
northern ireland
water



**A Bid by Northern Ireland Water
within the terms of the
Memorandum of Understanding:**

Relevant Items

FINAL V1.1

13th May 2011

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1 The Memorandum of Understanding and Consequent Written Agreement

- 1.1 The Memorandum of Understanding (MoU) documents the agreement between the Northern Ireland Authority for Utility Regulation (the Utility Regulator) and the Department for Regional Development (DRD) with regard to their functions set out in the Water and Sewerage Services Order (Northern Ireland) 2006 (the Order) for regulating water and sewerage service undertakers.
- 1.2 Through the MoU, the Utility Regulator and DRD recognise the constraints that the public expenditure system imposes upon them in respect of NI Water's funding. Accordingly, the Utility Regulator and DRD agree that any request for alteration of funding by NI Water will be referred to them for joint review.
- 1.3 Section 4.1.4 of the MoU addresses Relevant Items. The Utility Regulator and DRD acknowledge that mitigation measures normally available under regulation (e.g. Reserves, IDOKs) cannot be used in the initial period. The Utility Regulator and DRD will therefore agree relevant items for which some provision, out with the determination, should be made.
- 1.4 Where DRD and the Utility Regulator have agreed additional provision for relevant items they will agree that such expenditure should be included in a bid for public expenditure resources in addition to determined expenditure. However, any such additional provision must be held by the Department and only made available to NI Water in accordance with agreed written procedures for dealing with alterations to funding.
- 1.5 Section 9 of the Consequent Written Agreement, which accompanies the MoU, sets out the following criteria (which are not exclusive of other considerations that might be though relevant) that the Utility Regulator and DRD will take account of when assessing a submission by NI Water.
 - i. Whether the proposed interim adjustments are (individually or collectively) above the materiality threshold (as defined in the MoU).
 - ii. The extent to which the factors leading to the request were within NI Water's power to control or mitigate;
 - iii. Costs associated with responding to emergencies or exceptional situations, or any pressures arising from requests for actions by NIW which fall outside Ministerial Guidance may be regarded as outside NI Water's control;
 - iv. The extent to which adjustment to any of NI Water's activities, outputs or targets should be made (including contingency planning to address the Executive's inability to meet approved adjustments);
 - v. The extent to which a request for alteration addresses the global or net picture i.e., gives due attention to factors that might have reduced the need for funding, as well as factors that might call for extra funding;

- vi. The extent to which adjustments to K should be applied by the Utility Regulator in future charging years; and
- vii. The existence of any additional provision for agreed relevant items outside the determination for public expenditure funding.

2 Explanation of relevant items

- 2.1 The Draft NI Water Operating Plan and Budget for 2011/12 was submitted to DRD Shareholder Unit (DRD SHU) on the 24th February 2011. On the 29th March, the Minister wrote to the NI Water CEO confirming conditional approval of the Operating Plan and Budget 2011/12 provided NI Water were able to utilise the entire 'relevant-item' fund of £11.8m and further reduce the PE requirement within the Operating Plan and Budget by a further £1.3m.
- 2.2 In the meeting between DRD, NIAUR & NI Water on 20th April 2011 it was agreed that any PE cover over and above that provided by the Final Determination (FD) could be treated as a 'relevant-item' for this purpose and could be used as the basis for any bid by NI Water through the agreed MoU process.
- 2.3 This submission forms the basis of NI Water's request that 'relevant-item' funding held by DRD is released, enabling full approval of the NI Water Operating Plan and Budget 2011/12. It should be noted that this bid is for the entire 'relevant-item' pot of £11.8m and also that NI Water is **not seeking any additional funding** as part of this bid.
- 2.4 This bid is for the entire 'relevant-item' pot of £11.8m to cover PE shortfalls arising from the following:
 - Cover for clear line of sight (CLOs) Government accounting adjustments – in relation to provisions
 - Non-domestic income reduction
 - Cover for PE implications of IFRS adjustments
 - Additional Carbon Reduction Costs, CRC, costs

Annex A contains additional detail in respect of these relevant items

3 The Case for an Alteration of Funding

If successful, this bid will allow the relevant item fund to be used to cover existing PE shortfalls in 2011/12 and allow full approval of the 2011/12 Budget and Operating Plan. NI Water is not seeking any additional funding as part of this bid.

4 Addressing the Criteria for Assessment of the Submission

4.1 Addressing the Submission criteria

i. Are the proposed interim adjustments (individually or collectively) above the materiality threshold (as defined in the MoU - £0.5m)?
Yes, this bid is for the entire 'relevant-item' pot of £11.8m which is above the materiality threshold

ii. The extent to which the factors leading to the request were within NI Water's power to control or mitigate.
<p>CLoS accounting – Government accounting requirement - not deemed not to be within the reasonable control of the company</p> <p>Income reduction – Largely outside NI Water's control – after due consideration the NI Water Board decided, given a number of reasons including the economic conditions at the time, to limit the increase in non-domestic tariffs to a maximum of 4.7%. The overall reduction is however largely due to a reduction in chargeable volumes which is deemed to be outside of management control</p> <p>IFRS adjustments – mandatory obligation - not deemed not to be within the reasonable control of the company</p> <p>Operating Costs - NI Water will be a mandatory participant of the scheme, the cost of this being entirely outside of NI Water's control</p>

iii. The Costs associated with responding to emergencies or exceptional situations, or any pressures arising from requests for actions by NI Water which fall outside Ministerial Guidance may be regarded as outside NI Water's control.
Not Applicable

iv. The extent to which adjustment to any of NI Water's activities, outputs or targets should be made (including contingency planning to address the Executive's inability to meet approved adjustments).
Not Applicable – this bid is deemed to provide PE cover only with no impact on outputs or targets

v. The extent to which a request for alteration addresses the global or net picture i.e., gives due attention to factors that might have reduced the need for funding, as well as factors that might call for extra funding.

Not Applicable – this bid is to provide PE cover to enable approval of the NI Water 2011/12 Budget and Operating Plan and no additional funding is being requested.

vi. The extent to which adjustments to K should be applied by the Utility Regulator in future charging years.

Not Applicable – no request for additional funding

vii. The existence of any additional provision for agreed relevant items outside the determination for public expenditure funding.

Not Applicable – bid is for entire relevant item fund after all additional items are taken into account

5 Annex A – NI Water relevant item bid – additional detail

This document provides additional detail on items classified as ‘relevant-items’ within the terms of the Memorandum of Understanding.

Current Situation

In summary, a cash pressure of £13.1m (summarised below in Table 1) exists which is reduced to £1.3m assuming use of the full £11.8m ‘relevant-item’ pot.

		£'m
NIW Income reduction	Section 1	7.4
NIW Increase in costs	Section 2	1.5
Provisions	Section 3	10.3
IFRS adjustment	Section 4	3.3
Total		22.7
Less: non-cash to cash transfers plus additional monies held by DRD		(9.5)
Cash pressure 2011/12	(excluding relevant items of £11.8m)	13.1
Cash pressure 2011/12	(including release of £11.8m relevant items)	1.3

Table 1 Summary of funding reconciliation

The remainder of this paper sets out the reasons for the differences noted in Table 1 providing backup where necessary