

northern ireland
water



Delivering what matters

Regulatory Accounts 2017/18

Statement of Directors' Responsibilities

The Directors of NI Water are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the relevant Regulatory Accounting Guidelines (RAGs). The Northern Ireland Authority for Utility Regulation ("the Utility Regulator") has directed that the RAGs followed in previous years should continue to be applied in 2017/18 except for the discontinuance of reporting on a current cost basis. Revised RAGs will be introduced by the Utility Regulator in 2018/19.

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

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

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

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

Note 2(a) on page 11 fully outlines the current funding position for the Company and a short summary of this is provided below:

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

Due to a significant shortfall in Public Expenditure funding in 2015/16, and with no clarity of funding for the period beyond 2015/16, the Board had no option but to not accept the PC15 Final Determination in the circumstances.

NI Water engaged positively with the Utility Regulator and Department for Infrastructure ("DFI") to agree changes to 2016/17 regulatory outputs due to the reduction in Public Expenditure funding in 2016/17. On 1 June 2016, the Utility Regulator confirmed acceptance of NI Water proposals for adjusted outputs for 2016/17 against which delivery was monitored.

DFI has indicated that the final 2018/19 budget allocation for NI Water might fall below PC15 Final Determination so a similar process to 2016/17 and 2017/18 has been undertaken to agree changes to 2018/19 regulatory outputs.

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

- (2) In the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it:
- (i) management resources;
 - (ii) methods of planning and internal control which, except for any control weaknesses reported separately to the Utility Regulator, are sufficient to enable it to carry out Regulated Activities necessary to fulfil its obligations under the Appointment; and
- (3) On 20th November 2017 NI water Limited through a subsidiary, acquired Dalriada Water Limited which is the PPP concessionaire company contracted to provide services to NI Water Limited (see Annual Report pages 108 to 109 for more detail of the Alpha contract). The activities of Dalriada Water Limited lies outside the Regulated Activities as defined by the Licence. The financial results of Dalriada Water Limited and the other businesses acquired by NI Water have been consolidated into the Group accounts which are included in the Annual Report and Accounts. Apart from the above in the opinion of the Directors, no contracts were entered into with any Associated Company.

For and on behalf of the Board



Sara Venning
Chief Executive
24 July 2018

HISTORICAL COST FINANCIAL STATEMENTS

Profit and loss account

	Year to 31 March 2018			Year to 31 March 2017		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Turnover	381,099	6,721	387,820	372,851	5,940	378,791
Operating costs	(218,196)	(3,520)	(221,716)	(210,102)	(4,015)	(214,117)
Historical cost depreciation	(56,418)	(16)	(56,434)	(55,773)	(16)	(55,789)
Operating profit	106,485	3,185	109,670	106,976	1,909	108,885
Net interest payable	(56,253)	-	(56,253)	(53,804)	-	(53,804)
Profit on ordinary activities before taxation	50,232	3,185	53,417	53,172	1,909	55,081
<i>Taxation on profit on ordinary activities:</i>						
Corporation tax	(9)	186	177	(12)	(157)	(169)
Deferred tax	(18,286)	-	(18,286)	(6,430)	-	(6,430)
Profit on ordinary activities after taxation	31,937	3,371	35,308	46,730	1,752	48,482
Dividends	(21,153)	(3,371)	(24,524)	(21,510)	(1,752)	(23,262)
Retained profit for the financial year	10,784	-	10,784	25,220	-	25,220

Balance sheet

	At 31 March 2018			At 31 March 2017		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Fixed assets						
Tangible assets	2,725,717	16	2,725,733	2,623,620	33	2,623,653
Capital contributions	(463,235)	-	(463,235)	(421,833)	-	(421,833)
Investments	91	-	91	91	-	91
	<u>2,262,573</u>	<u>16</u>	<u>2,262,589</u>	<u>2,201,878</u>	<u>33</u>	<u>2,201,911</u>
Current assets						
Stocks	2,469	6	2,475	2,347	7	2,354
Debtors	62,428	508	62,936	30,386	401	30,787
Infrastructure renewals prepayment	3,573	-	3,573	-	-	-
Cash at bank and in hand	3,231	666	3,897	2,913	709	3,622
	<u>71,701</u>	<u>1,180</u>	<u>72,881</u>	<u>35,646</u>	<u>1,117</u>	<u>36,763</u>
Creditors: amounts falling due within one year						
Payments received on account	(4,210)	-	(4,210)	(4,190)	-	(4,190)
Trade creditors	(3,718)	(40)	(3,758)	(5,890)	(66)	(5,956)
Taxation and social security	(879)	-	(879)	(1,282)	-	(1,282)
Other creditors	(15,470)	-	(15,470)	(12,546)	-	(12,546)
Accruals and deferred income	(102,041)	(1,156)	(103,197)	(110,109)	(1,084)	(111,193)
Deferred grants and contributions	(1,087)	-	(1,087)	(1,001)	-	(1,001)
PPP finance lease	(2,650)	-	(2,650)	(2,376)	-	(2,376)
Infrastructure renewals prepayment	-	-	-	(921)	-	(921)
	<u>(130,055)</u>	<u>(1,196)</u>	<u>(131,251)</u>	<u>(138,315)</u>	<u>(1,150)</u>	<u>(139,465)</u>
Net current liabilities	<u>(58,354)</u>	<u>(16)</u>	<u>(58,370)</u>	<u>(102,669)</u>	<u>(33)</u>	<u>(102,702)</u>
Total assets less current liabilities	<u>2,204,219</u>	<u>-</u>	<u>2,204,219</u>	<u>2,099,209</u>	<u>-</u>	<u>2,099,209</u>
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(1,082,560)	-	(1,082,560)	(1,013,560)	-	(1,013,560)
Other creditors	(112,041)	-	(112,041)	(111,374)	-	(111,374)
	<u>(1,194,601)</u>	<u>-</u>	<u>(1,194,601)</u>	<u>(1,124,934)</u>	<u>-</u>	<u>(1,124,934)</u>
Provisions for liabilities and charges						
Deferred tax provision	(221,641)	-	(221,641)	(202,263)	-	(202,263)
Other provisions	(4,739)	-	(4,739)	(4,886)	-	(4,886)
	<u>(226,380)</u>	<u>-</u>	<u>(226,380)</u>	<u>(207,149)</u>	<u>-</u>	<u>(207,149)</u>
Pension liability	<u>(18,915)</u>	<u>-</u>	<u>(18,915)</u>	<u>(54,767)</u>	<u>-</u>	<u>(54,767)</u>
Net Assets	<u>764,323</u>	<u>-</u>	<u>764,323</u>	<u>712,359</u>	<u>-</u>	<u>712,359</u>
Capital and reserves						
Called up share capital	500,000	-	500,000	500,000	-	500,000
Distributable reserve	171,690	-	171,690	171,690	-	171,690
Profit and loss account	92,633	-	92,633	40,669	-	40,669
	<u>764,323</u>	<u>-</u>	<u>764,323</u>	<u>712,359</u>	<u>-</u>	<u>712,359</u>
Shareholder's funds	<u>764,323</u>	<u>-</u>	<u>764,323</u>	<u>712,359</u>	<u>-</u>	<u>712,359</u>

These financial statements were approved and authorised for issue by the Board of Directors on 24 July 2018 and were signed on its behalf by:



Sara Venning
Chief Executive
24 July 2018

Statement of total recognised gains and losses

	Year to 31 March 2018			Year to 31 March 2017		
	Appointed business	Non - Appointed business	Total	Appointed business	Non - Appointed business	Total
	£000	£000	£000	£000	£000	£000
Profit for the financial year	10,784	-	10,784	25,220	-	25,220
Actuarial gain/(losses) recognised in the pension scheme	49,614	-	49,614	(56,179)	-	(56,179)
Deferred tax arising on (gains)/losses in the pension scheme	(8,434)	-	(8,434)	9,558	-	9,558
Total recognised gains and losses relating to the financial year	51,964	-	51,964	(21,401)	-	(21,401)

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business

The Company's Statutory Accounts are prepared under IFRS and this is reflected in its Statutory Accounts for the year ended 31 March 2018. However the Regulatory Accounts are prepared on the basis of Regulatory Accounting Guidelines and previous UK GAAP. The principal differences between the Company's Statutory Accounts and its Regulatory Accounts are set out below.

Profit and loss account / Statement of comprehensive income	Year to 31 March 2018 £000
a) Operating profit / Results from operating activities	
Per Regulatory Accounts	109,670
Difference in income under IFRIC 18	43,982
Difference in infrastructure accounting	8,360
Difference in depreciation - non infrastructure	(6,659)
Difference in amortisation of grants and contributions	(707)
Difference in treatment of PPP contracts	13,798
Difference in capitalisation of expenditure	(1,189)
Per Statutory Accounts	167,255
b) Net interest payable / Net finance costs	
Per Regulatory Accounts	(56,253)
Capitalised interest under IFRS	5,361
Notional lease interest on PPP assets reclassified under IFRS	(12,926)
Per Statutory Accounts	(63,818)
c) Deferred taxation/Income tax credit	
Per Regulatory Accounts	(18,108)
Per Statutory Accounts	(18,108)

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business (continued)

Balance sheet / Statement of financial position	At 31 March 2018 £000
a) Fixed Assets / Property, plant and equipment	
Cost	
At 31 March per Regulatory Accounts	3,028,130
Reverse regulatory infrastructure prepayment	3,573
Intangible assets separately identified under IFRS	(83,441)
Investment properties separately identified under IFRS	(19,071)
Assets identified as classified as held for sale	(126)
Difference in capitalisation of expenditure	(19,793)
Capitalised interest under IFRS	26,198
PPP assets treated 'on balance sheet' under IFRS	121,092
Capital contributions treated differently under IFRS	463,235
De-recognition of infrastructure assets	(20,141)
Decommissioning of Omega assets under UK GAAP	6,956
At 31 March per Statutory Accounts	3,506,612
Depreciation	
At 31 March per Regulatory Accounts	765,632
Intangible assets separately identified under IFRS	(53,067)
Investment properties separately identified under IFRS	(12,595)
Assets identified as classified as held for sale	4
Difference in depreciation of infrastructure assets	(187,797)
Difference in depreciation of non-infrastructure assets	46,503
De-recognition of infrastructure assets	(20,141)
Decommissioning of Omega assets under UK GAAP	6,763
At 31 March per Statutory Accounts	545,302
b) Debtors due in less than one year / trade and other receivables	
At 31 March per Regulatory Accounts	62,936
Prepayments shown separately under IFRS	(12,898)
Capital maintenance prepayment for IFRS PPP reclassified assets	4,112
At 31 March per Statutory Accounts	54,150

Reconciliation between Statutory Accounts and historical cost Regulatory Accounts for the appointed and non-appointed business (continued)

Balance sheet / Statement of financial position	At 31 March 2018 £000
c) Provisions	
At 31 March per Regulatory Accounts	4,739
Holiday pay provision under IFRS	710
At 31 March per Statutory Accounts	5,449
Provisions classified as non-current liabilities	2,705
Provisions classified as current liabilities	2,744
At 31 March per Statutory Accounts	5,449
d) Loans and borrowings	
At 31 March per Regulatory Accounts	1,082,560
Add: Alpha PPP lease liability shown in Regulatory Accounts within creditors: amounts falling due after more than one year	85,352
Add: Alpha PPP lease liability shown in Regulatory Accounts within creditors: amounts falling due within one year	2,650
Add: finance leases for PPP assets (Omega and Kinnegar) included as on balance sheet under IFRS and included within loans and borrowings	115,708
At 31 March per Statutory Accounts	1,286,270
Loans and borrowings classified as non-current liabilities	1,280,564
Loans and borrowings classified as current liabilities	5,706
At 31 March per Statutory Accounts	1,286,270

Cash flow statement

	Year to 31 March 2018			Year to 31 March 2017		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Net cash inflow from operating activities Note 7(a)	182,769	3,565	186,334	182,677	2,478	185,155
Returns on investments and servicing of finance						
Interest received	103	-	103	74	-	74
Interest paid	(47,537)	-	(47,537)	(46,945)	-	(46,945)
Interest element of finance lease	(6,406)	-	(6,406)	(6,562)	-	(6,562)
Net cash outflow from returns on investments and servicing of finance	(53,840)	-	(53,840)	(53,433)	-	(53,433)
Corporation tax paid	-	(237)	(237)	-	(171)	(171)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	(129,152)	-	(129,152)	(128,215)	-	(128,215)
Purchase of subsidiaries	(29,126)	-	(29,126)	-	-	-
Grants and contributions received	12,910	-	12,910	11,550	-	11,550
Infrastructure renewals expenditure	(30,250)	-	(30,250)	(20,145)	-	(20,145)
Disposal of fixed assets	1,536	-	1,536	1,096	-	1,096
Net cash outflow from investing activities	(174,082)	-	(174,082)	(135,714)	-	(135,714)
Equity dividends paid to the Shareholder	(21,153)	(3,371)	(24,524)	(21,510)	(1,752)	(23,262)
Cash (outflow) / inflow before management of liquid resources and financing	(66,306)	(43)	(66,349)	(27,980)	555	(27,425)
Management of liquid resources	(7)	-	(7)	(1,501)	-	(1,501)
Cash (outflow) from management of liquid resources	(7)	-	(7)	(1,501)	-	(1,501)
Net cash flow before financing	(66,313)	(43)	(66,356)	(29,481)	555	(29,481)
Financing						
Loans advanced	69,000	-	69,000	30,000	-	30,000
Capital element of finance lease repayments	(2,376)	-	(2,376)	(2,122)	-	(2,122)
Net cash inflow from financing	66,624	-	66,624	27,878	-	27,878
Net (decrease)/increase in cash	311	(43)	268	(1,603)	555	(1,408)

Notes to the Regulatory Accounts

1 Regulatory reporting

To further understand the performance of the business the Regulatory Accounts should be read in conjunction with the Strategic Report on pages 5 to 69 of the Northern Ireland Water Annual Report and Accounts 2017/18 ('The Annual Report'). Reference should be made to the Directors' report in the Annual Report which provides information on the dividend policy (page 80) and on 'Disclosure of information to auditors' (page 81). The Annual Report also includes The Directors' remuneration report on pages 82 to 86 and information on Directors' pay and standards of performance in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006. The Directors confirm that no amounts were given to charitable trusts assisting customers or similar funds in the year ended 31 March 2018.

2 Accounting policies

(a) Basis of preparation

The Regulatory Accounts have been prepared on such a basis as to comply with the requirements of the Utility Regulator. These requirements are similar to previous guidance issued by Ofwat, the economic regulator for the water and sewerage industry in England and Wales. The Regulatory Accounts have been prepared in accordance with Condition F of the 'Instrument of Appointment by the Department for Regional Development' of Northern Ireland Water Limited as a Water and Sewerage undertaker' and the Ofwat Regulatory Accounting Guidelines (RAGS) adopted by the Utility Regulator and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and, in the case of the Regulatory Historic Cost Accounts, under the historical cost convention. The Utility Regulator has instructed that for the year ended 31 March 2018 accounts should not be reported on a current cost basis. Where applicable results relating to the prior year, 2016/17, have been restated on a historic cost basis. The Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

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

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

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

On 10 February 2015, NI Water advised the Utility Regulator that the Board would, on balance, have been willing to accept the PC15 Final Determination subject to Public Expenditure funding to the levels established by the PC15 Final Determination, an appropriate risk mitigation mechanism and other flexibilities. However a significant shortfall in Public Expenditure funding in 2015/16 and no clarity of funding for the period beyond 2015/16, meant the Board had no option but to not accept the PC15 Final Determination in the circumstances.

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

2 Accounting policies (continued)

(a) Basis of preparation (continued)

NI Water engaged positively with the Utility Regulator and DfI to agree changes to 2016/17 regulatory outputs due to the reduction in Public Expenditure funding in 2016/17. On 1 June 2016, the Utility Regulator confirmed acceptance of NI Water proposals for adjusted outputs for 2016/17 against which delivery was monitored.

DfI has confirmed that the 2018/19 budget allocation for NI Water falls below PC15 Final Determination so a similar process is being undertaken to agree changes to 2018/19 regulatory outputs.

NI Water continues to make the case for certainty of funding and a medium term financial settlement to enable price limits and service targets/outputs set in the PC15 Final Determination to prevail.

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

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

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

(b) General

The regulatory accounting policies are based on 'old' UK GAAP (i.e. UK GAAP in existence prior to the introduction of FRS100, FRS101 and FRS102). The Statutory Accounts are based on IFRSs (as adopted by the EU). A reconciliation between the Statutory Accounts and the historical cost Regulatory Accounts for the appointed and non-appointed business is included in the Regulatory Accounts (pages 7-9). The significant differences between the accounting policies adopted in the Statutory Accounts and those adopted for the Regulatory Accounts are summarised below.

2 Accounting policies (continued)

(c) Tangible fixed assets and depreciation

The RAGs and any modifications issued by the Utility Regulator have been followed in the preparation of the current cost accounts. The Utility Regulator does not require NI Water to report on a current cost basis or revalue its assets on a Modern Equivalent Asset Value (MEAV) basis, in accordance with the RAGs. The infrastructure renewals charge (IRC) is part of the renewals accounting approach permitted under 'old' UK GAAP (see 2(b) above) but not permitted under IFRS (IFRS requires depreciation of infrastructure assets in line with appropriate asset lives). The IRC is defined as the annual accounting provision for expenditure on the renewal of infrastructure assets charged to the profit and loss account. It should reflect the Company's assessment of its medium to long term infrastructure renewals expenditure (IRE) needs. The IRC for NI Water is based on the determination of PC15. The Utility Regulator determined that the IRC should be set equal to the anticipated IRE for each year of the six years contained within the business plan. The IRE formed part of the PC15 capital expenditure plan. The IRE in the year ended 31 March 2018 was based on an analysis of capital expenditure on a project-by-project basis. The capitalisation policy differs between the Regulatory Accounts and Statutory Accounts in relation to IRE. Some elements of IRE capitalised under 'old' UK GAAP are categorised as infrastructure repairs under IFRS and as such, are expensed directly to profit under IFRS. Infrastructure assets which have been replaced are de-recognised under IFRS, whereas the 'old' UK GAAP approach in the Regulatory Accounts does not derecognise these replaced assets.

(d) Grants and other third party contributions

Grants, infrastructure and third party contributions include government grants, infrastructure charges, connection charges, requisitioning of water mains or sewers, sewer adoption fees and contributions from third parties. Grants and contributions for capital expenditure, other than infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset in accordance with the Companies Act 2006. Grants, contributions and capital subsidy for capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the Companies Act 2006 which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view, in the opinion of the Directors. This approach is consistent with the policy on depreciation of infrastructure assets permitted under 'old' UK GAAP and adopted in the Regulatory Accounts as outlined above in note 2(c). Under 'old' UK GAAP a provision is made for depreciation of infrastructure assets but this it is not calculated with reference to useful economic lives (UELs). Hence, unlike in the Statutory Accounts under IFRS, capital contributions are not recognised as deferred income and amortised in line with UELs but are deducted directly from the cost of these assets. Under IFRS, all third party contributions are treated as income at the point of recognition and are credited to turnover. Grants are treated similarly in the Statutory and Regulatory Accounts.

(e) Apportionment of costs between the appointed and non-appointed business activities

The non-appointed business relates mainly to septic tank emptying, vehicle maintenance services carried out on behalf of, primarily, DfI, Transport NI and income associated with aerial masts erected on Company property. A reasonable proportion of operating and other costs have been apportioned to these activities based on turnover and assumptions on the costs incurred. The results from the non-appointed activities are shown in the historical cost financial statements and regulatory cash flow statements.

2 Accounting policies (continued)

(f) PPP contracts

The Regulatory Accounts under 'old' UK GAAP treat the Alpha project as 'on balance sheet' and the Omega and Kinnegar projects as 'off balance sheet'. This is in line with 'old' UK GAAP and the assessment of where the risks and rewards of the contracts reside. The assets associated with Alpha are capitalised and shown on NI Water's balance sheet, with a corresponding finance lease creditor established. The unitary charges for Alpha are apportioned to the profit and loss account (service charges and finance lease interest) and to the balance sheet (lease repayment and capital maintenance). The Omega and Kinnegar assets are not deemed to be owned by NI Water and are not shown on the balance sheet. The unitary charges for Omega and Kinnegar are apportioned to the profit and loss account (service charges) and to the balance sheet (residual interest asset). The residual interest asset recognises a build-up of value on the balance sheet, until the residual value of the assets revert to NI Water at the end of the contract period. The Statutory Accounts under IFRS treat all three PPP projects as 'on balance sheet' and as such all associated assets are capitalised and corresponding finance leases are created.

(g) Provisions

An additional provision for holiday pay has been included in the Statutory Accounts as required under IFRS.

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

	Year to 31 March 2018			Year to 31 March 2017		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
Turnover						
Unmeasured – household	124,853	145,747	270,600	123,828	141,172	265,000
Unmeasured – non household	1,891	2,203	4,094	2,041	2,401	4,442
Total unmeasured	126,744	147,950	274,694	125,869	143,573	269,442
Measured – non household	42,541	26,865	69,406	41,096	27,518	68,614
Total measured	42,541	26,865	69,406	41,096	27,518	68,614
Trade effluent	-	4,777	4,777	-	4,278	4,278
Large user and special agreements	5,517	4,811	10,328	4,980	4,105	9,085
Total trade effluent and large user special agreements	5,517	9,588	15,105	4,980	8,383	13,363
Rechargeable works	55	55	110	64	64	128
Other third party services	403	21,381	21,784	368	20,936	21,304
Total third party services	458	21,436	21,894	432	21,000	21,432
Total turnover	175,260	205,839	381,099	172,377	200,474	372,851

	Year to 31 March 2018			Year to 31 March 2017		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
Operating income and working capital adjustment for the appointed business:						
Historical cost profit on disposal of fixed assets	849	186	1,035	558	98	656

4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2018							
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
Direct costs								
Employment costs	4,066	8,535	12,601	3,928	4,786	319	9,033	21,634
Power	9,837	3,387	13,224	4,015	9,531	2,441	15,987	29,211
Hired and contracted services	2,577	7,268	9,845	4,815	1,901	2,088	8,804	18,649
Materials and consumables	4,142	576	4,718	260	640	526	1,426	6,144
Service charges	732	-	732	1	701	264	966	1,698
Other direct costs	19	40	59	1	6	-	7	66
Total direct costs	21,373	19,806	41,179	13,020	17,565	5,638	36,223	77,402
General and support expenditure	9,930	10,724	20,654	7,962	12,606	2,536	23,104	43,758
Total functional expenditure	31,303	30,530	61,833	20,982	30,171	8,174	59,327	121,160
Business activities								
Customer services			4,568				3,983	8,551
Scientific services			1,513				1,319	2,832
Other business activities			492				429	921
Rates			16,280				9,937	26,217
Doubtful debts			71				(236)	(165)
Total operating expenditure less third party services			84,757				74,759	159,516
Services for third parties			8				-	8
Total PPP unitary charge			9,323				25,693	35,016
Total operating expenditure			94,088				100,452	194,540
Capital costs								
Infrastructure renewals charge			14,679				11,078	25,757
<i>Historical cost depreciation:</i> service activities			20,278				36,141	56,419
business activities			4				-	4
Amortisation of grants			(354)				(713)	(1,067)
Total capital costs			34,607				46,506	81,113
Total operating costs			128,695				146,958	275,653
Analysis of tangible fixed assets – Historical Cost								
Service activities	298,806	716,574	1,015,380	940,272	754,046	15,982	1,710,300	2,725,680
Business activities			37				-	37
Total			1,015,417				1,710,300	2,725,717

4b Analysis of operating costs and tangible fixed assets

	Year to 31 March 2017							
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
Direct costs								
Employment costs	3,615	8,842	12,457	3,930	4,724	294	8,948	21,405
Power	9,064	3,092	12,156	3,952	9,676	1,088	14,716	26,872
Hired and contracted services	2,745	5,835	8,580	4,300	2,514	1,912	8,726	17,306
Materials and consumables	3,576	492	4,068	222	460	499	1,181	5,249
Service charges	746	7	753	132	468	189	789	1,542
Other direct costs	6	37	43	7	16	-	23	66
Total direct costs	<u>19,752</u>	<u>18,305</u>	<u>38,057</u>	<u>12,543</u>	<u>17,858</u>	<u>3,982</u>	<u>34,383</u>	<u>72,440</u>
General and support expenditure	<u>9,046</u>	<u>10,224</u>	<u>19,270</u>	<u>7,518</u>	<u>12,407</u>	<u>1,700</u>	<u>21,625</u>	<u>40,895</u>
Total functional expenditure	<u>28,798</u>	<u>28,529</u>	<u>57,327</u>	<u>20,061</u>	<u>30,265</u>	<u>5,682</u>	<u>56,008</u>	<u>113,335</u>
Business activities								
Customer services			4,660				4,188	8,848
Scientific services			1,424				1,280	2,704
Other business activities			558				501	1,059
Rates			16,113				9,748	25,861
Doubtful debts			279				225	504
Total operating expenditure less third party services			<u>80,361</u>				<u>71,950</u>	<u>152,311</u>
Services for third parties			1				-	1
Total PPP unitary charge			<u>9,062</u>				<u>25,377</u>	<u>34,439</u>
Total operating expenditure			<u>89,424</u>				<u>97,327</u>	<u>186,751</u>
Capital costs								
Infrastructure renewals charge			10,253				14,755	25,008
Historical cost depreciation:								
service activities			20,054				35,703	55,757
business activities			10				6	16
Amortisation of grants			(328)				(673)	(1,001)
Total capital costs			<u>29,989</u>				<u>49,791</u>	<u>79,780</u>
Total operating costs			<u>119,413</u>				<u>147,118</u>	<u>266,531</u>
Analysis of tangible fixed assets –								
Historical Cost								
Service activities	297,179	690,941	988,120	903,012	716,812	15,236	1,635,060	2,623,180
Business activities			191				249	440
Total			<u>988,311</u>				<u>1,635,309</u>	<u>2,623,620</u>

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

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

Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for the year ended 31 March 2018 in respect of infrastructure assets amounted to £8.8m (2017: £7.7m) for water services and £2.6m (2017: £2.5m) for sewerage services.

5 Historical cost analysis of tangible fixed assets by assets type

Water Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross book value				
At 1 April 2017	423,916	658,937	37,946	1,120,799
Disposals	(157)	-	(755)	(912)
Additions	36,127	9,229	2,278	47,634
At 31 March 2018	459,886	668,166	39,469	1,167,521
Depreciation				
At 1 April 2017	(106,271)	(1,293)	(24,924)	(132,488)
Disposals	96	-	570	666
Charge for year	(17,289)	-	(2,993)	(20,282)
At 31 March 2018	(123,464)	(1,293)	(27,347)	(152,104)
Net book value at 31 March 2018	336,422	666,873	12,122	1,015,417
Net book value at 1 April 2017	317,645	657,644	13,022	988,311

Sewerage Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross book value				
At 1 April 2017	886,159	932,097	50,441	1,868,697
Disposals	(10)	-	(984)	(994)
Additions	63,127	46,855	1,406	111,388
At 31 March 2018	949,276	978,952	50,863	1,979,091
Depreciation				
At 1 April 2017	(199,880)	-	(33,508)	(233,388)
Disposals	-	-	738	738
Charge for year	(33,465)	-	(2,676)	(36,141)
At 31 March 2018	(233,345)	-	(35,446)	(268,791)
Net book value at 31 March 2018	715,931	978,952	15,417	1,710,300
Net book value at 1 April 2017	686,279	932,097	16,933	1,635,309

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

Total Services	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross book value				
At 1 April 2017	1,310,075	1,591,034	88,387	2,989,496
Disposals	(167)	-	(1,739)	(1,906)
Additions	99,254	56,084	3,684	159,022
At 31 March 2018	1,409,162	1,647,118	90,332	3,146,612
Depreciation				
At 1 April 2017	(306,151)	(1,293)	(58,432)	(365,876)
Disposals	96	-	1,308	1,404
Charge for year	(50,754)	-	(5,669)	(56,423)
At 31 March 2018	(356,809)	(1,293)	(62,793)	(420,895)
Net book value at 31 March 2018 *	1,052,353	1,645,825	27,539	2,725,717
Net book value at 1 April 2017 *	1,003,924	1,589,741	29,955	2,623,620

* Net book value of tangible fixed assets is shown gross of capital contributions as capital contributions are not readily identifiable between the different types of asset categories above and therefore shown separately in the balance sheet.

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

In the preparation of its Statutory Accounts, the Company has adopted IFRS.

The Regulatory Accounts are prepared under 'old' UK GAAP except in relation to infrastructure renewals accounting as required by FRS 15 'Tangible Fixed Assets'. FRS 15 is not applied for the purposes of infrastructure renewals accounting within the Regulatory Accounts.

A reconciliation of the infrastructure fixed assets shown in the Regulatory Accounts to those shown in the Statutory Accounts is set out below:

	Infrastructure Assets £000
Cost	
At 31 March 2018 per Regulatory Accounts	1,647,118
Adjustment to opening balance at 1 April 2017 ²	(242,673)
Add back capital contributions	463,235
Infrastructure renewals expenditure capitalised in the year	30,250
Decommissioning of Omega assets under previous UK GAAP	2,522
IFRS adjustments:	
Difference in treatment of capitalisation of expenditure	(19,793)
Capitalised interest	9,887
Difference in treatment of PPP assets	9,509
De-recognition of assets	(20,141)
At 31 March 2018 per Statutory Accounts	1,879,914
Depreciation	
At 31 March 2018 per Regulatory Accounts	(1,293)
Depreciation charge for infrastructure expenditure	(139,244)
At 31 March 2018 per Statutory Accounts	(140,537)
Net book value	
At 31 March 2018 per Regulatory Accounts	1,645,825
Adjustment to opening balance at 1 April 2016	(242,673)
Add back capital contributions	463,235
Infrastructure renewals expenditure capitalised in the year	30,250
Decommissioning of Omega assets under previous UK GAAP	2,522
Depreciation charge for infrastructure expenditure	(139,244)
IFRS adjustments	(20,538)
At 31 March 2018 per Statutory Accounts	1,739,377
Infrastructure renewals prepayment	
At 31 March 2018 per Regulatory Accounts	3,573
Less infrastructure renewals prepayment	(3,573)
At 31 March 2018 per Statutory Accounts	-

² This adjustment includes the impact of reporting the additions to infrastructure assets in 'Assets in course of construction' within the Statutory Accounts.

6 Net debt analysis

	Fixed rate Year to 31 March 2018 £000	Total Year to 31 March 2018 £000	Fixed rate Year to 31 March 2017 £000	Total Year to 31 March 2017 £000
Maturity Profile				
Less than one year	(2,650)	(2,650)	(2,376)	(2,376)
Between one and two years	(6,155)	(6,155)	(5,194)	(5,194)
Between two and five years	(9,232)	(9,232)	(7,791)	(7,791)
Between five and twenty years	(1,152,525)	(1,152,525)	(1,088,577)	(1,088,577)
More than twenty years	-	-	-	-
Total borrowings	<u>(1,170,562)</u>	<u>(1,170,562)</u>	<u>(1,103,938)</u>	<u>(1,103,938)</u>
Cash	723	723	412	412
Short term deposits	2,508	2,508	2,501	2,501
Net debt at 31 March	<u>(1,167,331)</u>	<u>(1,167,331)</u>	<u>(1,101,025)</u>	<u>(1,101,025)</u>

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

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Historical cost operating profit	106,485	106,976
Movement in working capital	(5,910)	(1,670)
Historical cost depreciation	56,418	55,773
Historical cost profit on sale of fixed assets	(1,035)	(656)
Infrastructure renewals charge	25,757	25,008
Other non-cash items		
Amortisation of deferred grants and contributions	(1,066)	(1,001)
PPP residual asset credits	(3,736)	(3,645)
Excess of pension payments over FRS17 charge	6,152	2,040
Movement in provisions and creditors greater than 1 year	(296)	(148)
Net cash inflow from operating activities	<u>182,769</u>	<u>182,677</u>

7b Analysis of net debt

	1 April 2017 £000	Cash flows £000	Non cash* changes £000	31 March 2018 £000
Cash at bank and in hand	412	311	-	723
Deposits and investments	2,501	7	-	2,508
	<u>2,913</u>	<u>318</u>	<u>-</u>	<u>3,231</u>
Debt due within one year	(2,376)	-	(274)	(2,650)
Debt due after one year (including PPP liability)	(1,101,562)	(66,624)	274	(1,167,912)
Total	<u>(1,101,025)</u>	<u>(66,306)</u>	<u>-</u>	<u>(1,167,331)</u>

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

8 Regulatory capital value (RCV)

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

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

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

	At 31 March 2018 £'m	At 31 March 2017 £'m
Prior Year Closing RCV	2,244.9	2,133.3
Indexation and other adjustments	84.0	45.7
Opening RCV	2,328.9	2,179.0
Capital expenditure	132.8	129.3
Infrastructure renewals expenditure	25.7	25.0
Infrastructure renewals charge	(25.7)	(25.0)
Grants and contributions	(6.5)	(6.3)
Depreciation (including capital grants)	(57.8)	(55.9)
Disposal of assets	(1.3)	(1.2)
Closing RCV (pre regulatory adjustments)	2,396.1	2,244.9
Regulatory adjustments	-	-
Closing RCV	2,396.1	2,244.9
Average RCV	2,320.5	2,189.1

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

9 Atypical and re-organisational operating expenditure items

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

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Business improvement programme	1,000	2,530
Voluntary Early Retirement / Voluntary Severance schemes	1,500	567
PPP performance deductions	(800)	-
Release of 2016-17 RPDM & UR credit	(400)	-
Technical & legal advisors costs on acquisition of Project Clear	500	-
Extreme weather costs (22 Aug 17-28 Feb 18)	1,100	-
Retrospective pension payment on 2017 triennial evaluation	1,700	-
	<hr/>	<hr/>
Total	4,600	3,097
	<hr/>	<hr/>

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

Opinion

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") for the year ended 31 March 18 as set out on pages 4 to 23 which comprise the regulatory historical cost financial statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses, the historical cost reconciliation between the Statutory Accounts and Historical Cost Regulatory Accounts for the appointed and non-appointed business and the cashflow statement and the related notes to the regulatory accounts including the statement of accounting policies.

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

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

Basis for opinion

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

Emphasis of matter - basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the EU ('IFRSs'). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 4 to 10 have been drawn up in accordance with Regulatory Accounting Guideline 3.06, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disappplied. The effect of this departure from old UK Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 are given on pages 7 to 9.

Emphasis of matter – Preparation of current cost accounts

Condition F(8) of the Company's Regulatory Licence requires the preparation of accounting statements on a current cost basis. During the year ended 31 March 2018 the Company was granted a derogation by the

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

Utility Regulator in relation to this Condition in respect of the preparation of the 31 March 2018 financial statements. As a consequence of this derogation comparative figures in respect of the prior year for certain primary statements and notes have been restated to their historic cost equivalent.

Other matter – Corresponding figures contained in these financial statements

As a result of the circumstances giving rise to the emphasis of matter outlined above corresponding figures within the financial statements have not been audited. ISAs (UK) require the auditor to state that the corresponding figures contained within these financial statements are unaudited. Our opinion is not modified in respect of this matter.

Going concern

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

Our opinion on other matters prescribed by Condition F is unmodified

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

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

Directors' responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 2 the Directors are responsible for the preparation of the Regulatory Accounts which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the relevant Regulatory Accounting Guidelines (RAGs); such internal control as they determine is necessary to enable the preparation of regulatory accounts that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our audit will be performed in accordance with ISAs (UK) and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF Reporting to regulators on regulator accounts. As such, our audit will be performed in accordance with ISAs (UK) except that we will not assess whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit will include an assessment of whether the accounting policies adopted in respect of the transactions and

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

balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of the Regulatory Accounts are determined by the UR, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2018 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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



KPMG
Chartered Accountants
Belfast
24 July 2018