

northern ireland  
water



Delivering what matters

# Regulatory Accounts 2018/19

## Statement of Directors' Responsibilities

The Directors of NI Water are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the relevant Regulatory Accounting Guidelines (RAGs). The Northern Ireland Authority for Utility Regulation ("the Utility Regulator") has introduced new RAGs to be applied for the year 2018/19. The Regulatory Accounts for 2018/19 have been prepared on the basis of the new RAGs with the comparatives for 2017/18 restated as directed by the Utility Regulator.

The information contained in the Regulatory Accounts may refer to disclosures in the Annual Report document and, as agreed with the Utility Regulator, it is not necessary to duplicate the same information in both documents.

## Condition F6A of the Licence (Directors' certificate of going concern)

The Board confirms that to the best of its knowledge and belief:

- (1) In the opinion of the Directors, Northern Ireland Water Limited ("the Appointee") will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil NI Water's obligations under the Appointment).

Note 2(a) on page 9 fully outlines the current funding position for the Company and a short summary of this is provided below:

As required by the Licence, NI Water submitted a Business Plan to the Utility Regulator in March 2014 setting out its proposals for the price control period from 1 April 2015 to 31 March 2021 (PC15).

The Board has been unable to accept the Utility Regulator's Final Determination for PC15 due to a shortfall in public expenditure funding.

NI Water engaged positively with the Utility Regulator and Department for Infrastructure ("DFI") to agree changes to 2015/16 and 2016/17 regulatory outputs due to the reduction in Public Expenditure funding.

Following the PC15 Mid-Term Review, the Utility Regulator concluded:

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 six year period;
- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and
- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

As a result, adjusted outputs have not been agreed with the Utility Regulator for 2017/18 and beyond.

NI Water continues to make the case for certainty of funding and a medium term financial settlement to enable price limits and service targets/outputs set in the PC15 Final Determination to prevail. If funding levels drop below the minimum required to deliver all of the defined PC15 outputs within

the PC15 six year period, a similar process will be undertaken to agree changes to PC15 Final Determination targets.

In accordance with the Licence, NI Water Limited is preparing its business plan for the PC21 period for submission to the Utility Regulator in January 2020.

On the basis of the ongoing discussions the Directors have formed a judgement at the time of approving the financial statements, that the company has adequate resources to continue in operational existence for the foreseeable future and as such these conditions do not cast a significant doubt on the Company's ability to continue as a going concern.

- (2) In the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it:
- (i) management resources;
  - (ii) methods of planning and internal control which, except for any control weaknesses reported separately to the Utility Regulator, are sufficient to enable it to carry out Regulated Activities necessary to fulfil its obligations under the Appointment; and
- (3) On 20<sup>th</sup> November 2017 NI water Limited, through a subsidiary, acquired Dalriada Water Limited which is the PPP concessionaire company contracted to provide services to NI Water Limited (see Annual Report pages 109 to 110 for more detail of the Alpha contract). The activities of Dalriada Water Limited lies outside the Regulated Activities as defined by the Licence. The financial results of Dalriada Water Limited and the other businesses acquired by NI Water have been consolidated into the Group accounts which are included in the Annual Report and Accounts. Apart from the above in the opinion of the Directors, no contracts were entered into with any Associated Company.

For and on behalf of the Board



Sara Venning  
Chief Executive  
20 June 2019

## HISTORICAL COST FINANCIAL STATEMENTS

### Profit and loss account

	Year to 31 March 2019			Year to 31 March 2018 (Restated)		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Turnover	409,662	7,010	416,672	396,865	6,721	403,586
Operating costs	(186,420)	(4,292)	(190,712)	(180,537)	(3,520)	(184,057)
Historical cost depreciation	<u>(82,165)</u>	<u>(16)</u>	<u>(82,181)</u>	<u>(80,474)</u>	<u>(16)</u>	<u>(80,490)</u>
Operating profit	141,077	2,702	143,779	135,854	3,185	139,039
Net interest payable	<u>(63,684)</u>	-	<u>(63,684)</u>	<u>(63,818)</u>	-	<u>(63,818)</u>
Profit on ordinary activities before taxation	77,393	2,702	80,095	72,036	3,185	75,221
<i>Taxation on profit on ordinary activities:</i>						
Corporation tax	-	-	-	(9)	186	177
Deferred tax	<u>(14,018)</u>	-	<u>(14,018)</u>	<u>(13,489)</u>	-	<u>(13,489)</u>
Profit on ordinary activities after taxation	63,375	2,702	66,077	58,538	3,371	61,909
Dividends	<u>(23,759)</u>	<u>(2,702)</u>	<u>(26,461)</u>	<u>(21,153)</u>	<u>(3,371)</u>	<u>(24,524)</u>
Retained profit for the financial year	<u>39,616</u>	-	<u>39,616</u>	<u>37,385</u>	-	<u>37,385</u>

## Balance sheet

	At 31 March 2019			At 31 March 2018 (Restated)		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Fixed assets</b>						
Tangible assets	3,128,612	-	3,128,612	2,998,246	16	2,998,262
Investments	15	-	15	28	-	28
	<u>3,128,627</u>	<u>-</u>	<u>3,128,627</u>	<u>2,998,274</u>	<u>16</u>	<u>2,998,290</u>
<b>Current assets</b>						
Stocks	2,947	7	2,954	2,465	5	2,470
Debtors	70,855	627	71,482	66,539	508	67,047
Cash at bank and in hand	6,982	749	7,731	3,234	663	3,897
	<u>80,784</u>	<u>1,383</u>	<u>82,167</u>	<u>72,238</u>	<u>1,176</u>	<u>73,414</u>
<b>Creditors: amounts falling due within one year</b>						
Payments received on account	(1,539)	-	(1,539)	(1,886)	-	(1,886)
Trade creditors	(1,015)	(12)	(1,027)	(1,768)	(36)	(1,804)
Taxation and social security	(2,237)	-	(2,237)	(1,107)	-	(1,107)
Other creditors	(16,688)	-	(16,688)	(15,898)	-	(15,898)
Accruals and deferred income	(99,817)	(1,371)	(101,188)	(105,662)	(1,156)	(106,818)
Deferred grants and contributions	(381)	-	(381)	(380)	-	(380)
PPP finance lease	(6,697)	-	(6,697)	(5,706)	-	(5,706)
	<u>(128,374)</u>	<u>(1,383)</u>	<u>(129,757)</u>	<u>(132,407)</u>	<u>(1,192)</u>	<u>(133,599)</u>
<b>Net current liabilities</b>	<u>(47,590)</u>	<u>-</u>	<u>(47,590)</u>	<u>(60,169)</u>	<u>(16)</u>	<u>(60,185)</u>
<b>Total assets less current liabilities</b>	<u>3,081,037</u>	<u>-</u>	<u>3,081,037</u>	<u>2,938,105</u>	<u>-</u>	<u>2,938,105</u>
<b>Creditors: amounts falling due after more than one year</b>						
Loans and other borrowings	(1,337,867)	-	(1,337,867)	(1,280,564)	-	(1,280,564)
Other creditors	(428,004)	-	(428,004)	(396,219)	-	(396,219)
	<u>(1,765,871)</u>	<u>-</u>	<u>(1,765,871)</u>	<u>(1,676,783)</u>	<u>-</u>	<u>(1,676,783)</u>
<b>Provisions for liabilities and charges</b>						
Deferred tax provision	(170,041)	-	(170,041)	(155,767)	-	(155,767)
Other provisions	(4,170)	-	(4,170)	(5,449)	-	(5,449)
	<u>(174,211)</u>	<u>-</u>	<u>(174,211)</u>	<u>(161,216)</u>	<u>-</u>	<u>(161,216)</u>
<b>Pension liability</b>	<u>(29,574)</u>	<u>-</u>	<u>(29,574)</u>	<u>(18,915)</u>	<u>-</u>	<u>(18,915)</u>
<b>Net Assets</b>	<u>1,111,381</u>	<u>-</u>	<u>1,111,381</u>	<u>1,081,191</u>	<u>-</u>	<u>1,081,191</u>
<b>Capital and reserves</b>						
Called up share capital	500,000	-	500,000	500,000	-	500,000
Distributable reserve	171,690	-	171,690	171,690	-	171,690
Profit and loss account	439,691	-	439,691	409,501	-	409,501
	<u>1,111,381</u>	<u>-</u>	<u>1,111,381</u>	<u>1,081,191</u>	<u>-</u>	<u>1,081,191</u>
<b>Shareholder's funds</b>	<u>1,111,381</u>	<u>-</u>	<u>1,111,381</u>	<u>1,081,191</u>	<u>-</u>	<u>1,081,191</u>

These financial statements were approved and authorised for issue by the Board of Directors on 20 June 2019 and were signed on its behalf by:



Sara Venning  
Chief Executive  
20 June 2019

## Statement of total recognised gains and losses

	Year to 31 March 2019			Year to 31 March 2018 (Restated)		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Profit for the financial year</b>	<b>39,616</b>	<b>-</b>	<b>39,616</b>	<b>37,385</b>	<b>-</b>	<b>37,385</b>
Equity investments at FVOCI – net changes in fair value	(13)	-	(13)	(13)	-	(13)
Actuarial (losses)/gain recognised in the pension scheme	(11,341)	-	(11,341)	49,614	-	49,614
Deferred tax arising on (losses)/gain in the pension scheme	<u>1,928</u>	<u>-</u>	<u>1,928</u>	<u>(8,434)</u>	<u>-</u>	<u>(8,434)</u>
<b>Total recognised gains and losses relating to the financial year</b>	<b><u>30,190</u></b>	<b><u>-</u></b>	<b><u>30,190</u></b>	<b><u>78,552</u></b>	<b><u>-</u></b>	<b><u>78,552</u></b>

## Cash flow statement

	Year to 31 March 2019			Year to 31 March 2018 (Restated)		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Net cash inflow from operating activities</b> Note 7(a)	<b>221,058</b>	<b>2,810</b>	<b>223,868</b>	<b>211,645</b>	<b>3,565</b>	<b>215,210</b>
<b>Returns on investments and servicing of finance</b>						
Interest received	429	-	429	103	-	103
Interest paid	(49,199)	-	(49,199)	(47,537)	-	(47,537)
Interest element of finance lease	(18,826)	-	(18,826)	(19,332)	-	(19,332)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(67,596)</b>	<b>-</b>	<b>(67,596)</b>	<b>(66,766)</b>	<b>-</b>	<b>(66,766)</b>
<b>Corporation tax paid</b>	<b>-</b>	<b>(4)</b>	<b>(4)</b>	<b>-</b>	<b>(237)</b>	<b>(237)</b>
<b>Capital expenditure and financial investment</b>						
Purchase of tangible fixed assets	(183,298)	-	(183,298)	(160,046)	-	(160,046)
Purchase of subsidiaries	-	-	-	(29,126)	-	(29,126)
Loan to subsidiaries	(2,998)	-	(2,998)	-	-	-
Grants and contributions received	1,384	-	1,384	73	-	73
Disposal of fixed assets	446	-	446	1,536	-	1,536
Insurance proceeds	200	-	200	-	-	-
<b>Net cash outflow from investing activities</b>	<b>(184,266)</b>	<b>-</b>	<b>(184,266)</b>	<b>(187,563)</b>	<b>-</b>	<b>(187,563)</b>
<b>Equity dividends paid to the Shareholder</b>	<b>(23,742)</b>	<b>(2,719)</b>	<b>(26,461)</b>	<b>(21,153)</b>	<b>(3,371)</b>	<b>(24,524)</b>
<b>Cash (outflow) / Inflow before management of liquid resources and financing</b>	<b>(54,546)</b>	<b>87</b>	<b>(54,459)</b>	<b>(63,837)</b>	<b>(43)</b>	<b>(63,880)</b>
<b>Management of liquid resources</b>	<b>1,238</b>	<b>-</b>	<b>1,238</b>	<b>(7)</b>	<b>-</b>	<b>(7)</b>
<b>Cash inflow / (outflow) from management of liquid resources</b>	<b>1,238</b>	<b>-</b>	<b>1,238</b>	<b>(7)</b>	<b>-</b>	<b>(7)</b>
<b>Net cash flow before financing</b>	<b>(53,308)</b>	<b>87</b>	<b>(53,221)</b>	<b>(63,844)</b>	<b>(43)</b>	<b>(63,887)</b>
<b>Financing</b>						
Loans received	64,000	-	64,000	69,000	-	69,000
Capital element of finance lease repayments	(5,706)	-	(5,706)	(4,844)	-	(4,844)
<b>Net cash inflow from financing</b>	<b>58,294</b>	<b>-</b>	<b>58,294</b>	<b>64,156</b>	<b>-</b>	<b>64,156</b>
<b>Net increase / (decrease) in cash</b>	<b>4,986</b>	<b>87</b>	<b>5,073</b>	<b>312</b>	<b>(43)</b>	<b>269</b>



## Notes to the Regulatory Accounts

### 1 Regulatory reporting

To further understand the performance of the business the Regulatory Accounts should be read in conjunction with the Strategic Report on pages 5 to 69 of the Northern Ireland Water Annual Report and Accounts 2018/19 ('The Annual Report'). Reference should be made to the Directors' report in the Annual Report which provides information on the dividend policy (page 80) and on 'Disclosure of information to auditors' (page 81). The Annual Report also includes The Directors' remuneration report on pages 82 to 86 and information on Directors' pay and standards of performance in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006. The Directors confirm that no amounts were given to charitable trusts assisting customers or similar funds in the year ended 31 March 2019.

### 2 Accounting policies

#### *(a) Basis of preparation*

The Regulatory Accounts have been prepared on such a basis as to comply with the requirements of the Utility Regulator. These requirements are similar to previous guidance issued by Ofwat, the economic regulator for the water and sewerage industry in England and Wales. The Regulatory Accounts have been prepared in accordance with Condition F of the 'Instrument of Appointment by the Department for Regional Development' of Northern Ireland Water Limited as a Water and Sewerage undertaker' and the Ofwat Regulatory Accounting Guidelines (RAGS) adopted by the Utility Regulator and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and except for the defined benefit pension obligation and investments which are held at fair value, in the case of the Regulatory Historic Cost Accounts, under the historical cost convention. The Utility Regulator has instructed that for the year ended 31 March 2018 and 31 March 2019 accounts should not be reported on a current cost basis. During the year ended 31 March 2019, the Utility Regulator amended the Regulatory Accounting Guidelines to update references from UK Generally Acceptable Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS). As a result of this amendment comparative figures in respect of the prior year have been restated to reflect the change in the basis of preparation. The Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

NI Water is subject to economic regulation rather than market competition. As a result, NI Water provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006 which designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.

Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water is also designated as a NDPB and is subject to public sector spending rules.

As required by the Licence, NI Water submitted a Business Plan to the Utility Regulator in March 2014 setting out its proposals for the price control period from 1 April 2015 to 31 March 2021 (PC15). The Utility Regulator published a Draft Determination for consultation in July 2014 and a Final Determination in December 2014. The Final Determination establishes the funding required by NI Water to meet Departmental targets contained within the Social and Environmental Guidance and requires NI Water to deliver enhanced regulatory outputs, continued investment, improvement in service and efficiencies.

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\*On 9<sup>th</sup> May 2016 the Department for Infrastructure (DfI) was formed. The Department for Infrastructure has taken on all the responsibilities of the Department for Regional Development.



On 10 February 2015, NI Water advised the Utility Regulator that the Board would, on balance, have been willing to accept the PC15 Final Determination subject to Public Expenditure funding to the levels established by the PC15 Final Determination, an appropriate risk mitigation mechanism and other flexibilities. However a significant shortfall in Public Expenditure funding in 2015/16 and no clarity of funding

## 2 Accounting policies (continued)

### (a) Basis of preparation (continued)

for the period beyond 2015/16, meant the Board had no option but to not accept the PC15 Final Determination in the circumstances.

NI Water engaged positively with the Utility Regulator and DfI to agree changes to 2015/16 and 2016/17 regulatory outputs due to the reduction in Public Expenditure funding.

Following the PC15 Mid-Term Review, the Utility Regulator concluded:

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 six year period;
- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and
- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

As a result, adjusted outputs have not been agreed with the Utility Regulator for 2017/18 and beyond.

NI Water continues to make the case for certainty of funding and a medium term financial settlement to enable price limits and service targets/outputs set in the PC15 Final Determination to prevail. If funding levels drop below the minimum required to deliver all of the defined PC15 outputs within the PC15 six year period, a similar process will be undertaken to agree changes to PC15 Final Determination targets.

In accordance with the Licence, NI Water Limited is preparing its business plan for the PC21 period for submission to the Utility Regulator in January 2020.

On the basis of the discussions the directors have formed a judgement at the time of approving the financial statements, that the company will be able to reach an agreement with the Utility Regulator and hence to apply adequate resources to continue in operational existence for the foreseeable future and as such these conditions do not cast a significant doubt on the company's ability to continue as a going concern.

The Company has the following short-term and long-term cash and bank facilities:

- a capital loan arrangement to 31 March 2021 to fund the capital expenditure for the business. This also includes the facility to drawdown loan notes to cover unforeseen events/emergency situations;
- a £20m working capital facility to 31 March 2021 which will provide access to cash facilities for short-term needs and for unforeseen events/emergency situations;
- the Subsidy Agreement with DfI permits the early drawdown of subsidy in year if the cash is required; and
- Access to transactional banking services under the Northern Ireland Civil Service arrangements established from 1 April 2016.

### 3 Analysis of historical cost turnover and operating income for the appointed business

	Year to 31 March 2019			Year to 31 March 2018 (Restated)		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
<b>Turnover</b>						
Unmeasured – household	126,735	151,465	278,200	124,853	145,747	270,600
Unmeasured – non household	2,027	2,360	4,387	1,891	2,203	4,094
<b>Total unmeasured</b>	<b>128,762</b>	<b>153,825</b>	<b>292,587</b>	<b>126,744</b>	<b>147,950</b>	<b>274,694</b>
Measured – non household	44,369	27,908	72,277	42,541	26,865	69,406
<b>Total measured</b>	<b>44,369</b>	<b>27,908</b>	<b>72,277</b>	<b>42,541</b>	<b>26,865</b>	<b>69,406</b>
Trade effluent	-	5,236	5,236	-	4,777	4,777
Large user and special agreements	6,024	5,229	11,253	5,517	4,811	10,328
<b>Total trade effluent and large user special agreements</b>	<b>6,024</b>	<b>10,465</b>	<b>16,489</b>	<b>5,517</b>	<b>9,588</b>	<b>15,105</b>
Rechargeable works	142	142	284	55	55	110
Other third party services	6,349	31,676	38,025	6,179	31,371	37,550
<b>Total third party services</b>	<b>6,491</b>	<b>31,818</b>	<b>38,309</b>	<b>6,234</b>	<b>31,426</b>	<b>37,660</b>
<b>Total turnover</b>	<b>185,646</b>	<b>224,016</b>	<b>409,662</b>	<b>181,036</b>	<b>215,829</b>	<b>396,865</b>
	Year to 31 March 2019			Year to 31 March 2018 (Restated)		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
<b>Operating income and working capital adjustment for the appointed business:</b>						
Historical cost profit on disposal of fixed assets	243	308	551	849	186	1,035

#### 4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2019							
	Water Services			Sewerage Services				
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewerage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	Total £000
<b>Direct costs</b>								
Employment costs	4,586	8,654	13,240	4,296	4,740	318	9,354	22,594
Power	12,170	3,854	16,024	4,362	10,702	2,743	17,807	33,831
Hired and contracted services	3,034	8,000	11,034	4,597	1,878	2,217	8,692	19,726
Materials and consumables	4,164	389	4,553	220	679	472	1,371	5,924
Service charges	776	-	776	-	752	283	1,035	1,811
Other direct costs	8	40	48	9	6	-	15	63
<b>Total direct costs</b>	<b>24,738</b>	<b>20,937</b>	<b>45,675</b>	<b>13,484</b>	<b>18,757</b>	<b>6,033</b>	<b>38,274</b>	<b>83,949</b>
<b>General and support expenditure</b>	<b>10,277</b>	<b>10,285</b>	<b>20,562</b>	<b>7,719</b>	<b>11,938</b>	<b>2,396</b>	<b>22,053</b>	<b>42,615</b>
<b>Total functional expenditure</b>	<b>35,015</b>	<b>31,222</b>	<b>66,237</b>	<b>21,203</b>	<b>30,695</b>	<b>8,429</b>	<b>60,327</b>	<b>126,564</b>
<b>Business activities</b>								
Customer services			4,935				4,086	9,021
Scientific services			1,886				1,562	3,448
Other business activities			544				450	994
Rates			16,772				10,169	26,941
Doubtful debts			(41)				(226)	(267)
<b>Total operating expenditure less third party services</b>			<b>90,333</b>				<b>76,368</b>	<b>166,701</b>
Services for third parties			1				-	1
Total PPP unitary charge			9,721				10,908	20,629
<b>Total operating expenditure</b>			<b>100,055</b>				<b>87,276</b>	<b>187,331</b>
<b>Capital costs</b>								
<i>Historical cost depreciation:</i>								
service activities			32,025				50,139	82,164
business activities			1				-	1
Amortisation of grants			(180)				(3,345)	(3,505)
<b>Total capital costs</b>			<b>31,866</b>				<b>46,794</b>	<b>78,660</b>
<b>Total operating costs</b>			<b>131,921</b>				<b>134,070</b>	<b>265,991*</b>
<b>Analysis of tangible fixed assets – Historical Cost</b>								
Service activities	285,594	905,084	1,190,678	1,060,763	860,138	17,021	1,937,922	3,128,600
Business activities			12				-	12
<b>Total</b>			<b>1,190,690</b>				<b>1,937,922</b>	<b>3,128,612</b>

\* Note: Operating costs of £265,991k are £2,594k lower than operating costs set out in the profit and loss account. This difference reflects £551k historical cost profit on disposal of fixed assets shown separately in note 3 but netted against operating costs in the profit and loss account, and £3,145k of grant amortisation included in revenue in the profit and loss account on adoption of IFRS 15.

#### 4b Analysis of operating costs and tangible fixed assets

Year to 31 March 2018 (Restated)								
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
<b>Direct costs</b>								
Employment costs	4,066	8,535	12,601	3,928	4,786	319	9,033	21,634
Power	9,837	3,387	13,224	4,015	9,533	2,441	15,989	29,213
Hired and contracted services	2,577	8,151	10,728	4,815	1,901	2,088	8,804	19,532
Materials and consumables	4,143	576	4,719	260	640	526	1,426	6,145
Service charges	732	-	732	1	701	264	966	1,698
Other direct costs	19	40	59	1	6	-	7	66
<b>Total direct costs</b>	<u>21,374</u>	<u>20,689</u>	<u>42,063</u>	<u>13,020</u>	<u>17,567</u>	<u>5,838</u>	<u>36,225</u>	<u>78,288</u>
<b>General and support expenditure</b>	<u>9,804</u>	<u>11,083</u>	<u>20,997</u>	<u>7,948</u>	<u>12,588</u>	<u>2,530</u>	<u>23,066</u>	<u>44,063</u>
<b>Total functional expenditure</b>	<u>31,278</u>	<u>31,782</u>	<u>63,060</u>	<u>20,968</u>	<u>30,155</u>	<u>8,168</u>	<u>59,291</u>	<u>122,351</u>
<b>Business activities</b>								
Customer services			4,613				3,937	8,550
Scientific services			1,528				1,304	2,832
Other business activities			497				424	921
Rates			16,280				9,937	26,217
Doubtful debts			71				(236)	(165)
<b>Total operating expenditure less third party services</b>			<u>86,049</u>				<u>74,657</u>	<u>160,706</u>
Services for third parties			8				-	8
<b>Total PPP unitary charge</b>			<u>9,323</u>				<u>11,894</u>	<u>21,217</u>
<b>Total operating expenditure</b>			<u>95,380</u>				<u>86,551</u>	<u>181,931</u>
<b>Capital costs</b>								
<i>Historical cost depreciation:</i>								
service activities			30,904				49,566	80,470
business activities			4				-	4
Amortisation of grants			(159)				(3,129)	(3,288)
<b>Total capital costs</b>			<u>30,749</u>				<u>46,437</u>	<u>77,186</u>
<b>Total operating costs</b>			<u>126,129</u>				<u>132,988</u>	<u>259,117*</u>
<b>Analysis of tangible fixed assets – Historical Cost</b>								
Service activities	280,738	869,937	1,150,675	1,005,063	825,257	17,238	1,847,558	2,998,233
Business activities			13				-	13
<b>Total</b>			<u>1,150,688</u>				<u>1,847,558</u>	<u>2,998,246</u>

\* Note: Operating costs of £259,117k are £1,894k lower than operating costs set out in the profit and loss account. This difference reflects £1,035k historical cost profit on disposal of fixed assets shown separately in note 3 but netted against operating costs in the profit and loss account, and £2,929k of grant amortisation included in revenue in the profit and loss account on adoption of IFRS 15.

#### 4a and 4b - Analysis of operating costs and tangible fixed assets (continued)

The tables above showing the analysis of operating costs have been prepared in accordance with Regulatory Accounting Guidelines 4.03 'Analysis of operating costs and assets'. Direct costs have been charged directly to the service to which they relate. General and support costs are, where possible, allocated directly to the service to which they relate. Any remaining general and support costs which cannot be directly allocated to a particular service are apportioned either on the basis of the directly coded spend or on the basis of the direct labour charge. All costs relating to business activities such as customers services, scientific services and other, were collated using the relevant cost centre from the General Ledger. The total expenditure attributable to these activities was apportioned to water and sewerage on the basis of the directly coded expenditure.

#### Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for the year ended 31 March 2019 in respect of infrastructure assets amounted to £9.5m (2018: £8.8m) for water services and £2.3m (2018: £2.6m) for sewerage services.

#### 5 Historical cost analysis of tangible fixed assets by assets type

##### Water Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
<b>Gross book value</b>				
At 1 April 2018 (Restated)	452,838	868,749	64,775	1,386,362
Disposals	(9)	(847)	(229)	(1,085)
Additions	32,936	32,797	6,342	72,075
<b>At 31 March 2019</b>	<b>485,765</b>	<b>900,699</b>	<b>70,888</b>	<b>1,457,352</b>
<b>Depreciation</b>				
At 1 April 2018 (Restated)	(116,524)	(80,391)	(38,759)	(235,674)
Disposals	9	847	182	1,038
Charge for year	(16,531)	(10,009)	(5,486)	(32,026)
<b>At 31 March 2019</b>	<b>(133,046)</b>	<b>(89,553)</b>	<b>(44,063)</b>	<b>(266,662)</b>
<b>Net book value at 31 March 2019</b>	<b>352,719</b>	<b>811,146</b>	<b>26,825</b>	<b>1,190,690</b>
Net book value at 1 April 2018	336,314	788,358	26,016	1,150,688

##### Sewerage Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
<b>Gross book value</b>				
At 1 April 2018 (Restated)	1,063,484	1,091,348	67,881	2,222,713
Disposals	(68)	(453)	(87)	(608)
Additions	66,582	65,544	8,427	140,553
<b>At 31 March 2019</b>	<b>1,129,998</b>	<b>1,156,439</b>	<b>76,221</b>	<b>2,362,658</b>
<b>Depreciation</b>				
At 1 April 2018 (Restated)	(268,136)	(59,993)	(47,026)	(375,155)
Disposals	67	453	38	558
Charge for year	(38,237)	(8,237)	(3,665)	(50,139)
<b>At 31 March 2019</b>	<b>(306,306)</b>	<b>(67,777)</b>	<b>(50,653)</b>	<b>(424,736)</b>
<b>Net book value at 31 March 2019</b>	<b>823,692</b>	<b>1,088,662</b>	<b>25,568</b>	<b>1,937,922</b>
Net book value at 1 April 2018	795,348	1,031,355	20,855	1,847,558

**5 Historical cost analysis of tangible fixed assets by assets type (continued)**

<b>Total Services</b>	<b>Operational Assets £000</b>	<b>Infrastructure Assets £000</b>	<b>Other Assets £000</b>	<b>Total £000</b>
<b>Gross book value</b>				
At 1 April 2018 (Restated)	1,516,322	1,960,097	132,656	3,609,075
Disposals	(77)	(1,300)	(316)	(1,693)
Additions	99,518	98,341	14,769	212,628
<b>At 31 March 2019</b>	<b>1,615,763</b>	<b>2,057,138</b>	<b>147,109</b>	<b>3,820,010</b>
<b>Depreciation</b>				
At 1 April 2018 (Restated)	(384,660)	(140,384)	(85,785)	(610,829)
Disposals	76	1,300	220	1,596
Charge for year	(54,768)	(18,246)	(9,151)	(82,165)
<b>At 31 March 2019</b>	<b>(439,352)</b>	<b>(157,330)</b>	<b>(94,716)</b>	<b>(691,398)</b>
<b>Net book value at 31 March 2019</b>	<b>1,176,411</b>	<b>1,899,808</b>	<b>52,393</b>	<b>3,128,612</b>
<b>Net book value at 1 April 2018</b>	<b>1,131,662</b>	<b>1,819,713</b>	<b>46,871</b>	<b>2,998,246</b>

## 6 Net debt analysis

	Fixed rate Year to 31 March 2019 £000	Total Year to 31 March 2019 £000	Fixed rate Year to 31 March 2018 (Restated) £000	Total Year to 31 March 2018 (Restated) £000
<b>Maturity Profile</b>				
Less than one year	(6,697)	(6,697)	(5,706)	(5,706)
Between one and two years	(15,476)	(15,476)	(13,436)	(13,436)
Between two and five years	(23,213)	(23,213)	(20,153)	(20,153)
Between five and twenty years	(1,299,178)	(1,299,178)	(1,246,975)	(1,246,975)
More than twenty years	-	-	-	-
<b>Total borrowings</b>	<b>(1,344,564)</b>	<b>(1,344,564)</b>	<b>(1,286,270)</b>	<b>(1,286,270)</b>
Cash	5,712	5,712	726	726
Short term deposits	1,270	1,270	2,508	2,508
<b>Net debt at 31 March</b>	<b>(1,337,582)</b>	<b>(1,337,582)</b>	<b>(1,283,036)</b>	<b>(1,283,036)</b>

## 7a Reconciliation of historical cost operating profit to net cash inflow from operating activities for the appointed business

	Year to 31 March 2019 £000	Year to 31 March 2018 (Restated) £000
Historical cost operating profit	141,077	135,854
Movement in working capital	3,535	(6,917)
Historical cost depreciation	82,165	80,474
Historical cost profit on sale of fixed assets	(551)	(1,035)
<b>Other non-cash items</b>		
Amortisation of deferred grants and contributions	(3,505)	(3,288)
Excess of pension payments over FRS17 charge	(129)	6,152
Movement in provisions and creditors greater than 1 year	(1,534)	405
<b>Net cash inflow from operating activities</b>	<b>221,058</b>	<b>211,645</b>

## 7b Analysis of net debt

	1 April 2018 £000	Cash flows £000	Non cash* changes £000	31 March 2019 £000
Cash at bank and in hand	726	4,986	-	5,712
Deposits and investments	2,508	(1,238)	-	1,270
	3,234	3,748	-	6,982
Debt due within one year	(5,706)	-	(991)	(6,697)
Debt due after one year (including PPP liability)	(1,280,564)	(58,294)	991	(1,337,867)
<b>Total</b>	<b>(1,283,036)</b>	<b>(54,546)</b>	<b>-</b>	<b>(1,337,582)</b>

\* The non cash changes relate to the movement during the year on the PPP liability due within one year.



## 8 Regulatory capital value (RCV)

The Regulatory Capital Value (RCV) has been developed for regulatory purposes and represents the capital base established for the purposes of setting price limits.

In line with Regulatory Accounting Guideline (RAG) 1.04, this note is compiled using figures assumed in setting prices during the Price Control (PC) process. Figures in 2017/18 are therefore consistent with figures contained within the Water and Sewerage Service Price Control 2015-2021 (PC15) published by the Utility Regulator in December 2014.

Within the RCV, the prior year balance and in year capital expenditure have been indexed by the average Retail Price Index (RPI) over the year to March.

	At 31 March 2019 £'m	At 31 March 2018 £'m
Prior Year Closing RCV	2,396.1	2,244.9
Indexation and other adjustments	73.2	84.0
Opening RCV	<u>2,469.3</u>	<u>2,328.9</u>
Capital expenditure	135.9	132.8
Infrastructure renewals expenditure	26.4	25.7
Infrastructure renewals charge	(26.4)	(25.7)
Grants and contributions	(6.5)	(6.5)
Depreciation (including capital grants)	(59.5)	(57.8)
Disposal of assets	(1.3)	(1.3)
Closing RCV (pre regulatory adjustments)	<u>2,537.9</u>	<u>2,396.1</u>
Regulatory adjustments	-	-
Closing RCV	<u>2,537.9</u>	<u>2,396.1</u>
Average RCV	<u>2,467.0</u>	<u>2,320.5</u>

The PC15 Final Determination includes a number of regulatory adjustments within the roll forward of the PC13 RCV at 31st March 2015. These adjustments are set out in the Utility Regulator's PC15 Final Determination Annex A 'Financing Investment'. Similar adjustments for the PC15 period will be included at 31st March 2021.

**9 Atypical and re-organisational operating expenditure items**

The following items are considered to represent atypical and re-organisational operating expenditure in accordance with Regulatory Accounting Guideline 3.06 (RAG 3). Atypical items are deemed to be 'one off' in nature and are considered by the Utility Regulator when undertaking comparative efficiency analysis.

	<b>Year to 31 March 2019 £000</b>	<b>Year to 31 March 2018 £000</b>
Business improvement programme	900	1,000
Voluntary Early Retirement / Voluntary Severance schemes	200	1,500
PPP performance deductions	(400)	(800)
Release of 2016-17 RPDM & UR credit	(500)	(400)
Technical & legal advisors costs in relation to Project Omega	500	-
Technical & legal advisors costs on acquisition of Project Clear	-	500
Extreme weather costs	1,200	1,100
Retrospective pension payment on 2017 triennial evaluation	-	1,700
<b>Total</b>	<b>1,900</b>	<b>4,600</b>

# Independent Auditors' report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited

## Opinion

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") for the year ended 31 March 2019 as set out on pages 4 to 17 which comprise the regulatory historical cost financial statements for the appointed and non-appointed business comprising the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement and the related notes to the regulatory accounts including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies. The Regulatory Accounts have been prepared for the reasons set out in note 2 to the financial statements.

In our opinion the Regulatory Accounts have been properly prepared in accordance with condition F of the Company's Regulatory Licence, Regulatory Accounting Guidelines, and the accounting policies set out in note 2.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), except as set out in the Auditor Responsibilities section below, and the terms of our engagement letter dated 8 January 2018. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Emphasis of matter - basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention, except for the defined benefit pension obligation and investments which are held at fair value.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the EU ('IFRSs'). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

## Emphasis of matter – Preparation of current cost accounts

Condition F(8) of the Company's Regulatory Licence requires the preparation of accounting statements on a current cost basis. During the year ended 31 March 2019 the Company was granted a derogation by the Utility Regulator in relation to this Condition in respect of the preparation of the 31 March 2019 financial statements.

## **Independent Auditors' report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)**

### **Other matter – Corresponding figures contained in these financial statements**

During the year ended 31 March 2019, the Utility Regulator amended the Regulatory Accounting Guidelines to update references from UK Generally Acceptable Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS). As a result of this amendment comparative figures in respect of the prior year have been restated to reflect the change in the basis of preparation.

The restated corresponding figures within the financial statements have not been audited. ISAs (UK) require the auditor to state that the corresponding figures contained within these financial statements are unaudited. Our opinion is not modified in respect of this matter.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

### **Our opinion on other matters prescribed by Condition F is unmodified**

Under the terms of our engagement letter, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

### **Directors' responsibilities**

As explained more fully in the Statement of Directors' Responsibilities set out on page 2 the Directors are responsible for the preparation of the Regulatory Accounts which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the relevant Regulatory Accounting Guidelines (RAGs); such internal control as they determine is necessary to enable the preparation of regulatory accounts that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related

## Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)

to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our audit will be performed in accordance with ISAs (UK) and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF Reporting to regulators on regulator accounts. As such, our audit will be performed in accordance with ISAs (UK) except that we will not assess whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit will include an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of the Regulatory Accounts are determined by the UR, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

Our objectives are to obtain reasonable assurance about whether the regulatory accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the regulatory accounts.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2019 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

This report is made, on terms that have been agreed, solely to the Company and the Utility Regulator ("UR") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Department for Regional Development to Northern Ireland Water Limited as a water and sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the UR those matters that we have agreed to state to them in our report, in order:

- (a) to assist the Company to meet its obligation under the Company's Instrument of Appointment to procure such a report; and
- (b) to facilitate the carrying out by the UR of its regulatory functions, and for no other purpose.

## **Independent Auditors' Report to the Northern Ireland Authority for Utility Regulation and Directors of Northern Ireland Water Limited (continued)**

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the UR, for our audit work, for this report, or for the opinions we have formed.



KPMG  
Chartered Accountants  
Belfast  
24 June 2019

