

## Table 43 – PPP Reporting – Operational Costs

### 1. Introduction

The purpose of the table is to collect information on the cost, performance, and other explanatory variables of the PPP concessions, to assist with the assessment of NIW and PPP relative efficiency.

### 2. Key findings

Criteria	RAG	Assessment
Independent review of performance and reporting	Green	Performance good. Reporting process well managed
Methodology	Green	Methodology consistent with current process, control points identified and understood
Assumptions	Green	Assumptions reasonable and appropriately applied
Source data	Green	Source data is clearly identified, complete beyond material concern, well managed through to accurate systems input
Clarity of audit trails	Green	Detailed and comprehensive audit trail to all numbers available
Confidence grades	Green	Confidence grades are not applicable for this table.
Governance	Green	Responsibilities for integrity of data and commentary clearly defined. Good evidence of engagement and of final sign-off.

- Wherever relevant, the line entries are consistent with Table 21 & Table 22 entries.
- We consider that where the company has needed to make assumptions on cost apportionment to each site, the assumptions are generally reasonable to within material tolerances. Where we have identified material concerns, these are noted below.

### 3. Audit approach

To verify the data reported our audit consisted of an interview with the NI Water system holders during which the methodologies were reviewed and a selection of data reported in the table was audited back to example source data (e.g. to concessionaire invoices) .

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

Line entries are based on paid invoices and excludes any capital investment as per the reporting requirements. The values are consistent with entries in Tables 21 & 22.

Other, more specific findings are given in section 5 below.

### 5. Audit findings

The year on year variances and % change have been tabulated below.

In general, the % changes or monetary variances are not material and have therefore not been commented upon.

[ x ]

[ x ]

[ x ]

Further detail relating to each line is discussed below.

**Lines 1 to 3 – Project Description**

No changes expected. None made. All as previously confirmed. No further comment.

**Line 4 – Payment to Concessionaire**

As required, this is fully consistent with the information presented in Table 42, line 12.

The company commentary includes a breakdown of the atypical expenditure and performance deductions relating to table 42, lines 10 and 9 respectively. We confirm that this is consistent with the information we audited in relation to that table.

#### **Line 5 - Payment by Concessionaire to Operating Company**

The data relating to payment by concessionaire to operating Company is provided to NI Water by the PPP contractors. As the data originates externally, we are unable to determine the veracity of this information, so has been taken as given.

The values are consistent with the totals presented in T21 L22a and T22 L21a.

#### **Line 6 - Power**

This data has been extracted from the Company's general ledger system. Data related to power costs is reported on a site by site basis and hence no apportionment of data to derive these figures is required. The totals are consistent with tables 21 and 22 (PPP).

Note that the Company continues not to estimate power costs for Kinnegar as it has no mechanism for doing so.

With respect to Duncrue Street, NI Water's methodology indicates that one electricity meter covers both the Belfast WwTW and the PPP Incinerators. As for last year, [ x ] of these costs are allocated to the PPP Incinerators. The power costs at Duncrue have reduced by [ x ] which NI Water has advised is due to a combination of factors as follows:

- Procurement of cheaper power during the AIR 15 reporting period
- An increase in self generation during the AIR 15 period
- Connection of the existing meters to the historian data logging system, as opposed to the previous manual collation method, therefore providing more accurate data

#### **Line 7 – Other Direct Costs**

The Company has reported a small amount, of [ x ] (materially similar to [ x ] the previous year) in relation to the Alpha contract and specifically relating to the cost of abstraction licenses.

We note that the methodology needs correcting to reflect the costs being reported.

#### **Line 9 – General and Support Expenditure**

General and support costs are a combination of consultancy costs and time costs of staff employed by NI Water to manage these contracts.

Consultancy costs are taken directly from the general ledger and are specifically costed against the relevant PPP.

For staff costs, NI Water has a team of seven staff who allocate some or all of their time between the PPPs amounting to 4.85 full-time equivalents. A P101 cost centre report is run which shows the relevant payroll costs. Once the total costs per PPP have been established, the general and support costs are allocated evenly across each of the sites in each PPP.

The totals are consistent with figures reported in Tables 21 and 22.

#### **Line 11 – Scientific Services**

Alpha PPP – related costs are included in the Unitary Charge.

Kinnegar PPP and Omega PPP - The Company has determined the gross costs relating to scientific services and allocated these costs across PPP sites based on the assessed percentage of samples attributed to each PPP site, an allocation of staff costs and operational contractor costs per site visit. We noted that the numbers of samples counted includes a large volume of 'Uncharged' samples. It was not initially clear why these should be included in the apportionment exercise of the gross costs and it would have made a material difference to the costs reported for the Kinnegar PPP. However, NI Water has advised that the 'Uncharged' samples at Kinnegar are the costs of influent and effluent sampling and are borne directly by NI Water rather than recharged by the concessionaire. On this basis, we have accepted that the 'Uncharged' sample costs should be included in the calculations and the apportionment between the sites as given by NI Water seems reasonable.

Although there appear to have been some large % changes in costs, the monetary variance is not material and therefore has not been challenged.

The totals data is consistent with data in Tables 21 and 22.

### **Line 12 – Rates**

Alpha PPP – the total rates bill for water supply sites is based on volumes. NI Water has apportioned the total cost by site according to the proportion of Distribution Input that each contributes. This is a logical assumption and has been correctly applied.

However, we queried the allocation as the total rates bill for the Alpha PPP sites has increased by [ x ] yet the Total water service rates (from table 21) have reduced from [ x ] to [ x ] and the proportion of DI contributed by the Alpha PPP sites has increased from [ x ] to [ x ]. NI Water advised that the total NI Water rates costs include an element of allocation of the Company's administrative properties. In the calculation of the rates attributable to the PPP WTW sites, only the cumulo (ie WTW) element of the overall NIWater charge is included [ x ] and [ x ] for the 2 years).

Kinnegar PPP and Omega PPP - Wastewater sites each receive separate rates bills and hence the data can be attributed directly and accurately.

For the Ballynacor site, the Company has split the costs 65%:35% wastewater to sludge respectively on the basis of the site area split between wastewater and sludge facilities.

Duncrue has also been allocated between NIW and PPP on the basis of site area covered, with the Incinerators covering 15% of the site. This remains consistent with AIR13 and AIR14.

The totals data is consistent with data in Tables 21 and 22.

### **Line 13 – Estimated Terminal Pumping Costs**

The Company has reported power costs related to the terminal pumping station by using the location codes for known sites.

### **Line 14 – Estimated Sludge Costs**

The cost here is simply the payment by concessionaire, functional expenditure and rates (lines 5, 10 and 12 respectively) for Ballynacor and Duncrue. There are no scientific services costs associated with the sludge facilities.

**Line 15 – Total PPP operating expenditure**

As required, these correctly state the sums of lines 5, 10, 11 and 12.

For the Sludge treatment sites (Ballnacor and Duncrue), this is equal to line 14.

**6. Confidence grades**

Not applicable.