

Chapter 33

Financial measures (current cost accounting); Accounting charges – current cost depreciation and infrastructure renewals charge by service

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Introduction

This table collects CCD and IRC data in outturn prices. The table should include all depreciation but has been duplicated to allow for separate recording of any depreciation etc. of PPP assets. The table now also requires confidence grades to be recorded.

Guidance

RAG 1.04 Section 1.4 and paragraphs 1.4.1 to 1.4.8 explain the expected approach to infrastructure renewals accounting.

NI Water is required to complete the parameters detailed in this table for the period 2007/08 to 2009/10 and also for 2010/11 and also complete data as per the SBP/PC10 projections for the period 2007/08 to 2009/10 and for 2010/11 as required by respective columns. Totals for water and sewerage services should be presented in columns 9-12 respectively (for example column 9 equates to the sum of columns 1 and 5, column 10 equates to the sum of columns 2 and 6, etc.). Totals for NIW total tables reflect the totals for the NIW only and PPP only tables (columns 1-12 of third series of tables).

Analysis of the current cost depreciation (CCD) charge for the year

- Section A of this table includes the analysis of the CCD charge split between water and sewerage for the report year and two prior years;
- The CCD reported in this table is gross (i.e. before amortisation of deferred credits); and,
- The CCD in this table is not the same as the CCD charge reported in table 29 line 5.

Maintenance non-infrastructure (MNI) expenditure (also referred to as base service) is required to maintain the current level of serviceability to customers. This is defined in the guidance to chapter 32.

Enhancement expenditure is where there is a permanent increase in the current level of serviceability as defined in the guidance to chapter 32.

Analysis of the infrastructure renewals charge (IRC)

Section B of the table collects, for the water and sewerage services, the infrastructure renewals charge (IRC), the infrastructure renewals expenditure (IRE) and infrastructure renewals prepayment/(accrual).

Company commentary

NI Water must ensure that its table 33 commentary is complete and fully addresses the reporting requirements, including separate commentary for PPP assets where appropriate, and references designated confidence grading of amounts recorded.

Methodology statement

In order to allow us to understand better the systems and processes NI Water uses to populate table 33 we require NI Water to prepare a methodology statement as part of its table 33 commentary.

The methodology statement should be a clear and concise explanation of the process involved in producing the reported information. In particular, NI Water should ensure it includes:

- An explanation of what systems NI Water has in place to calculate CCD and populate table 33;
- An explanation of how the data from NI Water's system, is processed to populate each line of table 33. Any additional analysis or adjustments should be explained in full;
- An explanation of any assumptions made in NI Water's methodology. NI Water should also define the basis of any assumption and explain how management are satisfied the basis is reasonable;
- An explanation of NI Water's policy for the treatment of asset write-offs, stranded assets and accelerated depreciation. NI Water should explain how the CCD impact is reflected in the various lines of table 33;
- An explanation of what the limitations are within the process and future plans to address these limitations;
- An explanation of when the methodology was last amended and how; and,
- Provide NI Water's policy with respect to treatment of PPP assets.

Current cost depreciation charge

NI Water should:

- Ensure its commentary to table 33 includes a complete methodology statement that addresses the guidance stated above;
- Include confirmation that the asset lives used in calculating depreciation are consistent with those included in table 34. Where they are not, NI Water should explain the reasons for the difference;
- Calculate the movement in the total CCD in the current year and prior year, explain the reasons for it and provide a reconciliation of the movement;
- Explain any adjustments made to the CCD charge in the year;
- Explain the impact of an MEA revaluation on its CCD charge;
- Explain the link between the HCA and CCA depreciation, including what systems are used to derive both depreciation charges. In addition NI Water should also explain how consistency in asset lives is maintained between the two systems (HCA and CCA); and
- Explain what confidence grade it would assign to assess the robustness of how this table has been completed for each line of table 33. It should consider the systems and process and the impact of any limitations in the methodology. Please set out the reasons for the confidence grade assigned.

Infrastructure renewals charge

NI Water should:

- Include a detailed explanation of how it has calculated its IRC, including the period of the IRE considered, and an explanation of any windout of an infrastructure renewals prepayment/ (accrual) included in the calculation. In addition, NI Water should explain its policy and methodology underpinning the calculation of the IRC;
- Explain how it is satisfied that its policy reflects a medium to long-term view of the maintenance needs of its infrastructure assets, and is therefore in accordance with the RAGs;
- A comparison should be made between NI Water's IRC and IRE and an explanation provided for any significant difference.
- Explain when it expects its infrastructure renewals prepayment/ (accrual) to reverse (if applicable);

- Set out the period of maintenance expenditure that it considers in determining its IRC. In addition, it should explain the basis of its forecast IRE and when this was last updated; and,
- Explain any difference between the IRC in the regulatory accounts and the IRC in the statutory accounts. Where there is no such difference a statement should be made confirming this.

Guidance to Reporters

Current cost depreciation charge

The reporter should:

- Confirm whether the systems and processes described in NI Water's methodology statement are those currently in operation. Where this is not the case identify and explain areas where the methodology statement is incorrect or incomplete;
- Perform tests of NI Water's systems and processes described by NI Water's methodology statement to ensure that it has been followed by NI Water in the calculation of the CCD and population of table 33;
- Review NI Water's assessment of a confidence grade by line to assess the robustness of how this table has been completed. Comment on whether you agree with the confidence grade assigned;
- Consider and comment on any changes that NI Water could make to its analysis, which would give a more robust answer. You should consider feasibility and costs associated with making suggested changes, and explain whether you have brought your suggested improvements to NI Water's attention and whether it is considering implementing them;
- Review the assumptions or adjustments underlying the calculation and population of table 33. Comment on whether these are reasonable and explain the basis for your opinion;
- Compare NI Water's rules on proportional allocation between services (specifically between base and all enhancements) and allocation of expenditure to depreciable life categories given in table 33. Confirm whether the charge stated has been calculated in accordance with NI Water's rules. Comment on any exceptions;
- Review and comment on NI Water's explanation of the movement in the total CCD between the current year and prior year;
- Review and confirm whether NI Water's explanation of the impact of an MEA revaluation on its CCD charge is adequate and reasonable; and,
- Review and confirm whether NI Water's explanation of the link between HCA and CCA depreciation, including what systems are used to derive both depreciation charges, is adequate and reasonable.

Infrastructure renewals charge

Reporters should:

- Consider whether NI Water's policy for infrastructure renewals charge is consistent with the calculation of the infrastructure renewals charge;
- Consider whether NI Water's policy is reflective of NI Water's medium to long-term view of infrastructure renewals expenditure. The reporter should consider what IRE projections are available to NI Water and if these projections are medium to long term; and,
- Review and comment on NI Water's explanation of the period over which it expects any infrastructure renewals accrual/prepayment to be wound out and whether this is reasonable.

Guidance to Auditors

See "Auditors' guidance".

Table 33 line definitions

A DEPRECIATION CHARGE FOR THE YEAR

1	CCD as at 31 March 2010	£m	3dp
Definition	The current cost depreciation charge as at 31 st March 2010		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Column 1, 5 – historic data based on SBP Column 2, 6 – historic data as at 31 st March 2010 Columns 3, 4, 7 and 8 not required Column 9 – Calculated: sum of entries in columns 1 & 5 Column 10- Calculated: sum of entries in columns 2 & 6 Columns 11 and 12 – not required		
Responsibility	Regulatory Finance Team		

2	CCD on additions (enhancement assets) post 1 April 2010	£m	3dp
Definition	The current cost depreciation charge on total expenditure required for maintenance of enhancement assets for the financial year.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 5, 6, 9 and 10– not required Columns 3, 4, 7 and 8: input Column 11: Calculated as sum of columns 3 and 7 Column 12: Calculated as sum of columns 4 and 8		
Responsibility	Regulatory Finance Team		

3	CCD on additions (MNI assets) post 1 April 2010	£m	3dp
Definition	The current cost depreciation charge on total expenditure required for maintenance of non-infrastructure assets.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 5, 6, 9 and 10– not required Columns 3, 4, 7 and 8: input Column 11: Calculated as sum of columns 3 and 7 Column 12: Calculated as sum of columns 4 and 8		
Responsibility	Regulatory Finance Team		

4	Total depreciation charge for year	£m	3dp
Definition	Total current cost depreciation charge for report year by service assets.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 5, 6, 9 and 10– not required Columns 3, 4, 7 and 8: Calculated: sum of lines 2 and 3 Column 11: Calculated: sum of columns 3 & 7 Column 12: Calculated: sum of columns 4 & 8		
Responsibility	Regulatory Finance Team		

5	Total depreciation charged	£m	3dp
Definition	Total current cost depreciation charged.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1- 8 input Column 9 calculated as sum of columns 1 & 5 Column 10 calculated as sum of columns 2 & 6 Column 11: Calculated: sum of columns 3 & 7 Column 12: Calculated: sum of columns 4 & 8		
Responsibility	Regulatory Finance Team		

B INFRASTRUCTURE RENEWALS CHARGES, EXPENDITURE AND PROVISION

6	Infrastructure renewals expenditure	£m	3dp
Definition	Infrastructure renewals expenditure		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 5 – historic data based on SBP Columns 2, 6 – historic data Columns 3 and 7 – input cells Column 4: copied table 32 column 3 line 32 Column 8 – Copied: table 32 column 6 line 32 Column 9 – Calculated: sum of entries in columns 1 & 5 Column 10- Calculated: sum of entries in columns 2 & 6 Column 11 – Calculated: sum of entries in columns 3 & 7 Column 12 – Calculated: sum of entries in columns 4 & 8		
Responsibility	Regulatory Finance Team		

7	Infrastructure renewals charges	£m	3dp
Definition	Infrastructure renewals charge		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 5 – historic data based on SBP Columns 2, 6 – historic data Columns 3 and 7 – input cells Column 4 – Calculated: sum of table 21 column 3 lines 25 & 32. Column 8 – Calculated: sum of entries in table 22 column 4 lines 24 and 31 Column 9 – Calculated: sum of entries in columns 1 & 5 Column 10- Calculated: sum of entries in columns 2 & 6 Column 11 – Calculated: sum of entries in columns 3 & 7 Column 12 – Calculated: sum of entries in columns 4 & 8		
Responsibility	Regulatory Finance Team		

8	Infrastructure renewals prepayment / (accrual)	£m	3dp
Definition	The cumulative difference between infrastructure renewal charges and expenditure at year end.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Input (negative number for accruals, positive number for prepayments) Columns 1, 5 – historic data based on SBP Columns 2, 6 – historic data Columns 3, 4, 7 and 8– input cells Column 9 – Calculated: sum of entries in columns 1 & 5 Column 10- Calculated: sum of entries in columns 2 & 6 Column 11 – Calculated: sum of entries in columns 3 & 7 Column 12 – Calculated: sum of entries in columns 4 & 8		
Responsibility	Regulatory Finance Team		

CHANGE CONTROL SHEET

CHAPTER 33

2008/1.0	First issue of chapter for the SBP period
2009/1.0	Second issue of chapter for the SBP period; <ul style="list-style-type: none"> - Added confidence grading requirements; - Additional requirements for IRC and IRE reporting added; - Amended processing rules for lines 1-6.
2010/1.0	Third issue of chapter for the SBP period. <ul style="list-style-type: none"> - Minor revisions to line processing rules. - Additional requirement to present SBP projections for 07-08 in columns 1a, 7a and 13a.
2010/1.0	Guidance on revaluation
2011/1.0	First issue of chapter for PC10 period. <ul style="list-style-type: none"> - Minor amendments to guidance. - Additional lines to table and amendment of processing rules.