastructure and PPP)
- Release of Grants and Contributions

We have asked DRD for confirmation that the department is confident of the robustness and accuracy of this data.

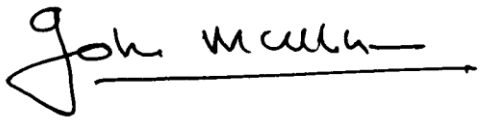
4. The Resource DEL required to fund the NI Water draft Business Plan submitted to the Regulator would have been £191.4m/£192.5m. This is in excess of the Net Resource position in DRD's budget for the two years (£189.9m/£188.6m). There is a different "adjusted" Resource DEL Figure against the two years of the NI Water Business Plan in Table 9.4. DRD have indicated that this was an error in the information provided in the draft business plan submitted by NI Water, due to a misunderstanding over the reductions linked to the Executive's decision on student tuition fees. Given NI Water's status as an NDPB for PE purposes, any draft business plan should be agreed by DRD before being submitted to the Regulator. This draft business plan should be constructed within the parameters of resources available to DRD. DFP is surprised that the draft business plan provided to the Regulator had not been cleared or approved by DRD.

5. With regard to NI Water's capital budget, you are now aware that DRD plan to re-allocate £12 million from Roads Service to NI Water Drainage and Resilience schemes in 2012-13, with this amount being returned by NI Water to Roads Service in future years. This clearly will have an impact on your figurework. DFP recognises that changes such as this can have an impact on the strategic capital plans in the determination. It would therefore be helpful for all parties to consider any future NI Water In-year proposed capital changes, prior to their formal submission to DFP. If these proposed changes have consequences for the strategic capital plans in subsequent years, this can then be highlighted in the DFP monitoring submission to the Executive for Ministers to consider.

Points 4 & 5 can both be addressed when we review NI Water's Management Statement/Financial Memorandum (MSFM), which DFP intends to carry out in the coming weeks. I believe that a 3 way discussion between DFP, DRD and the Regulator, prior to Monitoring Rounds, would be useful to ensure that proposed changes to NI Water's budget allocations, and the consequences these could have for subsequent years' budgets, are fully understood. We are aware that the Regulator and DRD have a process in place for discussions at this time, referred to as the Consequent Written Agreement. DFP's involvement at these stages would aid transparency and resolution of issues arising as a result of NI Water's status as an NDPB for public expenditure purposes.

I would be grateful if you could consider the points set out above and I look forward to seeing them taken into consideration in the final determination.

Yours sincerely



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