

Chapter 18

Regulatory accounts

Historical

Cost Accounting

Covering:
Profit and loss account for year ending 31 March
2011

Chapter 18

Regulatory accounts

Historical Cost Accounting

Guidance

The reporting requirements relate to the appointed business and table 18 is no exception. It should be completed for the profit and loss account of the appointed business only.

Company commentary

Should NI Water take advantage of the materiality threshold under Condition F to declare only the total profit and loss account of the appointed business in its published regulatory accounts it should provide a summary of the non-appointed results in the commentary to this table by type of activity. This should include 'turnover', 'other operating income', 'operating profit' and 'other income', operating costs and historic cost depreciation.

Exceptional charges or income should be commented upon and quantified, as should the headings under which they are included in the profit and loss account. Any differences in the accounting treatment of items under the historic as compared to the current cost basis should be noted. An example of this is the basis of infrastructure renewal charges.

Profits attributable to minority interests (where applicable) should be shown as extraordinary items and noted separately.

The PPP element of line 2 (operating costs) and line 3 (historical cost depreciation), if any, should be disclosed separately in commentary.

PPP presentation

PPP charges should be presented by schemes (i.e. Alpha, Omega and Kinnegar) under the following headings in the commentary: Gross charge, residual interest credit, lease repayment, capital maintenance, depreciation and net profit and loss charge (i.e. in the same format as that presented in AIR10 commentary for table 18).

A reconciliation of the differences between the effective tax rates and the standard rate of tax should be included in the commentary to the table.

A detailed commentary on the deferred tax charge. This should include reference to the balance sheet position in table 19. NI Water should set out the actuarial assumptions underpinning the FRS17 valuation of any defined benefit scheme assets and liabilities. Where there has been a change in any of the assumptions, then these should be highlighted.

NI Water should comment on the proportion of contributions that are being used to fund any pension deficit. Comment on the movements in the size of any pension deficit, both actual and compared to that predicted in the business plan, highlighting key drivers of the change.

Where there has been a change in the level of contributions (measured as a proportion of salary) in the year, then the effect on the proportions due to deficit funding should be explained.

For all items in the table significant features, movements, events and transactions over the last period should be noted.

Operating costs

Line 2 relates to historic cost operating costs. A detailed breakdown should be presented for any cost components exceeding £5m and a supporting commentary provided. In addition, any PPP component should be presented separately along with a commentary detailing the breakdown of any PPP amounts. A reconciliation should be provided between the operating costs as reported in the regulatory historic cost accounts (line 2) and the regulatory current cost accounts (line 2 of table 20)

Interest

In its supporting commentary to table 18, NI Water should separately present the interest received and the interest paid. The relevant interest amounts should be separated into the following categories: PPP interest, loans and bank interest, pension and "other" interest. A breakdown should be provided of the amounts relating to other interest.

Capitalisation of costs

NI Water should describe the amounts and categories of costs capitalised from the profit and loss account: for example- salaries and wages, overheads etc. The supporting commentary should describe the basis for this capitalisation.

Comparison to PC10

NI Water should compare outturn profit and loss elements as compared with PC10 projections, in the commentary, particularly with regard to operating costs and retained profits. In addition, NI Water should identify any amounts relating to un-appointed activities which have been excluded from the profit and loss account- e.g. turnover, operating costs, etc.

Financial reporting systems**System and controls**

NI Water should describe the financial reporting system used to generate data for the financial tables of the AIR. In addition, NI Water should provide a commentary detailing the costing system and additionally provide details of any developments and improvements made in the financial year. This should include an update of the development and implementation of relevant controls and an assessment of how effectively they are operating.

NI Water should highlight any significant internal control weaknesses identified during the year, including from internal audit findings, and their assessed impact plus details of processes implemented/ to be implemented to prevent such reoccurrences.

Guidance to Auditors

See "Auditors' guidance", parts A, "General procedures" and C, "Pensions".

Table 18 line definitions

1	Turnover	£m	3dp
Definition	Total appointed business revenue.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Regulatory Finance Team		

2	Operating costs (excluding HCD)	£m	3dp
Definition	Historic cost operating costs including the infrastructure renewals charge but excluding historic cost depreciation and extraordinary items.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input (negative number)		
Responsibility	Regulatory Finance Team		

3	Historic cost depreciation	£m	3dp
Definition	The depreciation charge on non-infrastructure assets in the historic cost accounts. This should include depreciation on intangible assets and should be net of grant amortisation.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input (negative number)		
Responsibility	Regulatory Finance Team		

4	Operating income	£m	3dp
Definition	Historic cost operating income includes profits or loss on disposal of fixed assets; income arising from exceptional items should also be included. Exceptional items are defined in paragraph 5 of FRS3 'Reporting financial performance'.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input (normally a positive number, but a loss on disposal should be included as a negative number)		
Responsibility	Regulatory Finance Team		

5	Operating profit	£m	3dp
Definition	Historic cost operating profit		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 1, 2, 3 and 4.		
Responsibility	Regulatory Finance Team		

6	Other income	£m	3dp
Definition	Includes rental income and income from investments (e.g. share income); excludes net interest and profit on disposals on fixed assets.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input: positive number		
Responsibility	Regulatory Finance Team		

7	Net interest receivable less payable	£m	3dp
Definition	Interest receivable less interest payable.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Copied: table 18D line 12.		
Responsibility	Regulatory Finance Team		

8	Profit on ordinary activities before taxation	£m	3dp
Definition	Historic cost profit on ordinary activities before taxation		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 5, 6 and 7.		
Responsibility	Regulatory Finance Team		

9	Current tax	£m	3dp
Definition	The current tax charge on profits from ordinary activities. This will include mainstream corporation tax, income and other taxes. It should exclude any deferred tax charge which is to be reported separately in line 10.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input: positive number for tax credit, negative number for tax charge.		
Responsibility	Regulatory Finance Team		

10	Deferred tax	£m	3dp
Definition	The deferred tax charge.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input: positive number for tax credit, negative number for tax charge.		
Responsibility	Regulatory Finance Team		

11	Profit on ordinary activities after taxation	£m	3dp
Definition	Historic cost profit on ordinary activities after taxation.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 8, 9 and 10.		
Responsibility	Regulatory Finance Team		

12	Extraordinary items	£m	3dp
Definition	The sum of: <ul style="list-style-type: none"> • extraordinary items (after tax), as defined by UKGAAP; and • profits/losses attributable to minority interests. 		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input: positive for a credit, negative for a charge.		
Responsibility	Regulatory Finance Team		

13	Profit for the year	£m	3dp
Definition	Historic cost profit for the year. Note: To be shown after taxation and extraordinary items, but before deduction of dividends.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 11 and 12.		
Responsibility	Regulatory Finance Team		

14	Dividends	£m	3dp
Definition	Total dividends		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Copied: table 18d line 3.		
Responsibility	Regulatory Finance Team		

15	Retained profit for the year	£m	3dp
Definition	Total historic cost retained profit for the year		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 13 and 14.		
Responsibility	Regulatory Finance Team		

CHANGE CONTROL SHEET CHAPTER 18

2008/1.0	First issue of chapter for the SBP period
2009/1.0	Second issue of chapter for the SBP period — Added requirements to compare profit and loss elements with SBP predictions; — Additional requirements added for reporting of internal controls and weaknesses.
2010/1.0	Third issue of chapter for the SBP period. — Additional section in relation to presentation of PPP charges. — Additional paragraph added in relation to unappointed activities. — Additional section added in relation to operating cost presentation. — Additional section added in relation to presentation of interest. — Additional requirements in relation to presentation of capitalised costs.
2011/1.0	First issue of chapter for the PC10 period — No changes.