

Northern Ireland Water

Regulatory Accounts

(Commentaries for Tables 21, 22 and 25)

Public Domain Submission

Prepared for
Utility Regulator and NI Water

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CH2MHILL®

304 Bridgewater Place
Birchwood Park
Warrington WA3 6XG

Table 21 and 22- Activity Costing Analysis - Water and Sewerage Service

1. Introduction

This table collects information on operating costs and maintenance costs. The information from this table is used to identify trends in operating costs and also to derive annual unit cost comparisons between companies.

2. Key findings

- The focus of our audit is on movements in expenditure between years. KPMG review the accuracy of the data reported in this table as part of the audit of the regulatory accounts.
- The Company has applied the same method to the completion of these tables for AIR14 compared to AIR13.
- We consider that the company approach to the allocation of cost data is capable of reporting as required;
- The Company has reported a number of atypical costs. These are discussed in more detail below.
- The Company has not disclosed details of donations to charitable trusts or fines and provisions made against Section 74 of the Roads and Street Works Act. The Company advised that it has not incurred any such fines;
- The cost data relies on a combination of service activity code, expense code and responsibility code. In the majority of cases this should be sufficient to report data for the purposes of Tables 21 and 22. However, it is possible that some costs will not neatly fit into the coding structure and the coding may require additional definition to ensure that NI Water is able to report more accurately at lower levels of granularity
- In general cost variations have been small between AIR13 and AIR14.

3. Audit approach

During our audit we reviewed the company explanations for variations in costs. In addition we have commented on the procedures used for cost allocation.

We have not audited the application of the procedures described to us. The overall comment on the correctness of Table 21 and 22 falls within the domain of the financial auditors.

As part of our audits of financial data we liaised with KPMG to share key findings. This was done at a tripartite meeting between the Reporter, KPMG and NI Water.

4. Company methodology

4.1 Non-PPP

4.1.1 Capitalisation

The Company has a de-minimus capitalisation value of only £1,000 while land has a zero threshold. The Company further confirms that even if an item is individually worth less than £1,000, because it is part of an operational configuration, it means that the asset should still be capitalised. The Company does not capitalise interest costs incurred as part of the acquisition of an asset under UKGAAP which is used for AIR purposes.

4.1.1.1 Cost coding structure

Data in Tables 21 and 22 is based on information extracted from the General Ledger. All transactions within the General Ledger are coded to a cost centre with an associated Service Activity Code, Expense Type Code and Responsibility Code. Together, these allow for the reporting of information contained in Table 21 and 22. The Company advised that the activity code and expense type code together allow for the identification of the majority of expenditure for lines in Tables 21 and 22. The responsibility code is used to split expenditure in cases where costs are 'general costs' such as customer services or scientific services.

The approach relies on the correct coding of expenditure to expense, activity and responsibility codes. In addition an element of judgement is required in assigning expenditure on the basis of responsibility codes.

Direct operations staff are required to complete a weekly timesheet. The Company advised that these staff form approximately 40% of the workforce. Non direct operations (salaried) staff do not complete a timesheet. Their time is allocated on the basis of responsibility codes.

In total, more than 1,050 service activity codes and expense codes are used in order to record the data in the general ledger system. Where the company is not able to allocate expenditure using the activity code, expense type code and responsibility codes, it uses a method based on direct costs to apportion costs.

The function of each of the different types of codes, as well as the codes available is described below:

- **Service Activity Code**

The service activity code determines the type of work being carried out. It distinguishes between the water and sewerage service activities. Within the water service activities it distinguishes between distribution and water treatment and resources. Within the wastewater service activities it distinguishes between sewerage, sewage treatment and sludge treatment. Particular service activity codes are used to capture costs of management, administration and support functions. The service activity codes are shown below:

NIW Service Activity	Service Activity description	Table 21/22 Mapping
310 311 312 313 320 321 322 323 324 326 331 340 341 342 343 344 351 360 362 363 380 385 391 399 920	Pumping (Inc. Highlift at WTW) Service Resv Wat Tower Tanks Service Resv cleaning Distribution and Water Operations Repair and Maintenance (Mains Repair) Repair and Maintenance (Service Repair) Repair and Maintenance (Hydrant & Valve Repairs) R&M (NIFRS Hydrant & Valve Repairs) Repair and Maintenance (Mains Cleansing) Repair and Maintenance (Lead Replacement) Repair and Maintenance of 'Street Furniture' (Water) Leakage - Monitoring Leakage - Detection Hydrant & Valve Repairs as identified by Service Repairs as identified by active Mains Repairs as identified by active Le Consumer Meter Repair & Maintenance Investigations Customer Contacts excluding meter query Regulatory Plumbing Inspection 'In House' Investigations and Attendance Health & Safety - Networks Networks Function Activity - Query Networks Stores Connection (Water)	Water - Distribution
110 111 112 113 120 140 150 151 152 185 190 191 822	Impounding Reservoir Loughs River Intakes Boreholes, Springs & Wells Repairs & Maint A/duct/Main Recreation & Amenity Water Treatment Water Sludge Treatment Water Sludge Disposal Health & Safety - Supply Supply Function Activity Supply Function Activity - Query Instrumental Control Activity M & E Water Supply	Water - Resource & Treatment
410 411 412 413 414 415 430 431 460 462 940 950	Repair & Maintenance of Sewers Blockage Desilting Inspection of Sewers Repair and Maintenance of 'Street Furniture' (Sewerage) Sewerage Tankering Pumping (Foul & Combined) Pumping (Surface Water) 'In House' Investigations and Attendance Rodent Control Rechargeable (Sewerage) Connection (Sewerage)	Sewerage - Sewerage
510 591	Sewage Treatment Waste Water Function Activity - Query	Sewerage - Sewage Treatment
620 621 630 631 632 633 635 636 637 638 639	Sludge Treatment - Tankering Between Works Sludge Treatment Sludge Disposal to Agricultural Land Transportation Instrumental Control Activity M & E WasteWater Sludge Cake Transportation to Landfill Sludge Cake Disposal to Landfill Sludge Logger Maintenance (Contract) Incinerator Sludge Treatment Sludge Disposal Tankering from Strategic Collection Centres to Dewatering Centres Sludge Cake Disposal to Incinerator Incinerator Ash Disposal to Landfill	Sewerage - Sludge Treatment
640 710 711 712 714 790	Private Septic Tank Desludging General Customer Services (Meter Read & Customer Queries) Disconnection / Reconnection Consumer Meters Repair And Maintenance Customer Services Function Activity	Customer Services
730 731 732 733 734	Water Analysis Sewerage General Labs Water & Sewerage General Sampling Labs Sewage Sampling	Scientific Services
003 013	Rates DRC - Water Rates DRC - Sewerage	Rates
910	Rechargeable Work	Third Party Opex
000 021 023 810 811 812 813 820 890	Default GAE Invest to Save Revenue Vehicle & Plant Maintenance Vehicle & Plant Accident Repair Garage Overheads Roads Service Telemetry TMG Function Activity	Overhead Pot 1 - General
950	Ops & Maint General (Water)	Overhead Pot 2 - Water
955 585 590 735 821	Ops & Maint General (Sewerage) Health & Safety - WW Waste Water Function Activity Trade Effluent Radio & Monitoring Wastewater	Overhead Pot 2 - Sewerage
390	Networks Function Activity	Overhead Pot 3 - Networks Water & Sewerage

- Expense Codes**

These identify the type of expenditure such as wages, power, hired and contracted services, etc. The expense groups underlie the mapping of costs to the various lines in Tables 21 and 22, particularly the direct cost lines.

Expense Group	Desc	Table 21 & 22 mapping
511X	Industrial Wages	Employment
513X	Other Wage Costs	Employment
514X	Other Costs of Employment	Employment
515X	Salaries	Employment
516X	Non-Industrial Expenses	Employment
517X	Temporary Support Staff	Employment
611X	Cost Reallocations	Employment
612X	N/A	Employment
613X	N/A	Employment
614X	N/A	Employment
521X	Power	Power
531X	Operational Contractors	Hired and Contracted
532X	Other Contractors	Hired and Contracted
534X	Out sourcing	Hired and Contracted
538X	Consultants Fees	Hired and Contracted
541X	Materials and Equipment	Materials & consumables
544X	Non Operations Materials	Materials & consumables
547X	Stock Adjustments	Materials & consumables
548X	Chemicals	Materials & consumables
536X	Office and Computer Services	other direct costs
537X	Legal and other professional fees	other direct costs
551X	Accommodation	other direct costs
553X	Insurance - Premiums	other direct costs
553Y	Insurance - Claims	other direct costs
554X	Public Liability	other direct costs
555X	Employer's Liability	other direct costs
616X	N/A	other direct costs
695X	Management Task	other direct costs
759X	Overheads Capitalised	other direct costs
518X	Staff Training & Hospitality	General & support
533X	V&P repairs	General & support
539X	Audit	General & support
546X	Mobile V&P Charges	General & support
552X	Communication	General & support
556X	Other Grants and Subscriptions	General & support
557X	Advertising and Publicity	General & support
641X	Intra Departmental Notionals	General & support
651X	Inter Departmental Notionals	General & support
772X	Bad Debts	Doubtful debts
775X	Discount Allowed	Customer services
558X	Rates	Rates
556Y	Regulatory Costs	Other Business Activities
534Y	PPP	PPP unitary charge

- Responsibility Codes**

The Company advised that all cost centres within the general ledger system have responsibility codes associated with them. Thus all transactions within the system have responsibility codes assigned. Responsibility codes relate individual cost centres to individual employees within NI Water. These employees are responsible for the cost centre. Common costs which cannot be easily split using the expense and service activity codes are split on the basis of responsibility codes. This includes customer services, scientific services and other business activities (regulatory costs) spend.

Responsibility codes are structured into directorates. Each directorate has separate areas of responsibility within the Company. We challenged the Company previously in relation to whether management responsibility is clearly defined and specific to customer services, scientific services and other business activities and whether the schemes assigned to them were truly specific to that service area. The Company advised that all costs in the GL were coded to an appropriate manager and all managers could be mapped to service areas for the purposes of reporting data for customer services, scientific services and other business activities.

The Company confirmed that the personnel department are advised immediately after an individual receives revised responsibilities or job specification.

We believe that the above method could impact on the robustness of data reported. Nevertheless in the absence of other information the process followed is appropriate to split expenditure between service types (water and sewerage) and we believe will give an overall allocation of costs that is broadly reflective of the actual position.

It should be noted that the Company still uses RAG09 guidelines in undertaking its analysis.

4.1.1.2 Cost to Serve Project

The cost to serve project continues to be implemented. During AIR14 the proportion of costs that are allocated via the cost to serve project has increased again since AIR14. Individual jobs are now automatically mapped to codes that allow for the reporting of expenditure in the AIR tables. The Company considers that the full implementation of the cost to serve project may still take a few years. The Company considers the cost to serve project will be implemented in three stages. These are 1) Provide cost data, 2) Understand cost data; 3) Drive costs down. The Company is slowly moving towards the second stage. Once it has a better view on the costs it will be in a better position to drive down costs and make efficiency savings. NI Water advised however that the cost to serve project will not be able to assign costs fully and some manual allocation will always be needed.

4.1.1.3 Allocations by Line (NI Water)

- **Employment Costs**

The process relies on the completion of timesheets that use a mix of service activity and expense code for direct operations staff. For non-direct operations staff, expenditure is assigned on the basis of responsibility codes. Total staff costs are in the region of £48 million. Of these it is estimated that £22million are reported in Line 1. The other costs related to customer services, scientific services, regulation and general and support costs. NI Water reports a large amount of employment costs as general and support costs (> 40%). This amounts to a total of £20.1 million. This is apportioned across the different columns based on total direct costs.

Overall the costs reported include £1.3 million of voluntary redundancy. This is a significant reduction of £2.1 million from 2013.

- **Remaining Direct Costs**

The process relies on the correct coding of invoices to a mixture of service activity codes and expense codes. Further information on this process is provided below.

- **General and Support Expenditure**

The coding does not allow for the direct coding of General and Support expenditure in all cases. For example, service activity 390 relates to network activities for both water and sewerage.

For the report year, general and support costs have been split on the following basis:

Allocation of G&S costs	Water		Sewerage		
	R&T	Distribution	Sewerage	Sewage Treatment	Sludge Treatment and Disposal
G&S Overhead Pot 1	25.40%	24.0%	20.20%	21.70%	8.70%
G&S Overhead Pot 2a - Water	51.30%	48.70%	0%	0%	0%
G&S Overhead Pot 2b - Sewerage	0%	0%	39.90%	43.00%	17.20%
G&S Overhead Pot 3 - SA 390	25.40%	24.0%	20.20%	21.70%	8.70%
G&S Overhead Pot 3 M&E	10%	13%	24%	53%	0.00%

The percentages are broadly similar to previous years apart from pot 3 which shows material movement. The split of costs between the different pots is show below:

- Overhead pot 1 relates to non-specific General and Support costs. These have been split across the services on the basis of calculated total direct costs.
- Overhead Pot 2a and 2b relate to overheads for water and sewerage spend. These costs have been pro-rated on the basis of total direct costs within each of water and sewerage cost categories.
- Overhead Pot 3 SA 390 relates specifically to admin functions activity for water and sewerage. Again, the company has split across the services on the basis of total direct costs. Overhead box Pot 3, M & E relates to M&E function of the business. Please advise why the percentages for this Pot have changed so much for AIR14. This is due to a revision of the split as advised by the M&E Function based on the activity carried out in the various Functions during the financial year.

The more detailed split from the Company commentary on general and support costs for AIR 14 is provided below together with the trend from 2010/11 and 2011/12 and 2012/13.

Description	Amount – 2010/11	Amount – 2011/12	Amount – 2012/13	Amount – 2013/14
Unallocated Employment Costs	£22.9M	£20.5M	£18.0M	£20.1M
Unallocated Power	£0.0M	£0.0M	£0.3M	£0.4M
Unallocated Hired & Contracted Costs	£10.5M	£6.3M	£5.9M	£4.8M
Unallocated Materials & Consumables	£1.6M	£1.5M	£1.2M	£1.5M
Unallocated Other Direct Costs	7.0M	£3.7M	£3.1M	£5.2M
Communication	£1.0M	£1.1M	£1.1M	£1.0M
Mobile V&P Charges & Repairs	£2.3M	£2.3M	£2.2M	£2.0M
Audit & Environmental Regulatory Costs	£1.8M	£1.8M	£0	
Other	£0.3M	£0.6M	£0.3M	£0.5M
Total	£47.4 M	£37.8M	£32.1M	£35.5M

In total this shows a circa £3.4 million increase in G&S costs compared to AIR13. A large part of this seems to be the unallocated other direct costs. We challenged NI Water to advise the reasons for this variance. NI Water advised that this was due to an increase in Legal and Other Professional fees (£1.2M) as a result of several significant non-public liability claims and an increase in costs on taxation compliance and pension reforms; and an £0.8M increase in Public and Employers Liability as a result of increased claims.

- **Operating Expenditure**

In order to split common costs between water and sewerage the following split has been used:

	Water	Sewerage	Total
Customer Services	49.5%	50.5%	100.0%
Scientific Services	49.5%	50.5%	100.0%
Other Business Activities	49.5%	50.5%	100.0%
Rates	63%	37%	100.0%
Doubtful Debts	Split on basis of management judgement		
Third Party expenses	64.1%	35.9%	100.0%

The 49.5%:50.5% split above is based on total direct costs between water and sewerage. This follows a 50%:50% split used last year.

The split for rates is based on actual invoices. This has changed significantly since the AIR13 due to a review by the Land and Property Services (LPS). We accept this position.

Third party expenses are based on actual costs coded to cost centres.

We believe the approach to apportion expenditure described above is appropriate.

4.1.14 More detailed review of percentages and allocations this year plus any atypical costs

- **Customer Services**

The identification of customer services costs relies on the correct coding of invoices and the appropriateness of responsibility codes for service activities. In order to report this data the company considers responsibility codes and assigns costs to customer services based on these responsibility codes.

- **Scientific Services**

As for customer services, the process relies on the correct coding of invoices and the appropriateness of responsibility codes for service activities.

- **Other business activities**

In order to report this data, the company uses responsibility codes.

- **Rates**

The company advised that the value for rates is based on actual rates bills combined with accruals on a site by site basis. This enables the charges to be split on a site by site basis.

- **Doubtful Debts**

The basis of the split of doubtful debts is described above.

- **Exceptional Items**

The company has not reported any exceptional items. A number of items have been recorded as atypical. These are discussed below in section 4.6.

- **Third Party Service - Opex**

As for other costs reported, the process relies on the correct coding of invoices.

- **Total PPP Unitary Charges**

This is based on actual invoices received.

- **Reactive and Planned Maintenance Infrastructure**

As for other costs reported, the process relies on the correct coding of invoices.

- **Reactive and Planned Maintenance Non-Infrastructure**

As for other costs reported, the process relies on the correct coding of invoices.

4.1.1.5 Allocation of costs to un-appointed activities

The Company advised that these activities are either charged on a full cost recovery basis (and thus costs broadly mirror the income generated), or the income does not give rise to any additional operational costs (e.g. rents received or fishing rights). The Company advised that this is consistent with the basis of the historic returns.

4.1.1.6 Atypical Costs

- **Reorganisation costs**

The Company has reported a total of £2.7 million reorganisation costs (a reduction from £4.4 million in AIR13). These are split between the business improvement programme (£1.4million) and Voluntary Severance / Early Retirement Scheme (£1.3 million).

The Company should seek to measure the effectiveness of the money that is spent of the business improvement programme.

No further costs have been reported.

4.1.1.7 Fines and Donations

- **NRSWA Fines**

The Company advised that it has not had any such fines for the report year.

- **Donations to charitable trusts or other funds assisting customers with payment difficulty**

The Company has not reported any donations to charitable funds for the report year.

4.1.1.8 Exceptional Items

The Company has not reported any exceptional items for 2013/14.

4.2 PPP

For AIR14 all PPP facilities are online and have continued to operate for the full year. The Kinnegar contract has been providing services for a number of years. The sites at Alpha were all fully operational prior to AIR11. The Omega contracts are all now fully operational as well. The Duncrue site became operational on the 31st March 2010. Omega consists of 2 sludge services sites and 5 sewerage sites as well as a sludge remediation site.

The Company advised that it has sought to obtain data on a 'best endeavours' basis. However, not all the PPP contractors are obliged to report data to the regulator. NI Water advised that:

- The Kinnegar contract was designed in the 1990s. It was designed prior to any consideration for a Government company. As a result, no clause exists for the provision of regulatory information. In addition it should be noted that the contractor for Kinnegar is responsible for all operating expenditure, including electricity.
- For the Alpha contract there is an implicit requirement to provide this information. The Company advised that any information requirements are discussed in relation to whether or not it falls within the scope of the contract, but that the contractor is very supportive and co-operates with the regulatory information requests.

For the Omega contract the obligation for regulatory reporting data is explicit. The Company advised that the contractor has been supportive in any requests for information that have been made.

For Table 21 Line 22a and Table 22 Line 21a, the line entries are based on paid invoices and excludes any capital investment as per the reporting requirements. The values are consistent with entries in Table 42.

5. Audit findings

5.1 NI Water

5.1.1 Table 21 Specific Lines

5.1.1.1 Direct Costs

Line 1 – The reduction in employment costs in water resources and treatment is attributed to the VER costs which have reduced overall by £2.1 million when compared to AIR13. Wage costs have reduced to the ongoing voluntary redundancy program.

Line 2 – [x] There were limited external shocks in AIR14, such as extreme weather events. This has helped to manage the overall cost of electricity.

Line 3 – The Company has not reported any costs in relation to Agencies.

Line 4 – Hired and contracted services have remained at broadly the same level as AIR13

Line 5 – As last year the Company has reported zero costs.

Line 6 – There has been a small increase in costs in this line.

Line 7 – The costs are broadly unchanged from AIR13.

Line 8 – The Company has not reported any costs in this line.

Line 9 – [x]

Line 10 – This is the sum of lines 1 to 9.

Line 11 – General and support expenditure has increased slightly by £0.1 million from AIR13. General and support costs are coded to specific cost centres and are split between water and sewerage based on total direct costs. The reason for the variance is the revised percentages to allocate general and support costs compared to previous years, including the revised allocation between water and sewerage.

Line 12 – This is a calculated line. This is the sum of direct costs and general and support expenditure reported above.

5.1.1.2 Operating Expenditure

Line 13 – These costs relate to customer services. They have increased in nominal terms by £0.2 million. The increase is not material and represents 4% of the customer services costs assigned to water.

Line 14 – [x]

Line 15 – Other Business Activities have increased by £0.2 million from AIR 13. This is due to an increase regulatory costs incurred mostly during the audit of the recent business plan submission.

Line 16 – This is a calculated line.

Line 17 – [x]

Line 18 – Doubtful debts have increased by £0.2 million. This is due mainly to an additional provision of £0.2 million implemented by NI Water.

Line 19 – NI Water has reported zero in Line 19.

Line 20 – This is a calculated line.

Line 21 – These costs are relatively immaterial.

Line 21a – The PPP Unitary charge has [x] due to a change in the underlying finance lease. Further information is provided in our Table 42;

Line 22 – This is a calculated line.

Line 22a – NI Water advised that the variance here is exclusive due to volumes.

5.1.1.3 Reactive & Planned Maintenance

Line 23 – There has been a non-material change of £0.1 million.

Line 24 – There has been a non-material change of £0.1 million.

5.1.2 Table 22 Specific Lines

5.1.2.1 Direct Costs

The Commentary below compares the AIR14 reported data with AIR13. The total functional expenditure has [x]

[x] This is attributed mostly to [x] and [x]. The specific movements are set out below.

Line 1 – The overall reduction in wastewater employment costs is split £0.3 million for sewerage, £0.4 million for sewage treatment and £0.5 million for sludge treatment and disposal. This is attributable to the reduction in the VER costs (overall reduction by £2.1 million) when compared to AIR13. Wage costs have reduced do to the ongoing voluntary redundancy program.

Line 2 – [x] On power costs the field managers provide a percentage estimate of power costs between Sewage Treatment and Sludge Treatment at each of the works where there are both activities. This approach is the same as that used for AIR13.

Similarly the Duncrue Street treatment works has one meter, whilst it provides for both Waste Water Treatment and Sludge Incineration. Again the split used is based on an estimated KWhr usage and a number of sub-meters but the approach seems sensible. For AIR14 this split has been 45:55 between WwTWs and incinerators.

Line 3 – The Company has not reported any costs in relation to Agencies.

Line 4 – For AIR14 the net impact is [x]. This followed a [x]. This is not a material change.

Line 5 – The Company has not reported any costs for associated companies.

Line 6 – Materials and consumables have been impacted marginally between AIR13 and AIR14 (£0.16 million).

Line 7 – The costs are consistent with AIR13 (£1.1 million).

Line 8 – [x]

Line 9 – This is a calculated line.

Line 10 – [x] The large variance is due to the general and support costs allocated to admin functions activity for water and sewerage. The percentages used are calculated on the total of Direct Costs for General & Support Pot 1 & 2 which have remained in

line with AIR13. However General & Support Pot 3 M&E has changed dramatically from AIR13. Sewerage has decreased from 35% to 24% while Sewage Treatment has significantly increased from 25% to 53% resulting in a total increase for Table 22 of 17%.

Line 11 – This is a calculated line.

5.1.2.2 Operating Expenditure

Line 12 – Customer services costs have increased by £0.3 million. This is not a material change.

Line 13 – Line 13 relates to scientific services costs. [
x]

Line 14 – The Company has advised that the following cost categories exist for 'other business activities':

- Utility Regulator Fees;
- NI Water staff working within the regulatory function;
- Reporter costs

Other Business Activities have increased by £0.2 million from AIR 13. This is due to an increase regulatory costs incurred mostly during the audit of the recent business plan submission.

Line 15 – This is a calculated line. It is the total of Lines 13, 14 and 15.

Line 16 – [
x
x
]

Line 17 – Doubtful debts have increased by £0.2 million. This is due mainly to an additional provision of £0.2 million implemented by NI Water.

Line 18 – The Company has reported zero in line 18 for exceptional items.

Line 19 – This is a calculated line.

Line 20 – These costs are not material.

Line 20a – [
x
]

Line 21 – Line 21 is total operating expenditure. This is a calculated line.

Line 21a – [
x]

5.1.2.3 Reactive & Planned Maintenance

Line 22 – This line relates to infrastructure maintenance. There has been a marginal reduction of £0.1 m in this line.

Line 23 – This line relates to non-infrastructure maintenance. There has been a reduction of £0.7m in the report year.

5.2 PPP

5.2.1 Table 21 – Specific Lines

Line 2 – The power costs have [x]. NI Water advised that this was due to reduced power consumption during AIR14 compared to AIR13.

Line 7 – Service charges have increased in line with inflation (2.5%).

Line 9 – [x]

Line 11 – [

x

]

Line 14 – [x]

Line 17 – [x]

Line 21a – [

x

]

Line 22a – [x

]

[x]

5.2.2 Table 22 – Specific Lines

Line 2 – The Company reports an overall reduction in these costs (9%). The Company includes a 35% allocation of the Ballyncor site. NI Water advised this is mostly due to a reduction in power usage. Kinnegar pays its own electricity bill and hence the inclusion of costs for Kinnegar here would result in double counting. The Company has therefore not included or tried to estimate the Kinnegar electricity cost. The Company advised that it has no basis for estimating these costs.

Line 8 – The Company reports [x] in this line.

Line 10 – There is a non-material variance in these costs between AIR13 and AIR14 (13k). The analysis is based on an assessment by the company of the number of staff employed within the PPP contract administration function. Not all staff are employed full time on PPP related activities. The Company analysis relies on management judgement of where to allocate payroll costs of staff. We believe it is a simplification. However, in the absence of direct timesheet data we believe this an appropriate method of apportioning these costs. In addition, any consulting costs incurred for this contract are included here.

Line 13 – For the report year the company advised that it had provided a number of tests as contractually obliged under the Omega and Kinnegar contracts. This included tests related to suspended solids and determination of oxygen demand for processes. The value reported is consistent between AIR13 and AIR14.

Line 16 – Rates costs have increased by a small percentage (2.1%, similar to AIR13). Rates are based on the actual rates bill which can be identified by site. Some apportionment was required to allocate the expenditure for the Duncrue site. The PPP element of this was assessed to be 15%.

Line 20a – [x]

Line 21a – [x]
[x]

6. Assumptions

No specific assumptions to report.

7. Confidence grades

Not applicable.

Table 25 - Analysis of Fixed Assets by Asset Type

1. Introduction

The purpose of this table is to comment on any AMP adjustments made by NI Water as reported in this table.

2. Key findings

- The Company advised that it has not made any AMP adjustments in this table for AIR14. During AIR 14 we noted that NI Water has added some values to Lines 7, 11, 12, 13 and 14 for infrastructure assets. These relate to disposals, charge for year and depreciation at 31 March. We noted that no cells existed for this data. Since then cells seem to have been added for these lines under infrastructure assets.
- We understand from NI Water that the auditor believes the approach followed by them is the correct one.
- Noting the above comments, we believe that the data reported in this table is consistent with the reporting requirements.

3. Audit approach

The audit consisted of an interview with the table owner to discuss the method and review the source data extracted from the financial system.

As part of our audits of financial data we liaised with KPMG to share key findings. This was done at a tripartite meeting between CHUK, KPMG and NI Water.

4. Audit findings

No AMP adjustment has been made for AIR14.

5. Assumptions

No assumptions have been made in this table.

6. Confidence grades

No confidence grades are required for financial data.