

Chapter 34

Financial measures; Analysis of non-infrastructure fixed asset additions by life categories (current cost accounting)

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Introduction

This table includes the analysis of expenditure on non-infrastructure fixed asset additions to all purpose categories base service (ie maintenance non-infrastructure (MNI)) and enhancement (comprising quality enhancements, enhanced service levels and improving supply/demand balance) by asset life for the report year. A full definition of **enhancement** is given in the guidance for table 32.

In this chapter all expenditure is considered net of grants.

This table should be completed in outturn prices.

PPP assets should be separately identified in commentary to the table.

Guidance

Non-infrastructure assets may be defined in terms of:

Very short:	assets having a life of zero to five years e.g. vehicles and computer equipment.
Short:	assets having a life of six to fifteen years, e.g. some ICA plant, telemetry, vehicles and plant.
Medium:	generally mechanical assets having a life of sixteen to thirty years, e.g. pumping units and associated electrical plant, process plant etc.
Medium long:	generally mechanical assets having a life of thirty-one to fifty years, e.g. filter bed structures, steel storage tanks, site fencing, GRP covers and kiosks etc., units and associated plant.
Long:	generally civil assets including service reservoirs, treatment works structures, interprocess pipework and filter bed structures. Such assets will have a life exceeding fifty years.

Provision has been made for input of separate lines for the water and sewerage service.

Company commentary

NI Water must ensure that its table 34 commentary is complete and fully addresses the reporting requirements.

Methodology statement

In order to allow us to understand better the systems and processes companies use to populate table 34 we now require companies to prepare a methodology statement as part of its table 34 commentary.

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

- An explanation of what systems NI Water has in place to populate table 34;

- An explanation of how the data from NI Water's system is processed to populate table 34. 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 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;
- An explanation of NI Water's policy for assessing and reviewing asset lives. It should include an explanation of how accounting asset lives are assessed to ensure that they reflect operational asset lives; and,
- NI Water should provide a reconciliation of its CIDA system to the fixed asset register and include details of any unreconciled differences.

Table 34 commentary

NI Water should:

- Indicate where the allocation rules differ from those adopted in previous years. Any changes in allocation rules or average life assumptions should be accompanied by a full explanation of the reasons behind the changes;
- Explain where judgements on asset lives and investment allocation made for engineering purposes are not fully consistent with those used for financial purposes;
- Explain when it last reviewed operational asset lives and whether it plans to review them for the price review. If operational lives have been or will be revised when did/ will the revision take effect from and quantify and explain any material changes to CCD. Explain whether historic cost depreciation was also amended to reflect revised operational asset lives;
- Companies are required to confirm whether this is the case or provide an explanation of the difference; and
- Explain and provide information on:
 - Gross MEAV of any assets fully depreciated but still in use at the year-end; and
 - The written down value of assets that were written off or replaced in the year, but not fully depreciated.

Allocation

NI Water should provide commentary on the basis and methodologies used to apportion costs/ capital expenses between infrastructure and non infrastructure (where relevant)

Previously management has alluded to the limitations in their processes for allocating capital expenditure between IRE, infrastructure enhancement and MNI. The company should provide a commentary detailing the progress made in its methodology for allocating capital expenditure providing 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 major internal control weaknesses identified or reported during the year (including any major/ significant internal audit findings), their assessed impact and details of processes implemented/ to be implemented to prevent such reoccurrences.

Guidance for Reporters

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 the reporter should identify and explain 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 confirm that it has been followed by NI Water in the calculation of the CCD and population of table 34;
- Review and comment on reasonableness and consistency of the rules adopted by NI Water for allocation of expenditure to life categories;
- Review NI Water's procedures and consider whether or not they are reasonable, and whether they are followed by staff involved in allocation decisions;
- Review and comment upon any differences from rules and procedures adopted in previous years, and consistency of asset lives with those used for depreciation of assets;
- Consider the appropriateness of the current cost depreciation charge in the year and in particular:
 - confirm when NI Water last reviewed or amended its asset life and apportionment policy;
 - comment on whether, in the reporter's view, the financial asset lives reflect the operational lives of the assets and the reason for that opinion;
 - comment on the appropriateness of both asset lives and the apportionment of expenditure across asset lives used by NI Water;
- Review and comment on inconsistencies between engineering and financial judgements on asset lives and investment allocation; and
- Review and comment on an exception basis where NI Water has not provided commentary on inconsistencies in asset lives and investment allocation between those used in previous years.

Guidance for Auditors

See "Auditors' guidance."

Table 34 line definitions

ACCOUNTING FIXED ASSET ADDITIONS

A NON INFRASTRUCTURE ASSET ADDITIONS (ENHANCEMENT) BY ASSET LIFE

1	Very short	£m	3dp
Definition	Capital expenditure on non-infrastructure assets (enhancement) with very short life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

2	Short	£m	3dp
Definition	Capital expenditure on non-infrastructure assets (enhancement) with short life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

3	Medium	£m	3dp
Definition	Capital expenditure on non-infrastructure assets (enhancement) with medium life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

4	Medium Long	£m	3dp
Definition	Capital expenditure on non-infrastructure assets (enhancement) with medium long life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

5	Long	£m	3dp
Definition	Capital expenditure on non-infrastructure assets (enhancement) with long life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

6	Land	£m	3dp
Definition	Land purchases (net of VAT) for capex enhancement works.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

7	Land disposal	£m	3dp
Definition	Land disposals in connection with capex enhancement works – this should be recorded at their HCA book value (typically the same as the original purchase price).		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input (negative number)		
Responsibility	Regulatory Finance Team		

8	Total	£m	3dp
Definition	Net total asset additions (enhancement).		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Calculated field: the sum of lines 1, 2, 3, 4, 5, 6, 7. The sum of lines 1, 2, 3, 4, 5, 6 and 7 is validated as follows for 2012/13: For the Water Service, by table 32 line 16 column 3 plus table 34 line 7 column 4 For the Sewerage Service, by table 32 line 16 column 6 plus table 34 line 7 column 8		
Responsibility	Regulatory Finance Team		

B NON INFRASTRUCTURE ASSET ADDITIONS (BASE SERVICE) BY ASSET LIFE

9	Very Short	£m	3dp
Definition	Capital expenditure on non-infrastructure assets with very short life (base service).		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

10	Short	£m	3dp
Definition	Capital expenditure on non-infrastructure assets (base service) with short life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

11	Medium	£m	3dp
Definition	Capital expenditure on non-infrastructure assets (base service) with medium life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

12	Medium Long	£m	3dp
Definition	Capital expenditure on non-infrastructure assets (base service) with medium long life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

13	Long	£m	3dp
Definition	Capital expenditure on non-infrastructure (base service) assets with long life.		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Columns 1, 2, 3, 5, 6 and 7 are historic data. Columns 4 and 8: Input		
Responsibility	Regulatory Finance Team		

14	Total	£m	3dp
Definition	Net total asset additions (base service).		
Primary Purpose	Informing future price limit determinations.		
Processing rule	Calculated field: the sum of lines 9, 10, 11, 12, 13. The total for 2012/13 is validated as follows: For the water service, by table 32 line 33 column 3; For the sewerage service, by table 32 line 33 column 6.		
Responsibility	Regulatory Finance Team		

C Completion not required

CHANGE CONTROL SHEET

CHAPTER 34

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"> - Additional requirements regarding reconciliations between CIDA and fixed asset register; - Additional requirements regarding capital allocation reporting; - Additional reporting requirements regarding internal controls; - Amended processing requirements for lines 1-7, 9-13 and 15-19.
2010/1.0	Third issue of chapter for the SBP period. <ul style="list-style-type: none"> - Minor changes to line processing rules.
2011/1.0	First issue of chapter for the PC10 period. <ul style="list-style-type: none"> - Additional accuracy requested for lines 15 and 16 (from 0dp to 1dp).
2012/1.0	Second issue of chapter for the PC10 period. <ul style="list-style-type: none"> - Block C greyed out.
2013/1.0	Third issue of chapter for the PC10 period. <ul style="list-style-type: none"> - Minor changes.