

**Partnership Agreement between Department for
Infrastructure (DfI) and Northern Ireland Water (NI Water)**

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DEFINITIONS

Alpha PPP contracts means the Common Terms Agreement, the Project Agreement, the Principal Sub Contract and the Facility Agreement together with related agreements and documents

Board means the Board of NI Water Limited

C&AG means the Comptroller and Auditor General at the NI Audit Office

Companies Act means the Companies Act 2006

Company means Northern Ireland Water Limited

CPANI means Commissioner for Public Appointments NI

Dfi means the Department for Infrastructure or the Department

DoF means the Department of Finance

Group Chief Executive means the most senior executive official of NI Water Limited

Group Accounting Officer means the Accounting Officer for NI Water Limited and its subsidiary companies

FRC means the Financial Reporting Council

FRC Code means the FRC's UK Corporate Governance Code (2018)

Government Code means the Corporate governance in central government departments: code of good practice NI 2013 (DAO (DFP) 06/13)

IFRS means International Financial Reporting Standards issued by the International Accounting Standards Board

Minister means the Minister for Infrastructure

MPMNI means Managing Public Money Northern Ireland

NDPB means Non-Departmental Public Body

NIGEAE means the Northern Ireland Guide to Expenditure Appraisal and Evaluation

NI Water means NI Water Limited and its subsidiary companies (NI Water Clear Limited, Dalriada Water Limited and NI Water Alpha Limited)

NI Water Limited means Northern Ireland Water Limited (the parent company)

Order means The Water and Sewerage Services (Northern Ireland) Order 2006 (S.I. 2006 No 3336 (N.I. 21))

PAU means Public Appointments Unit

PfG means Programme for Government

PGN means Procurement Guidance Note

PSIAS means Public Sector internal Audit Standards

Shareholder means the Minister or the Department for Infrastructure

WDPD means the Water and Drainage Policy Division

INTRODUCTION

1. The Partnership Agreement

- 1.1 This document sets out the partnership arrangements between Northern Ireland Water (NI Water) and the Department for Infrastructure (DfI). In particular, it explains the overall governance framework within which NI Water operates, including the framework through which the necessary assurances are provided to the shareholder. Roles/responsibilities of partners within the overall governance framework are also outlined. This agreement replaces the Management Statement and Financial Memorandum (MSFM) between the DfI and NI Water Limited as revised on 10 January 2020.
- 1.2 The partnership is based on a mutual understanding of strategic aims and objectives; clear accountability; and a recognition of the distinct roles each party contributes. Underpinning the arrangements are the principles set out in the NI Code of Good Practice ‘Partnerships between Departments and Arm’s Length Bodies’ which should be read in conjunction with this document. The principles which are laid out the Code are:

LEADERSHIP

Partnerships work well when Departments and Arm’s Length Bodies demonstrate good leadership to achieve a shared vision and effective delivery of public services. Strong leadership will provide inspiration, instil confidence and trust and empower their respective teams to deliver good outcomes for citizens.

PURPOSE

Partnerships work well when the purpose, objectives and roles of Arm’s Length Bodies and the sponsor department are clear, mutually understood and reviewed on a regular basis. There needs to be absolute clarity about lines of accountability and responsibility between departments and Arm’s Length Bodies. In exercising statutory functions, Arm’s Length Bodies need to have clarity about how their purpose and objectives align with those of departments.

ASSURANCE

Partnerships work well when departments adopt a proportionate approach to assurance, based on Arm’s Length Bodies’ purpose and a mutual understanding of risk. Arm’s Length Bodies should have robust governance arrangements in place and in turn, departments should give Arm’s Length Bodies the autonomy to deliver effectively. Management information should be what is needed to enable departments and Arm’s Length Bodies to provide assurance and assess performance.

VALUE

Partnerships work well when departments and Arm’s Length Bodies share knowledge, skills and experience in order to enhance their impact and delivery.

Arm's Length Bodies are able to contribute to policy making and departmental priorities. There is a focus on innovation, and on how departments and Arm's Length Bodies work together to deliver the most effective policies and services for its customers.

ENGAGEMENT

Partnerships work well when relationships between departments and Arm's Length Bodies are open, honest, constructive and based on trust. There is mutual understanding about each other's objectives and clear expectations about the terms of engagement.

A full copy of the NI Code can be found at **Annex 8**.

- 1.3 This document should also be read in conjunction with guidance on proportionate autonomy, which provides an outline of the principles and characteristics for proportionate autonomy. Guidance on proportionate autonomy has been considered in determining the extent of engagement and assurance to be established between NI Water and DfI and this is reflected in this agreement.
- 1.4 DfI and NI Water are committed to:
 - Working together within distinct roles and responsibilities;
 - Maintaining focus on successful delivery of Programme for Government outcomes and Ministerial priorities (see also paras 2.8 and 2.10);
 - Maintaining open and honest communication and dialogue;
 - Keeping each other informed of any issues and concerns, and of emerging areas of risk;
 - Supporting and challenging each other on developing policy and delivery [when developing policy this may cut across more than one department];
 - Seeking to resolve issues quickly and constructively; and
 - Acting at all times in the public interest and in line with the values of integrity, honesty, objectivity and impartiality.
- 1.5 The effectiveness of the partnership and the associated Engagement Plan will be reviewed each year by the DfI and NI Water in order to assess whether the partnership is operating as intended and to identify any emerging issues/opportunities for enhancement. This can be carried out as part of existing governance arrangements. The Partnership Agreement document itself will be reviewed formally at least once every three years to ensure it remains fit for purpose and up-to-date in terms of current governance frameworks. The formal review will be proportionate to NI Water's size and overall responsibilities and will be published on the Departmental and NI Water websites as soon as practicable following completion.
- 1.6 A copy of this agreement has been placed in the Assembly Library and is available on the DfI and NI Water websites.

NI Water Establishment and Purpose

2. Statutory Purpose and Strategic Objectives

- 2.1 NI Water Ltd was established through the Water and Sewerage Services (Northern Ireland) Order 2006 (the Order) as a government owned company (GoCo) limited by shares, and the Company was appointed as the water and sewerage undertaker under Articles 13, 18 and 19 of the Order. NI Water Limited is subject to economic regulation rather than market competition. As a result, NI Water Limited provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator.
- 2.2 References to NI Water include NI Water Ltd and its subsidiary companies NI Water Clear Ltd, Dalriada Water Ltd and NI Water Alpha Ltd.
- 2.3 NI Water's functions, duties and powers as water and sewerage services undertaker for NI, are provided for by the Water and Sewerage Services (Northern Ireland) Order 2006.
- 2.4 NI Water contributes to the health and well-being of the community and the protection of the environment through the provision of modern, high quality water and sewerage services, at the most efficient cost. It will continue to focus on the provision of services, operations, asset management planning and the delivery of upgraded assets to meet quality, service and efficiency targets. It will continue investment and transformation of its core activities and culture to develop a high quality, efficient, sustainable and valuable company for all its stakeholders – customers, employees, and taxpayers (as ultimate owners).
- 2.5 This partnership agreement should be read in conjunction with the legal framework as set out within the Memorandum and Articles of Association, the Companies Act 2006 and other relevant legislation and law governing limited companies, and within the regulatory framework in which NI Water Limited operates. While they are classified as Non Departmental Public Bodies (NDPBs), NI Water Limited and its subsidiary companies do not carry out their functions on behalf of the Crown.
- 2.6 The Minister for Infrastructure is answerable to the Assembly for the overall performance and delivery of both the DfI and NI Water.
- 2.7 The Executive's outcome-based approach to delivery recognises the importance of arm's length bodies and departments working collaboratively and together in a joined up approach to improve overall outcomes and results. To that end there is strategic alignment between the aims, objectives and expected outcomes and results of NI Water and the DfI.

- 2.8 The DfI Minister determines NI Water’s overall performance framework in the light of DfI’s wider strategic aims and current PfG commitments and targets. This is reflected in the Social and Environmental Guidance.
- 2.9 Performance is measured against a suite of Key Performance Indicator (KPI) Targets. The KPI targets are monitored on an ongoing basis by DfI (mainly through the bi-annual Shareholder Meeting (SM) process and other working meetings between the Shareholder Unit and NI Water), the Utility Regulator and the environmental regulators. Further performance measuring is undertaken by the Utility Regulator, the Consumer Council for Northern Ireland and the Environmental Regulators. (Northern Ireland Environment Agency and Drinking Water Inspectorate).
- 2.10 The Minister has agreed the following objectives, key targets and performance measures. NI Water Ltd will seek to achieve such objectives insofar as is practicable while adhering to the Alpha PPP Contracts:-
- deliver substantially better quality services more efficiently and at a lower cost;
 - manage the business within the financial parameters agreed over the Price Control period and the budget set by the Executive;
 - achieve the maximum affordable improvements in environmental compliance in both drinking water quality and wastewater treatment;
 - enhance Shareholder value and provide returns in line with the settlement for the Price Control period; and
 - strive to meet the aims of the Social and Environmental Guidance issued by DfI.

NI Water Governance Arrangements

3. Organisational Status

- 3.1 NI Water is a legal entity in its own right, employing its own staff and operating at arm’s-length from the Department. As a legal entity it must comply with all associated legislation including legislation relating to its employer status.
- 3.2 NI Water Ltd and its subsidiaries are classified as non-departmental public bodies (NDPB) for Public Expenditure and national accounts, administration and policy purposes. NI Water must comply with the Companies Acts, and with the FRC guidance for large private companies where appropriate. NI Water Limited must also comply with the Licence, however NI Water Limited and its subsidiaries, as NDPBs, must also abide by public sector governance controls.

4. Governance Framework

- 4.1 This document should be read in conjunction with NI Water’s established Integrated Governance Framework supported by the Integrated Risk and Resilience Framework, which reflect all relevant good practice guidance and which the Department must be

content with. The framework includes the governance structures established within NI Water and the internal control and risk management arrangements in place. This includes its Board and Committee Structure.

- 4.2 An account of this is included in NI Water's annual Governance Statement, within the Annual Report and Accounts, together with the Board's assessment of its compliance with this agreement. NI Water seeks to emulate best practice corporate governance arrangements as set out in the FRC's UK Corporate Governance Code (the FRC Code) and this partnership agreement draws on the same but also draws on the DoF's Corporate governance in central government departments: code of good practice NI (the Government Code) where appropriate. It should be noted that the Company's commercial freedoms are restricted by the constraints of the public expenditure system and the provisions set down in this agreement and consequently NI Water does not comply with the FRC Code within the strict definition. This includes appointment, re-appointment or removal of the external auditor, arrangements for appointment and termination of Board Members and their remuneration.
- 4.3 NI Water is required to follow the principles, rules, guidance and advice in Managing Public Money Northern Ireland (MPMNI) subject to the derogations in **Annex 3**. A list of other applicable guidance and instructions, which NI Water is required to follow, is set out in **Annex 7**. Good governance should also include positive stakeholder engagement, the building of positive relationships and a listening and learning culture.

5. Board

- 5.1 NI Water is led by a Board, of which the Chair and non-executive members are appointed by the Minister for Infrastructure. The appointment process for non-executive Board members complies with the Code of Practice on Public Appointments for Northern Ireland. The Shareholder participates in and approves the appointment of all executive Directors to any NI Water Board.
- 5.2 Non – Executive Board members are office holders rather than employees and they are not subject to employee terms and conditions. Board appraisal arrangements are set out in section 20, and matters for consideration in dealing with concerns / complaints in respect of Board members are provided in **Annex 6**.
- 5.3 The Board has corporate responsibility for ensuring that NI Water fulfils the aims and objectives set by the Department and approved by the Minister, and for promoting the efficient, economic and effective use of staff and other resources by NI Water. To this end, and in pursuit of its wider corporate responsibilities, the Board will:
- establish the overall strategic direction of NI Water within the policy and resources framework determined by the Minister and Department;
 - constructively challenge NI Water's executive committee in its planning, target-setting and delivery of performance;

- ensure that DfI is kept informed of any changes which are likely to impact on the strategic direction of NI Water or on the attainability of its targets, and determine the steps needed to deal with such changes;
- ensure that any statutory or administrative requirements for the use of public funds are complied with, including adherence to the subsidy Memorandum of Understanding and terms specified in debt documents; that the Board operates within the limits of its statutory authority and any delegated authority agreed with the Department (as outlined in **Annex 4**), and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account all relevant guidance issued by DoF and the Department;
- take appropriate measures to ensure that NI Water at all times conducts its operations as economically, efficiently and effectively as possible, with full regard to the relevant legislative provisions and guidance contained in MPMNI;
- ensure that the Board receives and reviews regular financial information concerning the management of NI Water; is informed in a timely manner about any concerns about the activities of NI Water; and provides positive assurance to the Department that appropriate action has been taken on such concerns;
- demonstrate high standards of corporate governance at all times, including using both the independent Audit and Risk Committees to help the Board to address the key financial and other risks facing NI Water and
- appoint, with the Minister’s approval, a Chief Executive to NI Water and, in consultation with the Department, set performance objectives and remuneration terms linked to these objectives for the Chief Executive, which give due weight to the proper management and use of public monies.

5.4 The Board’s terms of reference provides further detail on roles and responsibilities and aligns with this Partnership Agreement. Individual Board members will act in accordance with their wider responsibilities as members of the Board, namely to:

- comply at all times with all legislation including but not limited to Companies Legislation, the Licence, the FRC Code where appropriate, the Government Code where appropriate and with the rules and guidance relating to the use of public funds, conflicts of interest, and other wider responsibilities such as those set out in health and safety and employment legislation;
- ensure compliance with the requirements of the Data Protection legislation¹ and the Environmental Information Regulations and Freedom of Information Act 2000.

¹ All applicable data protection and privacy legislation in force from time to time in the UK including the General Data Protection Regulation ((EU) 2016/679) as it forms part of domestic law in the United Kingdom by virtue of section 3 of the European Union (Withdrawal) Act 2018 (including as further amended or modified by the laws of the United Kingdom or of a part of the United Kingdom from time to time) (GDPR); the Data Protection Act 2018; the Privacy and Electronic Communications Directive 2002/58/EC (as updated by Directive 2009/136/EC) and the Privacy and Electronic Communications Regulations 2003 (SI 2003 No. 2426) as amended; any other applicable legislation relating to personal data and all other applicable legislation and regulatory requirements in force from time to time which apply to a party relating to the use of personal data (including, without

Provide access to information as requested by the Shareholder on these requirements and NI Water will satisfy all such requests within a reasonable turn-around time. As a guiding principle, the Shareholder would not expect to answer FOI or Assembly Question type questions on matters relating to NI Water performance outside its Shareholder role. In the normal course of business, FOI/Assembly Question type requests relating to business activities and operations would be passed to NI Water to process and respond in the normal timescales. There may be exceptions to this principle, and these should be discussed with the Shareholder Unit and the Board to avoid surprises and maintain transparency;

- comply with the Code of Practice for Board members;
- not misuse information gained in the course of its public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote individual private interests or those of connected persons or organisations, and to declare publicly and to the Board any private interests that may be perceived to conflict with a Board member's public duties;
- comply with the Board's rules on the acceptance of gifts and hospitality, and of business appointments; and
- act in good faith and in the best interests of NI Water; and
- ensure that the work of the Board and its members are reviewed and are working effectively.

- 5.5 The purpose of the NI Water Board is to provide effective leadership and strategic direction to the organisation and to ensure that the policies and priorities set by the Minister for Infrastructure are implemented. It is responsible for ensuring that the organisation has effective and proportionate governance arrangements in place and an internal control framework, which allow risks to be effectively identified and managed. The Board will set the culture and values of the organisation, and set the tone for the organisation's engagement with stakeholders and customers.
- 5.6 The Board is responsible for holding the Chief Executive to account for the management of the organisation and the delivery of agreed plans and outcomes. The Board should also however support the Chief Executive as appropriate in the exercise of their duties.
- 5.7 Board members act solely in the interests of NI Water and their behaviour must be exemplary and in line with the seven principles of public life (Nolan principles). NI Water has a Board Code of Conduct and there are mechanisms in place to deal with any Board disputes/conflicts to ensure they do not become wider issues that impact on the effectiveness of the Board. A Board Register of Interests is maintained, kept

limitation, the privacy of electronic communications); and the guidance and codes of practice issued by the relevant data protection or supervisory authority and applicable to a party.

up to date and is publically available to help provide transparency and promote public confidence in NI Water.

- 5.8 Communication and relationships within the Board are underpinned by a spirit of trust and professional respect. The Board recognises that using consensus to avoid conflict or encouraging members to consistently express similar views or consider only a few alternative views does not encourage constructive debate and does not give rise to an effective Board dynamic.
- 5.9 It is for the Board to decide what information it needs, and in what format, for its meetings/effective operation. The Board will draw on the FRC's Board Effectiveness Guidance and the NIAO guidance (currently Board Effectiveness – A Good Practice Guide) which is available on the NIAO website (<https://www.niauditoffice.gov.uk/>). If the Board is not confident that it is being fully informed about the organisation, this will be addressed by the Chair of the Board, as the Board cannot be effective with out-of-date or only partial knowledge.
- 5.10 In order to fulfil their duties, Board members must undertake initial training, and regular ongoing training and development. Review of Board skills and development will be a key part of the annual review of Board effectiveness.

6. Chair

- 6.1 As with other non-executive Board appointments, the Chair is appointed by the Minister following a recruitment competition regulated by the Commissioner for Public Appointments NI (CPANI) and carried out by DfI's Public Appointments Unit (PAU) in line with the CPANI Code of Practice. The appointment will last for four years and the appointee may be appointed for a second term, with the Minister's consent, in line with para 4.1 of the CPANI Code of Practice for Ministerial Appointments in Northern Ireland Version JL2 issued June 2016. WSU will ratify the appointment and the terms and conditions associated with it. The DfI Public Appointments Unit organises and manages the appointment process taking advice from the DfI Water Drainage and Policy Unit as necessary.
- 6.2 The Chair is responsible to the Minister and must ensure that NI Water's policies and actions support the wider strategic policies of the Minister and that NI Water's affairs are conducted with probity. The Chair shares corporate responsibility with Board members, particularly for ensuring that NI Water fulfils the aims and objectives set by the Department and approved by the Minister.
- 6.3 The Chair has a particular leadership responsibility, which includes the following matters:
- formulating the Board's strategy;
 - ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the Minister or the Department;

- promoting the efficient, economic and effective use of staff and other resources;
- encouraging and delivering high standards of regularity and propriety;
- representing the views of the Board to the general public; and
- ensuring that the Board meets at regular intervals throughout the year and that the minutes of meetings accurately record the decisions taken and, where appropriate, the views of individual Board members.

6.4 The Chair is responsible for setting the agenda and managing the Board to enable collaborative and robust discussion of issues. The Chair's role is to develop and motivate the Board and ensure effective relationships in order that the Board can work collaboratively to reach a consensus on decisions. To achieve this, the Chair should:

- ensure the Board has an appropriate balance of skills appropriate to its business;
- ensure Board members when taking up office, are fully briefed on the terms of their appointment and on their duties, rights and responsibilities, and receive appropriate induction training, including on the financial management, governance and reporting requirements of a regulated water company operating as a NDPB and on any differences which may exist between private and public sector practice;
- ensure Board members receive and maintain appropriate training;
- assess the performance of individual Board members. Board members will be subject to on-going performance appraisal, with a formal assessment being completed by the Chair at the end of each year and prior to any application in open competition for reappointment of individual members taking place. Members will be made aware that they are being appraised, the standards against which they will be appraised, and they will have an opportunity to contribute to and view their appraisal report. The Chair will also be appraised on an annual basis by the Departmental Accounting Officer or an official acting on their behalf, such as a the 'Senior Non-Executive Director';
- ensure the Minister is advised of NI Water's needs when board vacancies arise, with a view to ensuring a proper balance of professional, financial and governance expertise;
- ensure there is a Board terms of reference in place setting out the roles and responsibilities of the Board in line with relevant guidance; and
- ensure that a Code of Practice for Board members is in place, based on 'Codes of Conduct for Board Members of Public Bodies in Northern Ireland', the latest version of which is available on the Accountability and financial management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>).

- 6.5 The role also requires the establishment of an effective working relationship with the Chief Executive that is simultaneously collaborative and challenging. It is important that the Chair and Chief Executive act in accordance with their distinct roles and responsibilities as laid out in MPMNI and their appointment letters.
- 6.6 The Chair has a presence in the organisation and cultivates external relationships, which provide useful links for the organisation while being mindful of overstepping boundaries and becoming too involved in day-to-day operations or executive activities. Communications between the Board, the Minister and DfI will normally be through the Chair

7. Audit Committee

- 7.1 A committee structure is in place to assist the Board in the discharge of its responsibilities. The Audit Committee and the Risk Committee form part of this structure and are an important aspect of NI Water's governance framework.
- 7.2 The NI Water Audit Committee will operate in accordance with the Audit and Risk Assurance Committee Handbook (NI) (the latest version of which is available on the Accountability and financial management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>)) insofar as it is consistent with the Board's responsibilities under the Companies Legislation. It is noted that the NI Water Audit Committee will report to the Board as distinct from the Accounting Officer. This should in no way undermine the role of the Accounting Officer as outlined in MPMNI. NI Water must be able to defend any other deviations from the Companies Legislation.
- 7.3 The Audit Committee meets on a quarterly basis and is responsible for monitoring the integrity of financial reporting together with NI Water's formal announcements relating to its financial performance, paying particular attention to significant reporting judgements contained therein. The Audit Committee provides oversight on the effectiveness of financial risk management and its associated controls, reviews the effectiveness of NI Water's Fraud Prevention, Theft, Speak Up (Whistleblowing) and Anti- Bribery/Corruption policies and procedures, awareness training, and the effectiveness of investigations.
- 7.4 NI Water and the DfI have agreed arrangements in respect of the Audit Committee , which includes:
- attendance by departmental representatives in an observer capacity at NI Water's Audit Committee meetings;
 - access to NI Water Audit Committee papers and minutes;
 - any input required from NI Water's Audit Committee to the departmental Audit and Risk Assurance Committee.

7.5 The extant Audit and Risk Assurance Committee Handbook (NI) is available on the DoF website.

8. Risk Committee

8.1 The Risk Committee is a separate Committee from the Audit Committee. The Risk Committee provides oversight on NI Water's risk management framework. The Committee meets on a quarterly basis and reviews the risk management system and processes, the corporate threats and opportunities, risk appetite and benefits to be realised. The Committee also considers emerging risks and the potential impact to NI Water, benchmarking of threats and opportunities, training and awareness and the management of actions to reduce NI Water's risk exposure to an acceptable level and to maximise opportunities

8.2 The Risk Committee meets with the Audit Committee once per year to consider the Chief Executive's Year End Assurance Statement, Internal Audit's Assurance Statement and the effectiveness of NI Water's internal control and risk management system.

9. Chief Executive

9.1 The role of the NI Water Chief Executive is to run NI Water's business. The Chief Executive is responsible for all executive management matters affecting the organisation and for leadership of the executive management team.

9.2 The Chief Executive is designated as NI Water Accounting Officer by the departmental Accounting Officer (see section 16). As Accounting Officer the Chief Executive is responsible for safeguarding the public funds in their charge and ensuring they are applied only to the purposes for which they were voted and more generally for efficient and economical administration.

9.3 The Chief Executive is accountable to the Board for NI Water's performance and delivery of outcomes and targets and is responsible for implementing the decisions of the Board and its Committees. The Chief Executive maintains a dialogue with the Chair on the important strategic issues facing the organisation and for proposing Board agendas to the Chair to reflect these. The Chief Executive ensures effective communication with stakeholders and communication on this to the Board. The Chief Executive also ensures that the Chair is alerted to forthcoming complex, contentious or sensitive issues, including risks affecting the organisation.

9.4 The Chief Executive acts as a role model to other executives by exhibiting open support for the Chair and Board members and the contribution they make. The Chair and Chief Executive have agreed how they will work together in practice, understanding and respecting each other's role, including the Chief Executive's responsibility as Accounting Officer.

9.5 As Accounting Officer, the Chief Executive will exercise the following responsibilities

On planning and monitoring

- establish, in agreement with the Utility Regulator, the Department and other relevant stakeholders, the Business Plan and, each year within the Business Plan, the Annual Budget and Operating Plan in support of DfI's wider strategic aims and current PfG commitments and targets;
- inform the Department of progress in helping to achieve DfI's policy objectives and in demonstrating how resources are being used to achieve those objectives. This is achieved through the established reporting structures, in the form of monthly Shareholder meetings, biannual Shareholder meeting and assurance statements. The CEO also has the opportunity at all times to be in contact with the Principle Accounting Officer / DfI Permanent Secretary, for the purpose of reporting any issue that they should be made aware of;
- ensure that timely forecasts and monitoring information on performance and finance are provided to the Department; that the Department is notified promptly if there is any risk of overspends or underspends and that corrective action is taken; and that any significant problems, whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Department, and the Departmental Accounting Officer if appropriate, in a timely fashion;
- ensure that a report on performance and current issues facing the company is included in the six monthly Shareholder Monitoring pack;
- participate in bimonthly stock-take meetings with the DfI Deputy Secretary;

On advising the Board

- advise the Board on the discharge of its responsibilities as set out in the Water and Sewerage Services (Northern Ireland) Order 2006, the Licence and in any other relevant instructions and guidance that may be issued from time to time by DoF or the Department;
- advise the Board on NI Water's performance compared with its aims and objectives;
- ensure that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques are followed appropriately;
- subject to relevant Companies Legislation, take action in line with Section 3.8 of MPMNI if the Board, or the Chair, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity, or does not represent prudent or economical administration, efficiency or effectiveness;

On managing Risk and Resources

- ensure that a system of risk management is maintained to inform decisions on financial and operational planning and to assist in achieving objectives and targets;
- ensure that an effective system of programme and project management and contract management is maintained;
- ensure compliance with The Utilities Contracts Regulations (2006) and DoF Central Procurement guidance NI Water must be able to defend any deviation from the latter;
- ensure that all public funds made available to NI Water (including any income or other receipts) are used for the purpose intended by the Assembly, and that such monies, together with NI Water's assets, equipment and staff resources, are used economically, efficiently and effectively;
- ensure that adequate internal management and financial controls are maintained by NI Water, including effective measures against fraud and theft;
- maintain a comprehensive system of internal delegated authorities that are notified to all staff, together with a system for regularly reviewing compliance with these delegations;
- ensure that effective personnel management policies are maintained;

On accounting for NI Water's activities

- sign the Annual Report and Accounts and be responsible for ensuring that proper records are kept relating to the accounts and that the Annual Report and Accounts are properly prepared and presented in accordance with the Companies Act 2006, International Financial Reporting Standards (IFRS), the Regulatory Accounting Guidelines, any directions issued by the Minister, the Department, or DoF as applicable to NI Water;
- sign a Governance Statement regarding the NI Water's system of internal control for inclusion in the Annual Report and Accounts;
- ensure that effective procedures for handling complaints about NI Water are established and made widely known within NI Water;
- act in accordance with the terms of this document and with the relevant Companies Legislation, IFRS, Regulatory Accounting Guidelines, MPMNI, other instructions and guidance issued from time to time by the Department and DoF - in particular, Chapter 3 of MPMNI and the Treasury document, 'Regularity and Propriety and Value for Money', (a copy of which the Chief Executive shall receive on appointment). **Annex 7** of this document refers to other key legislation and guidance;

- give evidence, normally with the Departmental Accounting Officer, if summoned before the Public Accounts Committee on the use and stewardship of public funds by NI Water;
 - ensure that regard is given to equality matters;
 - ensure compliance at all times with all legislation including but not limited to Companies Legislation, the Licence, the FRC Code where appropriate, the Government Code where appropriate and with the rules and guidance relating to the use of public funds, conflicts of interest, and other wider responsibilities such as those set out in Health and Safety and Employment legislation; and
 - ensure compliance with the requirements of the Data Protection legislation, the Environmental Information Regulations and Freedom of Information Act 2000.
- 9.6 As NI Water Consolidation Officer for Whole of Government Accounts, the Chief Executive will be personally responsible for preparing the consolidation information, which sets out the financial results and position of NI Water, for arranging its audit and for sending the information and the audit report to the Principal Consolidation Officer nominated by DoF.
- 9.7 As Consolidation Officer, the Chief Executive will comply with the requirements of the Consolidation Officer Memorandum as issued by DoF, in particular:
- ensure that NI Water has in place and maintains a set of accounting records that will provide the necessary information for the consolidation process; and
 - prepare the consolidation information (including the relevant accounting and disclosure requirements and all relevant consolidation adjustments) in accordance with the consolidation instructions and directions issued by DoF on the form, manner and timetable for the delivery of such information.
- 9.8 The Chief Executive may delegate the day-to-day administration of an Accounting Officer's responsibilities to other employees in NI Water. However, the Accounting Officer will not assign absolutely to any other person any of the responsibilities set out in this document.
- 9.9 Further detail on the role and responsibilities of the Chief Executive are as laid out in Chapter 3 of MPMNI and in the NI Water Chief Executive Designation letter.
- 9.10 The Chief Executive of NI Water is the Principal Officer for handling complaints involving the Consumer Council.
- 9.11 As Principal Officer, the Chief Executive will report to the Department (through the Annual Information Return) the number of Stage II complaints.

10. Staff management

- 10.1 Within the arrangements approved by the Minister and DoF, NI Water will have responsibility for the recruitment, retention and motivation of its employees. To achieve this, NI Water will ensure that:
- its rules for the recruitment and management of employees create an inclusive culture in which diversity is fully valued; where appointment and advancement is based on merit; and where there is no discrimination on grounds of gender, marital status, domestic circumstances, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age;
 - the levels and structure of its staffing, including grading and numbers of employees, are appropriate to its functions and the requirements of efficiency, effectiveness and economy;
 - the performance of its employees at all levels is satisfactorily appraised and NI Water's performance measurement systems are reviewed from time to time;
 - its employees are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve NI Water's objectives;
 - proper consultation with employees and their respective Trade Unions takes place on key issues affecting them;
 - adequate grievance and disciplinary procedures are in place;
 - whistle-blowing procedures consistent with the Public Interest (Northern Ireland) Order 2003. Guidance available on the Accountability and financial management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>) ; and
 - code of ethics and gifts and hospitality policies are in place.

Role of the Department for Infrastructure

11. Role of the Minister

- 11.1 In addition to being answerable to the Assembly, the Minister is also responsible for:
- setting the strategic direction and overall policies and priorities for NI Water as reflected in the PfG;
 - approving NI Water's Business Plan;
 - setting NI Water's budget; and Appointment of non-executive board members, approving the terms and conditions of Board members and appointment of the Chief Executive, approval of terms and conditions of staff, and laying of the NI Water Annual Report and Accounts before the Assembly.

- the Minister may also be involved in considering the size and composition of the NI Water Board.

12. Partnership Working with NI Water

- 12.1 DfI and NI Water are part of a total delivery system, within the same Ministerial portfolio. The partnership between the DfI and NI Water is open, honest, constructive and based on trust. There is mutual understanding of each other's objectives and clear expectations on the terms of engagement.
- 12.2 In exercising its functions NI Water has absolute clarity on how its purpose and objectives align with those of DfI. There is also a shared understanding of the risks that may impact on each other and these are reflected in respective Risk Registers. DfI's purpose statement is 'Every day connecting people safely, supporting opportunities and creating sustainable living places'. Any fundamental change to DfI's objectives will be communicated to NI Water at monthly meetings and will be reflected in the Partnership Agreement.
- 12.3 There is a regular exchange of skills and experience between DfI and NI Water and where possible joint programme / project delivery boards / arrangements. NI Water may also be involved as a partner in policy/strategy development and provides advice on policy implementation/ the impact of policies in practice.
- 12.4 DoF has established, on behalf of the Assembly, a delegated authority framework which sets out the circumstances where prior DoF approval is required before expenditure can be occurred or commitments entered into. Other specific approval requirements established in respect of NI Water are as set out at **Annex 4**.
- 12.5 Once NI Water's budget has been approved by the DfI Minister and subject to any restrictions imposed by statute, NI Water shall have authority to incur expenditure approved in the budget without further reference to the Department. Inclusion of any planned and approved expenditure in the budget shall not however remove the need to seek formal departmental approval where proposed expenditure is outside the delegated limits (as laid out in **Annex 4**) or is for new schemes not previously agreed. Nor does it negate the need to follow due processes laid out in guidance contained in MPMNI and Better Business Cases NI (available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>)). The standard, which the Department expects NI Water to achieve in its reporting systems, is outlined at **Annex 9**.

13. Lead Official

- 13.1 DfI has appointed a lead senior official to manage the relationship with NI Water and ensure effective partnership working. Engagement between the Department and NI Water will be co-ordinated, collaborative and consistent. A clear sense of

collaboration and partnership will be communicated to staff in both the Department and NI Water in order to promote mutual understanding and support.

- 13.2 The lead senior official is also the policy lead for water and drainage policy and has a clear understanding of NI Water's responsibilities for policy implementation / operational delivery and the relevant audiences/stakeholders involved. The lead senior official is also responsible for the Shareholder Unit, the sponsor branch responsible for managing the Shareholder relationship and the governance arrangements with NI Water, as well as formalising the appointment and terms and conditions of the NI Water Ltd Chair and Non-Executive directors, and appointments to the boards of subsidiary companies.
- 13.3 The lead senior official will ensure that where there are departmental staff changes, time is taken to ensure they have a full understanding of NI Water's business and challenges.

14. The Sponsoring Team in the Department

- 14.1 The lead official leads the Water and Drainage Policy Division (WDPD), which is the sponsor branch responsible for managing both the formal Shareholder relationship and the governance arrangements with NI Water as well as formalising the appointment of the Chair and Non-Executive Directors (**Annex 1**).
- 14.2 The Shareholder Unit within WDPD is responsible for providing advice and recommendations to the Minister, the DfI Permanent Secretary and the DfI Board. The Unit is led by the Director for WDPD who has primary responsibility within the branch for overseeing the activities of NI Water.
- 14.3 The Shareholder Unit will advise the Minister on, for example:
- an appropriate framework of objectives and targets for NI Water in the light of DfI's wider strategic aims and current PfG commitments and targets;
 - an appropriate budget for NI Water in the light of DfI's overall Public Expenditure priorities; and
 - how well NI Water is achieving its strategic objectives and whether it is delivering value for money.
- 14.4 In support of the Minister and the Departmental Accounting Officer, the Shareholder Unit will ensure that:
- DfI's investment in NI Water is being managed effectively*
- scrutinises and agrees the Annual Budget and Operating Plan paper with the Board each year;
 - recognises the Chief Executive's Accounting Officer role, and that the Board is accountable to the Shareholder for delivering the agreed Business Plan determined

by the Utility Regulator and its projected improvements in quality and serviceability, efficiency targets and financial performance;

- ensures that the Board complies with MPMNI, subject to the derogations in **Annex 3**, in delivery of the Business Plan within the guidelines in this letter, the financial delegations, the Memorandum and Articles of Association, the Licence and the funding documents.

NI Water's performance is on track and its risk management is effective

- while the Company primarily reports to the Utility Regulator on performance, WDPD will monitor Company performance to be assured that the Business Plan is on track i.e. in any given year within a Price Control period, that the Company is operating within the approved Annual Budget and Operating Plan and achieving the agreed performance targets. In circumstances where the Annual Budget and Operating Plan is not on track, or where the Board and/or the Shareholder have identified new risks to the delivery of projected Annual Budget and Operating Plan outcomes, these will be raised with the Board/Shareholder so that the Board can approve an appropriate response (to be agreed with the Utility Regulator and the Shareholder) to address the matters identified. The Shareholder will also have early sight of the Governance Statement and will receive mid-year and end-year assurance statements from the Company in line with DfI deadlines;
- addresses in a timely manner any significant problems arising in NI Water whether financial or otherwise, making such interventions in the affairs of NI Water as the Department judges necessary to address such problems;
- periodically carries out a risk assessment of NI Water's activities to inform the Department's oversight of NI Water; strengthen these arrangements if necessary; and amend this document accordingly. The risk assessment will take into account the nature of NI Water's activities; the public monies at stake; its corporate governance arrangements; its financial performance; internal and external auditors' reports; the openness of communications between NI Water and the Department; and any other relevant matters;

Communication with NI Water is effective

- informs NI Water of relevant Executive policy changes to funding or relevant government accounting rules/guidance in a timely manner; if necessary, advises on the interpretation of that policy; and issues specific guidance to NI Water as necessary. This does not preclude the Company from ensuring that it keeps abreast of any generally accessible changes in government guidance as soon as they issue; and
- brings concerns about the activities of NI Water to the attention of the Board, and requires explanations and assurances from the Board and NI Water Accounting Officer that appropriate action has been taken.

15. Operating Plan and Budget

- 15.1 The Department shall avoid conditions in terms of planning, budgeting and control that would or could lead to the Alpha Subsidiaries being in breach of any of the Project Alpha PPP Contracts.

NI Water Business Plan

- 15.2 Consistent with the timetable for the NI Water Business Plan and the associated Final Determination made by the Utility Regulator, NI Water will submit to the Department a draft of its updated Plan covering the years specified within the Price Control period. NI Water will have agreed with the Department the issues to be addressed in the plan and the timetable for its preparation.
- 15.3 The Board is responsible for developing a draft Business Plan to secure the success of NI Water and to deliver agreed performance objectives in conjunction with the Utility Regulator and the Department, the Consumer Council for Northern Ireland and the environmental regulators (the Northern Ireland Environment Agency and the Drinking Water Inspectorate).
- 15.4 Arrangements have been put in place, following discussion between NI Water, the Shareholder and the economic and environmental regulators, to cover any proposed changes to the Business Plan, both operationally and in terms of financing, as required as part of the annual review process. Such arrangements will be in accordance with the terms of the Memorandum of Understanding and Consequent Written Agreement, which exist between DfI and the Utility Regulator to address variations within a year, and the associated approval process. NI Water's Financial Delegations Policy provides the approval process for individual items of expenditure.

NI Water Annual Budget and Operating Plan

- 15.5 Subject to public expenditure budget allocations, each year of the six year Business Plan will form the basis of the Annual Budget and Operating Plan for the relevant forthcoming year. The Annual Budget and Operating Plan will include key targets and milestones for the forthcoming year and will be accompanied by budgeting information so that resources allocated to achieve specific objectives can readily be identified by the Department.
- 15.6 The Department will review the Annual Budget and Operating Plan presented to the Board. It is expected that the NI Water Annual Budget and Operating Plan approval process will usually be conducted in the quarter preceding the commencement of the relevant financial year.
- 15.7 Following scrutiny by the Department, and after any amendments as a result of the allocated public expenditure budget for the year, the Annual Budget and Operating Plan will be reviewed, in advance of the relevant financial year, and provided to the

Minister for information. The Annual Budget and Operating Plan will be used to inform budget decisions for the Minister in the given year.

- 15.8 NI Water will operate management information and accounting systems, which enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in its agreed Plan and, in any given year, in its Annual Budget and Operating Plan. **(Annex 9)**
- 15.9 NI Water will inform the Department about any external factors that could impact on the achievement of the Plan or Annual Budget and Operating Plan or which may require a change to the budget or objectives as set out either plan.
- 15.10 NI Water's performance in helping to deliver Departmental policies, including the achievement of key objectives, will be reported to DfI on a monthly basis. Performance will be formally reviewed quarterly by DfI officials.

Monitoring Forums

- 15.11 The main forum for monitoring the NI Water's performance is the six-monthly Shareholder Meeting (SM) which is attended by Board members and Senior Officials from the Department. The meeting is chaired by the DfI Permanent Secretary or a Deputy.
- 15.12 These meetings will be strategically focused and forward looking and provide a formal context for the Shareholder to challenge the Chair, CEO and other Board members on the NI Water's progress in addressing its key strategic challenges etc.
- 15.13 The NI Water Chair and CEO will brief the Minister on its performance on an annual basis following publication of the Annual Report and Accounts.

16. Departmental Accounting Officer

- 16.1 The DfI Permanent Secretary, as departmental Accounting Officer is accountable to the NI Assembly for the issue of funding to NI Water. The departmental Accounting Officer designates the Chief Executive of NI Water as NI Water Accounting Officer. The departmental Accounting Officer may withdraw the NI Water Accounting Officer designation if they conclude that the NI Water Accounting Officer is no longer a fit person to carry out the responsibilities of an Accounting Officer or that it is otherwise in the public interest that the designation be withdrawn. In such circumstances the NI Water Board will be given a full account of the reasons for withdrawal and a chance to make representations. Withdrawal of NI Water Accounting Officer status would bring into question employment as Chief Executive and the Chair should engage with the Department should such circumstances arise.

- 16.2 General responsibilities of a departmental Accounting Officer are set out in Chapter 3 of MPMNI. The Departmental Accounting Officer is specifically responsible for ensuring that:
- NI Water’s strategic aims and objectives support the Department’s wider strategic aims and current PfG commitments and targets;
 - the financial and other management controls applied by the Department to NI Water are appropriate and sufficient to safeguard public funds and for ensuring that NI Water’s compliance with those controls is effectively monitored (‘public funds’ include not only any funds granted to NI Water by the Assembly but also any other funds falling within the stewardship of NI Water);
 - the internal controls applied by NI Water conform to the requirements of regularity, propriety and good financial management;
 - any subsidy and loan notes provided to NI Water are within the ambit and the amount of the Request for Resources and that Assembly authority has been sought and given; and that
 - NI Water lives within its approved Resource and Capital Delegated Expenditure Limit (DEL) and Annually Managed Expenditure (AME) budgets in any year.
- 16.3 The Chief Executive is accountable to the NI Water Board for their stewardship of NI Water. This includes advising the Board on matters of financial propriety, regularity, prudent and economical administration, efficiency and effectiveness.
- 16.4 The departmental Accounting Officer must be informed in the event that the judgement of the NI Water Accounting Officer (on matters for which they are responsible) is over-ridden by the NI Water Board. The NI Water Accounting Officer must also take action if the NI Water Board is contemplating a course that would infringe the requirement for financial propriety, regularity, prudent and economical administration, efficiency or effectiveness. In all other regards, the departmental Accounting Officer has no day to day involvement with NI Water or its’ Chief Executive.
- 16.5 In line with DoF requirements, (available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>)) the NI Water Accounting Officer will provide a periodic declaration of fitness to act as Accounting Officer.

17. Attendance at Public Accounts Committee

- 17.1 The NI Water Chief Executive / Accounting Officer may be summoned to appear before the Public Accounts Committee to give evidence on the discharge of their responsibilities as Accounting Officer (as laid out in their Accounting Officer

appointment letter) on issues arising from the C&AG's studies or reports following receipt of the annual report and accounts.

- 17.2 The Chair may also, on occasion, be called to give evidence to the Public Accounts Committee on such relevant issues arising within the C&AG's studies or reports, in relation to the role and actions taken by the Board, where appropriate.
- 17.3 In addition, the DfI Accounting Officer may be summoned to appear before the Public Accounts Committee to give evidence on the discharge of their responsibilities as departmental Accounting Officer with overarching responsibility for NI Water. In such circumstances, the departmental accounting Officer may therefore expect to be questioned on their responsibilities to ensure that:
- there is a clear strategic control framework for NI Water;
 - sufficient and appropriate management and financial controls are in place to safeguard public funds;
 - the nominated Accounting Officer is fit to discharge their responsibilities;
 - there are suitable internal audit arrangements;
 - accounts are prepared in accordance with the relevant legislation and any accounting direction; and
 - intervention is made, where necessary, in situations where the NI Water Accounting Officer's advice on transactions in relation to regularity, propriety or value for money is overruled by the Board or its Chair.

Assurance Framework

18. Autonomy and Proportionality

- 18.1 DfI will ensure that NI Water has the autonomy to deliver effectively, recognising its status as a separate legal entity, which has its own Board and governance arrangements. Guidance on proportionate autonomy has been considered in determining the extent of engagement and assurance established between NI Water and DfI and is reflected in this agreement.
- 18.2 However, given NI Water's status as an NDPB, there will always be certain areas where government rules apply and granting full autonomy is constrained by the DfI Minister being accountable to The Executive for the performance and expenditure of NI Water.
- 18.3 A proportionate approach to assurance will be taken based on NI Water's overall purpose, business and budget and a mutual understanding of risk. The approach will include an agreed process through which the NI Water Accounting Officer provides written assurance to the Department that the public funds and organisational assets for which they are personally responsible are safeguarded, have been managed with propriety and regularity, and use of public funds represents value for money.

- 18.4 Recognising the governance arrangements in place within the organisation, the NI Water Accounting Officer will arrange for their written assurance to be discussed at the NI Water Audit Committee and presented to the NI Water Board prior to submission to the Department where possible.
- 18.5 In addition to the NI Water Accounting Officer's written assurance, the Department will take assurance from the following key aspects of NI Water's own governance framework:
- annual Review of Board Effectiveness;
 - completion of Board Appraisals which confirm Board member effectiveness;
 - Internal Audit assurance and External Quality Assessment of the Internal Audit function;
 - externally audited Annual Report and Accounts, reviewed/considered by the Board; and
 - reporting on fraud and whistleblowing.

19. Board Effectiveness

- 19.1 The NI Water Chair will ensure that the NI Water Board undertakes an annual review of Board Effectiveness, which encompasses committees established by the Board. The review will draw on FRC guidance and other guidance where relevant.
- 19.2 The Chair will discuss the outcome of the annual review of Board Effectiveness with the Departmental Accounting Officer to ensure a partnership approach to any improvements identified. This will inform the annual programme of Board training / development and discussions in respect of Board composition and succession.
- 19.3 In line with any parameters set out in founding (or other) legislation, the Chair in conjunction with the Department, and Ministers where appropriate, will consider the size and composition of the NI Water Board, proportionate to the size and complexity of NI Water and keep this under review.
- 19.4 In addition to the annual review of Board Effectiveness NI Water will undertake an externally facilitated review of Board effectiveness at least once every three years covering the performance of the Board, its Committees and individual Board members. The Chair will liaise with the Department to identify a suitably skilled facilitator for the external review (this can be a peer review, and should be proportionate) and will share the findings / outcome report with the Department on completion of the review.

20. Board Appraisals

- 20.1 The Chair of NI Water will conduct an annual appraisal in respect of each Board member which will also inform the annual programme of Board training / development. The Chair will engage with the Chief Executive / lead official as

appropriate on improvements identified through the appraisal process and the annual training/development programme.

- 20.2 The Chair's annual appraisal will be completed by the Permanent Secretary within the Department. The appraisal will, where relevant, take account of the FRC's Guidance on Board Effectiveness and Key Characteristics of a good chairperson (particularly for the Chair to have well developed interpersonal skills) set out in the NIAO Good Practice Guide on Board Effectiveness available on the NIAO website. There will be close engagement between the Chair and the lead official on improvements identified through the appraisal process.

21. Internal Audit Assurance

- 21.1 NI Water is required to establish and maintain arrangements for an internal audit function that operates in accordance with the Public Sector Internal Audit Standards (PSIAS). DfI must be satisfied with the competence and qualifications of the Head of Internal Audit and that the requirements for approving appointments are in accordance with PSIAS.
- 21.2 NI Water will provide its internal audit strategy, periodic audit plans and annual audit report, including the Head of Internal Audit's opinion on risk management, control and governance to the Department. NI Water will ensure DfI's internal audit team have complete right of access to all relevant records. This applies whether the internal audit function is provided in-house or is contracted out.
- 21.3 NI Water will ensure regular, periodic self-assessments of the internal audit function in line with PSIAS and will share these with the Department. NI Water will also liaise with the Department on the External Quality Assessment (EQA) of the internal audit function, which (in line with PSIAS) is required to be conducted at least once every five years by a qualified independent assessor. While NI Water will independently appoint the assessor, the Department will be informed of the appointment process through updates to the Audit Committee.
- 21.4 NI Water will alert the Department to any less than satisfactory audit reports or audit opinions through updates to the Audit Committee by the Head of Internal Audit. NI Water and the Department will then engage closely on actions required to address the less than satisfactory opinion in order to move NI water to a satisfactory position as soon as possible.
- 21.5 The Department will take assurance from the fact that NI Water has met the requirements of PSIAS and has a satisfactory annual opinion from the Head of Internal Audit as part of its overall assurance assessment.

22. Externally Audited Annual Report and Account

- 22.1 The Annual Report and Accounts will comply with Companies Legislation, the Regulatory Accounting Guidelines issued by the Utility Regulator insofar as these are relevant to the regulatory environment in Northern Ireland and Water Regulation (WR) letters issued by the Utility Regulator. Other relevant guidance, including that issued by the FRC and DoF, will, where relevant, be applied. The report (including the separate publication of the Regulatory Accounts, if applicable) will be delivered to the Utility Regulator each year in accordance with Condition F of the Licence
- 22.2 NI Water will alert the Department to any likely qualification of the accounts at the earliest opportunity. In the event of a qualified audit opinion or significant issues reported in the Governance Statement the Department will engage with NI Water on actions required to address the qualification / significant issues.
- 22.3 In accordance with Article 276 of the Water and Sewerage (NI) Order 2006, DfI will lay the Annual Report and Accounts in the Assembly, in accordance with the guidance on the procedures for presenting and laying the combined Annual Report and Accounts as prescribed in the relevant Finance Director letter issued by DoF.
- 22.4 The Department will take assurance from the external audit process and an unqualified position as part of its overall assurance assessment.
- 22.5 The C&AG may carry out examinations into the economy, efficiency and effectiveness with which NI Water has used its resources in discharging its functions. The C&AG may also carry out thematic examinations that encompass the functions of NI Water.
- 22.6 For the purpose of audit and any other examinations, the C&AG has statutory access to documents as provided for under Articles 3 and 4 of the Audit and Accountability (Northern Ireland) Order 2003.
- 22.7 Where making payment of a grant, or drawing up a contract, NI Water should ensure that it includes a clause, which makes the grant or contract conditional upon the recipient or contractor providing access to the C&AG in relation to documents relevant to the transaction. Where subcontractors are likely to be involved, it should also be made clear that the requirements extend to them.

23. Fraud and whistleblowing

- 23.1 NI Water will report to the Department all frauds (proven or suspected), including attempted fraud in accordance with the timescales set out in the Fraud Prevention Policy. The Department will then report the frauds to DoF and the C&AG. NI Water will also report all fraud related whistleblowing allegations and proposed actions to the Department in line with its Speak Up (Whistleblowing) Policy and the latest guidance on fraud management and reporting for the public sector (available on the Accountability and Financial Management section of the DoF website at

<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>). NI Water will provide quarterly updates to WDPD on the progress of fraud investigations and also advise when it is appropriate to close a fraud case. In addition, NI Water will forward to the Department the annual fraud return, commissioned by DoF, on fraud and theft suffered by NI Water.

- 23.2 The Department will periodically review NI Water's Fraud Prevention Policy and Fraud Response Plan. NI Water will notify the Department of any subsequent changes to the Policy or the Response Plan.
- 23.3 NI Water will adhere with the latest guidance on fraud management and reporting for the public sector (available on the Accountability and Financial Management section of the DoF website at <https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>).

Financial memorandum

24. Purpose of the Financial Memorandum

- 24.1 MPMNI requires departments to put in place a clear framework of strategic controls for each sponsored body which is appropriate in the light of:
- the legislative relationship with the body;
 - the specific risks presented by its underlying business activities; and
 - the level of government funding consumed.
- 24.2 This financial memorandum sets out certain aspects of the financial framework within which NI Water is required to operate.

Income and expenditure – general

25. The Departmental Expenditure Limit (DEL) and Annually Managed Expenditure

- 25.1 For NI Water, the majority of its Resource and Capital expenditure forms part of the Department's Resource DEL and Capital DEL respectively.
- 25.2 In addition, the remaining elements of NI Water expenditure are classified as AME.

26. Expenditure not proposed in the Budget

- 26.1 NI Water will not, without prior written Departmental approval, enter into any

undertaking to incur any expenditure which falls outside NI Water's delegations or which is not provided for in the NI Water Annual Budget and Operating Plan, as adjusted via the monitoring round process, and as approved by the Department.

27. Procurement

- 27.1 NI Water is a Centre of Procurement Expertise. NI Water's procurement policies and procedures for the purchase of all capital works, goods and services will, as a utility company, comply with the Utilities Contracts Regulations (2006) (and subsequent replacements) and DoF's Central Procurement guidance. NI Water must be able to defend any deviation from the latter.
- 27.2 In the event that NI Water requires a derogation from a PGN it will be required to submit all relevant information to the Department to enable Shareholder Unit to secure the DfI Accounting Officer's approval to the request.
- 27.3 NI Water will provide procurement statistical information to DfI in accordance with the requirements detailed in the Public Procurement Policy – Management Information Guide required deadlines. NI Water will also monitor its performance on social inclusion clauses in construction contracts and provide six monthly progress reports to WDPD.
- 27.4 Periodic reviews of NI Water's procurement activity should be undertaken in accordance with Condition F1 of the Licence. The results of any such review will be shared with the Department.
- 27.5 The Department will represent NI Water's views to the Procurement Board and insofar as possible seek the NI Water position for reporting.

28. Competition

- 28.1 NI Water must be able to demonstrate clearly that contracts are placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall.
- 28.2 NI Water will comply with CPD and any related supplementary DfI guidance on the "Award of Contracts without a Competition" (Direct Award Contracts² - DACs). All DACs with a value exceeding £5K will be subject to NI Water Accounting Officer approval, and all DACs with a value exceeding £50k will be subject to Board approval, in accordance with agreed delegations. NI Water will provide assurance for the Departmental Accounting Officer that the use of a DAC above £5k is legitimate and justified in a particular case (the delegation in **Annex 4** to this document refers) and in line with CPD Guidance. Further information is published in the Procurement section of the DoF website (<https://www.finance->

² DACs are also known as Single Tender Actions (STAs) for the purpose of NI Water's internal guidance.

ni.gov.uk/topics/procurement/procurement-policy-and-guidance).

- 28.3 NI Water will send a report each month to DfI listing DACs with a value exceeding of £5k and above awarded in the previous month and confirm that each award has been made in compliance with the Utilities Contracts Regulations (2006) (and subsequent replacements) and procurement guidance published in the Procurement section of the DoF website (<https://www.finance-ni.gov.uk/topics/procurement/procurement-policy-and-guidance>).

29. Best Value for Money

- 29.1 Procurement by NI Water of works, supplies and services will be based on best value for money, i.e. the optimum combination of whole life cost and quality (or fitness for purpose) to meet NI Water's requirements. A proportionate economic appraisal or business case will always be carried out before procurement decisions are taken.

30. Timeliness in paying bills

- 30.1 NI Water will pay all matured and properly authorised invoices in accordance with Annex 4.6 of MPMNI, guidance available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>) or guidance issued by the sponsor Department. NI Water will adhere to the Executive's prompt payment policy.

31. Novel, contentious or repercussive proposals

- 31.1 NI Water will obtain the approval of the Department, and DoF, through the Shareholder Unit in respect of any matter which:
- incurs any expenditure for any purpose which is or might be considered novel or contentious, or which has or could have future cost implications, including on staff benefits;
 - makes any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by DfI; or
 - makes any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive among other public sector bodies) or which might significantly affect the future level of resources required.
 - DfI will advise on what constitutes 'significant' in this context.

32. Risk and fraud management

- 32.1 NI Water will ensure that the risks it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate

governance, and will develop a risk management strategy, in accordance with relevant aspects of the FRC's Guidance on Risk Management and HM Treasury's guidance 'Management of Risk: A Strategic Overview' (The 'Orange Book'). NI Water will take proportionate and appropriate steps to assess the financial and economic standing of any organisation or other body with which it intends to enter into a contract.

32.2 NI Water will adopt and implement policies and practices to safeguard itself against fraud and theft, in line with DoF's guide 'Managing the Risk of Fraud'. All cases of attempted, suspected or proven fraud shall be reported to WDPD who will arrange through DfI Finance Division for the reporting of cases to DoF and the NI Audit Office. All cases will be reported in line with the timescales set out in the Fraud Prevention Policy.

32.3 The Shareholder Unit is required to carry out a number of actions in relation to the monitoring and reporting of fraud and whistleblowing cases. These are set out in the Departments 'Anti-fraud policy and Fraud Response Plan' and 'Reporting Wrongdoing ('Whistleblowing') Policy and Procedures'. NI Water is required to have in place Fraud Response Plans equivalent to the Department's Plan and is required to report frauds to the Shareholder Unit promptly; and to provide any information that the Department may require in accordance with the processes and timelines set out in the 'Anti-Fraud Policy and Fraud Response Plan'.

33. Wider markets

33.1 In accordance with the wider markets policy NI Water will seek to maximise receipts from non-Consolidated Fund sources, provided that this is consistent with NI Water's main functions and its Business Plan as agreed with the Department and the Utility Regulator. DfI will confirm with the DoF Supply Officer that such proposed activity is appropriate.

34. Fees and charges

34.1 Fees or charges for any services supplied by NI Water will be determined in accordance with conditions B and D of the Licence and set out in the NI Water annual Charges Scheme.

Income

35. Subsidy

35.1 Any Government subsidy provided for in the Legislation, the Licence, the Business Plan and, in any given year in the Business Plan period, the Annual Operating Plan and Budget will be paid to NI Water in accordance with the subsidy Memorandum of Understanding. In this context, the Board is responsible

for ensuring, and subsequently assuring DfI as paying authority as required, that the Company's subsidy amounts have been determined in accordance with the subsidy Memorandum of Understanding.

- 35.2 NI Water should have regard to the general principle enshrined in Annex 5.1 of MPMNI that it should seek subsidy and loan draw-downs according to need.
- 35.3 NI Water should ensure cash balances accumulated during the course of the year will be kept at the minimum level consistent with the efficient operation of NI Water.

36. Receipts from sale of goods or services

- 36.1 Receipts from the sale of goods and services (including certain licences), rent of land and dividends normally provide additional DEL spending power. If NI Water wishes to retain a receipt or utilise an increase in the level of receipts, it must gain the prior approval of the Department. NI Water will work with the Department to manage any pressures on DEL caused by forecasted land sales being more or less than anticipated.
- 36.2 If there is any doubt about the correct classification of a receipt, NI Water will consult the Department, which may consult DoF as necessary.
- 36.3 NI Water will also adhere to the requirements within Condition K of the Licence relating to Ring Fencing and Disposals of Land. The materiality amount in the Licence is £500,000. In the case of a disposal to an associated company, materiality is set at £250,000.

37. Interest earned

- 37.1 As agreed with the Department, NI Water may earn interest on cash balances. Such interest may be retained by the Company to potentially finance additional expenditure by NI Water if the necessary budget cover is in place.

38. Un-forecast changes in In-Year Income

- 38.1 Un-forecast changes in in-year income will be managed in accordance with the provisions of the Memorandum of Understanding between the Department and the Utility Regulator. Such income may only be retained by the Company to potentially finance additional expenditure if the necessary budget cover is in place.

39. Build-up and draw down of bank deposits

- 39.1 NI Water must ensure that it has the necessary budget provision for any expenditure financed by the draw-down of bank deposits.

40. Proceeds from disposal of assets

40.1 Disposals of land and buildings are dealt with in section 63 below.

41. Gifts and bequests received

41.1 Subject to the delegation noted in **Annex 4** to this document, NI Water will comply with guidance on giving and receiving gifts available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>).

42. Financial gains/clawbacks

42.1 In advance of any agreements being signed-up to, and notwithstanding condition K of the Licence, NI Water will provide the Department with full details of all agreements where NI Water or its successors have a right to share in the financial gains of developers and it will also pass to DfI details of any other planned forms of claw back due to NI Water. This is important as such arrangements could have a public expenditure budgetary impact.

43. Borrowing

43.1 NI Water Limited borrowing requirements are satisfied by NI Water Limited drawing down on facilities provided by DfI and only DfI (DfI facilities include NI Water Limited accessing Danske Bank banking facilities in accordance with the terms of the debt facilities agreed between NI Water Limited and DfI or as otherwise agreed with the Department). Borrowing facilities will be made available to NI Water Limited in accordance with the relevant Debt Documents entered into between DfI and NI Water Limited. NI Water's Board is responsible for ensuring, and subsequently assuring DfI as lender as required, that all borrowings are drawn down and serviced in accordance with the terms specified in the debt documents. NI Water will manage any subsidiary company bank borrowings in accordance with the external bank's requirements.

43.2 NI Water must ensure that it has the necessary budget provision for any expenditure financed by borrowing.

43.3 NI Water must not enter into any debt funding arrangements without the express approval of DfI and DoF as borrowing scores gross in budgets and requires DEL budget cover in all cases. Intercompany borrowings is permitted between group companies. Any changes to terms and conditions of borrowings or new borrowings must be approved by DfI.

43.4 Subject to NI Water having appropriate budget provision in place (under the Debt documents entered into by NI Water and DfI) NI Water has access to a capital loan note and working capital facility.

43.5 The Capital Loan Note instruments provide long-term funding based on capital expenditure incurred by the Company. Borrowings taken on this facility commit NI Water to long-term borrowings. The Company is required to pay interest on

the terms stated in the Instrument Agreements or as agreed between DfI and NI Water Limited.

- 43.6 The Working Capital Facility provides short-term funding to meet NI Water's working capital requirements and operates as an overdraft facility. This is purely linked to the timing of cash payments and has no DEL or AME budgetary impact.
- 43.7 The DfI has obtained DoF's approval to provide the £20m working capital facility and the use of a £1.75bn capital loan note facility to 31 March 2027. It has been agreed that the capital loan note may be used to facilitate emergencies. The DfI has also obtained DoF's approval in principle to the subsidy agreement being amended to deal with emergencies.

Expenditure on staff

44. Staff costs

- 44.1 Subject to its delegated levels of authority NI Water will ensure that the creation of any additional posts does not incur forward commitments, which will exceed its ability to pay for them.

45. Pay and conditions of service

- 45.1 The staff of NI Water, whether on permanent or temporary contract, will be subject to levels of remuneration and terms and conditions of service (including pension) as approved by NI Water, the Department and DoF.
- 45.2 NI Water will be required to submit a Pay Remit in accordance with Executive policy each year for approval by DfI and guidance available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>). The Trade Unions and where appropriate the Department and DoF will be consulted in relation to any proposed changes to the terms and conditions.
- 45.3 Subject to the Executive's pay policy, NI Water Limited will operate a performance related pay scheme, which will form part of the Pay Remit submitted for approval to the Department and DoF. Subsidiary companies operate an annual incentive plan and performance pay scheme.
- 45.4 Current terms and conditions for staff of NI Water are those set out in the NI Water Employee handbook and other existing collective agreements.
- 45.5 The travel expenses of Non-Executive Board Members will be no more than the Civil Service mileage and subsistence rates.
- 45.6 NI Water is required to comply with the Executive's policy on senior executive's remuneration, and obtain the required DfI and DoF approval.
- 45.7 NI Water will comply with the EU directive on contract workers (Fixed Term Employees Regulations (Prevention of Less Favourable Treatment)).

46. Pensions; redundancy / compensation

- 46.1 The NI Water pension scheme (the 'Scheme') is a separate legal entity with NI Water having the role of 'Principal Employer'. The Scheme was set up with a benefits structure, which was a 'mirror image' of the Civil Service Scheme in April 2007. NI Water Alpha Limited was admitted as an associated employer to the Scheme in March 2018 to provide access to a defined benefit pension arrangement for four individuals. The four individuals were admitted to the Scheme on special terms with service counting from 19 November 2017.
- 46.2 Any proposal to pay any redundancy or compensation for loss of office in relation to a Board Member requires the approval of the Department and DoF. Any new arrangements must be approved by DoF. Redundancy payments in line with Terms and Conditions do not require Dfl approval.
- 46.3 Given the ongoing level of public subsidy being paid to NI Water as the Principal Employer, the Trustees must take account of Executive policy in managing the Scheme or in proposing any changes to the Terms and Conditions. If required, they should liaise with the Department through the Shareholder Unit. The Board is required to notify the Trustees where there are changes in Executive policy and / or changes to terms and conditions.

Non-staff expenditure

47. Economic appraisal

- 47.1 NI Water is required to apply the principles of economic appraisal, with appropriate and proportionate effort, to all decisions and proposals concerning spending or saving public money, including European Union funds, and any other decisions or proposals that involve changes in the use of public resources. For example, appraisal must be proportionately applied irrespective of whether the relevant public expenditure or resources: involve Resource or Capital spending, or both; are large or small; or are above or below the delegated limits (see **Annex 4**).
- 47.2 Appraisal itself uses up resources. The effort that should go into appraisal and the detail to be considered is a matter for case-by-case judgement, but the general principle is that the resources to be devoted to appraisal should be in proportion to the scale or importance of the objectives and resource consequences in question. Judgement of the appropriate effort should take into consideration the totality of the resources involved in a proposal.
- 47.3 General guidance on economic appraisal (also applying to NI Water) is contained in DoF's online guide 'Better Business Cases NI' (<https://www.finance-ni.gov.uk/articles/better-business-cases-ni>).
- 47.4 Departmental guidance requires a database to be maintained containing details of all expenditure projects. NI Water maintains a full record of projects on its capital programme monitoring and reporting system and Dfl is satisfied that the information included on this system fulfils the obligations outlined on the Accountability and Financial Management section of the DoF website

(<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>).

- 47.5 Commensurate post project evaluations should be completed for all projects, policies and programmes undertaken. They should be completed in accordance with the principles set out in NI Better Business Case guidance and provide lessons learnt that should be shared within the organisation and if required with DfI. NI Water will adhere to guidance on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>) in respect of post project evaluation requirements.

48. Capital expenditure

- 48.1 NI Water's capital expenditure is funded out of the Department's DEL and the Company must ensure that it manages its capital budget in order to avoid any significant under / over spends at year-end given the current lack of end-year flexibility.
- 48.2 In cash terms, the NI Water capital budget is primarily funded through a combination of loans drawn down from the Department and any build-up of cash via the subsidy or non-domestic income. Regardless of cash source, capital spend is limited to the level of the public expenditure budget allocation in any year.
- 48.3 Subject to being above an agreed capitalisation threshold, all expenditure on the acquisition or creation of fixed assets will be capitalised on an accruals basis in accordance with relevant accounting standards. Expenditure to be capitalised will include the (a) acquisition, reclamation or laying out of land; (b) acquisition, construction, preparation or replacement of buildings and other structures or their associated fixtures and fittings; and (c) acquisition, installation or replacement of movable or fixed plant, machinery, vehicles and vessels. NI Water has developed internal guidance on capitalisation, which is available on the NI Water intranet.
- 48.4 Proposals for large-scale individual capital projects or acquisitions will be considered as part of the process to agree or review the Business Plan and, in any year within the Business Plan, the Annual Budget and Operating Plan in conjunction with the Utility Regulator, the environmental regulators and DfI. Applications for approval within the Business Plan or, in any year within the Annual Budget and Operating Plan will be supported by formal notification that the proposed project or purchase has been examined and duly authorised by the Board. Regular reports on the progress of projects will be submitted to the Department.
- 48.5 Approval of the Business Plan or, in any year within the Business Plan, the Annual Budget and Operating Plan, does not obviate NI Water's responsibility to abide by the economic appraisal process.
- 48.6 Subject to the constraints of the Business Plan or, in any year within the Business Plan, the Annual Budget and Operating Plan, NI Water will, as indicated in **Annex 4** to this document, have delegated authority to spend specified amounts on any

individual capital project or acquisition. Beyond those delegated limits, Dfl/DoF prior approval must be obtained before expenditure on an individual project or acquisition is incurred.

- 48.7 Where the main contract within a capital project has not started, and it becomes likely that project timings, costs or specifications breach the relevant tolerance limits from that for which approval was originally granted, the project must be re-appraised and the necessary approvals sought. Expenditure must not be incurred until relevant Dfl / DoF approvals have been obtained. NI Water has authority to operate within existing contractual arrangements as long as any DEL / AME Budget impacts have been agreed with the Department in advance.
- 48.8 Where the main contract within a capital project has started and changes or extensions to the project are required, NI Water will balance the potential for contractual penalties for stopping work on site against the need to seek prior approval from Dfl for such changes or extensions. In such circumstances, NI Water will inform and seek approval from Dfl. Where it is not possible to obtain immediate approval, NI Water will inform Dfl at the next available opportunity. This does not override the delegated authority levels for capital projects set out in **Annex 4**.
- 48.9 With regard to projects that have not started, at the start of each Price Control periods, NI Water will revisit all capital projects in the programme and resubmit AOs / A1s for those that are now out of scope, time, or costs.

49. Transfer of funds within budgets

- 49.1 NI Water will comply with the requirements of HM Treasury Consolidated Budgeting Guidance. In general, transfers between budgets within NI Water's total capital budget, or between budgets within NI Water's total revenue budget, do not need Departmental approval. However, an exception to this is that, due to HM Treasury controls, any movement into, or out, of depreciation and impairments within the resource budget will require Departmental and DoF approval. Transfers from capital to resource budgets and from resource to capital budgets are only allowable subject to Executive approval.

50. Lending, guarantees, indemnities; contingent liabilities; letters of comfort

- 50.1 This paragraph is subject to arrangements already in place under the Alpha PPP contracts. NI Water will not, without the Department's and where necessary, DoF's prior written consent, lend money, charge any asset or security, give any guarantee or indemnities or letters of comfort, or incur any other contingent liability (as defined in Annex 5.5 of MPMNI).

51. Grant or loan schemes

- 51.1 Unless covered by a delegated authority, all proposals to make a grant or loan to a third party, whether one-off or under a scheme, together with the terms and conditions under which such grant or loan is made will be subject to prior

approval by DfI and, where necessary, DoF. If grants or loans are to be made under a continuing scheme, statutory authority is likely to be required.

- 51.2 The terms and conditions of a grant or loan to a third party will include a requirement on the receiving organisation to prepare accounts and to ensure that its books and records in relation to the grant or loan are readily available for inspection by NI Water, DfI and the C&AG. See also below under the heading 'Recovery of grant-financed assets'.

52. Gifts made, write-offs, losses and other special payments

- 52.1 Proposals for making gifts or other special payments (including issuing write-offs) outside the delegated limits set out in **Annex 4** to this document must have the prior approval of the Department and where necessary DoF.
- 52.2 Losses will not be written-off until all reasonable attempts to make a recovery have been made and proved unsuccessful.
- 52.3 Gifts by management to staff are subject to the requirements of the gift and hospitality guidelines available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>).

53. Leasing

- 53.1 Subject to NI Water assuring the value for money principle is achieved, Departmental approval is not required for leases other than those which fall outside the delegations listed in **Annex 4**. NI Water must have Capital DEL provision for finance leases and other transactions which are, in substance, borrowing and which could have a Capital DEL impact, in line with 'IFRS 16 Leasing'.

54. Public / Private Partnerships

- 54.1 While NI Water will seek opportunities to enter into Public / Private Partnerships where this offers better value for money than conventional procurement, it must obtain DfI / DoF approval in advance in line with the delegation in **Annex 4** to this document.
- 54.2 Any partnership controlled by NI Water will be treated as part of NI Water in accordance with IFRS and Regulatory Accounting Guidelines. Where the judgment over the level of control is difficult the Department will consult DoF (who may need to consult with the Office for National Statistics over national accounts treatment).

55. Working with others

- 55.1 New services would normally relate to Central Government Departments only. Specific Assembly consent (via Shareholder Unit) is required if NI Water requires to engage in any new services unrelated to its normal business. Further guidance

is available in Chapter 2 and Annex A 6.1 of MPMNI.

- 55.2 In accordance with Condition K of the Licence, NI Water is obliged to limit its land and property holdings to the minimum required for the performance of its present, and clearly foreseen, responsibilities and adopt best practice in disposal of property. In identifying and declaring land surplus for disposal, NI Water must ensure that such disposal will not have an adverse impact on current or future provision of water and sewerage services. NI Water must keep its land holdings under continual review with a view to disposing of surplus land with the least possible delay, taking account of:
- the need to achieve best price and full value;
 - prevailing property and financial market conditions; and
 - professional property advice from its advisors.
- 55.3 NI Water will not establish subsidiary companies or joint ventures without the express approval of the Department and DoF. For public expenditure accounts purposes any subsidiary company or joint venture controlled or owned by NI Water will be consolidated with it in accordance with IFRS and Regulatory Accounting Guidelines. The accounting policy will be determined by the Directors and reviewed by the External Auditors. Where the judgment over the level of control is difficult, the Department will consult DoF (who may need to consult with the Office for National Statistics over national accounts treatment). Unless specifically agreed with the Department and DoF, such subsidiary companies or joint ventures will be subject to the controls and requirements set out in this document, and to the further provisions set out in supporting documentation.
- 55.4 If relevant, to maximize value for money in the use of public funds, NI Water should consider sharing services with other public funded bodies where:
- responsibilities overlap;
 - where both operate in the same geographical areas or with the same client groups (arrangements loosely categorised as joined-up government); or
 - where both share common services or a common building.
- 55.5 Such arrangements offer opportunities to reduce costs overall while each party plays to its strengths. Further guidance on working with others is contained in Chapter 7 of MPMNI.

56. Financial investments

- 56.1 NI Water will not make any investments in traded financial instruments without the prior written approval of the Department, and where appropriate DoF. Investments in equity shares in ventures which further the objectives of NI Water will equally be subject to Departmental and DoF approval unless covered by a specific delegation.

57. Unconventional financing

- 57.1 NI Water will not enter into any unconventional financing arrangement without the approval of the Department and DoF.

58. Commercial insurance

- 58.1 As NI Water does not have access to government resources in the event of a large claim, nor has it Crown Immunity, NI Water is required to carry its own public liability risk and supplements this with additional insurance, to minimise its exposure to excessive claim settlements. The Company will adhere to the principles available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>). NI Water's insurance programme should be designed to minimise the cost of risk through a combination of risk transfer and risk treatment. NI Water will review its insurances in consultation with its insurance brokers and seek Board approval as appropriate to the renewal premiums. NI Water will advise DfI of the insurance cover in place when required.

59. Payment / credit cards

- 59.1 NI Water currently uses company payment or credit cards (excepting fuel cards) for company purchases. This facility is provided for in the borrowing facility agreements between the Department and NI Water. Where this facility is implemented, in consultation with the Department, NI Water will ensure that a comprehensive set of guidelines on the use of payment cards (including credit cards) is in accordance with guidance available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>).

60. Hospitality

- 60.1 NI Water, in consultation with the Department, will ensure that a comprehensive set of guidelines on the provision of hospitality is in place. NI Water's policy document should take account of guidance available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>) subject to delegations outlined in **Annex 4**.

61. Use of consultants

- 61.1 NI Water will adhere to the guidance issued by the Department in relation to the Use of Professional Services including External Consultants available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>). Delegated limits set out in **Annex 4** of this document refer.
- 61.2 NI Water will ensure that anything that falls within the agreed definition of

'external consultancy' must be approved by the Minister and is subject to the delegated limit outlined in **Annex 4**.

- 61.3 On a quarterly and annual basis, NI Water will provide the Department with standard Use of External Consultancy returns or additional information on external consultancy, if requested, within reasonable timeframes agreed between the Department and NI Water. To facilitate such returns NI Water will utilise the standard departmental monitoring template.
- 61.4 Care should always be taken to avoid actual, potential, or perceived conflicts of interest when employing consultants.

Management and disposal of fixed assets

62. Register of assets

- 62.1 NI Water will maintain accurate and up-to-date registers of fixed assets under IFRS for statutory and regulatory accounting.

63. Disposal of assets

- 63.1 Subject to paragraphs 63.2 and 63.3 below, NI Water will dispose of assets that are surplus to its requirements. Assets will be sold for best price, taking into account any costs of sale. Generally, assets will be sold by auction or competitive tender unless otherwise agreed by the Department, and in accordance with the principles in MPMNI and Condition K of the Licence. Condition K requires NI Water to obtain the Utility Regulator's approval to dispose of land valued at more than £500k.
- 63.2 In the context of the current governance arrangements, NI Water cannot benefit from the proceeds of sale of assets unless appropriate budgetary (DEL) cover is secured in advance. NI Water must therefore ensure that it has the correct budget DEL cover in advance in order to be able to score and make use of those receipts. Under public expenditure rules, income receipts from the sale of properties are split between net book values and profit/loss on disposal. In budgeting terms, assuming there is DEL cover for any anticipated receipts, NI Water will only be able to retain and utilise the net book value of any capital asset sale as an addition to its capital budget. Any profit would have to be surrendered as a reduced requirement through the monitoring round process and any loss would have a negative DEL impact against the resource budget.
- 63.3 NI Water should only plan to retain monies that it knows can be spent in the relevant year to avoid any significant year-end under spend.

Budgeting procedures

64. Setting the Annual Operating Plan and Budget

- 64.1 NI Water will normally hold an initial planning meeting with Shareholder Unit in October of each year.

- 64.2 NI Water will normally prepare a first draft of the Annual Operating Plan and Budget in mid- January. A summary paper will be presented to the Board and DfI for approval prior to the commencement of the new financial year.
- 64.3 The Shareholder Unit will seek the Minister’s approval to enable the Minister to convey approval (conditionally or otherwise) normally in advance of the new financial year.

65. General conditions for authority to spend

- 65.1 Once the Annual Budget and Operating Plan paper has been approved by the Minister, subject to any restrictions or conditionality imposed by Statute, the Executive, the Minister, the Utility Regulator and NI Water’s own financial delegations, NI Water will be required to manage its DEL and AME to avoid any overspend or significant under spends at financial year-end.
- 65.2 NI Water will also manage the drawdown of cash from the Department through the subsidy and loans arrangements as voted by the Assembly through the Estimates process.

66. Providing monitoring information to the sponsor Department

- 66.1 As a minimum NI Water will provide the Department with information on a monthly basis that will enable the Department to satisfactorily monitor: NI Water’s cash management; its draw down of any subsidy or loan notes; the expenditure for that month; forecast outturn by resource headings; and other data required for the DoF Outturn and Forecast Outturn Returns (e.g. dividend and interest).
- 66.2 In addition, NI Water will notify DfI as early as possible if there is any risk of a significant year-end over or under spend against budget; and may seek to amend its budget during the course of a financial year in the light of changing circumstances by engaging with the Department at in-year monitoring rounds.
- 66.3 The following information is required as part of the wider government reporting and budgeting process (i.e. it will not normally form part of the Shareholder monitoring process). This is consistent with existing arrangements between DfI and NI Water and includes the following:
- Capital DEL, Resource DEL and other information required for public expenditure and Departmental budget purposes – budget and actual information to be provided in accordance with Departmental budget timetable and requirements;
 - monthly expenditure reporting and forecast outturn against public expenditure lines by the 5th last working day of the month to facilitate the monthly reports to DoF;
 - timely inputs to in-year monitoring rounds, capital (Net Lend) re-profiling, updates to capital commitments;

- timely inputs to all DfI / NI Civil Service financial exercises, the timetable for which is normally conveyed as part of the Annual Operating Plan and Budget approval process;
- Investment Strategy NI updates as required; retention of documentation relating to EU programmes for audit inspection (NI Water will need to retain EU files and make them available for access; and
- other ad hoc returns as requested.

Banking

67. Banking arrangements

67.1 This section is subject to the banking arrangements already in place and approved under the Alpha PPP. NI Water's Accounting Officer is responsible for ensuring that the banking arrangements are in accordance with the requirements of Annex 5.7 of MPMNI or as otherwise agreed with the Department, and if necessary DoF. In particular, they will ensure that the arrangements safeguard public funds and that their implementation ensures efficiency, economy and effectiveness.

67.2 NI Water's Accounting Officer will ensure that:

- the arrangements are suitably structured and represent value for money in safeguarding public funds;
- where transactional banking arrangements are obtained other than through the NI Civil Service Central Procurement Directorate contract for banking services that they are reviewed at least every two years, with a comprehensive review, usually leading to competitive tendering, at least every three to five years;
- sufficient information about banking arrangements is supplied to the Department's Accounting Officer to enable them to satisfy their own responsibilities;
- NI Water's banking arrangements will be kept separate and distinct from those of any other person or organisation; and
- adequate records are maintained of payments and receipts and adequate facilities are available for the secure storage of cash.

Dividends

68. Dividend policy

68.1 This section is subject to the terms of the Alpha PPP contracts. One of the Executive's primary objectives is for the Board to manage DfI's investment in NI Water for long-term sustainable value and returns. This includes the setting of specific expectations for the level of interest and dividends as part of the process leading to the determination of the Business Plan by the Utility Regulator. Within these Business Plans it should be assumed that all dividends

are paid out of in- year profits, with some normal margin of retained profit in all years to provide NI Water with the potential for financial flexibility and to reduce the risk of non-payment of any dividend if it becomes self-financing in the future. In the event that the Company becomes self-financing, there will be a requirement for a mechanism to be put in place linked to actual payment of dividends compared to the agreed Business Plan within any incentive scheme for the Board.

- 68.2 The process of declaring and paying a dividend requires a Board to consider their fiduciary responsibilities and the solvency of the relevant business. These conditions apply as normal to NI Water.
- 68.3 NI Water is required to consider the declaration of a dividend following the completion of its Annual Report and Accounts and provide Shareholder Unit with a written resolution as agreed by the NI Water Board. The timing of the payment of the dividend will be agreed by NI Water and the Shareholder Unit.



Signed (NI Water Chief Executive)

Date 09/11/22



Signed (Department – [at least Senior Lead Official])

Date 25/11/22

Annex 1 – Appointment of Board Members and Remuneration

The Board members are appointed as follows:

- the Shareholder appoints the Chair and all other non-executive Board members and participates in and approves the appointment of all executive Directors to the Board; and
- the Shareholder intends to utilise these rights against a shared view between the Shareholder and the Chair about Board composition (including size, balance of experience and background) and succession. The Board will ensure that suitably rigorous annual appraisals are made of the effectiveness of the Chair and the Board, in line with the requirements of good corporate governance. These appraisals / Board Effectiveness Reviews will be made available to the Shareholder and will inform discussions with the Chair on Board composition. The scope of these reviews will be expanded to include the senior management team to provide an additional channel for communication of the Board's assessment of the evolving and changing leadership resource requirements of NI Water in the context of the challenging independent economic and environmental regulatory regime.

The following steps outline how the Shareholder rights are manifested in relation to the Board appointment process:

- the Shareholder and the Chair should agree the size, shape and balance of the Board to reflect the experience and capability required oversee the organisation and to enable NI Water to meet the Shareholder's objectives;
- DfI and the Chair will agree on Board composition and any succession issues at least each year in the light of the requirements of the Business Plan and the future actual performance of NI Water;
- in accordance with good corporate governance, and with Ministerial consent, the appointments process for Non-Executive Board members should result in planned orderly rotation and avoid coterminous appointments where all Non-Executive Board members' terms of appointment end at the same time;
- each year, the Chair will discuss with DfI any proposed changes to Board membership;
- DfI officials will meet with the Chair of the Nomination and Remuneration Committee or relevant non-executive Director as necessary to discuss any proposed Board changes before they become subject to the formal consent procedure – this will include approving the necessary specifications for any additions to the Board;
- the Department's Public Appointments Unit will manage the appointments process for non-executive Board members taking advice from the Shareholder Unit as and when required. (The Shareholder Unit will ratify and confirm the appointments of non-executive Board members after the competition has been completed and the Minister's decision has been made.) The selection panel for appointments to the Board, will include the Chair, in line with the advice in the CPANI Code of Practice for Ministerial Public Appointments and

will be established by PAU to conduct the short-listing and appointments process, making recommendations to the Minister who is responsible for approving non-executive Board appointments;

- the Chair or relevant non-executive Director and the Nomination and Remuneration Committee will manage the appointments process for executive Board members in active consultation with and participation of the Shareholder Unit at all stages of the appointments process;
- a panel including a NI Water representative and a senior DfI official will be established by NI Water to conduct the short-listing and appointments process, making recommendations to the Board who will in turn make a recommendation to the Minister who is responsible for approving executive Board appointments;
- the Board will be responsible for conducting the recruitment process for non-Board level members of the NI Water Executive Committee, although it will keep Shareholder Unit apprised in a timely manner of any such plans and activity;

Appointment of Non-Executive Directors

- appointment of Non-Executive Directors is normally for a period of four years. A second term is not automatic however in line with the Code of Practice issued by the CPANI non-executive board member may be reappointed, with the Minister's consent, and may be considered subject to evidence of an appropriate standard of performance having been achieved during the initial period in office and evidence of continued adherence to the seven principles of public life;
- the appointment process of non-executive Directors is in line with the Code of Practice issued by the Commissioner for Public Appointments Northern Ireland (CPANI);

Board remuneration

- the Shareholder and DoF will retain approval rights for the reward arrangements for all Directors on the Board, including incentive schemes for the Board. The Shareholder will retain approval rights over amendments to all other incentive schemes;
- in a normal Company / Shareholder relationship, the Shareholder's interest is primarily to ensure that remuneration levels and incentive schemes for the Board and senior management appropriately reflect the operational and commercial challenges facing NI Water and as a result are sufficient to attract and motivate the high calibre individuals needed to drive the delivery of the Business Plan. However, the Board must be mindful of the environment in which NI Water is operating and therefore take account of the NI Executive's remuneration policy. The Shareholder is also interested to ensure that the principles underpinning other staff incentive schemes approved by the Board are designed and implemented to reinforce the incentives agreed between the Board and the Shareholder for the Board. However, as NI Water continues to be classified as a NDPB, wider government pay policy will apply and the Company will be required to submit a Pay Remit in accordance with NI Executive policy each year for approval by DfI/DoF;

- it is recognised best practice that executive rewards be tied closely to performance. In the case of NI Water, this will be measured by meeting a limited number of quality, operational and financial targets (both short and long term) related to the delivery of the Business Plan and as agreed on an annual basis. In agreeing salaries in the past, the Shareholder acknowledged the need to pay appropriate market rates for success but would consequently expect the Chair and non-executives to hold Directors and senior management to account for material failures in delivering the Business Plan; and
- the Nomination and Remuneration Committee or relevant Non-Executive Director will recommend proposals for Board and Shareholder approval taking into account feedback from the Shareholder on business performance, the Board's assessment of business performance against the Business Plan, up-to-date remuneration market benchmarks and the constraints of public sector pay policy. The Chair of the Nomination and Remuneration Committee and the Chair will discuss these proposals at an early stage with DfI. In approving incentive payments, the Shareholder may in exceptional circumstances approve the Nomination and Remuneration Committee or relevant Non-Executive Director exercising discretion to override a mechanical interpretation of performance against targets to allow for unexpected changes in factors outside management control (e.g. changes in Policy). Such discretion will only be exercised in consultation with the Nomination and Remuneration Committee or relevant Non-Executive Director and with the advance approval of the Shareholder.

Annex 2 – Annual Engagement Plan

Good engagement is one of the key principles in the Partnership Code, underpinning the other principles of: Leadership; Purpose; Assurance; and Value.

As laid out in the Code, partnerships work well when relationships between departments and ALBs are open, transparent, honest, constructive and based on trust and when there is mutual understanding of each other’s objectives and clear expectations about the terms of engagement.

The table below outlines key areas of typical annual engagement between NI Water and the Department. The table is not an exhaustive list of areas of engagement and the frequency of engagement may vary between years depending on business planning cycles.

Annual Engagement Plan		
Policy Development and Delivery		
Type	Frequency / Timing	Lead Departmental / NI Water Officials (or nominated deputies)
Flooding and Drainage Policy Development	Continuous	WDPD Flooding and Drainage Policy / NI Water Board
Water Resource and Supply Resilience Plan	Not yet agreed	WDPD Environment Team / NI Water Board
Sustainable Water – A Long-term Water Strategy	6-monthly Project Board Meetings	WDPD Environment Team / NI Water Board
Review of Sustainable Water	Not yet agreed	WDPD / NI Water Board
Social and Environmental Guidance	In advance of each six year Business Plan	WDPD / NI Water Board
Minister’s Correspondence	Continuous	WDPD
Strategic Planning		
Type	Frequency / Timing	Lead Departmental / NI Water Officials (or nominated deputies)
NI Water 25 year strategy	Refreshed in advance of each six year Business Plan	WDPD / NI Water Board
NI Water Business Plan for the Price Control	Prepared once every six years	WDPD / NI Water Board
Consideration of acceptance of Utility Regulator’s Final Determination on the Business Plan	Once every six years	WDPD / NI Water Board
Price Control Mid Term Review	Once within each Price Control period	WDPD / NI Water Board

Engagement on the Annual Budget and Operating Plan for the forthcoming year.	Mid-January	WDPD / NI Water Board
Subject to Public Expenditure budget allocations, each year of the Plan will form the basis of the NI Water's Annual Budget	End of February	WDPD / NI Water Board
Shareholder to approve the NI Water's Annual Budget and Operating Plan.	End of February	DFI – Shareholder Unit
Minister's Approval of the NI Water's Annual Budget and Operating Plan	End of February	DFI Permanent Secretary
Approval of Dfi / NI Water Annual Subsidy	End of March	Director Dfi WDPD / NI Water Board
Submission to Minister on NI Water's Annual Scheme of Charges	End of March	Dfi WDPD / NI Water Board
Joint Working		
Type	Frequency / Timing	Lead Departmental / NI Water Officials (or nominated deputies)
Living With Water Programme (LWWP) Steering Group	Quarterly	LWWP Director / NI Water Director of Asset Delivery
LWWP Board	Quarterly	LWWP Director / NI Water Director of Asset Delivery
Flood Strategy Steering Group	Quarterly	Dfi Rivers / WDPD / NI Water Director of Asset Delivery & Director of Customer Operations
Legislation – development of legislation throughout drafting	Ad hoc	WDPD/ NI Water General Counsel
Sustainable Water – A Long-term Water Strategy	6-monthly progress updates and Annual Progress Report	WDPD Environment Team / NI Water Board
Reservoirs Authority Engineering Board Meeting	Quarterly	Dfi Rivers / WDPD / NI Water Director of Asset Delivery
Flood Investment Planning Group (FIGP)	Bi monthly	Dfi WDPD / NI Water Director of Asset Delivery & Director of Customer Operations

Floods Directive Technical Stakeholder Group – Implementation of the Floods Directive Regulations	Monthly	Dfl WDPD / NI Water Director of Asset Delivery & Director of Customer Operations
Water Sector EU Exit Stakeholder Group	Monthly	Dfl WDPD / Director of Customer Operations
Water Stakeholder Steering Group (WSSG)	Bi-annual	Dfl WDPD / NI Water Director Finance, Regulation and Commercial
Output Review Group (ORG)	Quarterly	Dfl WDPD / NI Water Director Finance, Regulation and Commercial
Board Appointments		
Recruitment competitions for appointment of Chair or Non-Executive Members to the NI Water Board	Every four years or when new NEDs / Chair are required	Dfl / NI Water Nomination and Remuneration Committee
Executive Recruitment		
Recruitment of Executive Committee	As and when required	Dfl / NI Water Nomination and Remuneration Committee
Assurances		
Type	Frequency / Timing	Lead Departmental / NI Water Officials (or nominated deputies)
Externally facilitated review of Board Effectiveness	Externally facilitated review at least once every three years	Dfl Permanent Secretary / NI Water Board Chair / External facilitator
NI Water Review of Board Effectiveness	Annual review with an externally facilitated review at least once every three years	Dfl Permanent Secretary / NI Water Board Chair
Board appraisals and planned training / development for Board members	Following the end of the financial year / on appointment and over the financial year	NI Water Board Chair
Board Chair appraisal	Following the end of the financial year and after Board Appraisals have been completed by the Chair and the annual Review of Board Effectiveness has concluded	Dfl Permanent Secretary
Assurance Statement	NI Water produces mid and end year assurance	Dfl Accounting Officer / NI Water Accounting Officer

	statements which are presented by Chief Executive at the biannual Shareholder meetings (April and October)	
Annual Report and Accounts / Governance Statement	Published following sign off by NI Water Board in June. Draft shared with Dfl prior to sign off	Dfl / NI Water Board
Head of Internal Audit Annual Opinion	Reviewed by Audit Committee in May. Dfl observer at meeting	NI Water Head of Internal Audit / Dfl observer
Internal Audit Strategy	Reviewed annually by Audit Committee in March. Dfl observer at meeting	NI Water Head of Internal Audit / Dfl observer
Internal Audit External Quality Assessment	To be conducted at least once every five years (last completed in February 2021)	NI Water Head of Internal Audit / Dfl observer
Budget management		
Type	Frequency / Timing	Lead Departmental / NI Water Officials (or nominated deputies)
Departmental approval of the annual budget	Approved by Permanent Secretary and Minister in March. NI Water advised of outcome in advance of financial year.	Shareholder Unit / NI Water Director of Finance, Regulation and Commercial
Monthly and Quarterly financial performance reporting	Monthly updates (sharing copies of the Board pack) and Quarterly updates (Dfl meetings) on financial performance against budget and forecast	Shareholder Unit / NI Water Director of Finance, Regulation and Commercial
Monitoring rounds	Three times per year (October, January and June monitoring)	Shareholder Unit / NI Water Director of Finance, Regulation and Commercial
Provisional Outturn	Within six weeks of year-end	Shareholder Unit / NI Water Director of Finance, Regulation and Commercial
Final Outturn	Subsequent to approval of the Financial Accounts at the June Board meeting	Shareholder Unit / NI Water Director of Finance, Regulation and Commercial
Other		

Type	Frequency / Timing	Lead Departmental / NI Water Officials (or nominated deputies)
Fraud reporting / whistleblowing	<p>Review of fraud and whistleblowing cases at Audit Committee. Dfl as observer</p> <p>Annual fraud return (based on Audit Committee updates)</p>	<p>Shareholder Unit / NI Water Director of Finance, Regulation and Commercial</p> <p>Shareholder Unit / NI Water Director of Finance, Regulation and Commercial</p>
Formal review of the Partnership Agreement	To be conducted at least once every three years	WDPD / NI Water General Counsel

Annex 3 – Derogations from MPMNI

The arrangements are consistent with the DoF model document in most respects except where there are conflicts resulting from NI Water's need to comply with the requirements of Companies Legislation. The key areas requiring change include the following:

- **Board** – the Board operates under the requirements of Companies Legislation as opposed to the 'advisory Board' framework operating within other parts of the public sector. The Board is therefore required to undertake its duties, functions and liabilities in accordance with the statutory requirements of Companies Legislation. Advisory Boards are not subject to these statutory requirements;
- **Board Sub-Committees** – the sub-committees of the Board, and in particular the Audit Committee and the Risk Committee is structured in the format that is consistent with the NI Water Board responsibilities under the Companies legislation as opposed to the 'advisory board' framework;
- **Insurance** – NI Water has insurance arrangements in place to manage the risks associated with the absence of Crown immunity. NI Water uses commercial insurance policies covering public and employers' liability. This is in addition to the limited circumstances envisaged under MPMNI under which commercial insurance would be used (e.g. vehicles under the Road Traffic Acts);
- **Taxation** – NI Water is subject to the tax regimes in force by HM Revenue and Customs. Corporation tax paid by the company is a building block in determining the tariffs levied on customers and subsidies received by NI Water Ltd. The company therefore seeks to organise its tax arrangements in such a way as to legitimately mitigate the potential tax charge. MPMNI does not generally recommend the use of tax planning schemes for public sector bodies (not structured as companies) as apparent savings can only be made at the expense of other tax payers;
- **Loans** – part of the Company's cash requirement is to fund capital expenditure is facilitated through the draw-down of loans from DfI. This is part of the Government company arrangements which continue to apply pending any formal change to the status of NI Water Ltd;
- **Regulatory Environment** – NI Water Ltd, as a monopoly supplier of water and sewerage services, is subject to economic regulation by the Utility Regulator. NI Water Ltd is required to operate in accordance with its Instrument of Appointment – the 'Licence'. This places considerable regulatory compliance requirements on the Company, adds complexity to the governance relationship with DfI, and requires close interaction between NI Water Limited, the Utility Regulator and DfI; and
- **Subsidy** – while the Executive continues to defer the full introduction of a comprehensive water and sewerage charging regime, the Department pays customer bills on their behalf. This money is paid to NI Water Limited through annual subsidies under Article 213 of the 2006 Order. The basis upon which the subsidies are paid, the arrangements for payment and the amounts invoiced are met in the annual subsidy Memorandum of Understanding, which is between the Department and the Company.

Annex 4 – Delegations

Delegated authorities

NI Water shall obtain the Department's prior written approval before:

- entering into any undertaking to incur any expenditure that falls outside the delegations or which is not provided for in NI Water's annual budget as approved by the Department;
- incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications;
- making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Department;
- making any change of policy or practice which has wider financial implications that might prove repercussive or which might significantly affect the future level of resources required; or
- carrying out policies that go against the principles, rules, guidance and advice in MPMNI.

Financial Delegations to NI Water	£m
Capital Expenditure (including engineering consultant spend incurred after the project has received appropriate approval)	10.0
IT Projects	1.0
Direct Award Contracts ³ (DACs) (excluding Consultancy)	0.25
Land Disposal – In accordance with Licence Provisions (£0.25m in the case of disposals to Associated Companies)	0.5
Acquisitions or disposals (cost/proceeds)	2.5

The following areas will continue to require DfI / DoF approval:

- expenditure that could create pressures which could lead to a breach:
 - i. in DEL or AME;
 - ii. in administration cost limits, resource limits, capital limits and capital grant limits; and
 - iii. the Department's Estimates provision;

³ DACs are also known as Single Tender Actions (STAs) for the purpose of NI Water's internal guidance
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- expenditure that would entail contractual commitments to significant levels of spending in future years for which plans have not been set;
- expenditure which could set a potentially expensive precedent;
- all proposals to engage external consultants that fall within the agreed definition of “external consultancy”, greater than the Executive set threshold of 10k, will require the prior approval of the Minister for Infrastructure;
- DoF approval may be required for external consultant costs on individual projects expected to cost in excess of certain thresholds, as outlined on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>);
- all PFI/PPP projects;
- all gifts in excess of £500 (a Register of Gifts should be maintained by NI Water for all gifts in excess of £100 with approvals obtained in accordance with internal policies);
- Foreign Exchange transactions greater than £500k;
- consolatory payments over £500 (excluding any Guaranteed Standards Scheme compensation payments awarded by the Utility Regulator);
- waiving recovery of accumulated debtor balances in excess of £500k;
- write-offs in excess of £500k;
- claims waived or abandoned in excess of £100,000;
- extra-contractual and ex gratia payments in excess of £100,000;
- extra-statutory and extra-regulatory payments in excess of £100,000;
- certain private expenses of employees made necessary because of their public duties;
- compensation payments as follows:
 - individual compensation claims above £100,000 (except where under legal obligation);
 - individual compensation claims above £100,000 where the legal advice is that NI Water will not win the case if contested in court; and
 - compensation payments for severance or inefficiency are calculated in accordance with scheme and terms and conditions. Any additional monies in excess of these

calculations are deemed 'novel and contentious' and as such will require Dfl/DoF approval.

- guarantees, indemnities or letters or general statements of comfort which could create a contingent liability;
- public statements which might imply a willingness on the part of the NI Water to commit resources or incur expenditure beyond agreed levels;
- any policy or expenditure which could be considered either novel, contentious or repercussive, irrespective of size, requires DoF approval even if it appears to offer value for money taken in isolation. This includes non-standard payments in kind and unusual financing transactions, especially those with lasting commitments. NI Water will obtain the approval of the Department, and DoF, through WSU in respect of any matter identified in the Articles of Association before:
 - incurring any expenditure for any purpose which is or might be considered novel or contentious, or which has or could have significant future cost implications, including on staff benefits;
 - making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by Dfl; or
 - making any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive among other public sector bodies) or which might significantly affect the future level of resources required.

Dfl will advise on what constitutes "significant" in this context.

- any case where the need for DoF approval has been overlooked should immediately be brought to DoF's attention.
- adherence to DoF/Dfl approvals requirements as set out in MPMNI A.4.10 "Losses and Write-offs" subject to the delegations noted above.
- All leases for office accommodation (including supplying storage and warehousing) both new and existing extension or renewal beyond breaking points.

These delegations shall not be altered without the prior agreement of the Department and, where applicable, DoF.

Annex 5 – Illustrative System of Assurance

NI Water has a formalised assurance framework in place to assist the Accounting Officer in assessing the extent of compliance with the specified responsibilities, including the effectiveness of the systems of internal control. The assurance framework draws on the following (non-exhaustive):

- Annual assurance statement. The NI Water Accounting Officer will provide written assurance to the Department that the public funds and organisational assets for which they are personally responsible are safeguarded and have been managed with propriety and regularity. The assurance statement will form part of the assurance process for the Department. The Department will take assurance from these statements together with independently available sources of assurance. This will be supported by partnership engagement and knowledge of NI Water. Judgement based risk assessments will consider the nature of NI Water’s activities; the public monies at stake; financial performance of NI Water; and independent assessments such as Internal / External Audit reports;
- Internal Control Framework. The system of internal control is designed to manage threats and opportunities to a reasonable level, and to achieve NI Water’s purpose, vision and strategic objectives;
- Risk Management Framework. NI Water has an Integrated Risk and Resilience Framework that is applied on a business-wide basis to assess and manage down threats and to identify opportunities to deliver better outcomes in its business and strategic plans and processes. The Integrated Risk and Resilience Framework dovetails with NI Water’s Integrated Governance Framework to ensure that NI Water’s approach to ‘Risk Governance’ complies with best practice (such as the Orange Book - Updated 19th February 2020), Government Code of Best Practice, Partnership Agreement with DfI, UK Corporate Governance Code, ISO 31000, Guidance from the Institute of Risk Management and Federation of European Risk Management Associations and is consistently reflected in NI Water’s policies and procedures across the business;
- Board Member/ Chair Appraisals;
- Board Effectiveness Review. The NI Water Board will undertake an annual board effectiveness review and an independent Board Effectiveness Review is carried out at least once every three years;
- Departmental input to Board Effectiveness Reviews (Appropriate best practice toolkits / frequency / external independent assessment /input to Chair Appraisals);
- Departmental public appointments process;
- Audit Committee and Risk Committees chaired by Non-Executive Directors;
- Internal Audit Plan focused on key risks / impacts including the annual Head of Internal Audit Opinion. The satisfactory opinions on NI Water and the Centre of Procurement Expertise. Management will continue to seek Internal Audit advisory input to significant projects, process changes and emerging risks;
- External Quality Assessment of Internal Audit function; and
- Annual Report and Accounts, Regulatory Accounts and Annual Information Return Financial Tables audited by external auditor.

Annex 6 – Concerns / Complaints in respect of Board members

In line with the NI Code of Good Practice and the arrangements in this Partnership Agreement the approach to concerns/complaints raised in respect of NI Water Board members should be transparent and collaborative. The principle of early and open engagement is important, with the Department made aware of any concerns/complaints as soon as practicable.

While Board Members are Public Appointees/office holders rather than NI Water employees a NI Water employee may utilise NI Water's grievance procedure/other HR procedure to raise a complaint against a Board member. The NI Water employee raising the grievance should expect this to be handled in line with NI Water's HR procedures.

Concerns/complaints might also be raised through:

- Raising concerns arrangements available on NI Water's website; or
- Directly with the Department.

Where a concern/complaint is received within NI Water in respect of an individual Board Member this should be provided to the NI Water Chair who should notify the Department at the outset in order that lead responsibility for handling the complaint/concern is clear in advance.

Where a concern/complaint relates to the NI Water Chair, NI Water should notify the Department at the outset for the Department to determine the approach to handling the complaint/concern.

Differences of view in relation to matters which fall within the Board's responsibilities are a matter for the Board to resolve through consensus based decision making in the best interests of NI Water.

Exceptionally a concern/complaint may be raised by a Board Member about a fellow Board Member or a senior member of NI Water staff. The NI Water Chair should notify the Department at the outset to ensure that arrangements for handling the concern/complaint are clear. The Department may determine that it should make arrangements to deal with the concern/complaint. This will be agreed at the outset.

Arrangements for concerns/complaints in respect of Board members should be reflected in all relevant procedures, including Standing Orders and Board Operating Frameworks.

Annex 7 – Applicable Legislation and Guidance

The Department will accommodate the provisions of the Alpha PPP contracts when applying instructions and guidance.

The appropriate legislation and guidance applicable to NI Water is set out in the Corporate Compliance Framework, policies and procedures. The legislation and guidance includes the following (subject to any deviations identified within this document):

- relevant legislation e.g. Companies Act 2006;
- the Licence granted to NI Water Limited by DfI on 23 March 2007 as modified by the Utility Regulator;
- this partnership agreement;
- Memorandum of Understanding between the DfI and the Utility Regulator (November 2010) including the subsequent written agreement;
- Regulatory Accounting Guidelines issued by the Water Services Regulation Authority insofar as these are relevant to the regulatory environment in Northern Ireland and WR letters issued by the Utility Regulator;
- IFRS issued by the International Accounting Standards Board;
- the Accounting Officer Letter;
- MPMNI and Annexes, memo to Accounting Officers issued by DFP, subject to the derogations listed in **Annex 3**;
- FRC's UK Corporate Governance Code;
- FRC's Guidance on Board Effectiveness;
- FRC's Guidance on Audit Committees;
- FRC's Guidance on Risk Management, Internal Control and Financial and Business Reporting;
- FRC's guidance on Boards and Risk;
- other relevant guidance from the FRC;
- Corporate Governance in Central Government Departments: Code of Good Practice NI;
- Public Bodies: A Guide for NI Departments issued by DoF;
- Better Business Cases NI available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>);
- HM Treasury's The Orange Book available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>);
- Public Sector Internal Audit Standards (PSIAS)
- the document Managing the Risk of Fraud
- relevant DoF Dear Accounting Officer and Finance Director letters;
- relevant Dear Consolidation Officer and Dear Consolidation Manager letters issued by DoF;
- Regularity, Propriety and Value for Money issued by HM Treasury;
- Audit and Risk Assurance Committee Handbook (NI) issued by DoF;
- other relevant instructions and guidance issued by the central Departments (DoF/The Executive Office (TEO)) including Procurement Board and Central Procurement Directorate Guidance;
- relevant NI Audit Office and National Audit Office Reports;

- specific instructions and guidance issued by the sponsor Department; and
- recommendations made by the Public Accounts Committee, or by other Assembly authority, which have been accepted by the government and which are relevant to the NI Water.

Annex 8 – Partnerships between Departments and Arm’s Length Bodies: NI Code of Good Practice

NI Code of Good Practice available at <https://www.finance-ni.gov.uk/publications/arms-length-bodies-guidance>

[DAO \(DoF\) 03/19 attachment \(28 February 2022\) - Partnerships between departments and arm's length bodies: NI code of good practice \(finance-ni.gov.uk\)](#)

Annex 9

Monitoring process

The following outlines the broad approach that the Shareholder intends to follow and the standard it expects NI Water to achieve as its reporting systems continue to develop.

Performance Reporting

- (a) copies of the Board pack, KPIs and management accounts (Profit & Loss, Balance Sheet and Cash Flow budget, actual and quarterly forecast)
- (b) monitoring spend and performance in delivery of the agreed Capital Works Programme and projected outputs;
- (c) assessment against key strategic and transformation initiatives (including significant procurement / asset investment projects);
- (d) Six monthly Shareholder Meetings (SM) with NI Water Ltd Board – meetings to be held bi-annually following the relevant Board meeting;
- (e) SM ground clearing meetings, two to be held in advance of each SM and two in remaining quarters;
- (f) Statutory accounts – draft statutory accounts to be submitted to DfI in line with the requirements of the DfI Faster Closing Strategy. Whole of Government Accounts consolidation pack to be submitted to DfI in accordance with the DoF timetable;
- (g) Regulatory Accounts – to be copied to DfI as they are submitted to the Utility Regulator;
- (h) Risk register and risk management action plan – copy of NI Water’s risk register and action plan to be provided on a quarterly basis;
- (i) The annual report of the Audit Committee to the NI Water Ltd Board, including key findings from internal and external auditors – copied to the Shareholder annually once the Board has reviewed and agreed as final;
- (j) A quarterly Output Review Group (ORG) meeting is convened by WDPD to facilitate NI Water’s briefing for all stakeholders on the company’s performance.

NI Water will provide monthly and quarterly reports as required by the Shareholder. The format for the reports will continue to be developed in consultation with NI Water.

Corporate Governance guidance is available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>). The Code requires the Departmental Board to monitor the performance of its Arms’ length Bodies. The Shareholder Unit will therefore provide bi-annual reports to the Departmental Board (in November and June unless otherwise requested) on the performance monitoring of NI Water.

NI Water audit arrangements

The Shareholder will be represented at the meetings of the NI Water Audit Committee. All papers and internal audit reports should be shared with the Department.

The Chair of the NI Water Audit Committee will meet with the DfI Senior Finance Director and the Director of the Water and Drainage Policy every six months.

NI Water's Internal Audit Strategy and Annual Plans should be prepared on a risk based approach. The Shareholder should be consulted on these documents to ensure that shared assurance requirements are built into the plans where required.

This is consistent with guidance available on the Accountability and Financial Management section of the DoF website (<https://www.finance-ni.gov.uk/topics/finance/accountability-and-financial-management>). The Shareholder will keep these arrangements under review in the event of any further recommendations in respect of internal audit arrangements in the context of departmental relationships with arm's length bodies.

The External Auditor's opinion contained in the NI Water's Annual Report and Accounts should include an opinion on regularity. This is in addition to the requirements of the Companies Act 2006 and any other relevant legislation.

Departmental financial reporting, budgets and controls

The following information is required as part of the broader Government reporting and budgeting process (i.e. it will not normally form part of the Shareholder Monitoring process). This is consistent with existing arrangements between DfI and NI Water.

Capital Departmental Expenditure Limits (DEL), Resource DEL and other information required for Public Expenditure and Departmental budget purposes – budget and actual information to be provided in accordance with Departmental budget timetable and requirements:

- i. Monthly expenditure reporting and forecast outturn against Public Expenditure lines in order to facilitate monthly reports to DoF;
- ii. Timely inputs to in-year monitoring rounds, capital (net lend) re-profiling, updates to capital commitments;
- iii. Timely inputs to all DfI/ NICS financial exercises, the timetable for which is normally conveyed as part of the budget approval process;
- iv. Updates to Investment Strategy Northern Ireland as required; and
- v. Retention of documentation relating to EU programmes for audit inspection. NI Water will need to retain EU files and make them available for access for some time to come. For example, documentation in respect of the 2014-20 Programme will need to be retained until at least 2029.

General access to information

As a result of the Freedom of Information (FOI) Act, Data Protection legislation, the Environmental Information Regulations (EIR), and as a result of Government ownership, there may be ad hoc requirements for NI Water to provide access to information as

requested by the Shareholder. NI Water will satisfy all such requests within a reasonable turn-around time. As a guiding principle, the Shareholder would not expect to answer FOI or Assembly Question type questions on matters relating to NI Water performance outside its Shareholder role. In the normal course of business, FOI / Assembly Question type requests relating to business activities and operations would be passed to NI Water to process and respond in the normal timescales. There may be exceptions to this principle, and these should be discussed with the Shareholder Unit and the NI Water Ltd Board to avoid surprises and maintain transparency.