

# Putting our customers first





Northern Ireland Water Limited  
Annual Report and Accounts  
For the year ended 31 March 2014

Laid before the Northern Ireland Assembly  
under Article 276 of the Water and Sewerage Services  
(Northern Ireland) Order 2006 by the Department for  
Regional Development

on

1 August 2014

# Our improving performance

**Drinking water quality** has remained at historically high levels.



Page 39  
Read more about drinking water quality.

**Wastewater compliance** continues to be at near record levels.



Page 72  
Read more about wastewater compliance.

## Keeping bills affordable

Customer bills have reduced for a second successive year with 4% average reduction in 2014/15 (2014: 2.5% reduction)



Page 45  
Read more about affordability.

## Customer service

We are delivering the best ever overall levels of service\* for our customers.

\* Based on an Overall Performance Assessment (OPA) score of 216.



Page 12  
Read more about improving performance.

## Supply interruptions

During 2013/14, our customers experienced a record low level of unplanned supply interruptions lasting more than 6 hours.



Page 83  
Read more about supply interruptions.

**Pollution incidents** continue to be at near record levels.



Page 78  
Read more about protecting our environment.

## Efficiency gap

We have more than halved the gap with leading companies in England and Wales from 49% in 2007/08 to 19% in 2012/13\*.



Page 46  
Read more about operating more efficiently.

\* Subject to determination by the Utility Regulator. Measured one year in arrears.

## Supporting our economy

We are investing around £160m per annum to create an infrastructure platform for economic growth, while also injecting a similar amount annually to the local economy through running costs.



Page 57  
Read more about our investment programme.

© Northern Ireland Water Limited Copyright 2014

The text of this document (this excludes, where present, the Royal Arms and all departmental or agency logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not in a misleading context. The material must be acknowledged as Northern Ireland Water Limited copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought. Any enquiries regarding this publication should be sent to us at Northern Ireland Water, PO Box 1026, Belfast, BT1 9DJ or email: [waterline@niwater.com](mailto:waterline@niwater.com). This publication is also available for download from our website at <http://www.niwater.com/reports/>

# Contents

- STRATEGIC REPORT
  - Welcome 2
  - Creating value 4
  - Business model 5
  - Business strategy 6
  - Outlook 7
  - Performance highlights 9
  - Key Performance Indicators 12
  - Principal risks and uncertainties 15
  - External environment 18
  - Strategic priorities 27
  
- GOVERNANCE
  - Corporate Governance 104
  - Governance Statement 114
  - Directors' Report 120
  - Directors' Remuneration Report 123
  - Statement of Directors' responsibilities 128
  
- STATUTORY ACCOUNTS 129
- REGULATORY ACCOUNTS 192
- APPENDIX 222

## Tell us what you think of our report

We hope that this report will be of use to all our stakeholders and would welcome feedback to develop our future reporting. Please direct any feedback to the Business Performance Manager, Finance and Regulation Directorate. Our contact details are on the back cover of this report.

# Strategic Report



Construction of Wastewater  
Pumping Station at Newry Road,  
Warrenpoint, County Down.  
Image courtesy of  
Alan Lavery Photography.

This Strategic Report is produced in accordance with 'The Companies  
Act 2006 (Strategic Report and Directors' Report) Regulations 2013

# Welcome

NI Water is one of Northern Ireland's largest companies. Our business is about delivery of water and sewerage services in Northern Ireland<sup>1</sup> which costs around £430m per year<sup>2</sup>. We provide a **vital service** which supports the health, environment and local economy of the areas we serve.

The 2013-15 (PC13) period represents another important milestone in our **transition** towards being a modern, efficient water utility.

Our company focus is 'prioritising customers'. **Listening to our customers' views** and building these into our plans is essential for us to ensure that our customers' needs are at the heart of our service delivery.

Over 2013/14 we have improved our business, attaining the **highest ever levels of service** to customers, while **reducing our running costs** by £7m<sup>3</sup>. This has helped us **reduce average customer bills** by 4%. The improving performance is supported by our investment programme of around £160m each year.

We continue to improve our **resilience** to meet the demands of a major incident response. This included our response to the tidal surges over December 2013 and January 2014. I would like to pay tribute to the efforts of both our employees and other utilities involved in responding to these incidents.



We have improved the levels of service to our customers. Our OPA score has **reached its highest ever level** of 216 in 2013/14.

The Overall Performance Assessment (OPA) is a composite score used by the Utility Regulator to assess NI Water's levels of service.



Page 12

[Read more about improving levels of service.](#)

In conjunction with the Consumer Council (CCNI), the Utility Regulator and the Department for Regional Development (DRD), we undertook a **comprehensive study** to establish which service areas **our customers** want NI Water to **prioritise and improve** in the future.



Page 24

[Read more about listening to our customers.](#)



Pages 45 to 47

[Read more about reducing our running costs and reducing average customer bills.](#)



Pages 32 and 66

[Read more about improving our resilience and our mutual aid arrangements with other utilities.](#)

<sup>1</sup> NI Water was appointed the sole provider of water and sewerage services in Northern Ireland on 1 April 2007. These functions were previously undertaken by Water Service, an agency within the Department for Regional Development.

<sup>2</sup> Based on funding for PC13 period of £860m.

<sup>3</sup> Based on an approach used by the Utility Regulator. Details of this approach are contained within the Utility Regulator's Cost and Performance Report.

Many **challenges** lie ahead. The approach to delivering water and sewerage services is changing. Climate change, an increasing focus on the value of water, rising customer expectations and higher discharge standards all require us to adopt a more sustainable approach.

We recognise the need for more environmentally and economically **sustainable solutions**. These include improved land management, reduced leakage and customer demand; and local management of storm water. We are also utilising a new wastewater treatment system which uses willows.

We are working to develop a policy within which more sustainable solutions can be delivered. Such an approach will include incremental **changes to how we operate** and will require input from all our stakeholders.

The progress made over 2013/14 has enabled the organisation to move further along our **transition** path. We look forward to reporting further progress in the second year of PC13<sup>4</sup>, and to working constructively with all our stakeholders as we approach the PC15<sup>5</sup> period.

I hope you will take the opportunity to read our report and share my view that we are **successfully transforming** the delivery of water and wastewater services in Northern Ireland.



Seán Hogan, Chairman  
25 June 2014

<sup>4</sup> PC13 is the Price Control covering the two year period ending in 2014/15.

<sup>5</sup> PC15 is the Price Control covering the six year period ending in 2020/21.



 Page 64

Read more about our involvement with **Climate Northern Ireland**.

 Pages 10 and 71

Read more about our work on **Sustainable Catchment area Management Planning** (SCaMP).

Find out more about how we work with stakeholders through the Price Control process:



<http://www.niwater.com/price-control/>

Our **hybrid business delivery model\*** is recognised as being **not ideal**. We face uncertainty over long term investment planning which adds complexity to our capital investment delivery; and have less commercial freedoms to restructure and make decisions. We continue to work closely with our stakeholders to limit the effect this has on our performance.

\* NI Water is a Government owned company in law, but treated as a Non-Departmental Public Body for Public Expenditure purposes.



# Creating Value

NI Water works with the **natural water cycle** to deliver water and wastewater services to our customers. In doing so, we work to **preserve and generate value** for current and future generations.

## The Amazing Cycle of Water

- The seas hold 97% of the world's water and are salty.
- 2% is frozen in the polar ice-caps.
- 1% is freshwater and provides all the water we use.
- This includes all the water in lakes, rivers, atmosphere and underground.

### The Water Cycle

- There is a never ending supply of water through a natural process called the water cycle.
- Just like a bicycle wheel, the water cycle has no beginning and no end. It has been the same since time began.
- Thanks to the water cycle, water doesn't get used up - it simply goes round and round!

- This water or hydrological cycle has to be used sensibly by humans to meet our needs.

### Supply and Demand

The rise in (a) population, (b) the building of new towns and industry and (c) leisure activities, mean a greater need for water. We each use approximately 145 litres of clean treated water every day for washing, cooking, drinking, watering the garden, etc. Currently Northern Ireland Water supplies around 560 million litres of water each day.

### Use Water Wisely

The treatment, distribution and disposal of water are expensive and effect the environment. Therefore, we all need to use water wisely. Use one of our water audit leaflets to work out how your usage compares to the average. You will be surprised at how much water you actually use.

#### 1 Cloud Storage / Rain

When clouds blow across the land and the temperature drops, vapour forms into droplets, which fall back on the land as rain, snow or hail.

Rain :

- finds its way to streams, lakes and rivers, or
- can pass through porous ground such as chalk to form aquifers, or
- can be trapped in man-made reservoirs.

#### 2 Reservoir

The reservoirs, rivers, lakes and aquifers are the sources of water we use at home and at work.



#### 3 Water Treatment Works

Northern Ireland Water enters this natural cycle and makes sure that the water we use is clean and safe. This is done at a Water Treatment

Works, where it is filtered and bacteria is removed. The water is then supplied through a network of pipes to homes, schools, factories and to all other users.

#### 5 Evaporation

When the sun shines on the seas, rivers and lakes it turns some of the water into water vapour (gas) this is called evaporation. This gas rises to the sky; it cools again to form clouds and turns to rain.

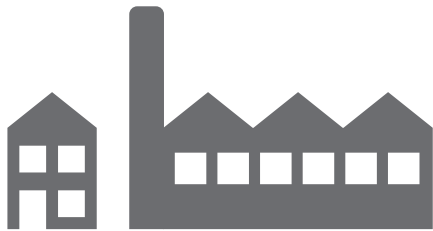
#### 4 Wastewater Treatment Works

Used water from our baths, washing machines, sinks, toilets and rain that runs into the sewers, is called wastewater or sewage. Before it is put back into the sea it has to be cleaned, this happens at a Wastewater Treatment Works.

# Business model

It takes around £430m each year<sup>6</sup> to run our water and wastewater businesses in Northern Ireland.

## Water Services



**818,000**

households and businesses

Over  
**37**  
pumping stations

**559m**  
litres per day

**23** impounding reservoirs

**24**  
water treatment works

Over  
**340** service reservoirs

**26,700 km** of water mains

## Wastewater Services



**663,000**  
households and organisations

**318m**  
litres per day

Over  
**1,27**  
pumping stations

**57** sludge management centres

**1,034**  
wastewater treatment works

**15,250 km** of sewers

<sup>6</sup> Based on funding for PC13 period of £860m.

Figures based on Annual Information Return 2013 data.

# Business strategy

An overview of our vision and strategic priorities is shown below.

## Our Vision

*To be a valued and trusted provider of one of Northern Ireland's most essential services; an organisation our customers and staff are proud of.*

To achieve our vision, we need a strategy which delivers a safe and reliable service that meets all our customer expectations at the best possible value for money. We believe that our strategy should focus on eight priorities:



**We provide you with customer service you value and expect**



**We provide you with clean, safe water to drink**



**We seek to give you value for money**



**We adapt to deal with the effects of climate change**



**We want to protect and enhance the natural environment**



**We take care of your waste water so it doesn't pollute your environment**



**We supply you with the water you need**



**We provide excellent service by having the right people doing the right thing for you**

# Outlook

In considering the key priorities for water and wastewater services in Northern Ireland, we need to understand the future opportunities and challenges we may face over the next 25 years. Some of these are external factors which may alter the services we deliver.

## Customer focus

Our company focus is 'prioritising customers'. Listening to our customers' views and building these into our plans is essential for us to ensure that our customers' needs are at the heart of our service delivery. We need to retain this focus and continue to build confidence with our customers and wider stakeholders so that we can meet the challenges that lie ahead.



Page 28  
[Read more about customer focus.](#)

## Climate change

Our water industry is vulnerable to the impacts of climate change, in the form of water scarcity, flooding, and more frequent extreme weather events. When planning for the future, we will consider how these changes might impact on our services and what we need to do to both adapt to changing climatic conditions and mitigate the impact of further changes in weather patterns by reducing our greenhouse gas emissions.



Page 62  
[Read more about climate change.](#)

## Legislation

It is anticipated that over the coming 25 years there will be new European, UK and Northern Ireland legislation aimed at improving drinking water and environmental standards and how we achieve them. We will continually monitor the introduction of new legislation and seek necessary funding to enable compliance with the legislation.



Page 25  
[Read more about legislation.](#)

## Our governance, funding and the regulatory environment

Under the current governance arrangements, the funding available to the company is limited both by the level of public expenditure allocated to NI Water from DRD and the price control determined by the Utility Regulator. It is reasonable to expect that the regulatory framework will evolve through the period of this plan and there are already debates over the future governance model for NI Water. The outcome of these debates has the potential to re-shape the company and further raise customer expectations of our performance.



Pages 104, 45 and 21  
Read more about our governance, funding and the regulatory environment.

## Demographics

The 2011 census showed a continuation in the trend of increasing population in Northern Ireland. This is an important factor in our planning for the future provision of water and wastewater services. Shifts in the urban / rural split; periodic variances in economic activity and constantly changing business needs between water intensive industrial processes and the service sector, all impact on where, when and how much investment is needed to secure future water and wastewater services.



Page 58  
Read more about investing for population changes.

## Innovation

The adoption of advanced science and technology in recent years has assisted us in delivering better quality services in more efficient ways. With ever increasing challenges on sustainability, efficiency and cost, we will continue to look to science and technology to seek innovative and practical sustainable solutions to improving our services and minimising costs.



Page 47  
Read more about innovation.

# Performance highlights

The focus over PC13 is the delivery of the most cost efficient and high quality drinking water and wastewater services possible to our customers, within our current business delivery model.

## Focusing on levels of service

Our customers continue to benefit from record levels of service. Drinking water and wastewater compliance is at some of the highest levels experienced in Northern Ireland. Customers have also seen improved response times to calls and complaints and lower levels of leakage.

The removal of properties at risk of sewer flooding remains a key area of focus. We have internal and external historical flood reporting capability to better plan our capital investment and alleviate the problems faced by areas which have experienced flooding events such as in South and East Belfast.

Our continued investment in the water mains improvement programme is contributing towards a reduction in levels of supply interruptions.



In 2013/14, customers experienced a **record low level of unplanned supply interruptions** lasting more than 6 hours.



Our water and wastewater **compliance** remains at some of the **highest ever levels in Northern Ireland.**



In 2013/14 we bettered our **leakage reduction** target by **1.8 million litres per day**, saving water equivalent to the daily consumption of around 5,000 domestic properties.



We underperformed against the **sewer flooding (at risk)** target. More properties were removed by better information and fewer available for removal by company action.



We underperformed against the **sewer flooding (other causes)** target. Most incidents resulted from blockages due to **inappropriate items being put in the sewers.**



We outperformed against the **sewer flooding (overload)** target.

## Operating more efficiently

Operational cost efficiencies have been generated through a range of measures which include in-sourcing and making better use of in-house skills; reducing supply chain costs through procurement efficiencies; and continuing our Voluntary Early Retirement and Voluntary Severance schemes.

## Protecting our environment

As one of the largest landowners and users of electricity in Northern Ireland, our activities have a significant impact on the environment. We have implemented Sustainable Catchment area Management Planning (SCaMP) for drinking water catchments to provide a more environmentally sustainable way of improving water quality. We are also targeting energy efficiencies and the use of renewable sources of energy to mitigate our impact and reduce the production of climate change gases.

## Creating a safe working environment

We continue to focus on making NI Water a safe place to work by working with our staff, trade unions and contractors to reduce accidents in the work place and achieve our zero accident ambition. This contributed towards an attendance level of 96.4%.



We **reduced** our **running costs** by **£7m\*** in 2013/14 through our continued focus on cost control.

\* Based on an approach used by the Utility Regulator. Details of this approach are contained within the Utility Regulator's Cost and Performance Report.



**Pollution incidents** continue to be at **near record levels**, with 26 incidents recorded against a target of not more than 46 incidents.

Our **commitment** to the protection of the natural environment is further demonstrated by the continued **accreditation** of our Environmental Management System under ISO 14001.



We received the **2013 RoSPA Gold award for Occupational Health and Safety**.

RoSPA is the Royal Society for the Prevention of Accidents.

## Looking forward

The focus for 2014/15 will continue across the above areas to support delivery of PC13 and planning for PC15, including the development of a future organisational model.

I would like to thank the Board and my management team for their support during 2013/14 and all of the staff for their continued commitment, drive and enthusiasm to deliver improved levels of service to our customers.



Sara Venning  
Chief Executive  
25 June 2014

We worked with a **range of stakeholders** to develop our medium term PC15 Business Plan to 2021 and our long term Corporate Strategy to 2040.

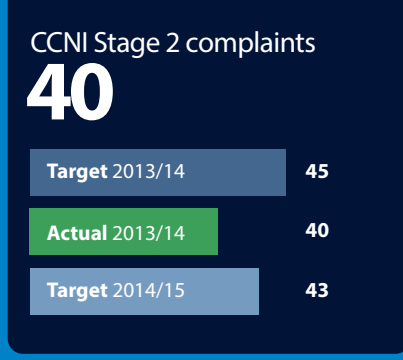
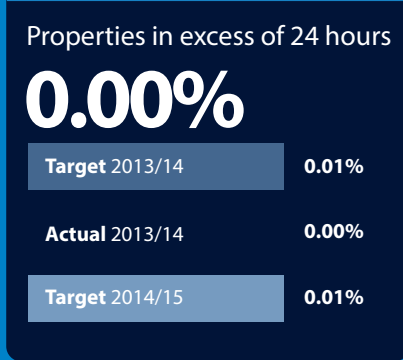
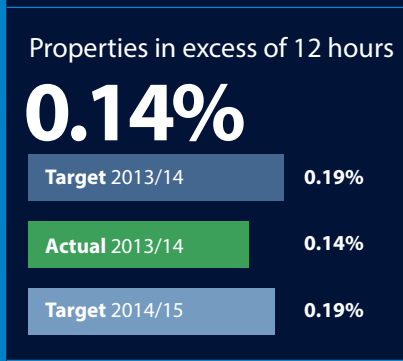
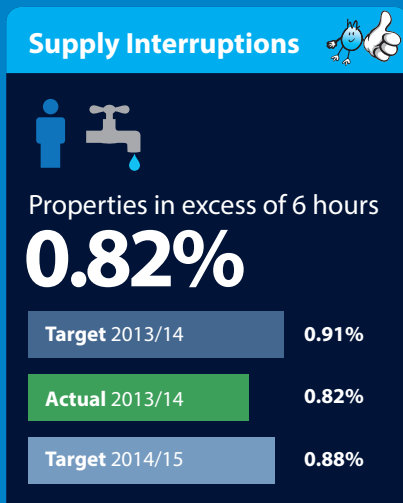


<http://www.niwater.com/price-control/>



# Key Performance Indicators

Key Performance Indicators (KPIs) are used to measure delivery of our business strategy



### Sewer flooding Continued

Other causes

**55** properties

Target 2013/14 30

Actual 2013/14 55

Target 2014/15 55

### Employee engagement



Response rate to survey

**56%**

Target 2013/14 65%

Actual 2013/14 56%

Target 2014/15 65%

### Wastewater quality\*



Population served by compliant wastewater treatment works

**98.0%**

Target 2013 97.2%

Actual 2013 98.0%

Target 2014 97.8%

### Health & Safety



Lost time accidents

**6**

Target 2013/14 7

Actual 2013/14 6

Target 2014/15 6

### Water quality at the tap\*



Mean zonal compliance

**99.85%**

Target 2013 99.7%

Actual 2013 99.85%

Target 2014 99.7%

### Pollution incidents\*



High/medium severity incidents attributed to NI Water

**26**

Target 2013 46

Actual 2013 26

Target 2014 44

### Employee attendance



**96.4%**

Target 2013/14 96.8%

Actual 2013/14 96.4%

Target 2014/15 96.8%

### Water quality events\*



**26**

Target 2013 44

Actual 2013 26

Target 2014 42

### Capital investment programme outputs



Completion of nominated schemes

# 184

Target 2013/14 193

Actual 2013/14 184

Target 2014/15 321

### Water mains and sewerage activity



# 251km

Target 2013/14 223km

Actual 2013/14 251km

Target 2014/15 245km

### Capital investment programme expenditure



# £160.7m

Actual 2012/13

Target 2013/14 £161.5m

Actual 2013/14 £160.7m

Target 2014/15 £149.2m

### Operating cost efficiency gap (to frontier)



# 19.0%

(Measured 1 year in arrears)

Actual 2012/13 19.0%

Actual 2011/12 31.3%

Actual 2010/11 38.1%

## Key



Target achieved

Target recoverable over PC13 period



Target failed

# Principal risks and uncertainties

The Company is exposed to a number of risks which could have a material impact on its business, financial condition, operations and reputation. NI Water's 'Risk and Assurance Framework' is used to manage these risks such that exposure to the Company is managed to an acceptable level and take appropriate opportunities for further improvement.



Page 113 and 115  
Read more about risk management.

1. The **failure of our assets** which could inhibit our ability to carry out critical operations could have a significant impact on customers, the environment and our financial position.

#### Background to the risk

NI Water inherited an aged asset base and much investment is required to bring it to a compatible level by UK and European standards. The regulated business requires significant capital investment and a maintenance programme for water and wastewater networks and treatment facilities in order to comply with regulatory and environmental performance standards. There is a risk that the Company may suffer a major failure in its assets which could arise from an inability to deliver the capital investment programme or to maintain its systems. This could cause a significant impact to our customers due to deterioration in the quality of drinking water, interruptions to supply and management of wastewater services, including the impact to the environment.

#### Managing the risk

NI Water continues to work with the Utility Regulator and DRD on short and long term funding arrangements to make further improvement to its assets and take opportunity to manage exposure to risk associated with climate change. The Company's Major Incident Plan (MIP) has been in place to manage previous emergency and major events. Through planned exercises and external reviews the MIP is continually being improved to meet new challenges and requirements. Business Continuity Management is in place, supported by 14 specific Business Continuity Plans on key business risks. An Information Technology (IT) Disaster Recovery Plan is also in place to reduce the impact of adverse events and to manage recovery to 'business as usual'.

2. The success of NI Water's operations depend on a number of factors relating to business performance, including the ability to deliver on the anticipated **cost and efficiency savings** as set out in PC13 and to agree PC15 (a 6 year price control period), which is scheduled to be in place by April 2015.

#### **Background to the risk**

The Company is subject to certain risks which are largely outside its control, such as energy costs; adverse weather resulting in severe flood related costs and damages to fixed assets; unlawful acts by third parties, including pollution, sabotage or other related acts; as well as a downturn in the economy which could result in a decrease in revenue. These factors may also result in physical damage or otherwise significantly affect corporate activities and, as a consequence, affect the results of operations and financial position. The level of efficiencies required will present challenges to NI Water in terms of how it delivers these savings whilst maintaining and delivering effective services to the public. Challenging targets are expected for PC15 and there is a risk that cost savings targets leave the organisation unable to re-invest for development of future capability.

#### **Managing the risk**

NI Water continues to work with the Utility Regulator and DRD on short and long term targets and efficiency savings, including the approval of strategic capital projects to reduce the risk of adverse impacts on customers. NI Water is in the process of designing a 'Future Operating Model' (FOM), which is critical to achieve the PC15 targets, deliver cost savings and providing the best possible service to our customers.

### 3. Changes in **environmental protection laws and the regulations** that govern the business could increase compliance costs.

#### **Background to the risk**

NI Water works closely with its environmental regulators to implement new laws and regulations. Amongst other things, these establish standards for drinking water, discharges into the environment which affect its operations and the Company's responsibility to reduce its carbon footprint. These laws and their enforcement have tended to become more stringent over time, both in relation to their requirements, the associated cost for improvement and in the levels of proof required to demonstrate compliance. This could increase the Company's operating costs or capital expenditure by requiring changes and modifications to its operations and changes to its asset investment strategy in order to comply with any new environmental laws and regulations.

#### **Managing the risk**

NI Water will continue to take account of the future capital and operating expenditure necessary to achieve and maintain compliance with current changes in laws and regulations, and seek to clarify their interpretation and associated compliance requirements.

### 4. The robustness and accuracy of **data and the changes in technology** requires effective management of information and communication to our customers in order to provide the quality of service that they have come to expect.

#### **Background to the risk**

There is a risk of errors or unintentional reporting of information which could have an impact on customers and other stakeholders. There has also been an increase in the number of visits to NI Water's website and other communication channels. Whilst NI Water has developed an effective communication strategy and has been pro-active in communicating with our customers, there is still a risk that such dialogue and engagement could create a negative impact on NI Water's reputation.

#### **Managing the risk**

NI Water is continually making improvements in its 'information governance' to manage the quality of information to support service delivery and policy making. This includes working with stakeholders to improve the accuracy and speed of information available for management and reporting.

5. Subject to the decision of the NI Executive, any future decision on the **governance model** of NI Water and future system of its financing arrangements will have significant implications for the Company and the delivery of its services.

**Background to the risk**

The current arrangements for the governance of NI Water as both a regulated GoCo and a NDPB, brings with it certain challenges, such as the longer term capital funding. The current system of setting the capital programme within the Utility Regulator's price setting process does not align with the annual cycle of public sector funding.

**Managing the risk**

The Company is continuing to work closely with DRD and the Utility Regulator to ensure that the implications on the delivery of its services, are fully analysed, managed, delivered and communicated to the public in a clear and responsive manner.

6. The **capital loan note facility and banking facilities** have been extended in part to 31 March 2016. Further review of these arrangements will be required before 31 March 2016 to ensure sufficient funding for the capital programme and that appropriate banking arrangements are available to NI Water.

**Background to the risk**

NI Water's existing borrowing facilities and banking arrangements have been extended to 31 March 2016. This includes NI Water's working capital facility; the ability to draw-down on the existing capital loan note; and continued access to banking services. The revolving credit facility of £55m to deal with emergency needs was not renewed. It has been agreed that the capital loan note may be used to facilitate emergencies. DRD has obtained DFP's approval in principle to the subsidy agreement also being amended for this purpose.

**Managing the risk**

The Company is facilitating information requested by DRD to put arrangements in place for the use of the subsidy mechanism to facilitate emergency cover.

7. The move to change the terms of reference of NI Water's **Pension Scheme** to be more in line with the public sector pension schemes could present challenges for the Company over some specific matters which have yet to be resolved.

**Background to the risk**

The benefits accruing and contributions made by members of the NI Water Pension Scheme are not in line with other public sector pension schemes which have been, and continue to be, subject to reform. The bridging of the differences and pace of reform needs to be managed and agreed with members.

**Managing the risk**

The Company's Pensions Reform project works closely with the Scheme's Actuary, the Board of Trustees and DFP in ensuring that the necessary changes are implemented by April 2015.

# External environment

## Water and wastewater industry

NI Water is **one of more than 20 providers** of water and sewerage services in the UK.

Different ownership models operate across the UK water sector. The providers in England are privately owned companies, Wales has a not-for-profit company, Scotland has a statutory corporation and Northern Ireland has a Government Owned Company<sup>7</sup>. The water industry structure in Northern Ireland is shown below.

Water industry structure in Northern Ireland.




Further details on the UK industry structure are contained on the Water UK website:



[www.water.org.uk/](http://www.water.org.uk/)

<sup>7</sup> NI Water is classified as a Non Departmental Public Body (NDPB) for public expenditure purposes.

## Role of Government

DRD's Water Policy and Shareholder Unit is responsible for setting water **policy**, for our **funding** through customer subsidies and lending the funds to support our investment programme.

DRD is preparing a **Long Term Water Strategy for Northern Ireland**. NI Water has contributed to the development process. The draft document has **influenced** the development of **our own plan** for the provision of **water and wastewater services to 2040**.

DRD also provides **shorter term direction** to the Company on objectives for each price control period. This short term direction comes in the form of **Social and Environmental Guidance**.

Find out more about DRD's Long Term Water Strategy:



<http://www.drdni.gov.uk/index/long-term-water-strategy.htm>

The **Long Term Water Strategy for Northern Ireland** has identified four high level aims:

1. To **deliver high quality, sustainable supplies of drinking water** to households, industry and agriculture.
2. To **manage flood risk** and drainage in a sustainable manner.
3. **Achieve** the environmental requirements of the **water framework directive** in a sustainable manner.
4. Sustainable water and sewerage services that **meet customer needs**.



We work to deliver the agreed **rate of return** for the investment made by DRD. We are also focused on securing growth to the **Regulatory Capital Value**<sup>8</sup> as a result of investing efficiently and in the areas of highest priority.



Page 59  
[Read more about the Regulatory Capital Value.](#)



DRD Minister Danny Kennedy on board the waterbus with P4 pupil Ethan Hawthorn

## Kennedy goes back to school on board the Waterbus in Bessbrook

**Regional Development Minister Danny Kennedy joined schoolchildren on the NI Water Waterbus to explain the vital role water plays in the lives of everyone in Northern Ireland, and the importance of water conservation.**

The children also learnt what should and shouldn't be put down the toilet through a 'bag it and bin it' activity, and what NI Water does to clean the water, and how sewage is treated.

During the visit to the Waterbus, Minister Kennedy said: "The work of the Waterbus is a huge success with schools across Northern Ireland. Since it first took to the road the Waterbus has visited over 400 schools and met with 22,000 children, providing them and their teachers with a much better understanding of the vital role water plays in all our lives. The Waterbus is a fun and interactive way for children to learn about the water cycle, why water is essential for good health and how they can help to conserve this precious resource."

<sup>8</sup> Regulatory Capital Value acts as a proxy for market value of our appointed business.

The Northern Ireland Assembly and the Committee for Regional Development, as the elected representatives, exercise an **oversight** role on the activities of DRD and NI Water.



Further details on the role of the Assembly and the Committee for Regional Development can be found at:

<http://www.niassembly.gov.uk/Assembly-Business/Committees/Regional-Development/>

## Local MP visits Flood Alleviation Scheme in Sicily Park

South Belfast MP Dr Alasdair McDonnell visited Sicily Park, off the Upper Lisburn Road, to view progress on NI Water's flood alleviation scheme in the area.

Behind the scenes, NI Water teams have worked steadily to develop short, medium and long term projects to reduce the likelihood of flooding in south Belfast. NI Water will continue to work closely with the local community and elected representatives throughout the scheme.



## Regulators and regulatory environment

### Utility Regulator

The majority of NI Water's activities are not undertaken in competitive markets and are therefore subject to **economic regulation** by the Utility Regulator. Water regulation (as in Scotland) is on a 'one-to-one basis'. The Utility Regulator also regulates the gas and electricity markets in Northern Ireland.



The Utility Regulator is responsible for **safeguarding customer interests** through securing value and quality outcomes for customers whilst ensuring that NI Water can finance its activities.

Our **revenue requirements**, the amounts charged to our customers and our performance outputs are set by the Utility Regulator through a **Price Control process**.

The Utility Regulator **benchmarks** NI Water's performance against the comparator set in England and Wales. The results of this analysis are published by the Utility Regulator in an annual **Cost and Performance Report**.

### PC13 (2013-15)

The PC13 Final Determination allows for around **£860m to be spent** over the 2013/14 to 2014/15 period. PC13 is a **relatively short (two year) Price Control** period to align with DRD's funding to 2014/15. It also allows DRD to develop a Long Term Water Strategy which will inform NI Water's **more strategic approach to PC15**.



See the Utility Regulator's latest Cost and Performance Report on NI Water at:

[http://www.uregni.gov.uk/publications/cost\\_and\\_performance\\_report\\_2010-2013](http://www.uregni.gov.uk/publications/cost_and_performance_report_2010-2013)

The operating cost **efficiency gap** to the most efficient English and Welsh water and sewerage companies is calculated at **19%** in 2012/13\*.

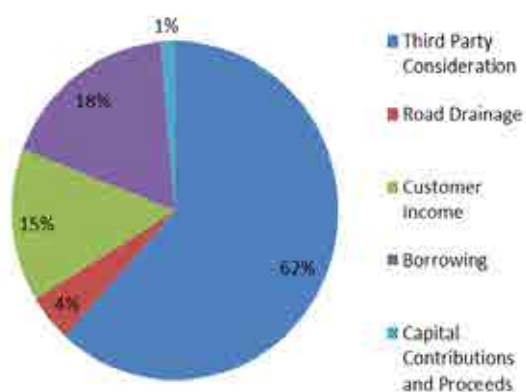
\* Subject to determination by the Utility Regulator. Measured one year in arrears.

Find out more about our Price Controls:

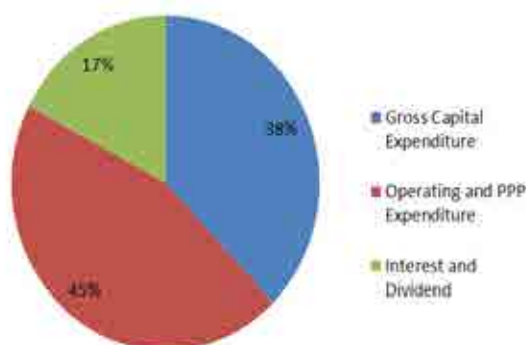


<http://www.niwater.com/price-control/>

PC13 sources of funding



PC13 expenditure



NI Water submitted its PC15 Business Plan to the Utility Regulator in March 2014. The Utility Regulator published the PC15 Draft Determination in July 2014 and will publish its Final Determination in December 2014.

### Northern Ireland Environment Agency

The Northern Ireland Environment Agency (NIEA) aims to protect, conserve and promote the natural environment and built heritage for the benefit of present and future generations. The NIEA has **regulatory powers and responsibilities to ensure environmental compliance by NI Water**. The NIEA parallels the Environment Agency in England and Wales and the Scottish Environment Protection Agency.

#### *Drinking Water Inspectorate*

The Drinking Water Inspectorate (DWI) is an expert unit within the NIEA. DWI is responsible for **monitoring and regulating the quality of drinking water**, in consultation with health and environmental health authorities. DWI parallels the Drinking Water Inspectorate in England and Wales and the Drinking Water Quality Regulator in Scotland (DWQR).

#### *Water Management Unit*

Water Management Unit (WMU), also within the NIEA, is responsible for the **protection of water in the environment**. The WMU has established a Water Utility Regulation Group (WURG), whose primary function is to regulate discharges made by the water utility sector.

### Consumer Council for NI

The Consumer Council for NI is a statutory body which **represents the interests of water consumers** and parallels the roles

We are committed to **working with all our principal stakeholders** in the water and sewerage industry to secure a successful outcome for PC15. Established stakeholder groups – the Water Stakeholder Steering Group (WSSG) and the Water Investment Coordination Group (WICG) – provided the forum for stakeholder involvement and cooperation in the PC10 and PC13 price controls.



The NIEA is responsible for **controlling pollution and promoting sustainable development**.



See the latest drinking water quality reports at:

[http://www.doeni.gov.uk/niea/water-home/drinking\\_water/annual\\_reports.htm](http://www.doeni.gov.uk/niea/water-home/drinking_water/annual_reports.htm)

<http://www.niwater.com/water-quality/>



See the latest report on consumer's views on water at:

<http://www.consumercouncil.org.uk/water/publications-and-research/>

<http://www.niwater.com/reports/>

undertaken by the Consumer Council for Water in England and Wales and Waterwatch in Scotland. Its functions include providing our customers with **advice and information**; investigating **complaints**; and undertaking **research** such as surveys of consumers' views.



(L-R) Aodhan O'Donnell, Consumer Council Interim Chief Executive, Jenny Pyper, Utility Regulator Chief Executive, DRD Minister, Danny Kennedy, MLA, and Alec McQuillan, NI Water Interim Director of Customer Service Delivery

## Putting consumers' priorities first

**A new approach to NI Water's business planning has ensured that consumers' priorities will be more central than ever in investment decisions that will total nearly £1 billion over the next six years.**

A report published by the Consumer Council, following a joint research project with the DRD, the Utility Regulator and NI Water, for the first time shows where householders want their money to be spent. In an

innovative approach participants were asked what they would be willing to contribute in order to see specific improvements in various water and sewerage services. This allowed NI Water to see clearly where consumers' priorities lay. Consumers prioritised areas which would have a direct impact on their household, street or community, for example internal flooding, interruptions to supply, external flooding, low pressure and odour.

## Operating area

NI Water's operating area is shown below. It is **predominantly rural** with a **long coastline**. The population is around **1.8 million**. The local economy has a significant agricultural sector and is dominated by **small and medium sized enterprises**.

Over **99%** of our **raw water** comes from **surface water sources**. Around **7%** of our operating **area** is designated as of **scientific importance**.

NI Water's operating area.



## Legislative and public policy environment

### Public expenditure

NI Water is designated as a **Non-Departmental Public Body (NDPB)** for public expenditure purposes. This followed the decision by the NI Assembly to **defer the introduction of direct domestic charges**. DRD provides a public expenditure subsidy in lieu of domestic charging<sup>9</sup>.

<sup>9</sup> Water and sewerage charges are levied on non-domestic customers.

The NDPB designation requires our **regulatory funding requirements to be managed within the public expenditure funding constraints**. Therefore, whilst the Utility Regulator determines the expenditure necessary to deliver outputs in a price control period, the actual funding is constrained by public expenditure allocation to NI Water.

This situation has since been **partially addressed by a Memorandum of Understanding** (MoU) between DRD and the Utility Regulator which sets out the process for adjusting the PC13 Final Determination to reflect the public expenditure allocations.

## Business environment

### Economic conditions

The weak economic conditions in Northern Ireland have had an impact on the financial performance of NI Water. Consumption levels decreased during 2012/13, leading to an income reduction from customers with measured and unmeasured water supply. The **consumption levels have stabilised in 2013/14** in line with improving economic conditions.

It is predicted that Northern Ireland's economy will show relatively modest economic growth in 2014 and 2015 of around 2%<sup>10</sup>. This would suggest that **demand should remain relatively constant**.

We have seen **input cost inflation** decrease over 2013/14, with Retail Price Inflation (RPI) falling to 2.5% in March 2014 (March 2013: 3.3%).

The main **economic factors** that could affect the Company's performance are:

- overall performance of the **Northern Ireland and world economies**;
- change in demand due to changes in our customer base; and
- unexpected changes in **input cost inflation**.

<sup>10</sup> Northern Ireland Economic Outlook, May 2014.



**We provide you with  
customer service  
you value and expect**





## Our Goal

To provide a range of essential services and associated contact channels which meet the rising expectations of our customers.

## Our priorities to 2021

Expand and develop the range of ways customers can contact us.

Develop targets and measure how often we solve issues on first contact and, if we are unable to do so, we will keep customers informed about progress via their choice of available contact methods.

Measure how many repeat issues we receive, examine why we failed, and make process and system changes to continue to improve.

Measure and publish levels of customer satisfaction.

Continue to improve the accuracy of customer data to ensure the completeness of customer billing.

## What our customers can expect in 2040

We will use proven and cost effective technology to improve the services provided to customers.

We will use a range of channels to communicate with customers which will evolve in line with changing social media trends and this will allow us to be as proactive as possible in communicating with customers.

We will have minimised the need for customers to contact us but when customers have a need to do so, they will have a choice of contact channels that meets their needs.

We will aim to resolve contacts at the first time of asking and reduce the need for repeat contacts.

We will continue to measure the services we provide and seek opportunities to continually improve and we will deliver customer satisfaction ratings that are equivalent to best in class benchmarks.



## Listening to our customers

Findings from the latest customer research show that **most customers are satisfied with the service provided most of the time**. Customers simply expect the service to work. Provided it does, customers rarely think about water and sewerage services or how they are provided. In other words, customers expect their water and sewerage service to be **resilient**.

Research identified that customers expect local service **'hot-spots'** to be addressed. Customers are more willing to **prioritise investment** to address local issues, such as **water supply and flooding**, which have a direct impact on daily life over environmental aspects of service such as quality of rivers.

Customers want **strategic decision making** preferring long-term solutions over short-term 'fixes'. Customers also recommended more information from NI Water in order to inform the public of what they can and cannot dispose of in the sewerage system and to **educate customers** to reduce water wastage.

## Customer contact

By improving the standard of service delivery and the accuracy of customer data we aim to reduce the number of times our customers need to contact us.



We achieved our 2013/14 targets on 'calls not receiving an engaged tone', **100%** against a target of 99.90%.



However, we failed to achieve our 'calls not abandoned' target due mainly to this being the first full year operating our new high volume call answering (HVCA) system,



Substantial efforts have been made to **drive down call volumes**. We met our target of no more than 250,000 calls in 2013/14, receiving 226,881 calls.



with a performance of **98.40%** against a target of 99%. Unlike in England and Wales, the target does not take account of the higher level of abandoned calls within a HVCA system. If NI Water adopted a similar approach to England and Wales, we would have achieved 99.13%.

## It was all 'Flow' at the Balmoral Show!

NI Water welcomes the opportunity to get out and promote its key messages- Water for Health, Bag It and Bin It, Water Efficiency, and Don't wait. Insulate. The Balmoral Show, a key event in the Northern Ireland calendar, provides a tremendous opportunity for NI Water to engage with our Customers.





## Vulnerable customers

We have increased the number of individual customers on our Customer Care Register from **2,675** in 2012/13 to **2,903** in 2013/14.



## Systems improvements

We aim to implement enhancements to the online facilities available to our customers, including the ability to: access and update billing account details, make payments, request septic tank emptying and view up-to-date operational information via an interactive map.

Further service improvements, especially the introduction of a new **self-service solution**, will continue to reduce call volumes and improve the level of service being provided to customers.



Page 34  
Read more about systems improvements.




# Success for NI Water Website at DANI Awards



The new niwater.com website received a highly commended award in the Web Project of the Year category at the prestigious Digital Advertising NI awards. The DANI Awards celebrate the best of digital media in Northern Ireland.

## Major Incident Plan

We undertook a **full scale mock incident** in October 2013. The exercise was planned to practise and validate the Company's major incident management arrangements and in particular its effectiveness in responding to a **major wastewater incident**. Our major incident response was enacted over December 2013 and January 2014 during the tidal surges.

 Pages 66  
Read about our mutual aid arrangements with other utilities.



## Kennedy praises efforts during tidal surge

**Regional Development Minister Danny Kennedy praised the hard work of all agencies involved in the operation to protect the public and vital infrastructure during recent tidal surges.**

NI Water was fully engaged throughout the event in the development of a multi-agency response following notification of a possible tidal surge coinciding with high tide, despite the fact that it was a holiday period.





## Metering and billing

Our charges are reviewed annually by the Utility Regulator and published in our Scheme of Charges.

Accurate measured bills are central to customer account management and we had a series of performance targets for meter reading and measured billing in 2013/14:

- **98.5%** of bills to be based on actual meter reads



we achieved **99.1%**; and

- **95%** of bills to be issued within 5 working days of a meter reading:

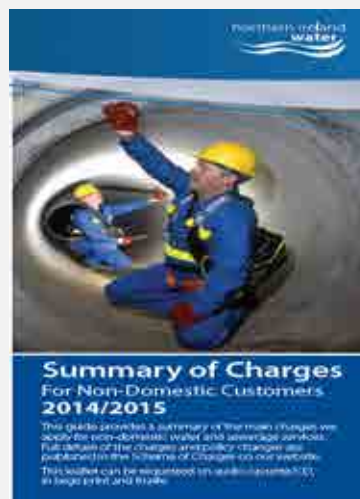


We achieved **95%** excluding readings requiring investigation.



We achieved **92%** including readings requiring investigation. The balance between achieving as many reads as possible and issuing within 5 days has been challenging and we will be putting steps in place in 2014/15 to achieve this performance indicator.

### NI Water's Summary of Charges:



<http://www.niwater.com/understanding-your-bill/>



We achieved the 5 day target response time for billing contacts at **99.92%** against the target of **99.90%**.

A new **web self-serve portal** was made available to customers in 2013/14. The portal includes an account overview, billing and consumption histories, the ability to pay bills and to change account details online.



In 2013/14 we introduced a **new bill format** which has been easier for all customers to understand. We continue to maintain a reduced level of billing related contact and quicker customer payments.

During 2014/15 we will be working on making major enhancements to our billing system to ensure accurate and timely billing with additional facilities such as group and consolidated billing.

## Customer satisfaction

Quarterly **independent market research** is carried out, through telephone surveys of 400 customers who have called us for any reason.

We will also be working with the Utility Regulator, CCNI and DRD to develop a **new Customer Satisfaction solution**. We will engage industry expertise and experience to provide actionable data to inform service improvements.

During 2013/14, we introduced the key Customer Satisfaction elements from the industry based Service Incentive Mechanism (SIM) that will **double the number of customers currently being surveyed** and cover the 'end to end' customer delivery process. 2014/15 will provide us with our first full year of SIM customer surveys.

**Non Domestic Customers** - we have a number of **Customer Liaison Officers** who have been visiting our agricultural non-domestic customers to engage them in understanding billing and payments. This has proved very successful. We have also enhanced our account management approach and introduced additional roles to cover other customer groups.



The **customer satisfaction surveys** were completed in quarters 2 to 4, achieving an overall average score of 4.63 out of 5. The performance was below the target of 4.70. These surveys are invaluable and we will continue to use them to identify opportunities to improve our customer experience.



We achieved the 10 day target response time for written complaints with a performance of **99.72%** against the target of **99.25%**.





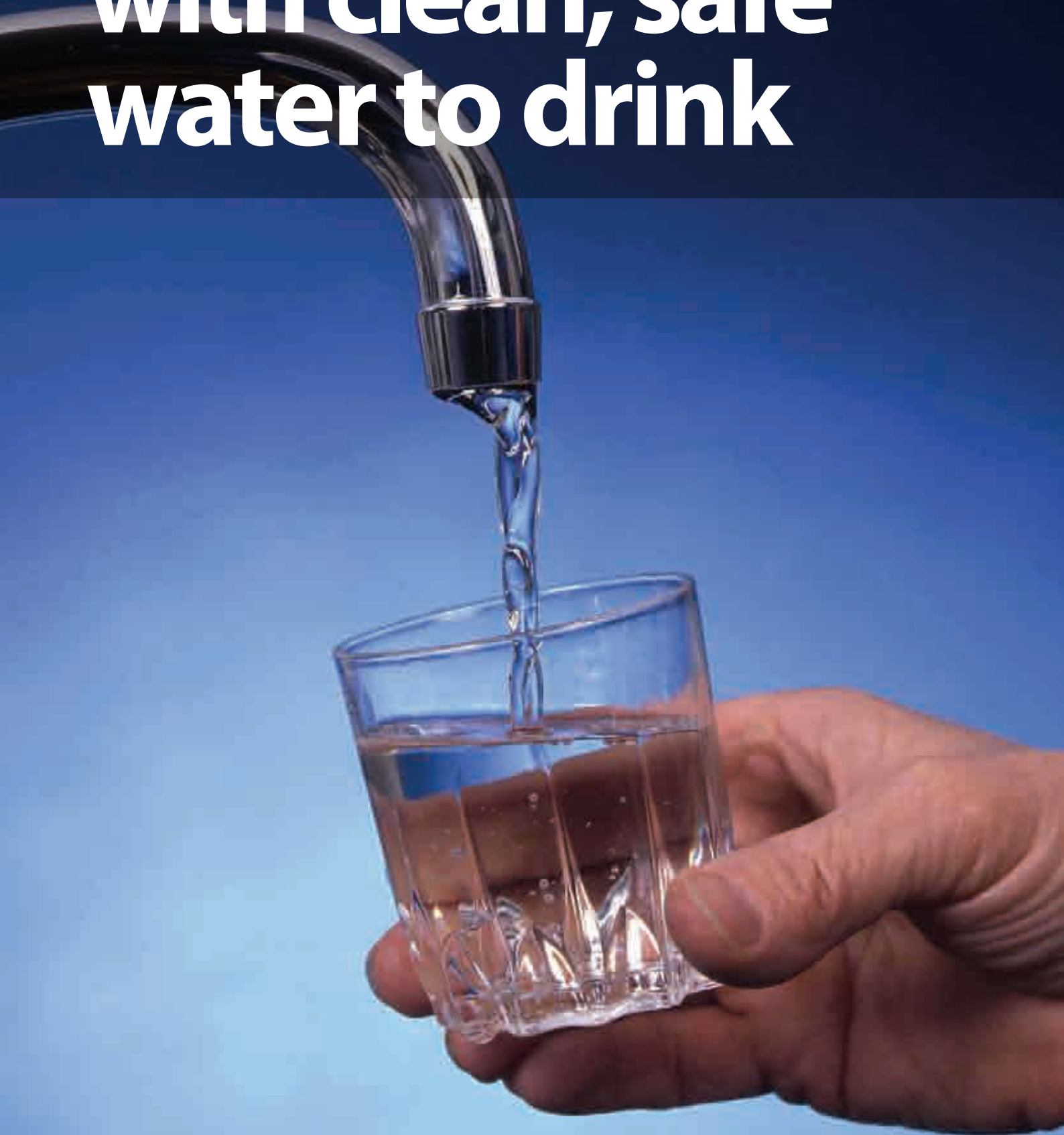
We are committed to giving our customers the service they expect, all day, every day. **If you are disappointed with our service, we want to hear from you.** We can be contacted using the information on the back cover of this document.

CCNI undertake an annual review of our complaint handling process and we work to implement any recommendations.

Customers who are not happy with how we have dealt with a complaint or would like **independent advice**, can contact the Consumer Council:

Elizabeth House  
116 Holywood Road  
Belfast, BT4 1NY  
Phone: 0800 1216022  
Text Relay Service:  
028 9067 2488  
Fax: 028 9065 7701  
Email: [complaints@consumercouncil.org.uk](mailto:complaints@consumercouncil.org.uk)  
[www.consumercouncil.org.uk](http://www.consumercouncil.org.uk)

**We provide you  
with clean, safe  
water to drink**





## Our Goal

To provide complete confidence to our customers in the safety and quality of their drinking water.

## Our priorities to 2021

Continue to provide high quality water which complies with statutory standards and obligations.

Address pockets of our water distribution network that do not currently meet customer expectations in relation to taste, smell and appearance.

Reduce customer contacts regarding water quality.

Implement all Drinking Water Safety Plans.

Develop and agree with stakeholders a joined up approach to the removal and management of lead in public and private water supply system.

## What our customers can expect in 2040

We will continue to provide high quality water for the protection of public health which complies with statutory standards and obligations.

We will have well developed Drinking Water Safety Plans which identify risks to drinking water quality and address the risks through focused investment.

We will have invested in the latest technology to monitor our asset performance. This will include real time automated monitoring of water quality allowing us to identify and rectify problems before service is affected.

We will move from reactive to proactive asset maintenance seeking to maintain our assets before failures affect customers.

We will have removed all lead pipes from the NI Water system and will be continuing to work with stakeholders to manage the remaining lead pipes in customers' properties.



## Water Quality Compliance

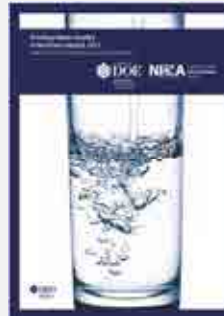
We work hard to provide our customers with high quality drinking water. We carry out over **110,000 tests every year** to make sure our water is clean and safe.



The 2013<sup>11</sup> compliance levels for drinking water at the customer tap are at **some of their highest levels**, with a Mean Zonal Compliance (MZC) of 99.85%.

The compliance for 2013 demonstrates the continued high quality drinking water provided to the people of Northern Ireland and **exceeds the requirement of DRD's Social and Environmental Guidance** of 99.7%.

Find out more about drinking water quality:



See the latest drinking water quality reports at:

[http://www.doeni.gov.uk/niea/water-home/drinking\\_water/annual\\_reports.htm](http://www.doeni.gov.uk/niea/water-home/drinking_water/annual_reports.htm)

<http://www.niwater.com/water-quality/>

We have a wide range of information leaflets on water quality:



<http://www.niwater.com/the-services-we-offer/>

<sup>11</sup> This target is measured on a calendar year basis.



## The Water Catchment Partnership

NI Water have been instrumental in establishing a new partnership with external stakeholders - Ulster Farmers' Union, Northern Ireland Environment Agency and DARD's College of Agriculture, Food and Rural Enterprise;

the aim of the group is to deliver one message, incorporating the ethos from all organisations, to effectively tackle the problem of pesticides in the water environment, particularly in Drinking Water areas.



(L-R) Barclay Bell (UFU), Alison McMullan (NI Water), Harry Sinclair (UFU), Nicole McArthur (NIEA), Roy Taylor (NI Water) & Joanne Livingstone (NIEA).

## Drinking Water Safety Plans

We use Drinking Water Safety Plans (DWSP) to proactively **highlight investment needs** for those water supply systems which are likely to fail any parameters, including taste and odour.

We have **identified 6 water supply systems for in-depth studies over 2014** to assist us in planning appropriate investment in the future.



## NI Water Endorses 'WaterSafe' Scheme



(L-R back row) Michael McGreevy NI Water, Stuart Wightman DRD Water Policy Division, (L-R middle) Margaret Heron (DWI), Dymphna Gallagher NI Water, Kathy Graham (CCNI), John Miskelly (SNIPEF) (L-R front) Danny Kennedy MLA and Sara Venning CEO NI Water.

NI Water supports 'WaterSafe', a national register for approved plumbing businesses aimed at ensuring the safety of plumbing work in customers' properties.

WaterSafe approval gives credibility to businesses and peace-of-mind to customers who can feel confident that they can choose from some of the best plumbing professional in the industry.



## Lead management

The end of 2013 saw a reduction in the Regulatory limit for lead in drinking water. We will continue to implement our strategic **lead policy** and **lead pipe replacement programme** focused on improving compliance with EU Lead standard (10µg/l).

We recognise that we need to work together with DRD, DWI and other stakeholders to develop and implement a strategic approach for addressing lead compliance issues associated with private supply pipes and domestic distribution systems. We have produced a **Lead Strategy** and input into DRD's Long Term Water Strategy.

We have built on good relationships with the **Department of Education** and we have **prioritised Vulnerable Customers** to improve lead compliance.



## Customer satisfaction

Discolouration can arise when we carry out essential maintenance work, or, from the condition of old iron mains within our supply network. We use our customer contacts to help target investment and employ operational best practice to minimise frequency of discolouration events.

## Analytical Services

Our laboratories provide analytical services to a **wide range of customers** across a variety of sectors, including industrial customers in Northern Ireland, County Councils in the Republic of Ireland and Non-Governmental Organisations.

We provide a full range of **microbiological, chemical** and **cryptosporidium analytical services** for drinking water, wastewater and industrial effluents.

Our laboratories are Audited by the DWI, the NIEA, the United Kingdom Accreditation Service and our Public Private Partnership (PPP) partners.

Find out more about how our analytical services could benefit your organisation:



<http://www.niwater.com/analytical-services/>

# We seek to give you value for money



Antrim Wastewater Treatment Works, County Antrim.  
Image courtesy of Alan Lavery Photography.





## Our Goal

To deliver services which our customers consider to be affordable and offer excellent value for money. We want our bills to compare favourably with equivalent companies in England and Wales.

## Our priorities to 2021

Continue to reduce our costs across all areas of our business to close the efficiency gap to the England and Wales comparator companies.

Keep customer bills stable in real terms.

Improve our Overall Performance Assessment to highest levels ever demonstrating improving levels of service.

## What our customers can expect in 2040

We will be delivering services that customers consider affordable and offer excellent value for money.

We will have embraced innovation and new technology to improve the services we deliver and further reduce our costs.

Our business efficiency will be on a par with the performance of the better performing water and sewerage companies in Great Britain.

We will be offering a range of tariffs which are capable of being adapted to reflect the activities of our customers.

We will have transparent billing with a range of payment options to suit our customers.



## Customer bills

# NI Water announces lower prices for second year in a row

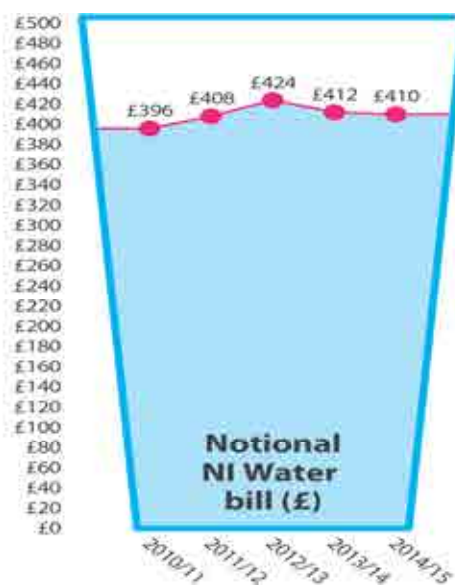
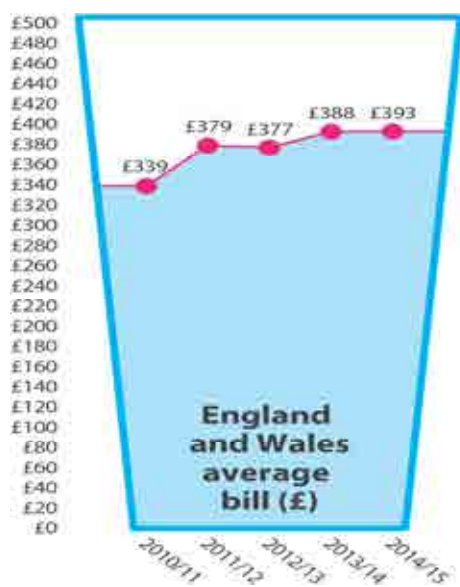
We are pleased to announce that, for the second successive year, there will be a decrease in our charges.

Following on from last year's 2.5% drop, we announced that from 1 April 2014, our charges reduced by, on average, a further 4%.

In real terms, taking into account inflation, this further reduction means that our non-domestic customers will be paying 11.7% less for their water and sewerage services than they did two years ago.

The cost of supplying water and sewerage services is around £430m per year<sup>12</sup>. These costs are recovered from customers through customer bills<sup>13</sup>. To the extent that it is within our control, we will aim to ensure that future bill increases should not exceed general inflation.

The **notional NI Water bill for domestic customers is £410** for 2014/15. This compares with the average English and Welsh bill of £393.

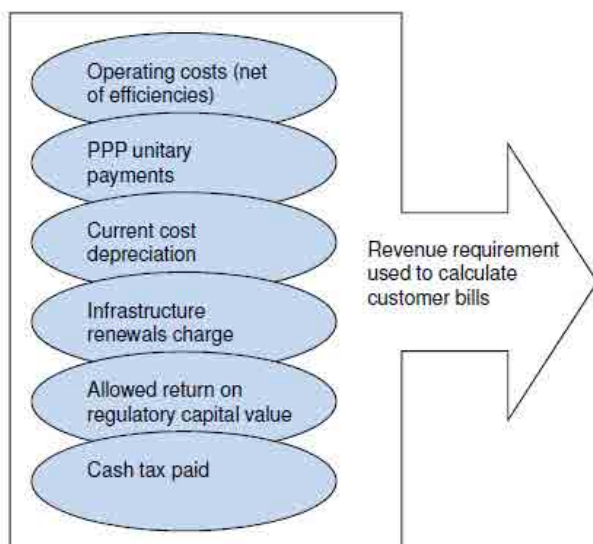



<sup>12</sup> Based on funding for PC13 period of £860m.

<sup>13</sup> The bills for domestic customers are notional as DRD meets these costs through a Government subsidy. DRD also provides loan notes to fund the capital investment programme and other amounts are recovered from DRD Transport NI for roads drainage.



Building blocks for customer bills



 Page 34  
Read more about improving customer billing.

	2014/15
Average English and Welsh bill	£393
Notional NI Water bill*	£410

\* Proposed notional NI Water bill does not include the costs of domestic billing and domestic debt recovery costs.

## Efficient delivery of services

Our focus on controlling operating expenditure and working more efficiently contributed towards **a reduction in running costs** of around **£7m<sup>14</sup>** in 2013/14 (2013: £12m). We are targeting further reductions in running costs across PC13 as set out in the Final Determination.

We have **more than halved the efficiency gap** with the leading companies in England and Wales from 49% in 2007/08 to 19%<sup>15</sup> in 2012/13.

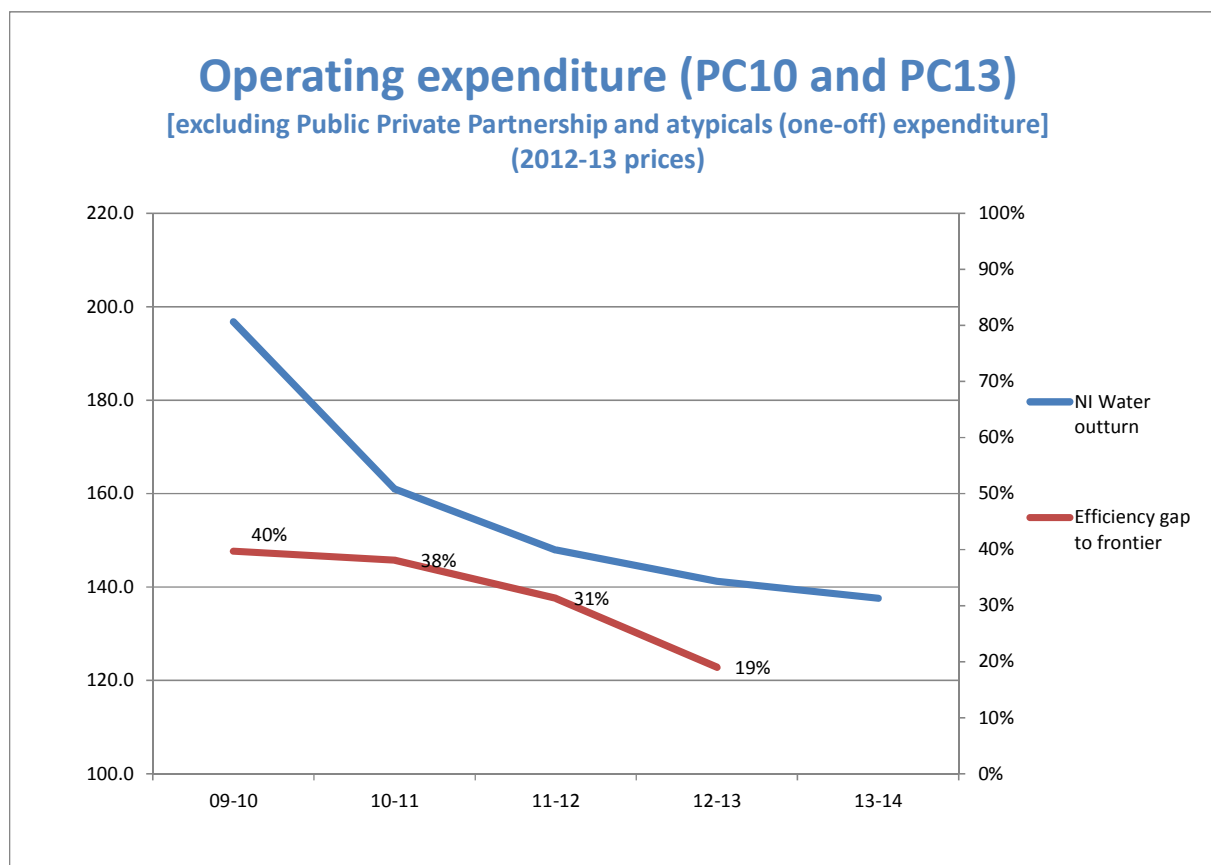
The Utility Regulator assesses the efficiency of NI Water on an annual basis in its **Cost and Performance Report**.




See the latest Cost and Performance Report on NI Water at:  
[http://www.uregni.gov.uk/publications/cost\\_and\\_performance\\_report\\_2010-2013](http://www.uregni.gov.uk/publications/cost_and_performance_report_2010-2013)

<sup>14</sup> Based on an approach used by the Utility Regulator. Details of this approach are contained within the Utility Regulator's Cost and Performance Report.

<sup>15</sup> Subject to determination by the Utility Regulator. Measured 1 year in arrears.



 Page 12  
Read more about delivering higher levels of service to customers as measured by a record OPA score.

We are committed to investment in innovation through new systems and technology that provide benefits in terms of **improving service** performance or **reducing operational costs**, whilst **improving** the **resilience** and **security** of essential control and monitoring networks.

“Innovation is one of the primary drivers of **economic growth**, underpinning the growth of the **best performing regional** and national **economies** across the world. Innovation enables firms to stay ahead of competitors, and with global economic conditions remaining challenging, the focus on innovation is now **more important than ever**”.

(Northern Ireland Executive, 2013)



We have developed and implemented a new **Research, Development and Innovation (RDI) Strategy**. This sets out how technical needs and opportunities are identified, before research and development, or innovation projects, are then initiated.

Over 2013/14, our research, development and innovation programme projects have included:

- Developing **Instrumentation, Control and Automation signature designs**;
- Pilot projects to evaluate **sludge dewatering and thickening processes**;
- Developing a Network Distribution Control System to permit **remote controls at key service reservoirs**, allowing the demand from the upstream water treatment works to be smoothed. This improves drinking water quality and reduces costs;
- Participating in an EU INTERREG IVA Project “ANSWER” using **willows to develop low carbon and environmentally sustainable solutions** for dealing with organic waste.

Together with other UK water and sewerage companies, **we employ research bodies** such as the United Kingdom Water Industry Research Limited (**UKWIR**) and the Water Research Centre (**WRc**) to provide a collaborative programme of

During the year we undertook design, development and implementation of an automated **electronic file transfer interface** for Flooding Line incident (FIL) contacts between BT and our customer contact systems.

During the year, we carried out a project to review NI Water’s **sludge and odour strategy** focusing on reducing operational costs.

We are keen to **support other organisations** involved in water and wastewater research, development and innovation activity, and whose work would benefit from access to our assets for pilot projects and / or the collection of samples





research tailored to suit the needs of the UK water industry.

We also collaborate with and support UK **university research projects** and are a member of Queen's University Environmental Science and Technology Research Centre (**QUESTOR**), an international environmental research organisation based at Queen's University Belfast.

**For research, development and innovation related access enquiries please contact:**

Research Development and Innovation  
Manager  
NI Water  
Ballykeel Office , 188 Larne Road  
Ballymena, Co Antrim, BT42 3HA  
Telephone: 028 9035 4813, ext 53216

Find out about our research partners:



<http://www.ukwir.org/site/web/content/home>



<http://www.wrcplc.co.uk/about-us.aspx>



<http://questor.aub.ac.uk/>



## Financial performance

NI Water, as a regulated water company, is required to prepare two sets of accounts to report on financial performance:

**Statutory Accounts** covering both our appointed (regulated) and non-appointed (non-regulated) business prepared under International Financial Reporting Standards (IFRS); and



Page 129  
[Read our Statutory Accounts.](#)

**Regulatory Accounts** for our appointed (regulated) business prepared under the Regulatory Accounting Guidelines (UK GAAP based).



Page 192  
[Read our Regulatory Accounts.](#)

Our **appointed business** relates to the provision of certain water and wastewater services under our Instrument of Appointment (the Regulatory Licence). We are the monopoly supplier of these services.

Our **non-appointed business** operates in competitive markets and is ring fenced from our appointed activities to prevent cross subsidisation. **Non-appointed activities** include septic tank emptying, vehicle maintenance and rental of aerial masts to the telecommunications sector.

The **Regulatory Accounts** are specifically designed for the water industry.



## Statutory Accounts

### Statement of Comprehensive Income

Our Statement of Comprehensive Income as presented on page 131 is summarised below.

The **£153.4m profit** for the year is an accounting profit and provides no additional spending power either to NI Water or DRD.

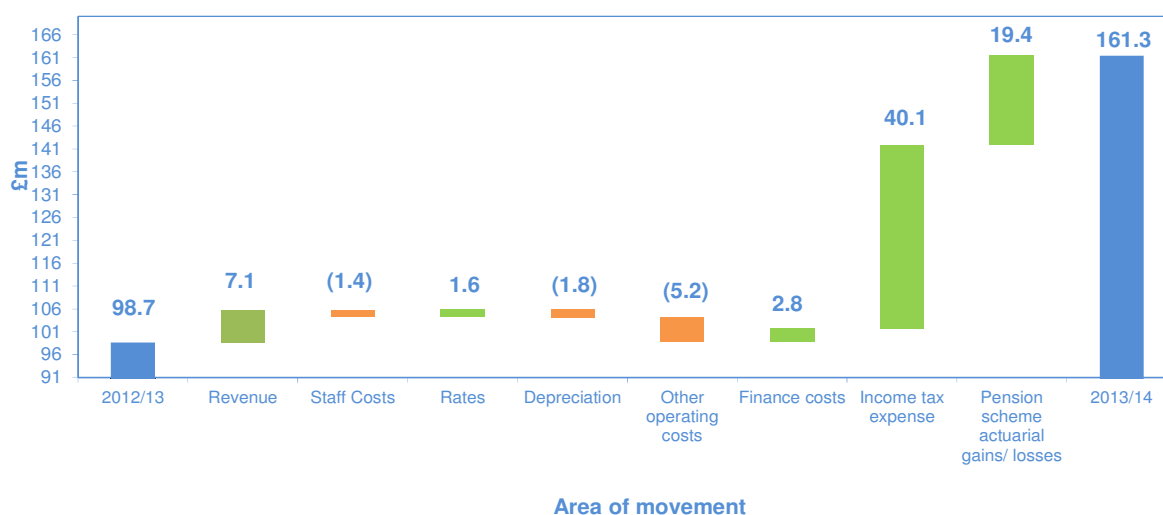
### Summary Statement of Comprehensive Income

	Year to 31 March 2014 (£m)	Year to 31 March 2013 (£m) 'As restated'*
<b>Revenue</b>	<b>432.7</b>	425.6
Results from operating activities	<b>196.8</b>	196.5
Net finance charges	<b>(58.3)</b>	(61.1)
<b>Profit before income tax</b>	<b>138.5</b>	135.4
Income tax expense	<b>14.9</b>	(25.2)
<b>Profit for the year</b>	<b>153.4</b>	110.2
Other comprehensive income, net of income tax	<b>7.9</b>	(11.5)
<b>Total comprehensive income for the period</b>	<b>161.3</b>	98.7

\* The comparative figures have been restated to reflect a change in classification arising from the changes to IAS19. See note 21 for further details.

The movement in total comprehensive income is summarised below.

### Movement in total comprehensive income for the period







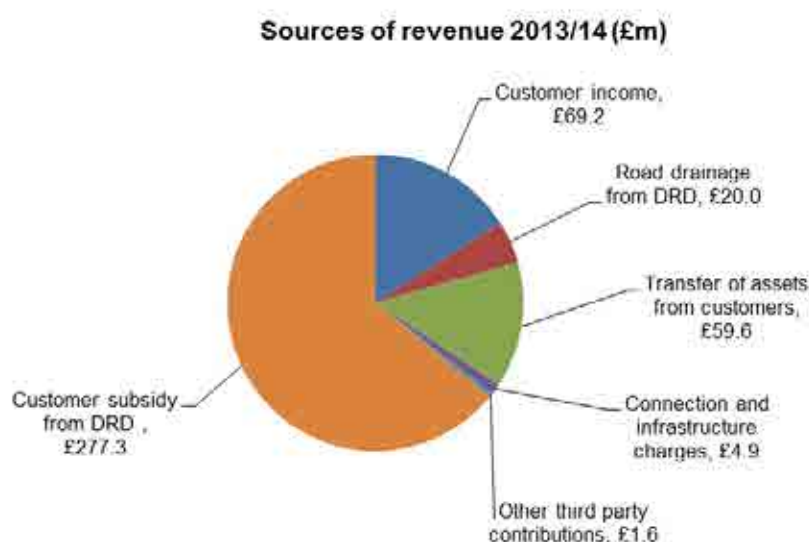
## Revenue

Domestic consumers are not charged directly for water and sewerage services. As a result, **NI Water is dependent on government subsidy for over 64% of its funding.**

Revenue was **£432.7m** for the year to 31 March 2014 (2013: £425.6m). Included in revenue was £297.3m (2013: £302.6m) received from DRD (Subsidy £277.3m; Road Drainage Charges £20.0m) – the **decrease in the customer subsidy was primarily driven by the decrease in notional household tariffs as the cost base of the business reduces.**

The remaining components of revenue are measured and unmeasured charges, transfers of assets from customers, connection / infrastructure charges and other third party contributions.

The **customer subsidy** from Government covered the full domestic charge and this arrangement will remain in place in 2014/15. In its Programme for Government (PfG), published in March 2012, the Executive gave a commitment that **no new household charges** would be introduced during the PfG period (2011-16).



Figures in pie chart may not add due to rounding.



### Operating activities

**Operating expenses** in 2013/14 of **£236.2m** (2013: £229.3m) increased from last year. The increase primarily resulted from higher capital charges on our increasing asset base and higher contractor costs. These increases were offset in part by lower rates costs and lower voluntary early retirement/voluntary severance expenses.

NI Water is one of the largest users of electricity in Northern Ireland. We spent around **£34m** on **power** in 2013/14, of which around 50% is used to pump water and wastewater.



Page 66

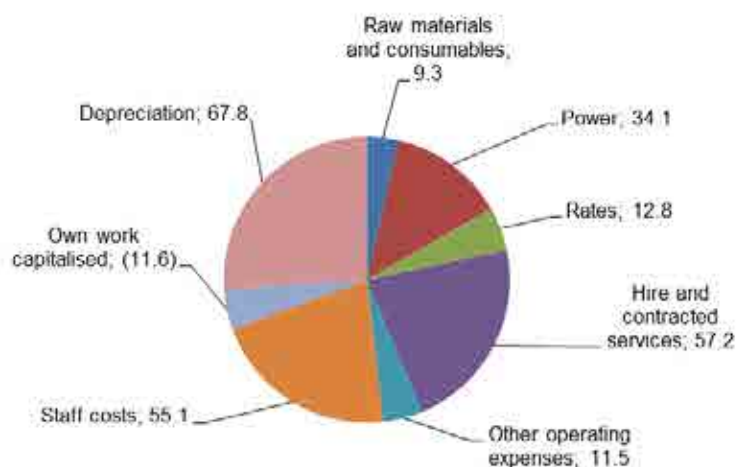
Read more about how we are becoming more energy efficient.



Page 47

Read more about the use of innovation and new technology to reduce our operating expenses.

Operating expenses 2013/14 (£m)





**Results from operating activities before interest** for the year was **£196.8m** (2013: £196.5m).

#### Finance income and costs

The net finance costs are primarily due to **interest** on our borrowings of **£37.5m** (2013: £40.3m), **PPP liabilities** of **£20.6m** (2013: £21.8m) and net finance costs on the pension fund **£0.3m** (2013: net income £0.8m) offset by bank interest received of **£0.1m** (2013: £0.1m).

NI Water's PPP providers are **incentivised to reduce the PPP costs** and financial penalties are in place within the contracts for under performance.



Read more about our PPP schemes:  
<http://www.niwater.com/alpha-project/>  
<http://www.niwater.com/project-omega/>

## Procurement Success!

Over 2013/14, NI Water's procurement teams became registered to the internationally recognised quality management system, ISO 9001. External procurement experts also advised that NI Water will retain its Centre of Procurement Expertise status.



NI Water's Procurement Teams celebrate the ISO 9001 and Centre of Procurement Expertise status.



## Taxation

The **tax credit** for the year was **£14.9m** (2013: tax charge of £25.2m). The effective tax rate for the year to 31 March 2014 was (10.6%) (2013: 18.5%).

## Distributions

The Board will consider a proposal to declare a **dividend of £24m** in July 2014 (2013: £29m).

## Capital structure

The Statement of Financial Position at 31 March 2014 as presented on page 130 is summarised below.

**Total assets** increased by 6.1% to **£2,568.0m** (2013: £2,419.5m).

Our **net debt**<sup>16</sup> figure was **£1,127.8m** at 31 March 2014 (2013: £1,082.8m).

**Gearing** (the ratio of net debt to equity and net debt) decreased to 50.2% (2013: 52.8%).

## Summary Statement of Financial Position

	At 31 March 2014 (£m)	At 31 March 2013 (£m)
Total non-current assets	2,532.8	2,364.4
Total current assets	35.2	55.1
<b>Total Assets</b>	<b>2,568.0</b>	2,419.5
<b>Equity</b>	<b>1,120.6</b>	988.4
Total non-current liabilities	1,314.3	1,304.2
Total current liabilities	133.1	126.9
<b>Total liabilities</b>	<b>1,447.4</b>	1,431.1
<b>Total equity and liabilities at 31 March</b>	<b>2,568.0</b>	2,419.5

Given the capital allowances available on our capital investment programme we are not presently required to pay **cash tax** in relation to our core revenue streams.

The dividend to DRD represents a **return to the tax payer** on the amount initially invested in the Company.

The **main movements** in the financial position items were increases in **property, plant and equipment** of **£162.7m** (2013: £143.6m) relating to our Capital Investment Programme offset by increases in net debt.



Page 57  
Read more about our Capital Investment Programme.

<sup>16</sup> Refer to notes 18 and 20 in the Statutory Accounts. Net debt consists of loans of £911.6m (2013: £882.6m) and finance leases of £218.9m (2013: £221.1m) less cash and cash equivalents of £2.7m (2013: £20.9m).



### Liquidity

Operating activities generated a net cash inflow of **£213.6m** (2013: £203.8m). Net cash outflows of **£169.0m** (2013: £164.8m) related to investing activities. Net financing activities created a cash outflow of **£62.7m** (2013: outflow of £21.2m).

Our **working capital** requirements are met from a committed working capital facility of £20m and from available positive cash balances. Interest is accrued on the working capital facility at floating interest rates based on London Inter-bank Offered Rates (LIBOR).

### Pension funding

The pension scheme is **broadly in balance** with a surplus value of £3.5m at 31 March 2014 (2013: deficit of £5.3m). This was made up of a total market value of assets of £171.0m (2013: £155.8m) less actuarial value of liabilities £167.5m (2013: £161.1m). The movement to a surplus has been driven primarily by actuarial gains in the year arising from an increase in the discount rate assumption and decrease in the inflation rate assumption used to calculate the scheme liabilities.

Investing activities included the acquisition of **property, plant and equipment** of **£170.3m** (2013: £166.1m), proceeds from the sale of property, plant and equipment of £1.2m (2013: £1.2m) and interest received of £0.1m (2013: £0.1m).

**Working capital** represents the funds available for day to day operations. It includes stocks, trade debtors and trade creditors.

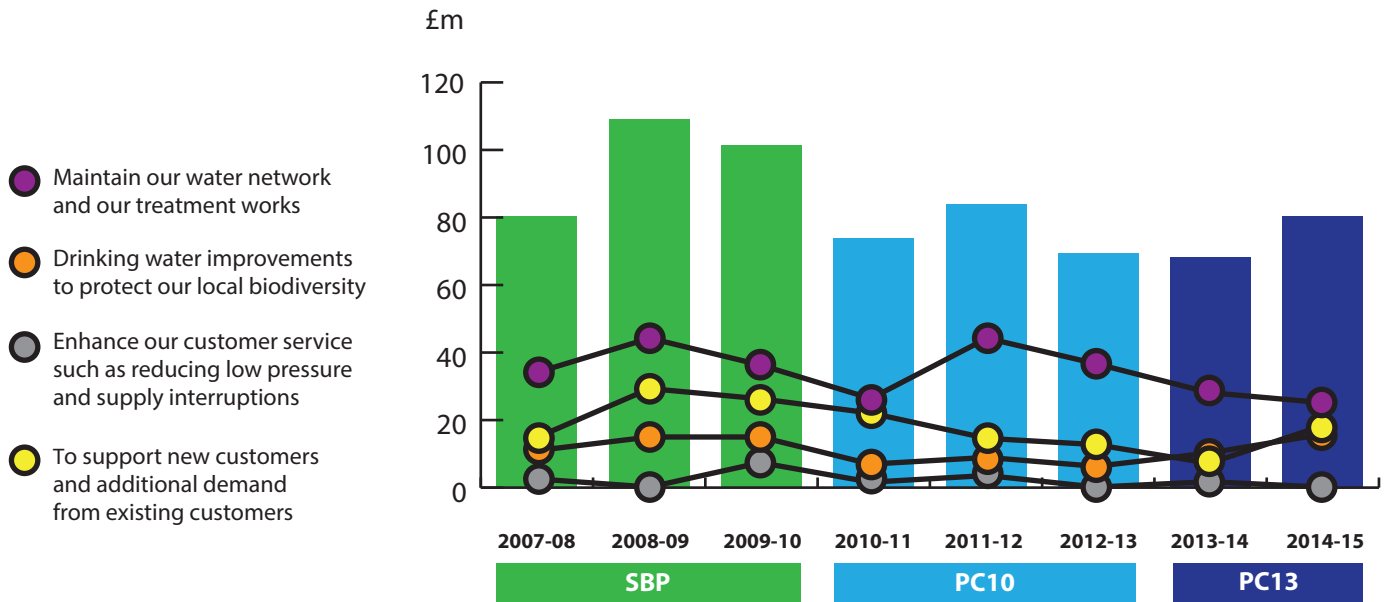
**Dividends paid to DRD** during the year totalled **£29m** in respect of the previous financial year (2013: £27m in respect of 2012).

NI Water's pension scheme is a **separate legal entity** which is run by a Board of Trustees.

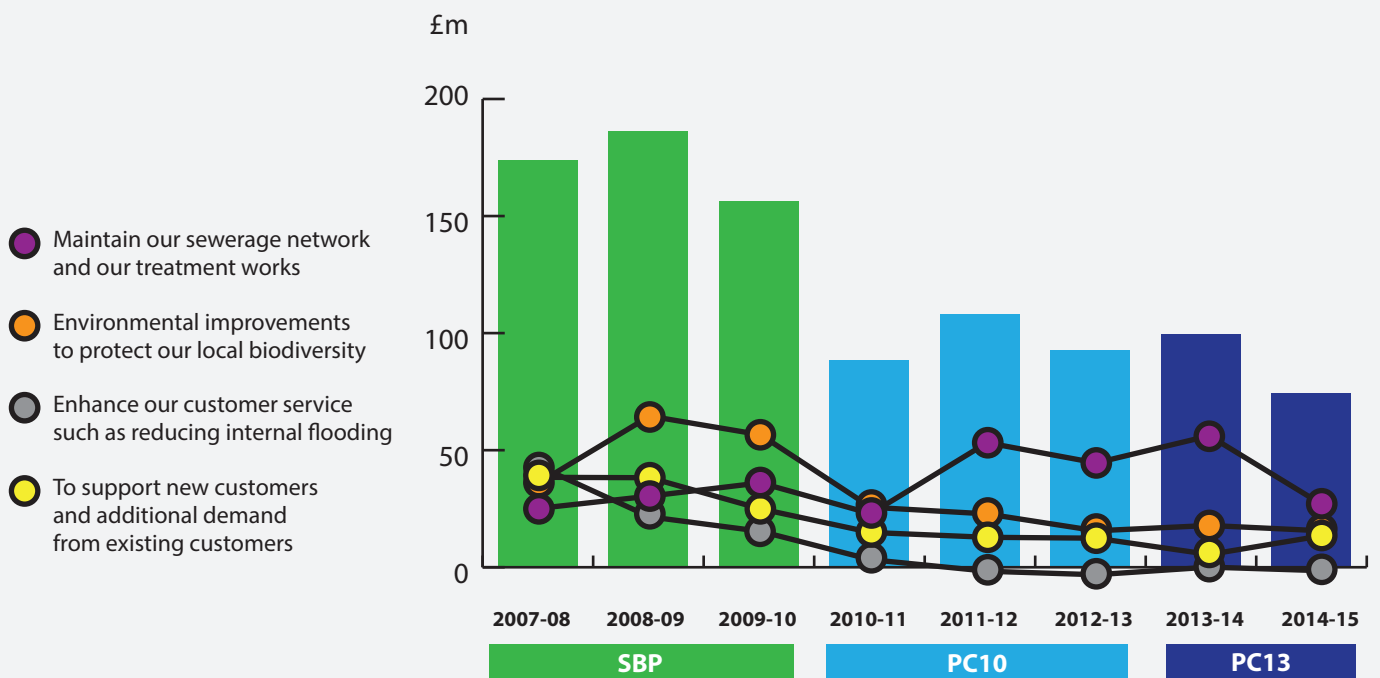
# Investing in our water and wastewater infrastructure

We have invested **£1.5 billion** in Northern Ireland's water and sewerage infrastructure since our formation in 2007/08:

## Water service



## Sewerage Service





The average planned investment over PC13 is around £160 million per annum and a similar level of investment is planned for PC15. The company spends around **£80 million a year on maintaining** the current assets. Around a further **£80 million a year** will be spent to **deliver quality enhancements, improve service and accommodate growth.** The current levels of asset maintenance are likely to continue to be required in the future and may increase as the assets continue to age.

Around **£168m** of capital investment was delivered during 2013/14 (2013: £162m). This included the completion of **17 Wastewater Treatment Works**, remediation of **12 unsatisfactory intermittent discharges** and laying approximately **253km of new and replacement water mains.**

Based on UK GAAP excluding grants and contributions.

## £130 million ready to spend!

NI Water launched its new summary of contracts worth £130 million which are available to cover goods and services required by the company over PC13. The Supplier Day was held in March 2014.

This presented an exciting opportunity for new and existing companies across a diverse range of sectors, including the SME sector, to come on board and work with NI Water. As one of Northern Ireland's largest companies there are tremendous opportunities available to tender for large and small contract requirements within NI Water.



Launching the NI Water 'Suppliers Day' are (l to r) Ian Heatrick, TM Waste, Stephen Truesdale, NI Water, Jane Mellor, NI Water, Ronan Larkin NI Water Thomas Hunter Magowan, InterTradeIreland, Joseph McHugh, Road Safety Contracts



## Regulatory Accounts

### Overview

The Regulatory Accounts reflect **the economic framework** in which NI Water is regulated. The Regulatory Accounts are **adjusted for inflation** and provide the Utility Regulator with a **comparable measure** of the real costs of supplying services to customers; a realistic measure of asset values and returns on those assets; and are suitable for comparative purposes with other water and sewerage companies. The publication of regulatory accounts also promotes **transparency** across the UK water sector.

The Regulatory Accounts are prepared in accordance with the Regulatory Accounting Guidelines. The regulatory Price Controls are prepared on the same basis.

The Regulatory Accounts consist of historical cost and current cost accounts. The split between our appointed and non-appointed business activities is provided in the historical cost regulatory accounts.

### Regulatory Capital Value (RCV)

The RCV is the value of the appointed business which earns a return on investment.

The RCV is increased each year by new investment and reduced by the amount of the asset base which has been used up in the year.

The current cost, Regulatory Accounts, include adjustments for inflation. Failure to make such adjustments in **capital intensive industries with long asset lives** would result in understated asset values, overstated profits and overstated returns on those assets.

Non appointed business activities generated **£5.2m of income** (2013: £5.2m) resulting in a profit before tax and dividend for non-appointed activities of £1.6m (2013: £1.5m).

The RCV is often used by the investment community to determine the **market value of the appointed business.**





### Regulatory Capital value (RCV)

	At 31 March 2014 (£m)	At 31 March 2013 (£m)
<b>Prior year closing RCV</b>	<b>1,812.8</b>	1,725.4
Indexation and other adjustments	52.3	53.3
<b>Opening RCV</b>	<b>1,865.1</b>	1,778.7
Capital expenditure	137.3	159.8
Infrastructure renewals expenditure	34.1	29.7
Infrastructure renewals charge	(34.1)	(29.7)
Grants and contributions	(5.8)	(4.1)
Depreciation (including capital grants)	(46.7)	(51.6)
Disposal of assets	(1.1)	(4.4)
Closing RCV (pre regulatory adjustments)	1,948.8	1,878.4
Regulatory adjustments	-	(65.6)
<b>Closing RCV</b>	<b>1,948.8</b>	1,812.8
<b>Average RCV</b>	<b>1,880.8</b>	1,769.1

### Differences from the Statutory Accounts

Key differences between the Regulatory (UK GAAP based) and Statutory (IFRS) accounts include:

- **Assets transferred from customers** treated as income in the Statutory Accounts and as a deduction to fixed assets under the Regulatory Accounts;
- **PPP contracts** are included in our balance sheet in the Statutory Accounts. The Regulatory Accounts exclude the Omega and Kinnegar PPP contracts from our balance sheet; and
- **Infrastructure renewals accounting** is used in the Regulatory Accounts but not permitted in the Statutory Accounts. It reflects the renewals expenditure to maintain our infrastructure assets.

The treatment of asset transfers from customers as income under IFRS created a **'boost' to statutory profits of £66.2m** (2013: £54.0m).

Infrastructure assets are **mainly underground systems** of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls. Due to their **long useful lives**, the infrastructure assets are treated as a **single system** and an **Infrastructure Renewals Charge (IRC)** is made to reflect the system's gradual replacement.



Page 205  
Read more about infrastructure renewals accounting.



Page 197  
Read more about the reconciliation between the Statutory and Regulatory Accounts.



### Atypical operating expenditure items

We consider the following items 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. They are considered by the Utility Regulator when undertaking comparative efficiency analysis.

### Atypical and re-organisational operating expenditure items

	<b>Year to 31 March 2014 (£m)</b>	Year to 31 March 2013 (£m)
Business improvement programme	<b>1.3</b>	1.0
Voluntary Early Retirement / Voluntary Severance schemes	<b>1.2</b>	3.4
<b>Total</b>	<b>2.5</b>	4.4



**We adapt to deal  
with the effects  
of climate change**



## Our Goal

We will adapt our activities to deal with the potential consequences of climate change while substantially mitigating our own 'carbon footprint'.

## Our priorities to 2021

Invest in our key water and wastewater treatment works and other critical sites to improve flood resilience.

Develop a programme which continues to work towards separating storm water from the sewerage system.

Invest in energy conservation / reduction measures with a particular focus on the larger energy consuming facilities.

Expand our use of sustainable wastewater treatment solutions which protect the environment, improve carbon efficiency and reduce operating costs.

We will reduce our carbon footprint.

We will explore options to use renewable energy on our sites.

## What our customers can expect in 2040

We will have carefully developed our asset base to be resilient to the challenges presented by increasingly extreme weather events.

Our greenhouse gas emissions will have steadily reduced from current levels. We will do this through the successful implementation of a number of strategies to reduce usage of fossil fuels, increase utilisation of 'green energy', and reduce emission of greenhouse gases (such as methane and nitrous oxide) from treatment processes and sludge.

Our land and assets, and the wastewater that we collect and treat, will be used to generate renewable energy in all locations where it is economically viable.

The nutrients in the wastewater that we collect and treat will be utilised to assist Northern Ireland's agricultural industry to increase food security and to grow renewable energy crops.



## Planning

We have already started preparing the business for the challenges posed by climate change. This surrounds understanding of climate change impacts and risks within Northern Ireland and promoting the adaptation actions necessary to address these.

## Adaptation

We will maintain and protect essential services to customers by adapting to the negative impacts, while taking advantage of any benefits that a changing climate may bring. We are looking to adapt our assets and operations to ensure that our services can always be delivered, irrespective of the effects of a changing climate.

Our **Climate Change Adaptation Strategy and Action Plan** sets out how we will maintain and protect essential services to customers by adapting to the negative impacts (risks), whilst also taking advantage of any benefits (opportunities) that a changing climate may bring.

The outputs have been used to inform NI Water and DRD's input into the **Northern Ireland's first Climate Change Adaptation Programme**, which is being coordinated by Department of the Environment (DOE) and is a cross departmental response to the risk and opportunities identified in the NI Climate Change Risk Assessment.



NI Water is a **member of Climate Northern Ireland's steering group**. This is a network devoted to increasing the understanding of climate change impacts and risks within Northern Ireland, and promoting the adaptation actions necessary to address these.



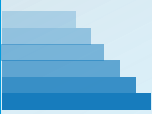
<http://www.climateinthernireland.org.uk/>

The detailed action plan includes actions to address around **200 potential risks and opportunities caused by Climate Change**.

# NI Water Climate Change Campaign

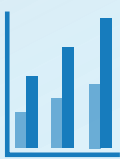
NI Water launched its innovative Climate Change Campaign through a creative online animation supported by a Climate Change micro-site and a Climate Change booklet.

The Climate Change Campaign is aimed at Communicating the issues and challenges raised by climate change, particularly for NI Water. The Campaign also aims to engage employees in the challenges of Climate change and asking them to think about how they can make more energy efficient choices in the decisions they make both personally and in their daily roles.



**energy efficient design**

**monitor aeration and sludge management?**



**replace pump impellers when worn?**



**optimise heat and light?**



**reduce water use?**



**take a call not the car?**





# Utilities launch winter readiness campaign

Senior executives from Northern Ireland's main utility companies met with Stormont Ministers to update them on the annual joint campaign to prepare for any potential disruption during the winter period. Over the last number of years BT, Northern Ireland Electricity (NIE),

NI Water and Phoenix Natural Gas have worked together regularly to identify ways in which the companies can provide mutual support and aid during periods of severe weather or other unforeseen situations.



## Mitigation

We are **implementing a detailed climate change mitigation strategy**, the aims of which are to reduce the production of **climate change gases** from our operations and to become more **energy efficient**.

We are one of the **largest users of electricity** in Northern Ireland spending around **£34m** each year, of which around **50%** is used to pump water and wastewater.

Includes pumping at water and wastewater stations and pumping across other areas of our infrastructure.



The following are examples of the activities being undertaken:

- Operation of **four hydro-electric power** generation plants;
- **Reducing the energy used in aeration** at wastewater treatment works through installation of improved controls and air distribution systems;
- **Consideration of carbon emissions** in NI Water's 'Capital Investment Appraisal System', which enables environmental impact to be more fully considered in the economic appraisal of capital investment projects;
- Reducing the **energy used in pumping** through focused refurbishment and replacement of major pumps;
- Piloting the use of wastewater final effluent to be used as a nutrient that will promote the growth of **biomass** (willows) for renewable energy heating;
- **Optimisation** of usage of electricity, chemicals and fuels through more accurate measurement and definition of responsibility for usage; and
- Inclusion of the **cost of carbon** in the calculation used to determine the **level of leakage** that NI Water should seek to achieve.

In 2013/14 **around 33%** of NI Water's electricity consumption came from renewable sources. By the end of PC15 this will increase to at least 40%.

We are accredited under the '**Carbon Trust Standard**'. To achieve the standard, organisations must:

- Measure their carbon footprint;
- Meet an absolute reduction in emissions; and
- Demonstrate that it is managing carbon in an appropriate manner.



**Operational greenhouse gas emissions** were 218.56 kg of carbon dioxide equivalent per million litres of treated water in 2013/14 (2012/13: 334.98 kgCO<sub>2</sub>e/ML).

We plan to install **solar panels** as a pilot at c6 of our works in 2014/15 to develop NI Water's understanding of the performance this technology and formulate and approach to increase the use of electricity from this renewable source.





The **majority** of our **carbon emissions** are from **grid electricity** with the remaining emissions being attributed to areas such as sludge emissions and transport.

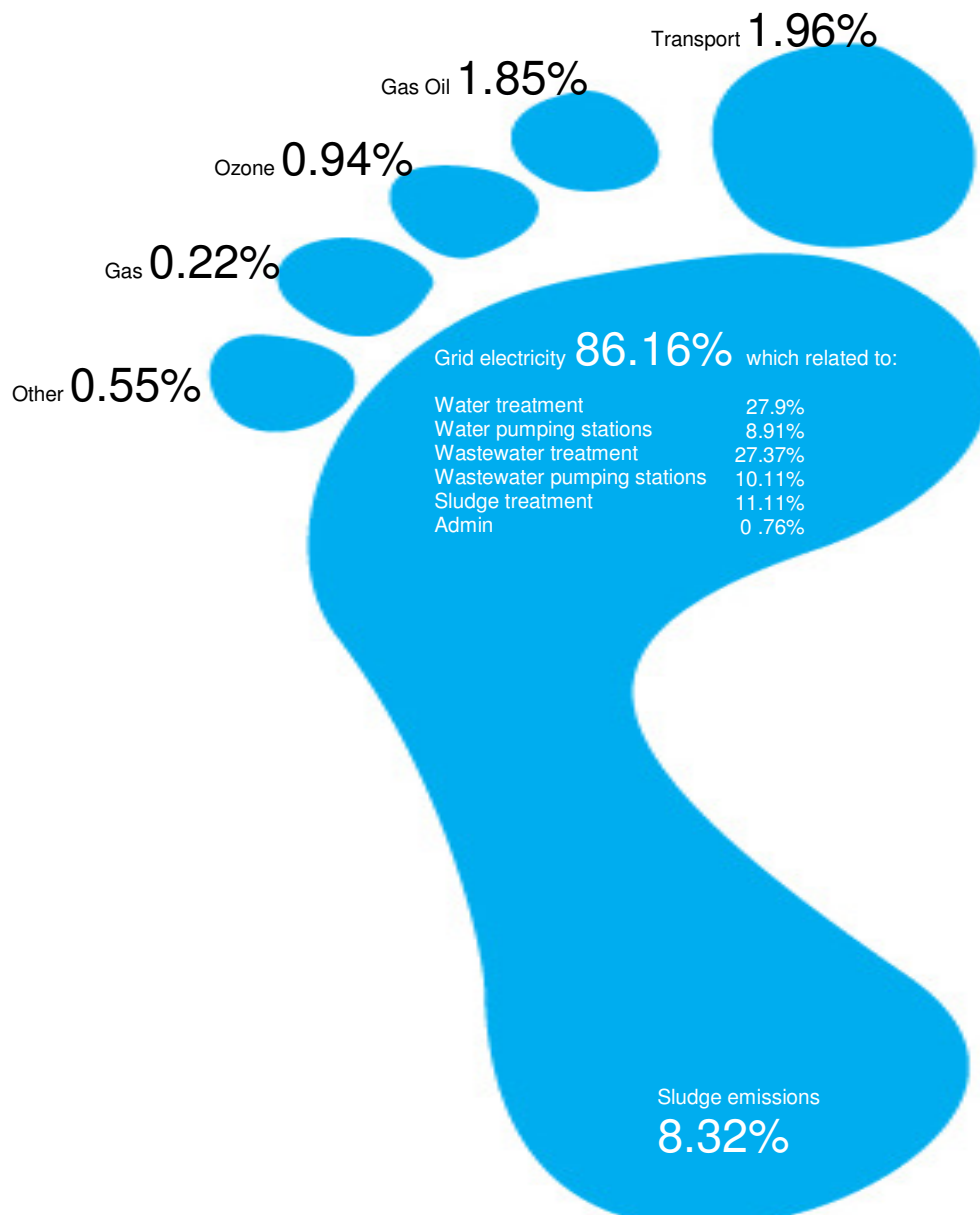
Direct emissions from **burning of fossil fuels** (including natural gas Combined Heat Power generated onsite), process and fugitive emissions, transport, company owned or leased vehicles totalled **12,828 tonnes carbon dioxide** equivalent per million litres of water in 2013/14 (2012/13: 15,917 tCO<sub>2</sub>e/ML).

Grid electricity used by company (including CHP electricity purchased) totalled **131,020 tonnes carbon dioxide** equivalent per million litres of water in 2013/14 (2012/13: 155,369 tCO<sub>2</sub>e/ML).

Emissions from **business travel** on public transport and private vehicles used for company business, outsourced activities totalled **13,057 tonnes carbon dioxide** equivalent per million litres of water in 2013/14 (2012/13: 12,883 tCO<sub>2</sub>e/ML).

The emissions data is calculated using the Carbon Accounting Workbook developed through UKWIR and WRc with participation from many of the UK Water companies including NI Water.





Percentages are indicative and based on data from the 2013 Annual Information return (AIR13).

**We want to protect  
and enhance the  
natural environment**





## Our Goal

Our goal is to work collaboratively with all stakeholders to provide NI Water's essential services to customers in a way that is sustainable for our natural environment.

## Our priorities to 2021

Complete a Catchment Management Plan for each catchment and further extend the range of work being under the SCaMP NI programme.

Further progress all actions in NI Water's Pollution Reduction Strategy.

Complete delivery of the improvements recommended through the asset management planning capability assessment carried out in late 2013.

For the 2015 Water Framework Directive Programme of Measures, deliver those actions assigned to NI Water where they have been prioritised by stakeholders and are funded.

Complete the appraisals and business cases necessary to secure the investment to achieve compliance with the revised Bathing Water Directive.

Gradually deliver year on year increases in the percentage of new WwTW investment which is delivered by 'more sustainable solutions'.

## What our customers can expect in 2040

We will be providing our essential services in a way that is sustainable for the natural environment and takes into consideration the needs of the environment as the weather and seasons change.

Our land will be carefully managed to maximise the benefit of the essential ecosystem services that they provide and maintain biodiversity.

Our assets will be carefully operated and proactively maintained in a way that minimises potentially damaging discharges to the environment.

Customer educational campaigns will have successfully influenced:

- the efficient usage of water, so that the abstraction of water from the environment for treatment and supply can be reduced; and
- disposal of inappropriate materials into the sewerage networks, so that there are less blockages, spills and discharges that impact upon the environment.

Through sustained investment, NI Water will have achieved 'good ecological status' or 'good ecological potential' under EU Water Framework Directive (WFD) where this is technically possible and does not involve excessive cost.

We will have made appropriate investment to play our part in assisting Northern Ireland's designated EU Bathing Waters achieve the excellent bathing water standard.



## Water Framework Directive

As well as providing high quality, reliable and safe drinking water to our customers, we also remove wastewater from homes and businesses all over Northern Ireland. After appropriate treatment, the effluent is returned safely to the environment.

NI Water will implement the applicable parts of the WFD through a capital works programme to upgrade WwTW and sewerage networks. NI Water will continue to support NIEA in the development of pollution source apportionment and simulated catchment management models that will assist in definition of the programme of measures that will be applicable from 2015.



Our wastewater compliance **continues to be at near record levels**. We achieved the target for the calendar year 2013 of 98.0% of the population served by compliant wastewater treatment works.

## Minister Views Base Maintenance Investment at Culmore WwTW

Regional Development Minister Danny Kennedy visited Culmore Wastewater Treatment Works to view the work on NI Water's Base Maintenance Project.

The work at Culmore represents an investment of approximately £578,000 and is part of a wider spend on base maintenance for sites across Northern Ireland.



Minister Kennedy in discussion with NI Water staff.



## Kennedy visits £3.1 m Wastewater Improvement Programme for North Down

Regional Development Minister Danny Kennedy visited NI Water's Bangor Sewerage Improvement Scheme. The Minister visited Bangor Marina and Luke's Point to view progress on NI Water's £3.1m

programme of improvement work to upgrade the sewerage infrastructure and key pumping stations in the area. The scheme, which got underway in November 2013, will be completed in 2014.



DRD Minister Danny Kennedy MLA inspects progress with Bill Gowdy, Director of Engineering Procurement

## Pollution Prevention Control

Thirty one of our wastewater treatment works fall under the Pollution Prevention and Control legislation. We recognise odour can affect our customers living close to some of these works. We will focus on investing to comply with odour conditions for each site. Other waste activities within the organisation are managed through waste management licences and exemptions.



## Revised Bathing Water Directive

Bathing water quality is monitored by the NIEA under the European Bathing Water Directive.

The revised Bathing Water Directive comes into force in 2015, introducing more stringent standards and will consider compliance over a 4 year period. For the purposes of the Blue Flag awards, the increased compliance requirements under the revised Directive will be used for the 2013 season onwards.



Northern Ireland has some of the **best bathing waters in the UK**, attracting thousands of **tourists** each year, which benefits our **local economy**.

## Positive Bathing Water Quality Results

NI Water welcomed the 2013 Bathing Water Quality results which showed 23 beaches met the required EC's Bathing Water Directive standard with Newcastle achieving Guideline standard, indicative that NI Water's £10 million investment programme to upgrade the Wastewater Treatment Works in the town has made a difference.



## Piloting sustainable solutions

NI Water is progressing a number of sustainable wastewater treatment pilot projects that will allow costs to be reduced whilst enhancing their surrounding natural environment. These will inform expansion of the use of this approach in the PC15 period.



Kieran Grant, NI Water Project Manager, Fergus Bannon, Dawson-Wam Ovivo, Jo Whatmough, Mourne Heritage Trust & Martin Carey (Mourne Heritage Trust) pictured with local landscape experts from Ellison Landscape Solutions (Crossgar), Mellwaine Landscape Architects (Killinchy) and Ecoseds (Strangford)

## Completion of Eco Roof at Newcastle

**NI Water embarked on a unique planting programme to 'green' up the roof on a new £8m extension to its wastewater treatment works at Newcastle harbour, a process known as hydro-seeding.**

NI Water's aim was to take all practical steps to minimise the visual impact of a large concrete structure on the shoreline within the Mournes Area of Outstanding Natural Beauty, and enhance the ecological value of the area by providing a herb-rich coastal grassland habitat for plants, insects and birds. Further measures toward improving habitats for seabirds, involved erecting nesting ledges for Kittiwakes on the seaward side of the new building, and development of a resourceful system for nesting boxes out of drainage pipes and small manhole systems.





**We take care of your  
wastewater so it doesn't  
pollute your environment**





## Our Goal

We are committed to reducing pollution incidents and will work with stakeholders to play our part in reducing flooding which we recognise causes distress and inconvenience.

## Our priorities to 2021

Prioritise investment to address issues in the sewerage system which lead to out of sewer flooding.

Investigate opportunities to increase storm water separation and reduce infiltration.

Increase the use of Sustainable Urban Drainage Solutions.

Investigate areas of known or suspected storm water sewer misconnections and consider options for, and implement, their removal.

Further progress all actions in NI Water's Pollution Reduction Strategy.

Deliver customer education campaign to reduce sewer blockages.

Contribute to the development of the NI Executive's Flood Risk Management Plans (2015-21) of appropriate, affordable solutions that reduce flood risk and support the Water Framework Directive.

Undertake a focused programme of repair and renewal in relation to gravity sewers, CSO structures, pumping stations and siphons.

## What our customers can expect in 2040

We will remove properties from the DG5 (out of sewer flooding) register within 2 years where a financially viable solution can be developed.

Customer educational campaigns will have successfully influenced a reduction in the number of sewer blockages.

We will have delivered a year-on-year reduction in the amount of storm water that enters the sewerage system by promoting storm water separation, infiltration reduction and use of Sustainable Urban Drainage Systems (SuDS).

NI Water will have targeted capital investment and operational interventions to reduce flood risk and to protect the aquatic environment from pollution.

We will move from reactive to proactive asset maintenance seeking to intervene and maintain our assets before failures affect customer service.

NI Water will be continuing to work with all relevant agencies to not only provide a multi-agency response to flooding incidents but to reduce the causes of flooding, including the delivery of shared and jointly funded capital projects.

NI Water will have invested to increase the resilience of all key pumping stations from flood water, allowing them to remain operational to minimise flooding and pollution.



## Wastewater treatment compliance

We remove wastewater from homes and businesses all over Northern Ireland. After appropriate treatment the effluent is returned safely to the environment.

We **continue to improve our discharges** to reduce the impacts on aquatic life and deliver cleaner rivers and beaches.

We manage and dispose of the bio-solids derived from wastewater treatment in accordance with waste management regulations.



We bettered our targets for wastewater treatment compliance in 2013, with **92.0% of wastewater treatment works compliant** (compared to a target of 88.6%) and **98.0% population equivalent served by compliant works** (compared to a target of 97.2%).

\* These targets are measured on a calendar year basis.

## Pollution from sewers

NI Water recognises the damage that can be caused to our environment through water pollution incidents. **We are committed to reducing the number of our pollution incidents** through our Pollution Reduction Strategy and Action Plan.

We work in partnership with the Rivers Agency and DRD Transport NI to manage the drainage systems and prevent flooding. The **Flooding Incident Line** is a single telephone number that can be used all day, every day to report flooding.



There were **0 high and medium severity pollution incidents** attributed to NI Water in 2013\*, against a target of no more than 46 high and medium incidents.

\* This target is measured on a calendar year basis.



## Investment to prevent flooding and pollution

**Internal flooding is abhorrent for the householder** and customers want NI Water to focus on improving services for those affected by sewer flooding. Those affected want a more proactive approach from NI Water at times of flooding to manage the situation and minimise the impact. We have developed a **register of properties at risk** from internal and external flooding. We are also carrying out work to address issues which cause out of sewer flooding.

## Communication

We will continue to review and develop our customer communication channels to ensure customers are kept informed during flooding incidents.

## Education

To **reduce flooding**, we maintain the public sewers to make sure they work properly. It is important that we all help by **only flushing human waste, toilet tissue and water down toilets and drains**.



See our information leaflet - *Advice for Customers who have Suffered Flooding*:  
<http://www.niwater.com/informationleaflets.asp>



Our **Pollution Reduction Strategy and Action Plan** has informed the development and implementation of a wide range of activities from proactive sewer desilting to focused customer education campaigns. Investment to address flooding and unsatisfactory intermittent discharges from sewer networks will continue over PC13 and PC15.



Pages 9, 12, 13 and 231  
[Read more about sewer flooding targets.](#)

On average NI Water deals with around **21,000 blockages** each year to the network and it is estimated that **65% are caused by inappropriate items** being put into the sewers. NI Water spends over **£1.6m per annum clearing blocked sewers**.



# Together we can beat the Dirty Dozen

**In support of our Bag it and Bin it Campaign we have launched 'The Dirty Dozen' poster.**

With no better place to start than at the workplace, we are encouraging all staff to help in the fight against this mischievous gang. The ring leader is the not so innocent baby wipe, closely followed by the usual suspects - nappies, bandages/plasters, tampons, razors, condoms, wrappers, syringes, cleaning wipes, cotton buds, sanitary pads, facial/baby wipes and cotton wool, which together complete the line-up for the 12 most common items the public flush down the toilet. These ordinary household items cause major havoc with the sewer system when flushed down the toilet!



Pictured is Angela Halpenny, Head of Environmental Regulation, placing the poster at the Westland Offices.



## Dirty Dozen

Flushing these items down the toilet can damage your home and the environment

			
Disposable Nappies	Bandages / Plasters	Tampons / Applicators	Razor Blades
			
Condoms / Femdoms	Wipes Whizzers	Syringes / Needles	Cleaning Wipes
			
Cotton Buds	Sanitary towels / Dirty Items / Incontinence Pads	Facial / Baby wipes	Cotton Wool



**Flushing inappropriate items can block YOUR sewers and even end up on our beaches.**

Remember only to flush the 3P's: • Pee • Poo • Paper

Waterline: 09457 440088 • Email: [waterline@niwater.com](mailto:waterline@niwater.com) • [www.niwater.com](http://www.niwater.com)  Northern Ireland Water  @niwater



**We supply you with  
the water you need**



## Our Goal

We will develop a sustainable, robust and resilient water treatment and supply system that provides protection against drought and emergency situations. We will work with development agencies, planners and others to ensure supply of services is in place to facilitate the demands of economic growth and sustain demographic change.

## Our priorities to 2021

Invest to improve our ability to transfer water from one area to another, remove bottlenecks and increase storage capacity.

Through effective monitoring, detection, repair and capital investment we will deliver leakage targets.

We will work with NIEA to develop and adopt a new abstraction license regime that aligns with the WFD.

NI Water aims to publish the Water Resource and Supply Resilience Plan in 2017. This will provide a resilient, sustainable and efficient vision and inform the PC21 Business Plan.

Continue to identify and address areas where there is a risk of repeat interruptions to supply.

Deliver customer education campaign to promote water efficiency and continue to identify and address areas experiencing low pressure.

Invest available funding to minimise constraints in development caused by lack of capacity at wastewater treatment works and in sewerage networks.

## What our customers can expect in 2040

We will have a secure, resilient water supply network that will provide protection against drought and emergency situations.

We will be continuing to manage leakage at an economic and sustainable level.

We will have made appropriate sustainable investment in both water and wastewater assets to ensure customers have unconstrained access to our services enabling economic development.

We will be using a catchment area approach to the assessment and management of risks to water sources.



## Interruptions to supply

We aim to provide enough water for everyday activities such as drinking, washing, cooking, running your central heating and flushing the toilet. **Sometimes we may have to turn off our customers' water supply to carry out essential work.**

We provide **alternative water supplies** for interruptions lasting **more than 24 hours**. Customers on our care register will receive alternative supplies when interrupted for less than 24 hours.



In 2013/14, customers experienced a **record low level of unplanned supply interruptions** lasting more than 6 hours.

## Infrastructure investment

We are investing to improve the water supply infrastructure across Northern Ireland.

### £14 Million Castor Bay to Belfast Trunk Main

**Regional Development Minister Danny Kennedy has announced a £14million investment package of work to improve the security of the water supply infrastructure for customers in Belfast and Lisburn.**

The 'Castor Bay to Belfast Water Trunk Main' which got underway in February 2014, involves laying a new 29km water pipeline from Castor Bay Water Treatment Works in Craigavon to south Lisburn, where the pipeline will link into an existing trunk main to transport the water supply on to Belfast. This major scheme will provide a vital source of water coming into Belfast, which will be especially important during future winters and in supplementing increased demand in the area. The project will continue until Summer 2015.

The project will also involve improving the water infrastructure around the pipeline route, including upgrading the existing Castor Bay Water Pumping Station (Craigavon); a new water pumping station at Sprucefield and a new water pumping station at St. Andrews Service Reservoir (Temple).







## Water resource and supply resilience planning

### Water resources

We operate and draw water from around 34 water sources which comprise upland impounding **reservoirs, boreholes, rivers and loughs**.

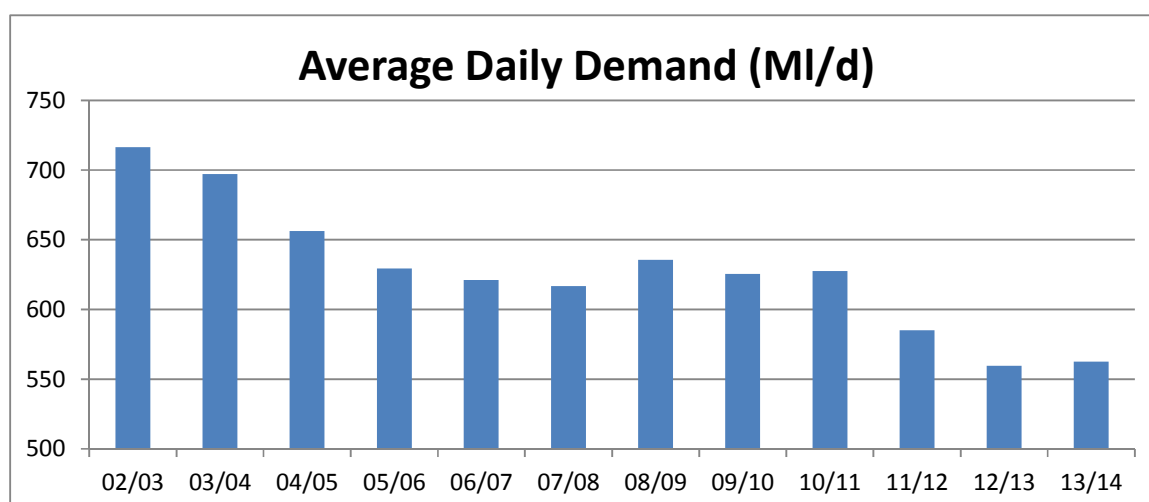
Our Water Resource Management Plan emphasises the need to further **reduce water losses** from the system whilst continuing to increase our **system connectivity**. This will allow us to increase the robustness of the network and meet our needs in a cost effective and reliable manner.

### Managing demand for water

Our Water Demand Management Strategy is focussed on **reducing water** taken from the **environment** by managing **leakage** and **consumption**.

Over **99%** of our raw water comes from **surface water sources**. Around 50% of our raw water is abstracted from Lough Neagh.

We supplied around **560 million litres** of drinking water per day. Households across Northern Ireland use around **145 litres per person each day**.





## Manage leakage

We recognise that customers perceive the levels of leakage as high. However, there is a balance to be struck between the costs of fixing leaks (including environmental impacts) against the value of water saved – the **economic level of leakage**. We are working to develop this long term leakage target.

We have both internal and external leakage detection resources focused on **proactive leakage detection**. In addition, there is an on-going emphasis on improving the **quality of flow data** within the Company to assist with improved leakage targeting and reporting. Alongside this, capital investment will continue on such areas as pressure management and district meter area rationalisation which help to identify and reduce leakage.

## Abstraction licences

NI Water will work with NIEA and other stakeholders to review abstraction licences with a view to potential rationalisation and alignment with the requirements of the EU Water Framework Directive. With the new licenses in place we will review how water is drawn from the environment to ensure this is done in a manner that is sustainable, cost efficient, and resilient.



In 2013/14 we bettered our **leakage reduction** target by **1.8 million litres per day**. This out performance against the target saved water equivalent to the consumption of around 5,000 domestic properties each day.

If you notice a leak on a road or footpath, please phone **Leak line on 08000 282011**. Lines are open 24 hours a day.



## Low pressure

We aim to give our customers water at a pressure of at least 15 metres of head at the boundary of the property. This means it takes about **30 seconds to fill a 4.5 litre bucket** from a kitchen tap.

Our **Geographic Information Systems** (GIS) have been developed to allow our call centre staff to identify customers with known low pressure issues. We also maintain a list of properties at risk of receiving their water supply below a certain pressure. Our **mains rehabilitation programme** is reducing the number of properties with low pressure.



In 2013/14 we **removed 132 properties** from the register of properties at risk of receiving **low water pressure**. A further 156 properties are to be removed from the register in 2014/15. There are currently 1,257 properties on the register.

**We provide excellent service by having the right people doing the right thing for you**





## Our Goal

As we continue to transform our business, we will focus on equipping all our staff to deliver the high quality of services that our customers expect.

## Our priorities to 2021

Improving the customer focus of all our activities so we excel in customer service and meet the needs of our customers.

Implement the Future Organisational Model and manpower planning exercise.

Support staff through continued business transformation which will require enhanced IT skills and changes to working practices.

Review our partners and contract service providers to ensure we are delivering services that represent value for money for our customers.

Continue to develop the skills of our staff through a range of development programmes that are targeted to enhance personal performance.

Maintain a healthy pipeline of apprenticeships which supports knowledge transfer in key functions and roles.

Maintain health and safety and wellbeing improvements, minimising impact on staff, and work with all key service providers to deliver further improvements.

## What our customers can expect in 2040

Staff delivering water and wastewater services will have strong technical and scientific skills consistent with the use of new technology.

We will be recognised as a local employer of choice and attract and retain the best talent available across all business areas enabling us to provide quality services to our customers.

Technology and processes will be in place to support our customers' requirements and all staff will be equipped to deliver great customer service.

Results from staff surveys of 'a great place to work' will be 'best in class'.

We will have maintained sector leading performance in health and safety and our zero accident ambition.

Employee volunteering schemes and other local initiatives will be recognised as benefitting our local communities and the professional development of our staff.



## Business improvement

We have commenced the '**Future Operating Model**' project to consider the best structure for our organisation as we move forward. Through reviewing our business process and current operating model we will streamline the way we do business providing improved service to customers at reduced cost.

## Staff development

NI Water has a key strategic focus on organisational performance, supported by our HR initiatives and our Future Operating Model programme. We are dependent on the capability and development of our people. Alongside the re-invigoration and revision of our **performance management system**, we have formal plans to improve the focus and availability of **development and training for our people**.

At NI Water, we recognise that technical and job specific learning is essential but needs to be continuously and consistently complemented by management, communication and interpersonal skills. We are **committed to the development** of all employees regardless of role and grade. We continue with our commitment to recruit and train **Apprentices and Graduates** within our business.



Our Future Operating Model will introduce best practice in our core business processes to improve our performance.

Our employees are encouraged and supported in the achievement of a **range of qualifications** which support NI Water in delivering a **better service to our customers**.

We use our dedicated **Learning and Development Centre** at Antrim to deliver a large proportion of our training programmes.



## Interview with Eimear Gourley

### What is your job role at NI Water?

My title is Graduate Civil Engineer. At present I am a project manager for the delivery of large Wastewater Treatment Works in the northern region of Northern Ireland.

### Do you have a typical working day?

Some days I will work from the office at Westland House, mainly appraising the finances of the projects, with respect to contractor and consultant invoices and compensation events, as well as ensuring that the overall project budget is being met. I may also seek to obtain approval for additional funding or appointing consultants and contractors for new roles. Other days I will be attending progress meetings on site, carrying out site inspections or meeting with stakeholders of the relevant projects.

### What skills do you need in your role?

Aside from my civil engineering degree the most important aspects of my job are communication and management. I interact with many different parties, from contractors and consultants to statutory bodies such as NIEA and Rivers Agency.

### What's the best thing about your job?

The best part of my work is the variety of it. My job also allows me to split my days between working outside in the fresh air and in the office.



Eimear Gourley



Eimear Gourley and her fellow Graduate Civil Engineering colleagues

### And the worst?

The unpleasant smells that I can encounter at the Wastewater Treatment Works.

### What's the highlight of your career to date?

I have been involved in the complete construction of a new Wastewater Treatment Works. This is a highlight to me as the state of the art facilities will make a huge positive difference to the environment and the local residents and businesses in the area.

### What is the most common question people ask when they find out what you do?

Are there many women in your field of work?

### What did you want to be when you were at school?

I have always wanted to become an engineer, either civil or structural. Having always thrived on problem solving and mathematics, I realised that a civil engineering career could be the most enjoyable and fulfilling.

### Did you always want to work in your chosen sector?

I wanted to be an engineer in the construction industry; however I never imagined that I would work in the water and wastewater sector. It was only whilst undertaking my dissertation at University that I took a strong interest in this industry.

My dissertation was to develop alternative wastewater treatment technologies for developing countries.

### What makes working in your industry interesting and challenging?

Everyday delivers a new problem that requires cooperation, communication and knowledge to solve it. I am continually learning from my peers, through structured training programs and on the construction sites. I am helping to provide a vital service to our community by maintaining an excellent standard of wastewater treatment and I find this very rewarding. It is challenging working with many different personalities and trying to accommodate each one to the best of my ability.

### What do you like to do in your spare time?

I love to play hockey for Lisnagarvey Hockey Club Ladies 1st XI. We compete in the Premier Ulster Hockey League which is very competitive and requires a lot of dedication.

### Tell us an interesting fact about yourself.

I design and make fun, unique candles for each occasion throughout the year, from Christmas tree and Santa candles to Easter egg and Halloween candles.

# Rising Star Award for Gareth McFarland

NI Water's Gareth McFarland (Distribution Technician, Omagh) has been selected as a 'Rising Star' as part of the Institute of Water's (IW) ongoing work to nurture rising talent in the water sector.

IW have teamed up with Utility Week to celebrate and reward eight young members who have shown both the potential and an appetite to progress in the water industry. Gareth attended the Utility Industry Achievement Awards Dinner along with the other young water professionals at Grosvenor House Hotel, London in December. Accompanied by Chris Loughlin (CEO, South West Water and Institute of Water National President) and Barbara Frost (Chief Executive, WaterAid), the group were introduced to key figures from the UK Water industry and offered advice on how to network and make best use of the occasion.



Gareth (centre left) at the Utility Industry Achievement Awards





## Five New Apprentices On-board

NI Water welcomed five new apprentices in January 2014 as part of our on-going commitment to recruit young enthusiastic people into the business.

As part of their two year apprenticeships, they will complete an extensive training programme which includes Health & Safety, an accredited CABWI Level 2 Diploma in Water Engineering and also a CABWI competence based QCF qualification, level 2 in their relevant areas.



The new apprentices with their work companions

## Health and safety

We have a **zero accident ambition**. We continue to **focus** on making NI Water a **healthy and safe place to work** by working with our employees, trade unions and contractors to improve the health of our employees and reduce accidents in the workplace.

## RIDDOR KPI and H&S Performance

We are pleased to announce that the Health and Safety (H&S) performance and safety behaviours within NI Water continue to set an example to all other water industry companies.

The table below shows our performance since 2002 which despite an increase from 2011/12 of four RIDDORS to six in 2012/13, it does show a significant

drop over the past 10 years (2002) where we had 38 incidents. We recognise that even one accident is too many due to the major impact on the injured party, their colleagues, their family and friends and urge your continued efforts and vigilance to report all near misses due to their direct correlation with the number of potential incidents and accidents.

### NI Water H&S Performance RIDDORs 2002 - 2014



## Success in the RoSPA Awards 2013 for NI Water

NI Water's approach to occupational health and safety was recognised in an awards scheme run by the safety charity, the Royal Society for the Prevention of Accidents (RoSPA).

NI Water received the 2013 RoSPA Gold Award recognising the dedication of its staff and senior management to the Safety and Health of its employees and to continuous improvement in this regard.

Dating back 57 years, the RoSPA Awards scheme is the largest and longest-running programme of its kind in the UK.



We are always striving for continuous **improvement** across all aspects of health and safety, with one such initiative being our **'Safe Contract Management' theme** which focuses on delivering a safety culture through effective safety behaviours.

## Action Cancer & Blood Donation Visits



NI Water's Directors, Ronan Larkin, George Butler and Alec McQuillan received their very own Health MOT as they visited the Action Cancer Big Bus. The Action Cancer Big Bus visited a number of NI Water sites. A large number of employees availed of health checks and screenings from the Action Cancer Team.

## Manpower planning

We have a number of **learning and development programmes** in place for employees which support achievement of personal and corporate objectives. This includes our Management Development programmes aimed at senior and middle managers, and specialist programmes.

Details on the **gender breakdown** of our workforce are disclosed in note 8 to the Statutory Accounts.

As part of an on-going initiative to **support school and university leavers** in the workplace, we continue to recruit apprentices and graduate trainees. This helps us build and retain talent for the future.

## Watermains Team Scoop Prize at Construction Excellence Awards

NI Water's watermains rehabilitation contractor, Lagan Construction scooped a prestigious Construction Employers Federation (CEF) award in recognition of the work on the A2 Belfast – Bangor Watermains Improvement Programme. The Belfast to Bangor dual carriageway is one of the busiest arterial roads in Northern Ireland.

Judges for the Utilities Infrastructure Category commended the project team for their collective work on the project, which represented a £2 million investment to improve and upgrade the watermains network in the North Down area of Northern Ireland.

The majority of the work was completed at night time during weekends to minimise the disruption to commuters from the North Down area to Belfast, and to reduce the overall project costs.

(L-R) Linzi Moore, Seamus Devlin (Lagan Construction), Gary Curran (NI Water), Peter Kelly, Sean McGlinchey and Catriona Donnelly (all Lagan Construction) pick up the prestigious award.





## Engaging employees

Making our goals a reality depends on the motivation and engagement of our employees. We are determined to ensure that NI Water becomes a great place to work. We conduct **employee surveys** in order to assess employee engagement levels across the organisation and undertook our latest survey in June 2013.

Consultations with the **Trade Unions** have been constructive and progressive and we've always sought to reach agreement on all matters wherever possible. There have been tough decisions made in the past but in a pragmatic manner as we have developed mutual trust-based relationships. All those involved will be seeking to maintain this going forward when there will be further strong challenges ahead.

Although NI Water is unionised, not all employees take up this option and having an **Employee Forum group** that can feedback on business initiatives and provide and facilitate feedback outside of the union framework, is a positive and beneficial two way communication avenue for the business and employees.

The active involvement and engagement of employees is key to delivering individual, team and corporate goals. We are always keen to hear ideas and receive feedback through our **Chief Executive and employee workshops** which are held at various locations across the Company.

NI Water has an established **consultative framework with the three Trade Unions: NIPSA, UNITE and GMB**. We met regularly throughout 2013/14 to address **operational matters** but also more **strategic issues** e.g. implementation of Geographic Positioning System in our fleet, review of HR Policies and Pay Submissions.

In 2013/14, NI Water set up an **Employee Forum Group**. This group was established to **promote employee involvement, participation and feedback** and provides a framework for communication and discussion on matters affecting all employees.



We achieved a response rate of 56% to our **annual employee survey**. This was below the target of 65%. A number of actions are being taken to focus on key areas within the survey.

# Our wider role in the community



## Our wider role

We are committed to contributing to the **economic development** of Northern Ireland and to producing a **cleaner environment** while improving the **quality of life** of our workforce and the local community.

As our activities touch the lives of everyone in Northern Ireland, it is important that we behave **ethically** in all areas of our business, provide **education** on the value of water and water efficiency and maintain the highest standards of financial and business **governance**.

# Over 2,000 volunteer hours given to Cares Challenge!

**NI Water staff have clocked up over 2,000 volunteer hours through Business in Community's Cares' programme since last year.**

The NI Water Cares Challenge Programme is an annual, action-packed programme of volunteering activity planned to help various groups throughout Northern Ireland. It is led by a member of NI Water's Executive Committee/Board with colleagues joining them from around the business.

250 NI Water volunteers from throughout Northern Ireland have helped 19 charities and community

groups with physical tasks such as gardening and painting. As an organisation that provides a vital service throughout Northern Ireland, we have embraced the opportunity to engage with the community we serve.



In May 2013, eighteen volunteers from across NI Water dedicated a day of their time helping to restore gardens and outdoor areas at Arvalee School and Resource Centre in Omagh which had been badly damaged by a fire.

## Changing how we think about water

Our **Education Department** provides support for all age groups in all walks of life. Every aspect of water in our lives is considered.

We deliver community education by engagement with children, youth and adult groups.

We are supporting the Northern Ireland Curriculum through the delivery of free programmes by our trained staff - we are delivery partners for Water and Health for the Eco Schools Programme.

During 2013/14 the Education Team visited over **9,100 school children**; 68 schools have had classroom based visits; and 63 schools have been visited by the Waterbus. In relation to our own NI Water based classrooms; 12 schools have visited our Silent Valley centre (in the Mourne Mountains) and 13 schools have visited our Heritage Centre in Duncrue Street, Belfast.



Our **Waterbus** is a double decker mobile classroom which travels throughout Northern Ireland. Pupils learn through presentations and demonstrations about the water cycle, water for health, water conservation and water and wastewater treatment.



Our 2013/14 **education initiatives** improved consumers' water efficiency measures, resulting in a saving of around **219,000 litres** of water per day.

# Annual schools competition

NI Water was delighted to have joined forces this year with a number of important stakeholders including the Department for Regional Development, to launch this year's annual schools art competition. The theme of this year's competition was 'Stop Internal Flooding' and

was open to all primary five to seven pupils across Northern Ireland.

Pupils were asked to draw a poster of how to prevent flooding in the home as a result of blocked toilets, sinks or frozen pipes.



Pictured is Aislinn McSherry from Bunscoil Phobal Feirste with NI Water's CEO Sara Venning, H2O and DRD minister Danny Kennedy. Aislinn won second prize in the Primary Seven category.



Find out more about our education programme:



<http://www.niwater.com/education-and-the-community/>



## Supporting local communities

We work with local communities to **share expertise**.

### Wellington College Visit Newtownbreda WWTW

To support the ongoing work to promote the STEM subjects amongst students (Science, Technology, Engineering & Mathematics), NI Water's engineering staff led groups of Year 13 Wellington College pupils, studying Applied Science, around the recently upgraded Newtownbreda WWTW during September.



NI Water participates in the Business in the Community '**Time to Read**' Scheme in conjunction with local primary schools. By spending a small amount of time with a child in a local school, our employees are helping the school children to develop an interest in reading or numbers. A total of **8 volunteers** have been trained and have attended local primary schools, assisting **16 school children**.

We are also working with **local secondary schools** and **local universities** to support students in their development through presentations, mentoring and work placements.

## NI Water delivers successful outcome for Larne Residents



NI Water staff involved in completion of the scheme.

NI Water completed a £150,000 scheme in Lindara Development, Larne, bringing the sewers up to an adoptable standard under an enforcement order after the Developer was unable to complete the sewers. The work was completed in early December 2013.

During the course of the work site visits were made by Danny Kennedy, Minister for Regional Development, and local MLAs, who were pleased with the project work.

## Killylane Reservoir hosts World Police & Fire Games

**The World Police and Fire Games Freshwater Angling championships took place at Killylane Reservoir at Ballyboley, near Larne, on 5 and 6 August, with competitors from countries including Northern Ireland, Iceland, Scotland and the USA vying to lift the gold medal!**

Killylane is a popular spot for local anglers; the Reservoir is maintained by NI Water and is an important source of raw water used to provide high quality drinking water to a large area of East Antrim.

NI Water was delighted to have played a role in the 2013 World Police and Fire Games by making Killylane available to the organisers. Northern Ireland already has some of the finest freshwater angling sites in Europe, and Killylane is well known as an excellent site for brown trout in particular. We are very pleased that we have contributed to the feel good atmosphere of the 'friendly games'.



(L-R) WPFPG volunteer Christine Murray, Anthony Shobe of WPFPG 2015 Organising Committee (Fairfax County, Virginia, USA) and Maynard Cousley, Acting Head of Water Supply.

## Supporting charities

Our employees and suppliers work with a range of charities including WaterAid.

# Annual WaterAid NI Ball 2013

WaterAid, which is NI Water's designated charity and employee lead, transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities- Africa, Asia and the Pacific region.

Throughout the year NI Water employees tirelessly fundraise climaxing with the Annual WaterAid NI Ball in October. The 2013 Ball was held at the Titanic Signature Building hosted by the infamous May McFetridge. The event raised an amazing £60k for the Charity!



NI Water staff, and May McFetridge, promoting the WaterAid NI Ball



Pages 71 and 104.

Read more about protecting our environment and our governance.

By order of the Board

A handwritten signature in black ink, appearing to read 'Sara Venning'.

Sara Venning  
Chief Executive  
25 June 2014

# Governance



Benone Wastewater Pumping Station, County L'Derry.  
Image courtesy of Alan Lavery photography.

# Corporate governance

## Chairman's introduction

I am pleased to present the Corporate Governance Report for 2013/14.

This report describes the key features of the Company's corporate governance structure and compliance with the relevant provisions given its status as a Government Owned Company (GoCo) under the Companies Act 2006 and as a Non-Departmental Public Body (NDPB) sponsored by DRD.

The Board is committed to the principles of good corporate governance as set out in the Management Statement and Financial Memorandum (MSFM).

Some of the key developments in corporate governance in 2013/14 are as follows:

- Verification received from DRD in relation to the complete implementation of NI Water's MSFM;
- further improvement in regularity compliance and financial and procurement governance through improvement in assurances provided to the Audit Committee;
- the 2013/14 review of the Risk Management Framework received 'Substantial assurance' from internal audit and that the Risk Committee provides an effective oversight function;
- effective implementation of NI Water's integrated approach to corporate governance through protocols of joint workings with other utility entities to improve resilience;
- received Centre of Procurement Expertise (CoPE) reaccreditation with significant improvements in controls;
- strengthening of NI Water's 'Information Governance' to ensure that accurate and reliable information is readily available to support service delivery and reporting;
- collaboration with local universities through research on best practice governance, internal controls and risk management; and
- effective collaboration with other UK Water and Wastewater providers and local utility companies to share learning and resources through benchmarking and mutual agreements.

## Culture, values and behaviours

The culture within NI Water is an important foundation for the corporate governance environment. It is based on the vision and values we subscribe to and associated behaviours that we have come to expect from our employees, such as delivering results and improved performance through empowerment and teamwork.

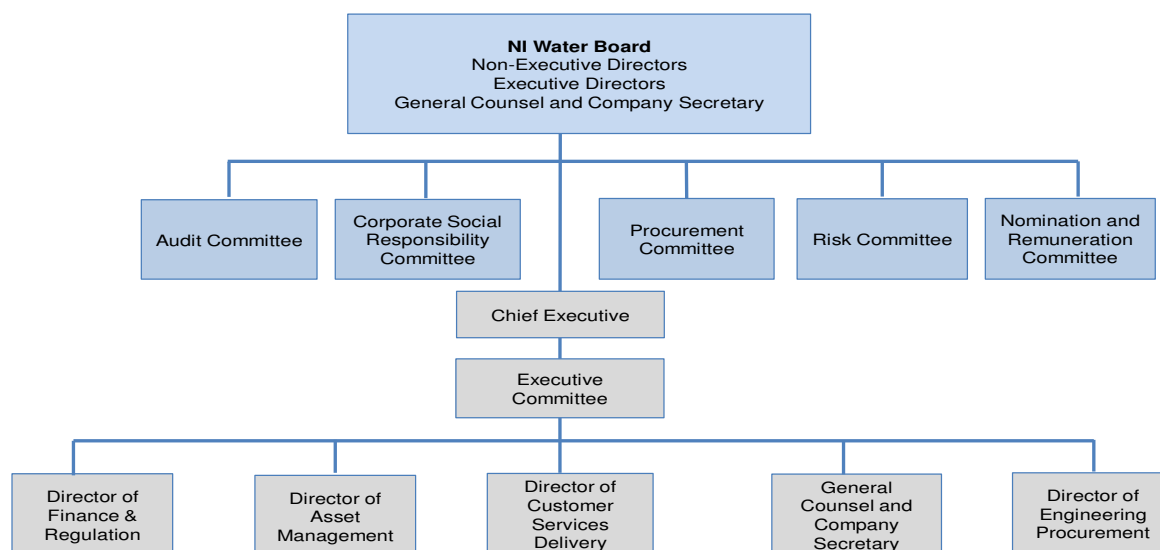
## Compliance statement

The Board has taken into consideration the governance arrangements established between NI Water and DRD through the MSFM and the relevant governance provisions in the Department of Finance and Personnel's (DFP) guidance entitled 'Managing Public Money Northern Ireland' (MPMNI).

The Board considers that, during the year and up to the date of this report, it has complied with the main principles of corporate governance that applies to NI Water as set out within the MSFM. The MSFM draws on best practice corporate governance arrangements as set out in the UK Corporate Governance Code and the Government Code.

### Board and Executive Committee structure

The Board and Executive Committee structure is shown below:



### Operation of the Board

The Board has ultimate responsibility for ensuring that the Company is properly managed and achieves its strategic objectives. It has an agreed schedule of matters reserved for Board decision, which includes setting long term strategic and business objectives within the policy and resources framework determined by the Minister and DRD, overseeing the Company's internal control systems and risk management and ensuring that appropriate resources are in place to enable the Company to meet its objectives. The Board meets at least 11 times in each calendar year and convenes additional meetings as and when required.

The Chairman and the other Non-Executive Directors are appointed by DRD Minister. The Chairman has responsibility for the effective workings of the Board and agrees the agenda in consultation with the Company Secretary. Papers, including minutes of Board committees held since the previous Board meeting and reports, are circulated in advance of each meeting. The Senior Independent Director acts as a 'sounding board' for the Chairman and fulfils an intermediary function for other Directors if required. The Senior Independent Director is also available to address any concerns of the Shareholder which either have not been suitably addressed, or are inappropriate to address, through the normal communication channels. The Chief Executive is responsible for the executive management of all of the Company's business and for implementing Board strategy and policy within approved budgets and time-scales.

The Board has considered the status of the Non-Executive Directors over the year and considered them to be independent in character and judgement. The Non-Executive Directors contribute external expertise and experience in areas of importance to the Company such as corporate governance, financial management, corporate, procurement, social and environmental strategy, systems of internal control and risk management. The Non-Executive Directors also provide independent challenge and rigour to the Board's deliberations.

### Board Committees

A committee structure is in place to assist the Board in the discharge of its responsibilities. The Terms of Reference of the Audit Committee, the Risk Committee, the Corporate Social Responsibility Committee, Nomination and Remuneration Committee, and the Procurement Committee may be obtained on written

request from the Company Secretary at the address given on the back cover of this report. The membership of the Board Committees is set out below:

	Membership (until August 2013)	Membership (from August 2013)
<b>Audit Committee</b>	Donald Price [Chair]	Donald Price
	Seán Hogan	Kevin Steele [Chair]
	Jim Stewart, CBE	Jim Stewart, CBE
<b>Risk Committee</b>	Jim Stewart, CBE [Chair]	Jim Stewart, CBE [Chair]
	John Rae	John Rae
		Deep Sagar
<b>Nomination and Remuneration Committee</b>	Seán Hogan [Chair]	Seán Hogan [Chair]
	Donald Price	Donald Price
		Jim Stewart, CBE
<b>Procurement Committee</b>	Kevin Steele [Chair]	Deep Sagar [Chair]
	Deep Sagar	Seán Hogan
<b>Corporate Social Responsibility Committee</b>	Seán Hogan [Chair]	John Rae [Chair]
	John Rae	Kevin Steele

#### Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2014	Date of appointment	Date of expiry
Seán Hogan	3 Years	24 March 2011	31 March 2015
Donald Price	5 Years	29 July 2008	30 June 2014
Kevin Steele	3 Years	21 June 2010	July 2015
Deep Sagar	2 Years	22 August 2011	July 2015
John Rae	2 Years	22 August 2011	July 2015
Jim Stewart, CBE	2 Years	22 August 2011	July 2015
Sara Venning	3 Years	21 May 2010	n/a
Ronan Larkin	8 Years	19 September 2005	n/a
Mark Ellesmere	7 Years	26 June 2006	n/a
George Butler	8 Years	28 April 2005	n/a
Trevor Haslett	n/a	27 January 2011	30 August 2013

#### Report by Kevin Steele, Chair of the Audit Committee

The Audit Committee has, throughout the year, monitored the integrity of financial reporting together with the Company's formal announcements relating to its financial performance, paying particular attention to significant reporting judgements contained therein. The Audit Committee provided oversight on the effectiveness of financial risk management and its associated controls; reviewed the effectiveness of NI Water's Fraud, Theft, Whistleblowing and Bribery policies and procedures, awareness training, and the effectiveness on investigations. In addition, it reviews the effectiveness of the other good governance and internal control policies such as Code of Ethics, Conflict of Interest, and Gifts and Hospitality and Anti-Bribery and Corruption.

The significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed, are listed below:

- the level and treatment of claims from contractors were monitored during the year with additional information sought from management as appropriate; and
- the deferred tax charge and related provision were considered in the light of the agreement between HMRC and the water industry on capital allowances. This has given rise to the preparation of revised tax computations which it has been agreed with HMRC will be resubmitted in the course of 2014/15.

Where requested by the Board, the Audit Committee provides advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Company's performance, business model and strategy.

The Audit Committee met with the Risk Committee to consider the Chief Executive's Year-end Assurance Statement and to consider Internal Audit's Annual Assurance Statement which provides the Chief Executive, as Accounting Officer, and the Audit Committee, with an opinion on the overall adequacy and effectiveness of NI Water's framework of governance, risk management and internal control.

As Chair of the Audit Committee, I have recent and relevant financial experience.

By invitation of the Committee other individuals such as the Company Secretary, Director of Finance and Regulation, Financial Controller, Head of Corporate Governance, Head of Internal Audit and the External Auditor were normally in attendance for all or part of those meetings. The Director of DRD's Shareholder Unit, was also invited to attend Audit Committee meetings as provided for in the MSFM.

The Audit Committee met with the Company's External Auditor at least four times in the year. The Committee and the External Auditor also held separate meetings without the attendance of executive management. In their assessment of the independence of the External Auditor, the Committee received in writing details of relationships between the External Auditor and the Company, which may bear on the External Auditor's independence and received confirmation that they are independent of the Company as required by International Standard on Auditing (UK and Ireland) 700 Revised.

The Audit Committee approved the level of the External Auditor's fees in respect of the audit of the Statutory and Regulatory Accounts of the Company, along with other financial information returns to the Utility Regulator, considered the adequacy of the External Auditor's proposed audit plan, and reviewed compliance with their letter of engagement.

The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the External Auditor. KPMG was reappointed as External Auditors on 15 July 2013 for the duration of three years with an option for extension on an annual basis for a further three years.



# Tackling metal theft

Theft of metal from NI Water's premises and street furniture is a significant risk to our colleagues and the public at large.

Besides the high cost to replace these assets, NI Water have invested a significant amount on preventative measures but it takes legislation and enforcement to deter metal theft. The 'NI Utilities Group on Metal Theft' has supported Roy Beggs Jnr, MLA,

with the public consultation with a view of introducing a Scrap Metal Dealers (NI) Bill.

NI Water will continue to support this and other initiatives with PSNI and NIEA to reduce the risk of metal theft. Colleagues are encouraged to report any metal theft to Crimestoppers (0800 555 111), and through the normal internal reporting processes including DATIX.



(L-R) George Ong, NI Water, Roy Beggs MLA and Sam Gibson, NIE at Ballyvallyagh substation

The Audit Committee reviewed the non-audit services provided by the External Auditor. Non-audit services such as independent certification work are pre-approved as a matter of policy. Other non-audit services which are considered to have the potential to impair or appear to impair the independence of the audit role, such as design and implementation of financial information systems, are precluded from being provided by the External Auditor.



Page 153

See note 7 to the Statutory Accounts for the fees relating to audit and non-audit services.

The Head of Internal Audit reported to the Chief Executive as Accounting Officer (for administrative purposes) and to the Chairman of the Audit Committee (in respect of the scope and remit of internal audit activity, assessment of adequacy of resources, appraisal of function effectiveness and ongoing assessment of independence). The Head of Internal Audit met with the Chairman of the Audit Committee without management to discuss the Company's overall control environment. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function. In

accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit provided an annual self-assessment of the function's performance to the Audit Committee.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Audit Committee's Terms of Reference. A formal report was presented to the Board and the Board approved the revised Terms of Reference of the Committee in September 2013.

#### [Report by Jim Stewart CBE, Chair of the Risk Committee](#)

The Risk Committee provided oversight on NI Water's risk management framework and strategic risk management. Membership of the Risk Committee consists of three Non-Executive Directors – myself as Chair, John Rae and Deep Sagar. By invitation of the Committee other individuals such as the Chief Executive, the Director of Customer Service Delivery, the Director of Finance and Regulation, the General Counsel and Company Secretary and the Head of Corporate Governance (Chief Risk Officer) were normally in attendance for all or part of those meetings.

The Committee met on a quarterly basis and reviewed the risk management policy, the strategic risk management towards the achievement of the Company's objectives, risk appetite, forward risks, risk horizon scanning, benchmarking of risks, training and awareness and the management of actions to reduce the Company's risk exposure to an acceptable level.

The Risk Committee reviewed strategic and operational risks and the Chair of the Risk Committee provided a report to the Board on a monthly basis on key matters of risk and assurance. A strategic risk management report was also included in the Chief Executive's report to the Board on a monthly basis.

The Committee continues to provide support to management in relation to research and development in risk management. As a result, management has made further improvement to its Risk Management Framework by developing an Opportunity Register for 2014/15 to be managed alongside its Corporate Risk Register.

A joint meeting between the Risk Committee and Audit Committee was held to review the effectiveness of the Company's internal control and risk management framework and the Board was satisfied with the annual review provided by both Committees.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Risk Committee's Terms of Reference. A formal report was presented to the Board and the Board approved the revised Terms of Reference of the Committee in April 2014.

#### [Report by Seán Hogan, Chair of the Nomination and Remuneration Committee](#)

Refer to the Directors' remuneration report on pages 123 to 127.

#### [Report by Deep Sagar, Chair of the Procurement Committee](#)

The Committee reviewed the Company's procurement strategy, policies and procedures and the Company's Procurement Plan under its operating Licence. In addition to the above matters, the Committee also considered a strategy for collaborative procurement of common goods and services, the successful Centre of Procurement Expertise (CoPE) re-accreditation project as well as a number of Procurement Guidance Notes. The Procurement Committee met four times in the year.

#### [Report by John Rae, Chair of the Corporate Social Responsibility \(CSR\) Committee](#)

The Committee reviewed and amended the CSR reporting model, received value statements from relevant parts of the organisation and continued support of the Cares Challenge Volunteering project among other matters. The Committee also received presentations from other organisations concerning their approach to CSR. The CSR Committee met four times in the year.

### Operation of the Executive Committee

The Chief Executive is supported by the Executive Committee. Membership of the Executive Committee is shown below and comprises the Executive Directors and Executives responsible for key central and operational functions:

#### *Members of the Executive Committee:*

Sara Venning\* – Chief Executive (appointed Interim Chief Executive on 31 August 2013 and Chief Executive on 1 April 2014)

Ronan Larkin\* – Director of Finance and Regulation

George Butler\* – Director of Asset Management

Alec McQuillan – Interim Director of Customer Service Delivery (appointed on 31 August 2013)

Mark Ellesmere – General Counsel and Company Secretary

Bill Gowdy – Director of Engineering Procurement.

#### *Former members of the Executive Committee:*

Trevor Haslett\* – Chief Executive (retired on 30 August 2013).

\*Executive Director.

Further details on our Executive Committee can be found at:



<http://www.niwater.com/our-executive-committee/>

Procedures are in place to allow Directors to take independent professional advice in the course of their duties. All Directors have access to the advice and services of the Company Secretary.

Where a Director has a concern over any unresolved business he or she is entitled to require the Company Secretary to minute that concern. Should he or she later resign over this issue, the Chairman, or in the absence of the Chairman, the Chief Executive will bring it to the attention of the Board. NI Water purchases Directors' and Officers' liability and indemnity insurance which cover its Directors and Officers against the costs of defending themselves in civil proceedings taken against them in that capacity, and also in respect of damages resulting from the unsuccessful defence of any proceedings.

### Directors and their interests

The names of the Directors currently serving on the Board are set out on page 120. Details of the Directors' employment agreements and interests are shown in the Directors' remuneration report.

### Directors' interests in contracts

No Director had a material interest at any time during the year in any contract of significance with the Company. Details of Directors' interests in other companies are disclosed in note 29 to the Statutory Accounts.

### Remuneration

The Directors' remuneration report, which includes a statement on the Company's policy on Directors' remuneration, is set out on pages 123 to 127.

### Re-appointment

There is no requirement for retirement by rotation and re-appointment of Directors under the Company's Articles of Association.

#### Performance and effectiveness reviews

Before the end of the financial year, the Board agreed to undertake a review of its effectiveness (to include board sub-committees). The review is to be externally facilitated.

#### Shareholder relations

The Board recognises the importance of representing and promoting the interests of its Shareholder and that it is accountable to the Shareholder on governance, performance and activities of the Company.

#### Going Concern

NI Water is subject to economic regulation rather than market competition. The Company's charges are reviewed annually by the Utility Regulator. The members, taking all relevant factors into account (including the fact that as an NDPB, NI Water is subject to public expenditure constraints), consider that NI Water will have adequate resources to continue in operational existence for the foreseeable future. The accounts are therefore prepared on a going concern basis. Further information on going concern is contained in note 1(c) to the financial statements on page 135.

## Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2013/14 are shown below.

	Board meeting		Audit Committee		Corporate Social Responsibility Committee		Procurement Committee		Nomination and Remuneration Committee		Risk Committee		Joint Risk and Audit Committee	
	Held <sup>17</sup>	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Seán Hogan	11	9	6	1	4	1	3	2	1	1	-	-	1	1
Donald Price	11	9	6	5	-	-	-	-	1	-	-	-	1	1
Kevin Steele	11	11	6	5	4	2	3	1	-	-	-	-	1	-
Deep Sagar	11	11	-	-	-	-	3	3	-	-	4	2	1	-
John Rae	11	11	-	-	4	4	-	-	-	-	4	4	1	1
Jim Stewart, CBE	11	10	6	6	-	-	-	-	1	1	4	3	1	1
Trevor Haslett	11	4	6	1	4	1	3	1	-	-	4	2	1	1
Ronan Larkin	11	11	6	6	-	-	3	3	-	-	4	4	1	1
Mark Ellesmere	11	10	6	6	-	-	3	3	1	1	4	4	1	1
George Butler	11	11	-	-	4	4	3	1	-	-	-	-	-	-
Sara Venning	11	11	6	5	4	4	3	3	-	-	4	3	1	1

Membership of the Committees was changed in August 2013 which affects some of the attended columns. Trevor Haslett, the previous Chief Executive, retired on 30 August 2013. The number of meetings that he attended was dependent on when the meetings were held with respect to his time in office.

<sup>17</sup> This does not include ad hoc Board meetings during the year on specific items.

#### Internal control and risk management

An effective system of internal control and risk management is central to the achievement of NI Water's vision and corporate objectives. Our 'Risk and Assurance Framework' identifies and prioritises the management of the risks towards the achievement of these objectives, in line with the risk appetite. Risk is managed on a business-wide basis through an 'Integrated Governance Framework' thereby reducing the risk of 'silo' risk management. This also ensures that appropriate ownership and resource is centred towards monitoring effective controls and completion of required actions to reduce risk across the organisation.

Risk assurance is managed over the year through a process of forward risk review, horizon scanning, benchmarking and risk workshops at various levels of the business and independently reviewed through internal and external audit functions.

Internal Audit reported on significant control issues and provided independent, objective assurance and advice based on the results of the internal audit reviews carried out, follow-up reviews, relevant advisory work and consideration of the current internal control, governance and risk management framework.

The Board has overall responsibility for the Company's system of internal control and risk management. The Board reviewed the effectiveness of the system of internal control, including strategic, financial, operational and compliance requirements, in terms of its effectiveness and adequacy. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage rather than eliminate the risk of failure to achieve business objectives. The Board reviewed corporate risks on a monthly basis and identified ways in which to enhance the control and risk assurance in the Company.

The Board has established two sub-Committees to assist it in dedicating more time to internal control and risk management but ultimate responsibility still rests with the Board. The Risk Committee provided an oversight and strategic challenge function in relation to the management of principal risks and those significant risks escalated during the year. The Audit Committee provided the oversight for financial risk management and its associated controls on behalf of the Board.

The Audit Committee and the Risk Committee received quarterly reports from the Executive Committee on the significant financial and non-financial risks respectively faced by the Company. Any significant control weaknesses that have been identified as requiring remedy are also escalated to the respective Committees. The action plans were monitored on a quarterly basis on the improvements made to the controls and towards the achievement of the Company's risk appetite. A joint meeting of the two committees was held at end of the financial year to consider the Year-End Assurance Statement and Internal Audit's Annual Assurance Statement. Recommendations were also made to the Board on the effectiveness of the Company's internal controls and risk management. The Board has confirmed that procedures providing an on-going process for identifying, evaluating and managing the principal risks faced by the Company, have been in place for the year to 31 March 2014 and up to the date of the approval of the Annual Report and Accounts.

# Governance Statement

## Introduction

NI Water, being a Limited Company, complies with the Companies Act and all Directors have collective responsibility. In compliance with Companies Act and best practice, the Corporate Governance report on pages 104 to 113 sets out the role of the Board and the assessment of its effectiveness in discharging its responsibilities.

NI Water is a Government Owned Company (GoCo) and complies with the MPMNI as set within the MSFM established with DRD. One of the compliance requirements with MPMNI requires a 'Governance Statement' to be included in the Annual report. Given that some of the compliance requirements as specified in Annex 3.1 of MPMNI have already been included in the Governance Report, the Governance Statement needs to be read in conjunction with this report. The Governance Statement forms part of the audited financial statements.

## Scope of responsibility

As Chief Executive and Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of NI Water's policies, aims and objectives. I am also responsible for safeguarding the public funds and the Company's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in MPMNI, and as specified in the MSFM agreed between NI Water and DRD.

The governance arrangement complies with the best practice standards of regularity and propriety in the use of Public Funds and the principles of MPMNI. DRD approves NI Water's Annual Budget and Operating Plan and regularly reviews the Company's performance against its targets.

The work of the Company is directed by its Board and Executive Committee. There is a comprehensive reporting and accountability system provided through the Executive Committee, Board and Sub-Committees of the Board who, together with the work of Internal and External Audit, support me in my role as Chief Executive and Accounting Officer.

## Governance Framework

The system of internal control is designed to provide a governance framework for decision making and provide proper controls to ensure the safeguarding of resources and the achievement of value for money. The system of internal control is designed to manage risk and opportunity to a reasonable level (rather than to eliminate all risk of failure), and to achieve the Company's vision and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is supported by a risk management framework to provide an ongoing process to identify and prioritise the risks to the achievement of the Company's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control also considers the impact of the risks crystallising and seeks to demonstrate their efficient, effective and economical management.

The Company applies an integrated governance approach in ensuring good governance and sources of assurance are in place as set out in its 'Integrated Governance Framework' and manages the risks associated with the achievement of its policies, aims and objectives through the 'Risk and Assurance Framework'. The Company continues to work with professional bodies and within the industry to share good practice and key learning points to further improve on its governance arrangements and risk management, along with on-going research and development with local universities.

The system of internal control has been in place in NI Water for the year ended 31 March 2014 and up to the date of approval of the Annual Report and Accounts, and accords with DFP's and HM Treasury's guidance, where appropriate.

### Capacity to handle risk

NI Water's Risk Management Policy is updated on a regular basis and clearly defines the roles and responsibilities of the Board, its Committees, the Executive Committee, Directors and employees. There is a clear chain of accountability from the Accounting Officer to all employees. The Policy provides guidance on how to implement risk assessments and how to manage risk to an acceptable level as determined by the Board. There is an on-going process for identifying, evaluating and managing strategic risks across the business. Risk management is continuing to be embedded in wider management processes. Risk Registers have been developed for each significant area of the business, including major projects, demonstrating the management of risk.

NI Water has an Audit Committee and Risk Committee; both are sub-committees of the Board. The Audit Committee reviews financial risk management and receives reports from management and from the Company's Internal and External auditors. The Risk Committee has an oversight function and provides strategic challenge to management on the Company's 'Enterprise Risk Management' and the management of strategic risks towards the achievement of corporate objectives.

The other Board sub-Committees - the Corporate Social Responsibility Committee, Procurement Committee and the Nomination and Remuneration Committee - review risks associated with their terms of reference.

The Board reviews and monitors the management of significant risks on a monthly basis and provides strategic direction on risks escalated for their attention during the year. These updates are also provided to DRD.

A clear statement of the importance which NI Water attributes to risk management, in terms of the achievement of the Company's objectives, has been conveyed to employees through its intranet (Source). It specifically states that risk management is the responsibility of all employees. Employees are made aware of incidents and near misses and the sharing of key learning points through 'Source' and our Company magazine 'Waterline'. Employees are also updated on risk management within their area of work. A programme of 'Integrated Governance, Internal Controls and Risk Management' training is in place for all levels of management and includes an induction programme for new employees.

Risk management procedures and principal risks are benchmarked against other water and sewerage providers, utility and global risk reports and public sector publications such as the Public Accounts Committee (PAC) reports. 'Horizon Scanning' and 'Forward Risks' activities are carried out to identify emerging risks that may have a corporate impact on NI Water and to implement the key learning points.

### The risk and control framework

The management team meets at the end of every financial year to evaluate the effectiveness of the Risk and Assurance Framework and to agree the necessary improvements required to address evolving business needs. This process is facilitated by the completion of a questionnaire on the review of effectiveness of risk management and identifies current and future corporate strategic risks and opportunities. A benchmark report of corporate risks identified by other water and wastewater entities, key matters identified in the Internal Audit Annual Opinion, the Accounting Officer's Annual Assurance Statement, changes in legislation and Government guidance, and a review of emerging business risks is used to inform the corporate risks and opportunities to be managed in the year ahead.

During the financial year, the Company managed its Corporate and Directorate Risk Registers, with clearly defined risk owners. These Registers are reviewed on a continual basis through the risk management software and monthly reports are generated for monitoring purposes. A detailed risk map of each Corporate Risk identifying its consequences, controls, required actions and key points for strategic risk management is presented to the Risk Committee and Board at least once per year. This takes into account key decisions and seasonal factors where certain risks take priority over others. Corporate risks can be 'drilled down' to business units and to programme or project levels as appropriate, to evidence the effectiveness of controls and required actions. Directorate risks are also escalated to senior



management's attention when risks are graded as 'high' or 'medium' in accordance with the Risk Management Model.

The 'risk appetite' is the broad-based amount of risk NI Water is willing to accept in pursuit of its mission and business objectives. The Risk Committee makes recommendations to the Board on the appropriate risk appetite. The Board then approves the risk appetite and reviews the action plans in place to manage the risk exposure. The risk appetite for each corporate risk is assessed on an individual basis and may be different from the overall corporate risk appetite.

Risks are escalated to management and Board through the monthly reporting process. An established escalation process is in place to alert the Chief Executive, Board and Stakeholders (EPIC<sup>18</sup> report) of significant new issues. The Board monitors the progress of managing risks through the monthly progress report which sets out movements in the rating of corporate risks and the reasons for changes. The Board provides a monthly risk management report, at a strategic level, to DRD Shareholder Unit. Risk management is a permanent agenda item in the Quarterly Shareholder Meetings (QSMs) held between the Board of NI Water and the Shareholder, which DRD's Permanent Secretary also attends. Other stakeholders are involved in managing risks which impact upon them.

As specified in the Integrated Governance Framework, various groups meet on a regular basis to manage and report on key risks areas managed across the business, such as Health and Safety, Environmental, Capital Works Programme and Business Continuity Management. Individual Corporate Risk Workshops are held with risk owners over the financial year to manage risks towards the achievement of corporate objectives. The Head of Corporate Governance, who is the Chief Risk Officer, meets on a one-to-one basis with Directors and senior managers on a regular basis to provide a challenge function and ensure consistency in the management and reporting of risks. Further meetings are held with management at a functional level to identify both emerging risks and the key learning points for improving governance and risk management. As relevant, findings from Internal Audit reviews are also considered and reflected in risk reporting as appropriate.

The Internal Controls Committee (ICC), chaired by the Director of Finance and Regulation and represented by all functional areas of the business, ensures that governance procedures, improvements to controls and risk management are managed and communicated on a business-wide basis.

#### Key risks materialising in year

During the year some key risks materialised into potentially significant issues and these were managed in an effective manner, such as to limit any negative impact, and address the issues in a timely and controlled manner.

In particular, the metering and customer billing areas had a number of issues arising during the year which required reviews of customer accounts and application of adjustments as necessary. Whilst it is not uncommon for utility sector organisations to experience such issues, NI Water is determined to limit such instances as far as possible. To that end, process improvements to both customer metering and billing were implemented during the year. Further improvements are also ongoing and will continue into 2014/15.

#### Other key control improvements in the year

Additionally, in order to prevent key risks identified during the year materialising into issues, the following key control improvements / risk mitigation actions were completed:

- Further improvements made to the Major Incident Plan following the successful mock incident joint exercise with other utility entities;
- Project boards and senior management oversight governance arrangements were implemented to oversee the delivery of two significant contract re-tenders taking place during 2013/14 – both were successfully awarded;

---

<sup>18</sup> Escalation Procedure to Inform the Chief Executive - this is the procedure to inform the Chief Executive in the event of an issue or incident arising which has a material or potentially material adverse impact on NI Water.

- A structured and controlled programme was instituted to ensure that the Company delivered its PC15 (a 6-year price control period) business plan submission to the Utility Regulator in time – this was successfully achieved;
- A project plan and oversight project board was put in place to prepare for CoPE reaccreditation, which was successfully achieved;
- Improvements to the processes to formally monitor and report on contract performance for certain key and strategic contracts;
- Following a comprehensive inventory exercise to assure completeness and accuracy of our infrastructure asset inventory, controls have also been implemented to assist to ensure the sustainability of the integrity of this asset data going forward;
- Fraud and bribery prevention training and awareness provided to employees and business partners;
- Further enhancement to and implementation of the Information Governance Strategy through training and awareness;
- Further improvements to processes to assist to ensure compliance with requirements for proportionate investment appraisal and post project evaluation in accordance with DAO (DFP) 06/12 were implemented and this was complemented with a training and awareness programme for staff;
- Completion of the MPMNI action plan and received positive assurance report from DRD; and
- In addition, work has commenced to implement processes to provide assurance over the up to date completion of mandatory Health and Safety training for operational personnel.

#### Internal Audit

On an annual basis, prior to the start of the financial year, Internal Audit presents its rolling three-year Strategy to the Audit Committee for approval. The Strategy and the annual Audit Plan sets out the priorities of the internal audit activity and puts in place a strategic approach that enables the Head of Internal Audit to provide the Accounting Officer with an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It also facilitates the on-going improvement of the organisation's framework of governance, risk management and control by providing line management with recommendations arising from audit work.

The Head of Internal Audit reports to the Audit Committee throughout the year on progress in delivery of the Audit Plan, any significant issues identified, progress in addressing internal audit recommendations, and any advisory or ad hoc activity.

The Head of Internal Audit provides an 'Annual Opinion' on NI Water's system of internal control, governance and risk management. The Opinion for the year ended 31 March 2014 is 'Satisfactory: There is some risk that objectives may not be fully achieved'.

This assurance is based on the results of the internal audit reviews carried out, follow-up reviews, relevant advisory work, all of which inform the consideration of the current overall internal control, governance and risk management framework. Overall, from a total of 24 assurance reviews completed during the year, 8 Limited, 8 Satisfactory and 8 Substantial assurance ratings were issued. Any significant issues raised during the year were sufficiently addressed to the extent that they did not negatively impact the overall annual assurance opinion. The slightly higher proportion of 'Limited' graded report areas in the year was largely due to the risk profile of the 2013/14 Internal Audit programme.

In relation to the Company's overall 'Risk Management Framework' for 2013/14, the Head of Internal Audit issued a 'Substantial' assurance report and informed that risk management practices are now generally well-embedded and that detailed oversight by the Risk Committee was observed, including comprehensive reporting on corporate risks and the status of associated actions, horizon scanning and consideration of directorate risk registers.

### Information Governance

NI Water is proactive in developing and implementing policies and procedures to manage data quality. Information risk management and data quality are key aspects of information governance and are an integral part of good management. The Chief Information Officer (CIO), as the Senior Information Risk Owner (SIRO), is responsible for ensuring that information risk within NI Water is managed appropriately. The information governance group meets regularly to oversee the implementation of the Information Governance Strategy and continually improve the management of information risk within NI Water.

Policies and guidance are in place to manage information risks including IT Security policy, Laptop Security policy, Data Protection policy and guidance, and Document and Information Security Policy (including protective marking). Mandatory on-line training was provided to all relevant staff during the year to raise awareness of the requirements. To further mitigate information security risk, an Electronic Data Records Management System (EDRMS) is being implemented.

The Information Governance Strategy, in line with DAO (DFP) 10/12, defines the Information Governance roadmap for NI Water for the PC13 period and onwards into the PC15 period. The Strategy describes the key ways in which Information Governance is of crucial importance to the organisation in terms of achieving its business objectives and meeting stakeholders' expectations.

The quality and timeliness of information and data used by the Board and its sub-committees are deemed to be acceptable and at an appropriate level of detail. This is reflected in the Board and Board's Sub-Committees effectiveness review and information relating to Board reporting in the Governance Report.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of corporate governance, internal control and risk management. My review is informed by the work of the executive managers within NI Water, who have responsibility for the development and maintenance of the internal control framework. I am also informed by other independent sources of assurance, including Internal Audit's independent assurance on the adequacy and effectiveness of the governance, risk management and control arrangements in place to achieve business objectives, comments made by the External Auditors in their management letter and other reports, and the Reporter's report on Systems of Planning and Internal Control. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, Audit Committee and Risk Committee, and a plan to address weaknesses and to ensure that continuous improvement of the system of internal control is in place.

A formalised assurance framework to assist me in assessing the extent of compliance with the specified responsibilities, including the effectiveness of the systems of internal control has been developed. This assurance mechanism has been completed as part of an on-going process.

The Audit Committee and Risk Committee hold a Joint-meeting on an annual basis to consider the effectiveness of the Company's system of governance, internal control and risk management. As part of its annual review for 2013/14, the Committees considered the Internal Audit Opinion and Chief Executive's Annual Assurance Statement and informed the Board on the overall effectiveness of the Company's system of internal control and risk management.

I am also informed by:

- Board reports including regular monthly agenda items on Health and Safety; Procurement; Environmental; Internal Audit; and Risk and Opportunities;
- Audit Committee reports, including a summary of the main audit issues;
- Risk Committee reports, including prioritised risk management, benchmarking, forward risk analysis, 'horizon scanning' and the effectiveness of risk management towards the achievement of Company's objectives in relation to its risk appetite;
- monthly financial management reports comparing performance against agreed budgets;

- Directorate risk reports and risk registers, including the Corporate Risk Register, are reviewed and managed on a monthly basis;
- actions to address corporate risks which are due but not completed, are escalated to Executive Committee for attention on a monthly basis;
- Mid-Year and Year-End Assurance Statements by Directors and Level 3 managers;
- Subsidy Assurance Statement;
- Internal Audit reports and Annual Assurance Statement;
- Environmental Compliance reports;
- Information Governance reports;
- Financial and Procurement Delegation reports;
- Contract Management and PPP/PFI reports;
- Business Continuity, Major Incidents and Emergency Planning and IT Disaster Recovery exercises, testing and management of incidents reports;
- Fraud, Theft, Bribery and Whistle-blowing reports;
- legal matters and claims reports;
- analysis of Key Performance Indicators;
- External Audit reports;
- Reporter's reports;
- Corporate Compliance Framework bi-annual report to Board; and
- Board oversight and governance.

The year-end Management Assurance Statements include a list of evidence to support management's response and the associated risks. The External Audit opinion for the Statutory, Regulatory and Regularity audits are all 'unqualified' and there is an effective process to manage closure of Management Letter Points. Taking account of the aforementioned matters, I am satisfied that the governance, risk management and internal control framework in NI Water is 'satisfactory' as outlined in the annual Internal Audit Assurance Statement.

#### Chief Executive's Year-End Assurance Statement – Exception Report

Whilst there is an adequate system of internal control in place in NI Water, a number of matters included in the 'Exception Report', appended to my Annual Assurance Statement to DRD Accounting Officer, have been identified for further action. Most of the matters are reflected in the 'Principal Risks and Uncertainties' section, while others are reported to the Shareholder under Department Accounting Officer reporting requirements.

The Board and I will continue address these matters. We will also work with our Shareholder, where there is joint accountability on certain risks, to manage them towards the relevant risk appetite level.



Sara Venning  
Accounting Officer  
25 June 2014

# Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2014.

## Principal activities

The principal activities of the Company are the supply of water and the collection and treatment of sewage in Northern Ireland. The Company is domiciled and incorporated in Northern Ireland. The Registered Number is NI054463 and the Registered Office is: Westland House, 40 Old Westland Road, Belfast, BT14 6TE. The Company is wholly owned by DRD.

## Future developments

The Directors are not aware at the date of this report of any likely major changes to the Company's activities in the next year.

## Dividends and reserves

The Company's dividend policy is to provide a return to the Shareholder based on a percentage of the regulatory capital value less net debt. It is anticipated that a final dividend of £23.5m for the year ended 31 March 2014 (2013: £29m<sup>19</sup>) will be approved by the Shareholder upon the recommendation of the Board in July 2014 and paid in August 2014 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2014.

## Directors and Officers

The Directors and Officers who served during the year and up to the date of this report are set out below:

### Current Non-Executive Directors:

- *Seán Hogan, Non-Executive Director - Chairman.* Seán is responsible for ensuring the Board works effectively. Seán chairs the Nomination and Remuneration Committee is also a member of the Procurement Committee.
- *Donald Price, Non-Executive Director.* Donald is a member of the Audit Committee and the Nomination and Remuneration Committee.
- *Kevin Steele, Non-Executive Director.* Kevin is Chair of the Audit Committee, a member of the Corporate Social Responsibility Committee, and is the Senior Independent Director.
- *Deep Sagar, Non-Executive Director.* Deep is Chair of the Procurement Committee and is a member of the Risk Committee.
- *John Rae, Non-Executive Director.* John is a member of the Risk Committee and Chair of the Corporate Social Responsibility Committee.
- *Jim Stewart, CBE, Non-Executive Director.* Jim is Chair of the Risk Committee and a member of the Audit Committee.

### Current Executive Directors:

- *Sara Venning, Executive Director – Chief Executive.* Sara is responsible for the executive management of all of the Company's business and for implementing Board strategy.
- *Ronan Larkin, Executive Director - Director of Finance and Economic Regulation.* Ronan is responsible for the financial direction and economic regulation of the Company and the relationship with the Utility Regulator.
- *George Butler, Executive Director - Director of Asset Management.* George is responsible for Health and Safety, Scientific Services, Asset Management and for liaising with the environmental

---

<sup>19</sup> This dividend in respect of the year ended 31 March 2013 was paid in August 2013.

regulator. George is also a Chairman of the NI Water Pension Trust Company and a Director of the UK Water Industry Research Company (UK WIR).

Further details on our Board, Executive Committee and the organisational structure can be found at:



<http://www.niwater.com/ourboard.asp>

<http://www.niwater.com/ourexecutivecommittee.asp>

[http://www.niwater.com/siteFiles/resources/htmlfiles/information\\_management/org\\_chart.pdf](http://www.niwater.com/siteFiles/resources/htmlfiles/information_management/org_chart.pdf)

#### Directors' remuneration and annual bonus plan

Remuneration for Executive Directors comprises: base salary, a discretionary annual bonus plan and pension entitlements. There was no bonus scheme in place for 2013/14. The Non-Executive Directors do not participate in the Company's incentive arrangements. Details of Directors' emoluments are disclosed in the Directors' remuneration report on pages 123 to 127 and in note 8 to the financial statements.

#### Directors' and Officers' indemnities

Directors and Officers are indemnified by the Company against costs incurred by them in carrying out their duties, including defending any proceedings brought against them arising out of their positions as Directors; or in which they are acquitted; or judgement is given in their favour; or relief from any liability is granted to them by the Court.

#### Policy on the payment of creditors

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreement, the policy is to make payment not more than 30 days after receipt of a valid invoice. The year to date ratio, expressed in days, between the time invoices from large suppliers fall due and the time invoices were actually paid at 31 March 2014, was 31.4 days (2013: 32 days).

The Company has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy. As at 31 March 2014 the year to date ratio stood at 12.6 days (2013: 14.8 days).

#### Political and charitable contributions

The Company made no political or charitable donations nor did it incur any political expenditure during the year.

#### Research and Development

NI Water invested £0.4m on research and development in 2013/14 (2013: £0.4m). Refer to note 2(d)(i) to the financial statements for the accounting treatment.

#### Employees

The Company utilises a number of communication channels to keep its employees involved in the Company's affairs and appraised on the Company's performance. These channels include the 'Source' intranet portal; an award winning in house magazine 'Waterline'; weekly employee briefings via 'In touch' and 'In Brief'; and Executive Committee visits. The Company is also committed to positive engagement with the Trade Unions.

It is the Company's policy to provide employment equality to all, irrespective of gender, including gender re-assignment; marital or civil partnership status; having or not having dependants; religious belief or political opinion; race (including colour, nationality, ethnic or national origins); disability; sexual orientation; or age.

The Company is opposed to all forms of unlawful and unfair discrimination. All job applicants, employees and others who work for the Company will be treated fairly and will not be discriminated against on any of the above grounds. Decisions about recruitment and selection, promotion, training or any other benefit will be made objectively and without unlawful discrimination.

We recognise that the provision of equal opportunities in the workplace is not only good management practice, it also makes sound business sense. NI Water's equal opportunities policy enables all those who work in the Company to develop their full potential, and the talents and resources of the workforce will be utilised fully to maximise the efficiency of the organisation.

#### Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2014, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the Company in order that the purposes of a special administration order could be achieved if such an order were made.

#### Regulation - 'cross directorships'

Directors and employees of NI Water may be Directors of related companies when this is in the best interests of NI Water, and where appropriate arrangements are in place to avoid conflicts of interest. These arrangements include prior approval of any cross directorships by the Board and the Shareholder. In addition, Directors holding cross directorships are required to disclose any such interests prior to making decisions which may result in, or give the appearance of, a conflict of interest.

#### Greenhouse gas emissions

Details on greenhouse gas emissions are included on pages 67 and 68.

#### Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken steps they should have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### Auditor

KPMG were successful in the external audit tender exercise and commenced their new 3 year contract on 17 July 2013. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG will therefore continue in office.

By order of the Board



Mark Ellesmere  
Company Secretary  
25 June 2014

# Directors' remuneration report

## Report by Seán Hogan, Chair of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee determines, on behalf of the Board, and subject to approval by the Shareholder, the NI Water policy on the remuneration of Executive Directors and Executives. Only Independent Non-Executive Directors may serve on the Committee. The Committee met once in the year. The terms of reference for the Nomination and Remuneration Committee are available by writing to our Company Secretary at the address on the back cover of this report.

## Board appointments and diversity

The Nomination and Remuneration Committee has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement Directors, succession planning and making recommendations to the Board and Shareholder so as to maintain an appropriate balance of skills and experience on the Board. This includes consideration of gender and ethnic diversity.

## Advice to the Nomination and Remuneration Committee

During the year, the following parties were appointed by the Nomination and Remuneration Committee to provide advice that materially assisted the Committee:

- Chief Executive;
- Head of Human Resources; and
- General Counsel and Company Secretary.

## Remuneration policy

The Company's policy on remuneration of Executive Directors and Executives is to attract, retain and motivate the best people, recognising the input they have to the on-going success of the business. Consistent with this policy, and in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006, the benefit packages awarded by NI Water to Executive Directors and Executives are intended to be competitive, and under the policy should comprise base salary, and a discretionary performance related bonus designed to incentivise Directors and align their interests with those of the Shareholder. The remuneration consists of the following elements:

### Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Notwithstanding this policy the Company has been subject to public sector pay policy in 2013/14 as a result of the NI Executive's decision to apply the Coalition Government's pay instructions for public sector staff.

### Annual bonus

There was no bonus scheme in 2013/14 for Executive Directors and Executives.

### Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

## Non-Executive Directors' remuneration

The Chairman receives a fee of £833<sup>20</sup> per day and the Non-Executive Directors receive a fee of £750<sup>21</sup> per day. The higher fee for the Chairman reflects the additional responsibilities of that role. Further details on the attendance by the Non-Executive Directors are provided on page 112.

<sup>20</sup> The fee per day is £833 for up to four days per month, increasing to £1,000 per day for a maximum of five additional days.

<sup>21</sup> The fee per day is £750 for up to two days per month, remaining at £750 per day for a maximum of four additional days.



### Directors' employment contracts

The Executive Directors covered by this report hold appointments which are open ended. The policy relating to notice periods and termination payments is contained within their service agreements and / or NI Water's Employee Handbook. The Non-Executive Directors covered by this report hold appointments which last for three years and DRD Minister has the option of re-appointing for a further three years after consideration of a performance assessment.

### Fees paid to members of the Executive Committee

	Year to 31 March 2014					Year to 31 March 2013				
	Salary and allowances	Bonus	Benefits in kind (to nearest £100)	Pension benefits <sup>22</sup>	Total	Salary and allowances	Bonus	Benefits in kind (to nearest £100)	Pension benefits	Total
	£000	£000	£100	£000	£000	£000	£000	£100	£000	£'000
<b>Current Executive Directors:</b>										
Sara Venning	130 - 135 <sup>23</sup>	-	-	51	185 - 190	115 - 120	-	-	33	150 - 155
Ronan Larkin	105 - 110	-	-	27	135 - 140	105 - 110	-	-	23	130 - 135
George Butler	105 - 110	-	-	26	135 - 140	105 - 110	-	-	22	130 - 135
<b>Current members of the Executive Committee (not Executive Directors):</b>										
Alec McQuillan	90 – 95 <sup>24</sup>	-	-	146 <sup>25</sup>	235 - 240	n/a	n/a	n/a	n/a	n/a
Bill Gowdy	90 – 95	-	-	44	130 - 135	75 – 80	-	-	18	95 - 100
Mark Ellesmere	100 – 105	-	-	26	130-135	100 - 105	-	-	23	125 - 130
<b>Former member of the Executive Committee:</b>										
Trevor Haslett	60 – 65 <sup>26</sup>	-	-	0 <sup>27</sup>	60 - 65	145 - 150	-	-	86	240 - 245

<sup>22</sup> The pension benefits have been included as a new disclosure in 2013/14 in line with DFP Guidance FD (DFP) 06/14.

<sup>23</sup> £140k - £145k on a full year equivalent basis. Sara Venning was appointed as Interim Chief Executive on 31 August 2013.

<sup>24</sup> £100k - £105k on a full year equivalent basis. Alec McQuillan was appointed as Interim Director of Customer Service Delivery on 31 August 2013.

<sup>25</sup> Alec McQuillan became a director during the course of 2013/14, therefore, for the point of these calculations the point at which he became a director is treated by our actuarial advisers as 1 April 2013. The value of all pension related benefits are therefore assessed over the period 1 September 2013 to 31 March 2014. The figure is impacted by both the length of pensionable service transferred in from Principal Civil Service Pension Scheme (NI) and in the increase in his assumed final salary.

<sup>26</sup> £140k - £145k on a full year equivalent basis. Trevor Haslett retired on 30 August 2013.

<sup>27</sup> Trevor Haslett retired from the Executive Board on 30 August 2013. The value of all pension related assets are assessed over the period 31 March 2013 to his date of retirement. For Mr Haslett, the value of accrued benefits in the 2013/14 year is zero because the five months of additional benefit earned in that year have been offset by the amount of indexation added to the total benefits he had accrued in the preceding years. Also, the amounts and values shown are before any adjustment to his pension to take account of tax paid by the NIW Scheme on his behalf.

### Pay multiples

The relationship between the remuneration of the highest paid Director and the median remuneration of NI Water's workforce is shown below.

The banded remuneration of the highest paid Director in NI Water was £140k to £145k on a full year equivalent basis (2013: £145k to £150k). This was 4.23 times (2013: 3.95 times) the median remuneration of the workforce, which was £33,677 (2013: £37,340). The change in the pay multiple (ratio) between 2013/14 and 2012/13 was primarily due to the payment of salary arrears to former employees which increased the number of lower-value payments and the total number receiving payments. There was also a reduction in overtime payments made to employees during the year.

Remuneration includes salary, performance-related pay and benefits-in-kind. It does not include any severance payments associated with NI Water's Voluntary Early Retirement and Voluntary Severance schemes, employer pension contributions and the cash equivalent transfer value of pensions. Median remuneration is based on the full-time equivalent workforce of NI Water at 31 March on an annualised basis. The workforce includes Executive Directors (excluding the highest paid Director) and Non-Executive Directors for the purpose of this disclosure.

	Year to 31 March 2014	Year to 31 March 2013
	<b>Total</b>	Total
Highest paid Director (£'000)	<b>140 - 145</b>	145 - 150
Median total remuneration (£)	<b>33,677</b>	37,340
Pay multiple (ratio)	<b>4.23</b>	3.95

### Fees paid to Non-Executive Directors

	Year to 31 March 2014				Year to 31 March 2013			
	Salary and allowances	Bonus	Benefits in kind (to nearest £100)	Total	Salary and allowances	Bonus	Benefits in kind (to nearest £100)	Total
	£000	£000	£100	£000	£000	£000	£100	£'000
<b>Current Non-Executive Directors:</b>								
Seán Hogan - Chairman	45 - 50 <sup>28</sup>	-	-	45 - 50	45 - 50*	-	-	45 - 50
Donald Price	15 - 20	-	-	15 - 20	15 - 20	-	-	15 - 20
Kevin Steele	15 - 20	-	-	15 - 20	15 - 20	-	-	15 - 20
Deep Sagar	15 - 20	-	-	15 - 20	15 - 20	-	-	15 - 20
John Rae	15 - 20	-	-	15 - 20	15 - 20	-	-	15 - 20
Jim Stewart, CBE	15 - 20	-	-	15 - 20	20 - 25 <sup>29</sup>	-	-	20 - 25

\* includes additional days worked.

<sup>28</sup> Includes additional days worked. £40k - £45k on a full year equivalent basis.

<sup>29</sup> Includes additional days worked. £15k - £20k on a full year equivalent basis.

### Pension entitlements

Non-Executive Directors do not participate in the Company's pension scheme. All Executive Directors are members of the defined benefit pension arrangements. The accrued pension entitlement is the amount that the Executive Director would receive if he / she retired at the end of the year. The increase in the accrued entitlement is the difference between the accrued benefit at the year end and that at the previous year end. The pension benefits outlined below are provided through the NI Water defined benefit pension scheme and it was a "mirror image" in terms of benefits and contributions of the Principal Civil Service Pension Scheme (Northern Ireland) as at 1 April 2007. The Executive Directors who transferred to NI Water automatically became members of the new scheme and in January 2009 took a decision whether to transfer their benefits accrued in the Principal Civil Service Pension Scheme (Northern Ireland) to the NI Water scheme. Pension benefits due to Executive Directors are shown below. The Premium section of the Scheme was closed to new starts with effect from 30 November 2010. The Company established a career average re-valued (CARE) defined benefit section for all new starts after that date. The Trustees of the Scheme have agreed to manage the CARE section for the Company. Further details on pensions are provided in note 21 to the financial statements.

### Transfer values

The Cash Equivalent Transfer Value (CETV) for an individual Executive Director is the actuarially assessed capitalised value of the pension scheme benefits accrued at a particular point in time. All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN 11. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Director's pension benefits. Transfer values do not represent sums payable to individual Directors and therefore cannot be added meaningfully to annual remuneration.

### Increase in transfer value less Directors' contributions

The real increase in CETV shows the increase over the year in the transfer value of the accrued benefits after deducting the Director's personal contributions to the scheme. Further details on Directors' remuneration are shown in note 8a to the financial statements.

### Pension benefits for members of the Executive Committee

	Accrued pension at age 60 at 31 March 2014 <sup>30</sup>	Related lump sum at 31 March 2014 <sup>31</sup>	Real increase in pension at age 60	Real increase in lump sum at age 60
	£000	£000	£000	£'000
<b>Current Executive Directors:</b>				
Sara Venning	5 - 10	-	2.5 - 5	-
Ronan Larkin	15 - 20	-	0 - 2.5	-
George Butler	15 - 20	-	0 - 2.5	-
<b>Current members of the Executive Committee (not Executive Directors):</b>				
Alec McQuillan <sup>32</sup>	40-45	120 - 125	5 - 7.5	20 - 22.5
Bill Gowdy	5 - 10	20 - 25	0 - 2.5	5 - 7.5
Mark Ellesmere	10 - 15	-	0 - 2.5	-
<b>Former member of the Executive Committee:</b>				
Trevor Haslett	65 - 70	205 - 210	0 - 2.5	0 - 2.5

<sup>30</sup> Or date of leaving the Board if earlier.

<sup>31</sup> Or date of leaving the Board if earlier.

<sup>32</sup> Increases calculated from 1 September 2013, the date of joining the Board.

Pension (CETV) benefits for members of the Executive Committee

	CETV at 31 March 2014 <sup>33</sup>	CETV at 31 March 2013 <sup>34</sup>	Increase in transfer value less Director's contribution (net of inflation <sup>35</sup> )	Employer contribution (to nearest £100)
	£000	£000	£000	
<b>Current Executive Directors:</b>				
Sara Venning	169	111	50	36,500
Ronan Larkin	331	286	35	29,900
George Butler	385	335	39	29,800
<b>Current members of the Executive Committee (not Executive Directors):</b>				
Alec McQuillan	1,141	937	183	16,100
Bill Gowdy	236	179	53	24,700
Mark Ellesmere	266	227	30	28,400
<b>Former member of the Executive Committee:</b>				
Trevor Haslett	2,015	2,023	(53)	16,800



Sara Venning  
Chief Executive  
25 June 2014

<sup>33</sup> Based on accrued benefits at 31 March 2014 (or date of leaving the Board if earlier) and financial conditions as at 31 March 2014.

<sup>34</sup> Based on accrued benefits at 31 March 2013 (or date of joining the Board if later) and financial conditions as at 31 March 2014.

<sup>35</sup> CPI inflation of 2.2%

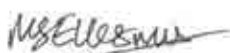
# Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements and the Directors' remuneration report comply with the Companies Act 2006 and the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Having taken advice from the Audit Committee, the Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Company's performance, business model and strategy.

By order of the Board



Mark Ellesmere  
Company Secretary  
25 June 2014

# Statutory Accounts



Bangor Marina Wastewater Pumping Station, County Down.  
Image courtesy of Alan Lavery Photography.

## Statement of financial position

	Note	At 31 March 2014 £000	At 31 March 2013 £000
<b>Assets</b>			
Property, plant and equipment	11	2,484,134	2,321,482
Investment properties	12	7,604	7,982
Intangible assets	13	37,587	34,880
Other investments	14	13	53
Employee benefits	21	3,480	-
<b>Total non-current assets</b>		<b>2,532,818</b>	2,364,397
Inventories	16	2,029	2,387
Trade and other receivables	17	19,193	18,882
Prepayments		10,442	11,585
Cash and cash equivalents	18	2,700	20,872
Assets classified as held for sale	4	853	1,410
<b>Total current assets</b>		<b>35,217</b>	55,136
<b>Total assets</b>		<b>2,568,035</b>	2,419,533
<b>Equity</b>			
Share capital	19	500,000	500,000
Statutory distributable reserve	19	171,690	171,690
Retained earnings	19	449,031	316,724
Available for sale reserve	19	(78)	(53)
<b>Total equity attributable to owner of the Company</b>		<b>1,120,643</b>	988,361
<b>Liabilities</b>			
Loans and borrowings	20	1,127,660	1,095,782
Employee benefits	21	-	5,354
Other payables	24	914	1,076
Deferred income	22	6,635	6,621
Provisions	23	4,747	7,591
Deferred tax liabilities	15	174,389	187,819
<b>Total non-current liabilities</b>		<b>1,314,345</b>	1,304,243
Loans and borrowings	20	2,806	7,883
Trade payables	24	112,998	109,043
Other payables	24	8,387	6,942
Deferred income	22	2,613	384
Provisions	23	6,243	2,677
<b>Total current liabilities</b>		<b>133,047</b>	126,929
<b>Total liabilities</b>		<b>1,447,392</b>	1,431,172
<b>Total equity and liabilities</b>		<b>2,568,035</b>	2,419,533

The financial statements were authorised for issue by the Board of Directors on 25 June 2014 and were signed on its behalf by:



Sara Venning  
Chief Executive  
25 June 2014

The notes on pages 135 to 189 form part of these financial statements.

## Statement of comprehensive income

	Note	Year to 31 March 2014	Year to 31 March 2013 'As restated**
		£000	£000
<b>Revenue</b>	5	432,702	425,599
Other income	6	623	681
Operating expenses	7	(236,176)	(229,274)
Research and development expenses		(368)	(424)
<b>Results from operating activities</b>		<u>196,781</u>	<u>196,582</u>
Finance income	9	112	997
Finance costs	9	(58,436)	(62,141)
<b>Net finance costs</b>		<u>(58,324)</u>	<u>(61,144)</u>
<b>Profit before income tax</b>		<u>138,457</u>	<u>135,438</u>
Income tax credit/(expense)	10	14,884	(25,206)
<b>Profit for the year</b>		<u>153,341</u>	<u>110,232</u>
<b>Other comprehensive income</b>			
<b>Items that will never be reclassified to profit or loss:</b>			
Defined benefit plan actuarial (losses)/gains	10	8,012	(11,535)
<b>Items that are or may be reclassified to profit or loss:</b>			
Shares not held for trading – revaluation loss		(25)	(34)
<b>Other comprehensive income for the period, net of income tax</b>		<u>7,987</u>	<u>(11,569)</u>
<b>Total comprehensive income for the period</b>		<u>161,328</u>	<u>98,663</u>
<b>Profit attributable to:</b>			
Owner of the Company		<u>153,341</u>	<u>110,232</u>
<b>Total comprehensive income attributable to:</b>			
Owner of the Company		<u>161,328</u>	<u>98,663</u>

All profits relate to continuing operations.

The notes on pages 135 to 189 form part of these financial statements.

\* The comparative figures have been restated to reflect a change in classification arising from the changes to IAS19. See note 21 for further details.



## Statement of changes in equity

		Attributable to the owner of the Company				
Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Available for sale £000	Total equity £000	
	19	500,000	171,690	316,724	(53)	988,361
<b>Total comprehensive income for the period</b>						
		-	-	153,341	-	153,341
<b>Other comprehensive income</b>						
<b>Items that will never be reclassified to profit or loss:</b>						
	21	-	10,015	-	10,015	
	15	-	(2,003)	-	(2,003)	
<b>Items that are or may be reclassified to profit or loss:</b>						
		-	-	(25)	(25)	
<hr/>						
		-	8,012	(25)	7,987	
		-	161,353	(25)	161,328	
<hr/>						
<b>Transactions with owner, recognised directly in equity</b>						
<b>Distributions to owner of the Company</b>						
	19	-	(29,046)	-	(29,046)	
		500,000	171,690	449,031	(78)	1,120,643
<hr/>						
<b>Dividends per share (GBP)</b>					<u>0.06</u>	

The notes on pages 135 to 189 form part of these financial statements.

## Statement of changes in equity (continued)

		Attributable to the owner of the Company				
	<i>Note</i>	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Available for sale £000	Total equity £000
Balance at 1 April 2012	19	500,000	171,690	244,973	-	916,663
<b>Total comprehensive income for the period</b>						
Profit for the year		-	-	110,232	-	110,232
<b>Other comprehensive income</b>						
<b>Items that will never be reclassified to profit or loss:</b>						
Defined benefit pension plan actuarial losses	21	-	-	(15,005)	-	(15,005)
Deferred tax arising on losses in defined benefit plan	15	-	-	3,470	-	3,470
<b>Items that are or may be reclassified to profit or loss:</b>						
Transfer to available for sale		-	-	19	(19)	-
Shares not held for trading – revaluation loss		-	-	-	(34)	(34)
Total other comprehensive income		-	-	(11,516)	(53)	(11,569)
Total comprehensive income for the period		-	-	98,716	(53)	98,663
<b>Transactions with owner, recognised directly in equity</b>						
<b>Distributions to owner of the Company</b>						
Dividends to owner of the Company	19	-	-	(26,965)	-	(26,965)
Balance at 31 March 2013		500,000	171,690	316,724	(53)	988,361
<b>Dividends per share (GBP)</b>						0.05

The notes on pages 135 to 189 form part of these financial statements.

## Statement of cash flows

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
<b>Cash flows from operating activities</b>		
Profit before tax	<b>138,457</b>	135,438
Adjustments for:		
Depreciation	11,12 <b>62,097</b>	59,653
Amortisation of intangible assets	13 <b>5,612</b>	5,456
Impairment losses on assets classified as held for resale	<b>75</b>	830
Notional income relating to adopted assets	5 <b>(59,566)</b>	(48,233)
Gain on sale of property, plant and equipment	6 <b>(276)</b>	(334)
Interest expense	9 <b>58,324</b>	61,144
	<b>204,723</b>	213,954
Changes in:		
- inventories	<b>358</b>	(204)
- trade and other receivables	<b>(292)</b>	3,078
- prepayments	<b>1,143</b>	1,808
- trade and other payables	<b>6,046</b>	(4,508)
- provisions	<b>722</b>	(11,090)
- excess of cash pension contributions over charge	<b>881</b>	741
<b>Cash generated from operating activities</b>	<b>213,581</b>	203,779
<b>Cash flows from investing activities</b>		
Interest received	<b>114</b>	148
Proceeds from sale of property, plant and equipment	<b>1,164</b>	1,177
Acquisition of property, plant and equipment, and intangible assets	<b>(170,295)</b>	(166,113)
<b>Net cash used in investing activities</b>	<b>(169,017)</b>	(164,788)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	<b>29,000</b>	75,000
Payment of finance lease liabilities	<b>(2,199)</b>	(9,009)
Interest paid	<b>(60,401)</b>	(60,212)
Dividends paid	19 <b>(29,046)</b>	(26,965)
Tax paid	<b>(90)</b>	-
<b>Net cash from financing activities</b>	<b>(62,736)</b>	(21,186)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(18,172)</b>	17,805
Cash and cash equivalents at 1 April	18 <b>20,872</b>	3,067
<b>Cash and cash equivalents at 31 March</b>	18 <b>2,700</b>	20,872

The notes on pages 135 to 189 form part of these financial statements.

## Notes to the Statutory Accounts

### 1 Accounting policies

#### **(a) Reporting entity**

Northern Ireland Water (the Company) is a company domiciled in Northern Ireland. The address of the Company's registered office is Westland House, 40 Old Westland Road, Belfast, BT14 6TE. The Company is primarily involved in the supply of water and the collection and treatment of sewerage in Northern Ireland.

#### **(b) Basis of preparation**

##### **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs).

The Company's accounting policies, as set out below, have, unless otherwise stated, been consistently applied to all the years presented.

The financial statements were authorised for issue by the Board of Directors on 25 June 2014.

#### **(c) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the defined benefit asset which is recognised as the net total of the plan assets less unrecognised actuarial gains and the present value of the defined benefit obligation, and the investments which are held at fair value through Other Comprehensive Income. The defined benefit pension asset represents a material item in the statement of financial position (SFP). In respect of the defined benefit pension asset there was an amendment to IAS19 Employee Benefits which impacted the financial statements. Full details of this amendment are set out in note 21.

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2014. The Directors consider it appropriate and are content to adopt this approach for the following reasons:

- a market for services for the provision of water and sewerage services will continue to exist and a licence is in place with the Utility Regulator, that is underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, that designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland;
- DRD provides substantial revenue funding to the business and will continue to do so until domestic charging is introduced;
- A £20m working capital facility is provided by DRD until 31 March 2016;
- DRD also provides a capital loan facility to fund the capital expenditure for the business; and
- cash flow projections indicate that the Company will be able to meet its liabilities as they fall due.

Further information is included in note 3 (liquidity risk).

#### **(d) Functional and presentation currency**

These financial statements are presented in pound sterling (GBP), which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest thousand.

## 1 Accounting policies (continued)

### **(e) Changes in accounting policies**

The company has adopted the following new standards and amendment to standards, including any consequential amendments to other standards, with an initial application of 1 April 2013 unless otherwise stated:

- Amendments to IFRS 7 disclosures: Offsetting assets and liabilities
- Amendments to IAS 19 Employment Benefits (2011)
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of items of other comprehensive income
- Amendments to IAS 12 Deferred Tax: Recovery of underlying assets
- IFRS 13 Fair Value Measurement
- Annual Improvements to IFRS 2009 – 2011 cycle

With the exception of the amendments to IAS19 none of the above had a significant impact on the company. Full details of the impact of the amendments to IAS 19 is set out in Note 21.

### **(f) Critical accounting estimates and judgements**

The preparation of the financial statements, in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 12 – impairment of assets;
- note 21 – measurement of defined benefit pension obligations;
- notes 23 and 28 – provisions and contingencies; and
- note 2(q) and note 25 – measurement of fair values.

## 2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

### **(a) Financial instruments**

#### **(i) Non-derivative financial assets**

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

## 2 Significant accounting policies (continued)

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the SOFP when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company's receivables are non-derivative financial assets.

### **Receivables**

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any impairment losses. Receivables comprise of trade and other receivables (see note 17).

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less and are measured at amortised cost.

### **Other investments**

Other investments consist of ordinary shares in WRc PLC (see note 14). Subsequent to initial recognition these are measured at fair value and the changes are recognised through other comprehensive income. When an investment is impaired or sold the cumulative gain or loss is reclassified to profit or loss.

### **(ii) Non-derivative financial liabilities**

All loans and borrowings are initially recognised at fair value, typically being the consideration received net of issue costs.

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Financial assets and liabilities are offset, and the net amount presented in the SOFP when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

### **(iii) Share capital**

#### **Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### **(b) Property, plant and equipment**

#### **(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment was determined by reference to a previous UK GAAP revaluation. The Company elected to apply the optional

## 2 Significant accounting policies (continued)

exemption to use this previous revaluation as deemed cost at 1 April 2009, the date of transition (see note 11).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located (when there is an obligation to remove the asset), and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

### **(ii) Assets in the course of construction**

Assets in the course of construction are separately classified within property, plant and equipment until the date of commission at which stage they are transferred. Depreciation on these assets is not charged until they are brought into use.

### **(iii) Subsequent costs**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### **(iv) Infrastructure assets**

The infrastructure assets comprise a network of water and wastewater systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets are subject to depreciation.

In accordance with the transition provisions of IFRS 1 (revised), the Company identified the carrying value of these assets as at the inception of the Company and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, have been subject to depreciation over their useful economic lives. All subsequent maintenance expenditure is chargeable directly to the Statement of Comprehensive Income (SOI).

### **(v) Transfers of infrastructure assets from customers (adopted assets)**

The Company adopts infrastructure assets from customers, e.g., water and sewer pipes from property developers, which it must then use either to connect the customers to the network or to provide the customers with on-going access to a supply of services. In some cases, the Company receives cash from customers that must be used only to acquire or construct an infrastructure asset in order to connect the customer to the network or provide the customer with on-going access to a supply of services.

Adopted assets are valued using the unit costs set during the relevant price control period (currently termed 'PC13').

## 2 Significant accounting policies (continued)

Revenue is recognised when the infrastructure assets are adopted or, in the case of cash receipts, when the service is performed, e.g., as soon as access to the sewerage / water network is provided.

The Company has applied the approach above from 1 April 2007.

### **(vi) Depreciation**

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

<b>Asset Type</b>	<b>Asset Life</b>
Infrastructure assets	100 -150 years
Operational assets	40 - 80 years
Buildings	30 - 60 years
Fixed plant	3 - 40 years
Vehicles, mobile plant and equipment	4 - 10 years
Office equipment	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### **(c) Investment properties**

Investment properties are properties held as surplus to operational requirements or for capital appreciation; but not for immediate sale, use in the supply of services, or for administrative purposes. As permitted by IAS 40, investment properties are measured using the cost model specified in IAS 16 whereby properties are recorded initially at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses.

When property changes use from operational, or occupied, to surplus property it is reclassified from property plant and equipment to investment property. Transfers between classes do not change the carrying amount of the property transferred or the cost of the property for measurement or disclosure purposes.

### **(d) Intangible assets**

#### **(i) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. Other development expenditure is recognised in profit or loss as incurred.



## 2 Significant accounting policies (continued)

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

### (ii) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

### (iii) Intangible assets in the course of development

Intangible assets in the course of development, e.g., internally generated software, are separately classified within intangible assets, as assets in the course of construction, until the date of commission at which stage they are transferred. Amortisation on these assets is not charged until they are brought into use.

### (iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as occurred.

### (v) Amortisation

Amortisation is based on the cost of the asset, less its residual value. Amortisation is recognised in the 'operating expenses' line of the SOCI on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The useful lives are finite and are as follows for the current and comparative periods:

<b>Asset Type</b>	<b>Asset Life</b>
Computer software	3 - 7 years
Capital studies infrastructure	10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### (e) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

### PPP transactions

Where public service obligations are met in conjunction with other operators through a partnership arrangement the principles of IFRIC 12 are applied. Assets are included within property, plant and equipment and amounts due to PPP partners are included in PPP credits. Assets included in property plant and equipment are depreciated in accordance with normal accounting policies. The present value of the PPP financing is included within loans and borrowings and payments made are split between capital repayments and interest.

### (f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

## 2 Significant accounting policies (continued)

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### **(g) Impairment**

#### **(i) Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, that the loss event had a negative effect on the estimated future cash flows of that asset and it can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The bad debt provision is based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile.

#### **(ii) Receivables**

The Company considers evidence of impairment for receivables. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### **(iii) Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset, or its related cash-generating unit (CGU), exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

## 2 Significant accounting policies (continued)

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### ***(h) Non-current assets held for sale or distribution***

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. The principal assets within this category are non-operational land and buildings. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

### ***(i) Employee benefits***

#### **(i) Defined benefit plans**

The Company operates a defined benefit pension scheme for all employees. The assets of the scheme are held separately from those of the Company. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss.

## 2 Significant accounting policies (continued)

The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

### **(ii) Termination benefits**

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring, in line with the policy on provisions –see (j) below. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

### **(iii) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### **(j) Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### **(k) Revenue recognition**

Revenue is recognised when the risks and rewards of ownership are transferred to the customer, recovery of consideration is probable and the amount of revenue can be reliably measured. Revenue is not recognised until the service has been provided to the customer and is shown net of value added tax. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue. For measured customers, this includes an estimate of the value of water and wastewater services supplied to customers between the date of the last meter reading and the year-end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

Revenue comprises: the customer subsidy provided by DRD primarily relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007; charges to customers for water and wastewater services and related services; road drainage income from DRD; transfers of assets from customers, e.g., sewer adoptions from developers; connection and infrastructure charges and other third party contributions.

Under UK GAAP the total value of transfers of assets from customers, connection and infrastructure charges, and other third party contributions, was deducted from the costs of these assets on the balance sheet thereby netting-off to a nil balance. However, under IFRS, the transfers of assets, connection and infrastructure charges, and other third party contributions are recognised as revenue whenever the service is performed, i.e., as soon as access to the sewerage / water network is provided.

As permitted by the transition provisions (IFRIC 18.22) the Company has opted to apply the approach above prospectively from 1 April 2007.

## 2 Significant accounting policies (continued)

### **(l) Government grants**

New government grants and legacy grants to DRD Water Service were credited to 'deferred income' within liabilities at fair value and are released to profit or loss evenly over the expected useful life of the relevant asset, in accordance with the provisions of the Companies Act 2006. The Company receives government assistance, in the form of a customer subsidy, provided by DRD primarily in relation to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The customer subsidy is presented in revenue in the SOCI (see note 5). A capital subsidy is received from DRD in relation to requisitioning of water and sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see related parties note 29).

### **(m) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### **(i) Leased assets**

Assets held by the company under leases which transfer to the company substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the SOFP.

### **(ii) Determining whether an arrangement contains a lease**

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

### **(n) Finance income and finance costs**

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise: interest expense on borrowings; unwinding of the discount on provisions; and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Finance income on pension assets and finance costs on pension liabilities are shown net in the financial statements.

## 2 Significant accounting policies (continued)

### **(o) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is not recognised for temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss. For investment property that is measured at depreciated cost, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **(p) Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency of the entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Exchange differences are taken to profit or loss.

### **(q) Determination of fair values**

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaced and expands the disclosure requirements about fair value measurement in other IFRSs, including IFRS 7. As a result, the company has included additional disclosures in this regard (see note 25).

A number of the company's accounting policies and disclosures require the measurement of fair values, both financial and non-financial assets and liabilities.

Management have established a control framework with respect to the measurement of fair values and regularly review significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

## 2 Significant accounting policies (continued)

When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observables for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 25 – financial instruments.

### ***(r) New standards, amendments to or interpretations of standards not yet adopted***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2013 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements except for IFRS 9 *Financial Instruments*, which is likely to become mandatory (subject to EU endorsement) for the company's 2018 financial statements and could change the classification and measurement of financial assets. The company does not plan to adopt this standard early and the extent of this impact has not yet been determined. The standard and interpretations not adopted are outlined below:

- Amendments to IFRS10 Investment entities (mandatory for the year commencing on or after 1 January 2014).
- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interest in other Entities, IAS 27 Separate Financial Statements (2013) which supercedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2013) which supercedes IAS 28 (2008) (mandatory for the year commencing on or after 1 January 2014).
- Amendments to IAS 32 Financial Instruments – Offsetting financial assets and financial liabilities (mandatory for the year commencing on or after 1 January 2014).
- Amendments to IAS 39 – Novation of Derivatives and Contribution of Hedge Accounting (mandatory for the year commencing on or after 1 January 2014).
- IFRIC 21 Levies (Mandatory for the year commencing on or after 1 January 2014)\*.

## 2 Significant accounting policies (continued)

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (Mandatory for the year commencing on or after 1 July 2014)\*.
- Annual Improvements to IFRS's 2010 – 2012 Cycle and 2011-2013 Cycle (Mandatory for the year commencing on or after 1 July 2014)\*.
- IFRS 9 Financial Instruments – 2009 and subsequent amendments in 2010 and 2013 – (likely to be mandatory for the year commencing on or after 1 January 2018)\*.
- IFRS 14 Regulatory Deferral Accounts (Mandatory for the year commencing on or after 1 January 2016)\*.
- Amendments to IFRS 11: Accounting for acquisition of interests in joint ventures (Mandatory for the year commencing on or after 1 January 2016)\*.
- IFRS15 Revenue from Contracts with Customers (Mandatory for the year commencing 1 January 2017)\*
- Amendment to IAS16 and IAS38: Clarification of Acceptable Methods of Depreciation and Amortisation (Mandatory for the year commencing 1 January 2016)\*

\* Not yet EU endorsed. Therefore the effective dates noted above for these items refer to their IASB effective dates.

The final two standards have been recently released and as such their potential impact on the company is currently under review.

## 3 Financial risk management

### Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Interest rate risk; and
- Foreign exchange risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital and operational risk. Further quantitative disclosures are included throughout these financial statements. These risks are managed within the risk management framework of the Company as described below.



### 3 Financial risk management (continued)

#### **Risk management framework**

Refer to pages 114 to 119 of the Governance Statement for a description of the risk management framework.

#### **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment deposits. Credit control policies and procedures are determined by the Company and applied by a third party collection agent. There is an 8 step process for chasing debt over an 8 week period starting from the issue of the bill through to court/litigation proceedings. Key accounts are closely monitored by Key Account Managers. Aged debt older than 180 days is monitored by an aged debt team who identify and escalate reasons for non-payment, and perform collection and recovery activities in line with the Company's policies and procedures. Depending upon the customers' circumstances, repayments plans can be offered up to a period of 12 months.

#### **Trade and other receivables**

NI Water has a statutory obligation to provide water and sewerage services to customers within its region. Approximately 64% of the Company's revenue is in the form of a customer subsidy provided by DRD.

This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The credit risk in relation to the remaining 36% is mitigated by the credit control policies outlined above. Excluding the Company's subsidy from DRD, there is no concentration of credit risk with respect to its trade receivables.

#### **Investment deposits**

In accordance with the Shareholder Governance Arrangements the main banking services were transacted through the Northern Ireland Civil Service contract. As approved by DRD, and by DFP, other banking relationships have been instigated to manage financial counterparty risks arising from deposits of short term funds available for investment. Financial counterparty risks are managed through the use of credit limits and continuous monitoring procedures. Treasury policy is as follows:

- deposits with banks other than main relationship bank (MRB) only placed if other bank holds investment grade credit rating issued by main credit rating agency, i.e., Standard and Poor's, Moody's or Fitch;
- maximum exposure of £30m in other banks; and
- no more than 50% of funds held in any bank other than MRB.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

### 3 Financial risk management (continued)

The Treasury Function employs a continuous forecasting and monitoring process to manage cash, funding and liquidity risks. The Treasury Function invests any short term funds available for deposit based on its forecasted liquidity requirements and in accordance with the shareholder governance arrangements and the Company's treasury policies. During the year the Company maintained the following lines of credit:

- (a) £20m working capital facility provided by DRD for the period to 31 March 2016. Borrowings on the facility are repayable on demand. Interest is payable at a floating rate of the London Interbank Offered Rate (LIBOR) + 0.35%; and
- (b) £55m revolving credit facility also provided by DRD for the period to 31 March 2014. The facility is split into two elements, Facility A and Facility B. Interest is payable on Facility A at floating rates of LIBOR + 0.35% and on Facility B at floating rates of LIBOR + 2.00%.

The facilities outlined at (a) and (b) are not utilised at 31 March 2014.

The £55m revolving credit facility with DRD expired on 31 March 2014 and has not been renewed.

The Company's net current liabilities can be met using the capital loan note facility (see note 20) and working capital facility provided by DRD.

Work is being taken forward with DRD in respect of the expiry on 31 March 2016 of the working capital facility and the loan note borrowing period.

#### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### **Interest Rate Risk**

Interest rates on borrowings at 31 March 2014 were at fixed rates. The Company has committed borrowing facilities available but unused at the year end on which interest is charged at floating rates based on LIBOR plus a margin as set out above. Interest rates on fixed term deposits are fixed for the period of investment. The Company also maintains instant access investment accounts on which interest is earned at rates based on the Bank of England Base rate.

#### **Foreign Exchange Risk**

The Company is not exposed to significant foreign exchange transactions.

#### **Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

### 3 Financial risk management (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

#### **Capital management**

The Company deems its capital to consist of 500 million £1 ordinary shares, a statutory distributable reserve and a retained earnings reserve. A report on capital is prepared for the Board on an annual basis to ensure adequate cover exists for the payment of the Company's dividend. There were no changes in the Company's approach to capital management during the year.

#### **Other risks**

Other risks identified by the Company are outlined under 'Principal Risks and Uncertainties' on pages 15 to 17.

#### 4 Non-current assets held for sale

The Company's Land Management Department is focusing on selling the properties no longer required for operational purposes. Efforts to sell the assets have commenced and where the sale is expected by March 2015 these properties have been classified as held for sale in current assets.

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Property, plant and equipment	<b>853</b>	1,410

A gain of £126k (2013: £146k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI. The transfer of these properties to non-current assets held for sale is detailed in note 12 - investment properties.

#### 5 Revenue

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
Customer subsidy provided by DRD	<b>277,345</b>	281,677
Customer income	<b>69,155</b>	69,021
Road drainage income from DRD	<b>20,049</b>	20,911
Transfers of assets from customers	<b>59,566</b>	48,233
Connection and infrastructure charges	<b>4,939</b>	4,179
Other third party contributions	<b>1,648</b>	1,578
	<b>432,702</b>	425,599

##### **Customer subsidy provided by DRD**

The customer subsidy provided by DRD primarily relates to the deferment of the introduction of domestic charges.

##### **Customer income**

The revenue has been received (excluding VAT) in the ordinary course of business for services provided and in respect of unbilled charges. These unbilled charges relate to measured customers who at the end of the financial year have consumed supplies that have not yet been billed. An estimate is made of the value of the outstanding charges at year end and this is recognised in revenue.

##### **Road drainage income from DRD**

This revenue from DRD Transport NI represents the recovery of the costs incurred by the Company in dealing with the run-off of water from roads and footpaths.

##### **Transfers of assets from customers**

The Company receives items of property, plant, and equipment from customers, e.g., sewer pipes, pumping stations etc. from property developers, which it must then use either to connect customers to the network or to provide customers with on-going access to a supply of services. The deemed capital value of the transferred asset is included as revenue.

## 5 Revenue (continued)

### Connection and infrastructure charges

Connection charges relate to the cash charge to customers to connect a property to the water or sewerage network. This charge covers the capital cost of the connection. Infrastructure charges are also levied at the point of connection to the network. Infrastructure charges income is used to partly fund the overall capital programme. Connection and infrastructure charges are recognised in revenue immediately when levied.

### Other third party contributions

This includes customer contributions towards requisitioning of water or sewerage network pipes. The customer will only make a contribution when the scheme would be considered uneconomical without this contribution. Other third party contributions also include fees charged for the transfer of assets from customers ('adoption' of assets). Contributions in relation to requisitioning and other third party fees are recognised on receipt.

## 6 Other income

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
Net gain on sale of property, plant and equipment	<b>276</b>	334
Amortisation of deferred grants and contributions	<b>347</b>	347
	<b>623</b>	681

## 7 Operating expenses

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
Raw materials and consumables	<b>9,279</b>	9,325
Other operating expenses*	<b>115,661</b>	111,527
Staff costs	<b>55,073</b>	53,670
Own work capitalised**	<b>(11,621)</b>	(11,187)
Depreciation and other amounts written off tangible and intangible assets	<b>67,784</b>	65,939
Total operating expenses	<b>236,176</b>	229,274

## 7 Operating expenses (continued)

\*Other operating expenses comprise:

	<b>Year to 31 March 2014</b>	Year to 31 March 2013
	<b>£000</b>	£000
Power	<b>34,134</b>	34,328
Rates	<b>12,811</b>	14,451
Hire and contracted services	<b>57,190</b>	50,972
Other operating expenses	<b>11,526</b>	11,776
<b>Total other operating expenses</b>	<b>115,661</b>	111,527

\*\* Own work capitalised includes payroll costs (see note 8), materials and overheads.

NI Water invested £0.4m on research and development in the year ended 31 March 2014 (2013: £0.4m).

The net decrease in inventories for the year was £358k (2013: £204k increase).

	<b>Year to 31 March 2014</b>	Year to 31 March 2013
	<b>£000</b>	£000
Impairment loss on investment properties/assets classified as held for sale	<b>75</b>	830
Impairment loss realised on trade receivables	<b>1,020</b>	1,285
	<b>1,095</b>	2,115

The impairment losses above are included within the 'operating expenses' line of the SOCI. The events and circumstances leading to the recognition of the impairment losses in investment properties are outlined in note 12.

	<b>Year to 31 March 2014</b>	Year to 31 March 2013
	<b>£000</b>	£000
<b>Auditor's remuneration:</b>		
Audit of statutory financial statements	<b>54</b>	56
Audit of regulatory financial statements	<b>17</b>	17
Audit of whole of government account submission	<b>1</b>	2
Other Assurance opinions	<b>22</b>	22
	<b>94</b>	97
<b>Amounts receivable by the auditor in respect of:</b>		
Other services relating to taxation	<b>44</b>	72
Accounting and regulatory advice	<b>11</b>	11
	<b>55</b>	83
<b>Total fees paid to the auditor</b>	<b>149</b>	180

## 8 Personnel numbers and expenses

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	<b>No. of employees Year to 31 March 2014</b>	No. of employees Year to 31 March 2013
Directors	<b>10</b>	10
Non-industrial staff	<b>772</b>	780
Industrial staff	<b>481</b>	511
	<b><u>1,263</u></b>	<u>1,301</u>

The gender of persons employed by the Company (including Directors) during the year, analysed by category, was as follows<sup>36</sup>:

	<b>No. of employees Year to 31 December 2013</b>			No. of employees Year to 31 December 2012		
	<b>Male</b>	<b>Female</b>	<b>Total</b>	Male	Female	Total
Directors and senior managers	<b>48</b>	<b>11</b>	<b>59</b>	55	11	66
Non-industrial staff	<b>457</b>	<b>221</b>	<b>678</b>	468	231	699
Industrial staff	<b>517</b>	<b>6</b>	<b>523</b>	548	5	553
	<b><u>1,022</u></b>	<b><u>238</u></b>	<b><u>1,260</u></b>	<u>1,071</u>	<u>247</u>	<u>1,318</u>

The aggregate payroll costs of these persons were as follows:

	<b>Year to 31 March 2014</b>	Year to 31 March 2013
	<b>£000</b>	£000
Wages and salaries	<b>40,112</b>	40,430
Social security costs	<b>3,113</b>	3,079
Other pension costs	<b>11,848</b>	10,161
	<b><u>55,073</u></b>	<u>53,670</u>

An amount of £9,819k (2013: £9,388k) of the above payroll costs has been capitalised as it relates to work carried out by the Company that adds to the value of property, plant and equipment and intangible assets.

<sup>36</sup> Based on statutory returns made to the Equality Commission on a calendar year basis.

### 8a Key management personnel short-term employee benefits

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Directors' remuneration report on pages 123 to 127. Key management includes all Board members and members of the senior management team who influence the decisions of the Company, i.e., members of the Executive Committee.

In summary, key management personnel compensation comprised:

	<b>Year to 31 March 2014</b>	Year to 31 March 2013 'As restated'
	<b>£000</b>	£000
Short-term employee benefits	<b>839</b>	814
Post-employment benefits	<b>182</b>	182
	<b><u>1,021</u></b>	<u>996</u>

The emoluments of the highest paid Director were £135k (2013: £150k).

There are amounts included in the SOCI in respect of actuarial gains and losses attributable to key management personnel, however, it is considered impractical to provide a breakdown of the actuarial gains / losses relating to individual members. While some elements resulting in gains / losses are easy to measure on an individual basis e.g. the effect of salary increases, others would involve allocating a share in investment returns and other scheme experience (deaths / retirements) which cannot be attributed to individual members.

### 8b Exit packages

The exit packages for employees who left the Company during the year are reported below. The majority of the exit packages relate to the Voluntary Early Retirement and Voluntary Severance (VER / VS) schemes which were used to facilitate the targeted reduction in headcount. The VER / VS schemes are similar to the Northern Ireland Civil Service (NICS) scheme and incorporate the provisions of relevant age discrimination legislation. All applications are considered in terms of overall cost and business need. Overall cost in individual cases is based on length of service and pensionable pay figures. Ill-health retirement costs are met by the pension scheme and are not included in the exit packages.

<b>Exit package cost band</b>	<b>Number of compulsory redundancies 31 March 2014</b>	<b>Number of other departures agreed 31 March 2014</b>	<b>Total number of exit packages by cost band 31 March 2014</b>	<b>Number of compulsory redundancies 31 March 2013</b>	<b>Number of other departures agreed 31 March 2013</b>	<b>Total number of exit packages by cost band 31 March 2013</b>
<b>£000</b>						
0 – 10	-	2	2	-	1	1
10 – 25	-	12	12	-	24	24
25 – 50	-	1	1	-	11	11
50 – 100	-	6	6	-	22	22
Above 100	-	2	2	-	7	7
<b>Total number</b>	-	23	23	-	65	65
<b>Total cost (£'000)</b>	-	980	980	-	3,467	3,467



### 8c Off-payroll engagements

In accordance with DFP disclosure guidance - FD (DFP) 02/14, the Company can confirm that there were two 'off payroll' engagements at a cost of over £58,200 per annum in place during 2013/14.

	<b>Year to 31 March 2014 number</b>	Year to 31 March 2013 number
Number of engagements as at 1 April	-	-
Number of new engagements during the year	<b>2</b>	-
Number of engagements that have come on to the Company's payroll during the year	-	-
The number of engagements that have come to an end during the year	-	-
Number of engagements as at 31 March	<b>2</b>	-

### 9 Finance income and finance costs

#### Recognised in profit or loss

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 'As restated'* £000
Interest income on bank deposits	<b>112</b>	148
Finance income on pension scheme	-	849
Interest on pension scheme assets	-	-
Finance income	<b>112</b>	997
Financing charges on pension scheme	<b>(300)</b>	-
Interest expense on financial liabilities measured at amortised cost	<b>(37,548)</b>	(40,298)
Interest on PPP financing arrangements	<b>(20,588)</b>	(21,843)
Finance costs	<b>(58,436)</b>	(62,141)
Net finance costs recognised in profit or loss	<b>(58,324)</b>	(61,144)

All finance income and finance costs above relate to assets / (liabilities) not at fair value through profit or loss.

Of the above amount £37,495k (2013: £40,265k) was payable to DRD in relation to loan notes issued (see note 20 'Loans and borrowings' and note 29 'Related parties'). Interest of £3,911k was capitalised in the year (2013: £3,838k).

\* The comparative for 2013 has been restated to show interest net of capitalised interest.

## 9 Finance income and finance costs (continued)

\* In 2013 £7,126k was included in finance income in respect of the expected return on assets and £6,277k was included in finance costs in respect of the interest on pension scheme liabilities. The net of this, £849k, is shown above in "finance income on pension scheme".

## 10 Income tax expense

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
<b>Tax recognised in profit or loss</b>		
<b>Current tax expense</b>		
Current year	(266)	-
Adjustment for prior years	(282)	-
	<u>(548)</u>	<u>-</u>

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
<b>Deferred tax</b>		
(Origination) and reversal of temporary differences*	(10,726)	(33,495)
Reduction in tax rate from 23% to 20% (2013: 24% to 23%)	<u>26,158</u>	<u>8,289</u>
	<u>15,432</u>	<u>(25,206)</u>
	15	15
Total income tax expense	<u>14,884</u>	<u>(25,206)</u>

\* see note 15 on related discussions with HMRC.

## Tax recognised in other comprehensive income For the year ended 31 March

	Year to 31 March 2014			Year to 31 March 2013		
	Before tax £000	Tax (expense) / benefit £000	Net of tax £000	Before tax £000	Tax (expense) / benefit £000	Net of tax £000
Defined benefit plan actuarial gains/(losses)	<u>10,015</u>	<u>(2,003)</u>	<u>8,012</u>	(15,005)	3,470	(11,535)
	<u>10,015</u>	<u>(2,003)</u>	<u>8,012</u>	(15,005)	3,470	(11,535)

## 10 Income tax expense (continued)

### Reconciliation of effective tax rate

	Year to 31 March 2014		Year to 31 March 2013	
	%	£000	%	£000
Profit for the year		<b>153,341</b>		110,232
Total income tax (credit)/expense		<b>(14,884)</b>		25,206
Profit before income tax		<b>138,457</b>		135,438
Income tax using the Company's domestic tax rate	<b>23</b>	<b>31,845</b>	24	32,505
Reduction in tax rate	<b>(19)</b>	<b>(25,858)</b>	(6)	(8,289)
Non-deductible expenses	<b>0.4</b>	<b>520</b>	1	1,747
Adjustment to prior years	<b>(15)</b>	<b>(21,391)</b>	(0.5)	(757)
	<b>(10.6)</b>	<b>(14,884)</b>	18.5	25,206

### Factors affecting future tax charge

Following the 2013 budget statement, the main rate of UK corporation tax was reduced from 24% directly to 23% with effect from 1 April 2013. Thereafter the main rate of UK corporation tax will continue to reduce to 21% by 2014 and to 20% from 1 April 2015. It is expected that this gradual fall in the main corporation tax rate will result in a reduction of the Company's future current tax charge.

## 11 Property, plant and equipment

	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	<b>Total £000</b>
<b>Cost or deemed cost</b>						
Balance at 1 April 2012	63,685	1,292,821	808,866	11,306	165,660	<b>2,342,338</b>
Reclassifications	-	(383)	326	-	57	-
Additions	-	2,843	-	-	152,124	<b>154,967</b>
Customer contributions	4	47,564	665	-	-	<b>48,233</b>
Disposals	(203)	(4,400)	(1,658)	(354)	-	<b>(6,615)</b>
Transfers	7,594	77,602	96,471	1,048	(182,715)	-
Reclassification to investment properties	639	23	(666)	4	-	-
Balance at 31 March 2013	<b>71,719</b>	<b>1,416,070</b>	<b>904,004</b>	<b>12,004</b>	<b>135,126</b>	<b>2,538,923</b>
Balance at 1 April 2013	71,719	1,416,070	904,004	12,004	135,126	<b>2,538,923</b>
Reclassifications	103	(12,057)	11,954	-	-	-
Additions	-	2,623	-	-	162,598	<b>165,221</b>
Customer contributions	-	59,471	95	-	-	<b>59,566</b>
Disposals	(1)	(1,225)	(1,341)	(419)	-	<b>(2,986)</b>
Transfers	1,067	52,404	86,080	2,785	(142,336)	-
Reclassification to investment properties	(69)	-	-	-	-	<b>(69)</b>
<b>Balance at 31 March 2014</b>	<b>72,819</b>	<b>1,517,286</b>	<b>1,000,792</b>	<b>14,370</b>	<b>155,388</b>	<b>2,760,655</b>

\* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.

**11 Property, plant and equipment  
(continued)**

	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	<b>Total £000</b>
<b>Depreciation and impairment losses</b>						
Balance at 1 April 2012	(860)	(49,624)	(107,239)	(6,735)	-	<b>(164,458)</b>
Depreciation for the year	(1,141)	(20,740)	(36,378)	(1,336)	-	<b>(59,595)</b>
Disposals	203	4,400	1,658	351	-	<b>6,612</b>
Balance at 31 March 2013	<b>(1,798)</b>	<b>(65,964)</b>	<b>(141,959)</b>	<b>(7,720)</b>	-	<b>(217,441)</b>
Balance at 1 April 2013	(1,798)	(65,964)	(141,959)	(7,720)	-	<b>(217,441)</b>
Depreciation for the year	(1,970)	(14,629)	(44,037)	(1,426)	-	<b>(62,062)</b>
Disposals	-	1,225	1,341	416	-	<b>2,982</b>
<b>Balance at 31 March 2014</b>	<b>(3,768)</b>	<b>(79,368)</b>	<b>(184,655)</b>	<b>(8,730)</b>	-	<b>(276,521)</b>
<b>Carrying amounts</b>						
At 31 March 2013	69,921	1,350,106	762,045	4,284	135,126	<b>2,321,482</b>
<b>At 31 March 2014</b>	<b>69,051</b>	<b>1,437,918</b>	<b>816,137</b>	<b>5,640</b>	<b>155,388</b>	<b>2,484,134</b>

\* Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.

All surplus land and buildings have been transferred to investment properties and non-current assets held for sale (see note 12).

## 11 Property, plant and equipment (continued)

### Borrowing costs capitalisation

Included in the total net book value of property, plant and machinery is £3,911k (2013: £3,839k) of borrowing costs capitalised during the period using a capitalisation rate of 4.54% (2013: 5.25%).

### Leased assets

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
The net book value of land and buildings comprises:		
Freehold	67,982	68,841
Leasehold - long and short term	1,069	1,080
<b>Total</b>	<b>69,051</b>	<b>69,921</b>
	<b>At 31 March 2014 £000</b>	<b>At 31 March 2013 £000</b>
Land within this total is not depreciated and is shown as follows:		
Freehold	17,716	18,243

### PPP assets

The cost and net book value of PPP assets included in property, plant and equipment are disclosed in note 30.

Commitments under operating leases are shown in note 26.

**12 Investment properties**

	<b>Total £000</b>
<b>Cost or deemed cost</b>	
Balance at 1 April 2012	28,238
Reclassification from non-current assets held for sale	1,036
Disposals	(1,262)
Reclassification to non-current assets held for sale	(3,276)
<b>Balance at 31 March 2013</b>	<b><u>24,736</u></b>
Balance at 1 April 2013	24,736
Reclassification from non-current assets held for sale	880
Disposals	(1,000)
Reclassification to non-current assets held for sale	(3,960)
<b>Balance at 31 March 2014</b>	<b><u>20,656</u></b>
<b>Accumulated depreciation and impairment losses</b>	
Balance at 1 April 2012	(17,442)
Reclassification from non-current assets held for sale	(934)
Reclassification to non-current assets held for sale	1,866
Disposals	644
Depreciation for the year	(58)
Impairment loss	(830)
<b>Balance at 31 March 2013</b>	<b><u>(16,754)</u></b>
Balance at 1 April 2013	(16,754)
Reclassification from non-current assets held for sale	(272)
Reclassification to non-current assets held for sale	3,090
Disposals	907
Depreciation for the year	(23)
<b>Balance at 31 March 2014</b>	<b><u>(13,052)</u></b>
<b>Carrying amounts</b>	
At 31 March 2013	<u>7,982</u>
<b>At 31 March 2014</b>	<b><u>7,604</u></b>

### 13 Intangible assets

	Computer programs and software £000	Assets in the course of construction £000	Total £000
<b>Cost</b>			
Balance at 1 April 2012	36,712	8,427	<b>45,139</b>
Acquisitions	-	11,674	<b>11,674</b>
Transfers	8,741	(8,741)	-
Balance at 31 March 2013	<u>45,453</u>	<u>11,360</u>	<b>56,813</b>
Balance at 1 April 2013	45,453	11,360	<b>56,813</b>
Acquisitions	-	8,319	<b>8,319</b>
Transfers	10,400	(10,400)	-
Disposals	(3,733)		<b>(3,733)</b>
Balance at 31 March 2014	<u>52,120</u>	<u>9,279</u>	<b>61,399</b>
<b>Amortisation and impairment losses</b>			
Balance at 1 April 2012	(16,477)	-	<b>(16,477)</b>
Amortisation for the year	(5,456)	-	<b>(5,456)</b>
Balance at 31 March 2013	<u>(21,933)</u>	-	<b>(21,933)</b>
Balance at 1 April 2013	(21,933)	-	<b>(21,933)</b>
Amortisation for the year	(5,612)	-	<b>(5,612)</b>
Disposals	3,733	-	<b>3,733</b>
Balance at 31 March 2014	<u>(23,812)</u>	-	<b>(23,812)</b>
<b>Carrying amounts</b>			
At 31 March 2013	<u>23,520</u>	<u>11,360</u>	<u>34,880</u>
<b>At 31 March 2014</b>	<b><u>28,308</u></b>	<b><u>9,279</u></b>	<b><u>37,587</u></b>

#### Assets in the course of construction (AICC)

No borrowing costs were capitalised and included in the carrying value of AICC during the year.

£368k (2013: £424k) of research and development expenditure was recognised as an expense during the period.

The following intangible assets are deemed to be material to the Company's financial statements:

Description	Carrying amount	Remaining amortisation period (years)
Mobile Work Management System	£ 0.5m	1
Customer Billing/Contacts/Mobile Work Management Project	£ 1.4m	2
Digitisation	£ 0.95m	4
NIAMP 3	£ 1.00m	2
Costing solution development	£ 1.25m	Under development*
Asset Data Acquisition and Improvement	£ 3.7m	7
Capital studies infrastructure projects**	£10.0m	8-9

\* Assets under development are not amortised.

\*\* The £10m for capital studies infrastructure projects relates to multiple projects.



### 13 Intangible assets (continued)

The contractual commitments for the acquisition of intangible assets as at 31 March 2014 are £9,392k (2013: £1,455k).

### 14 Other investments

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
<b>Non-current investments</b>		
8% unsecured loan stock (15,278 units at £1 each)	-	15
15,278 ordinary 'A' shares (re-valued at 31 March 2014 at market value £0.83 per share)	<b>13</b>	<b>38</b>
	<b>13</b>	<b>53</b>

The shares relate to an investment in WRc PLC. WRc carries out research in the water, waste and environment sectors. The market value at 31 March 2014 was £0.83 per ordinary share (2013: £2.46). The fair value adjustment of £25k has been charged to Other Comprehensive Income and has been debited to an Available for Sale reserve.

The 8% unsecured loan stock reached maturity on 31 March 2014 and WRc has confirmed that the principal of £15,278 will be repaid to NIW in full. As at 31 March 2014 the repayment is outstanding, a debtor has been recognised and included in other receivables (note 17).

## 15 Deferred tax assets and liabilities

The following are the deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting periods:

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	At 31 March 2014 £000	At 31 March 2013 £000	At 31 March 2014 £000	At 31 March 2013 £000	At 31 March 2014 £000	At 31 March 2013 £000
Property, plant and equipment	-	-	161,016	167,058	161,016	167,058
Transfers of assets from customers*	-	-	51,009	45,358	51,009	45,358
Intangible assets	-	-	1,033	1,393	1,033	1,393
Employee benefits	-	(1,231)	696	-	696	(1,231)
Provisions	(175)	-	-	-	(175)	-
Tax losses carried forward	(39,190)	(24,759)	-	-	(39,190)	(24,759)
Net tax (assets) / liabilities	(39,365)	(25,990)	213,754	213,809	174,389	187,819

### Movement in deferred tax balance during the year

	Balance at 31 March 2013 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Balance at 31 March 2014 £000
Property, plant and equipment	167,058	(6,042)	-	161,016
Transfers of assets from customers*	45,358	5,651	-	51,009
Intangible assets	1,393	(360)	-	1,033
Employee benefits	(1,231)	(76)	2,003	696
Provisions	-	(175)	-	(175)
Tax losses carried forward	(24,759)	(14,431)	-	(39,190)
	187,819	(15,433)	2,003	174,389

The impact on the deferred tax liability arising from future changes in the underlying tax rate is disclosed in note 10.

\* Transfers of assets from customers form part of property, plant and equipment in the Statement of Financial Position.

### 15 Deferred tax assets and liabilities (continued)

The past discussions between HMRC and the UK Water Industry on the most appropriate treatment for a number of areas of expenditure for tax purposes were resolved during the year. NI Water has adopted current tax practices for the UK Water Industry in the calculation of the deferred tax liability at 31 March 2014 and is currently working with tax advisers towards submitting and agreeing with HMRC revised capital allowances in line with Industry guidelines. The impact of this work to date, along with clarifications arising from the resolution of discussions with HMRC, is a release of the deferred tax liability of £21,674k in 2013/14. The Directors are content that the level of deferred tax provisioning shown in the accounts is appropriate.

### 16 Inventories

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Raw materials and consumables	<b>2,029</b>	2,369
Work in progress	-	18
	<b>2,029</b>	<b>2,387</b>

The estimated replacement cost of the stocks included above is not considered to be significantly different to the carrying value.

During the year raw materials, consumables and work in progress recognised within operating costs amounted to £400k (2013: £454k). In the year ending 31 March 2014 the write-down of inventories to net realisable value amounted to £60k (2013: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2013: £60k). The reversal of write-downs amounted to £nil (2013: £nil). The write-downs are included in operating expenses.

### 17 Trade and other receivables

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Trade and other receivables from related parties (see note 29)	<b>1,496</b>	1,418
Trade receivables	<b>10,995</b>	8,452
Other receivables	<b>6,702</b>	9,012
	<b>19,193</b>	<b>18,882</b>
Current	<b>19,193</b>	18,882

At 31 March 2014 other receivables include VAT receivable of £4,794k (2013: £7,752k).

### 18 Cash and cash equivalents

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Bank balances	<b>2,100</b>	15,572
Call deposits	<b>600</b>	5,300
Cash and cash equivalents	<b>2,700</b>	20,872

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 25.

### 19 Capital and reserves

#### Share capital

	<b>Ordinary shares</b>	
	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
<b><i>Allotted called up and fully paid</i></b>		
500m Ordinary shares of £1 each	<b>500,000</b>	500,000

#### Ordinary shares

At 31 March 2014 the authorised share capital comprised 500 million ordinary shares (2013: 500m) with a par value of £1 each.

All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends as declared from time-to-time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

19 Capital and reserves (continued)

**Reserves**

	At 31 March 2014			At 31 March 2013		
	Statutory distributable reserve £000	Retained earnings £000	Available for sale reserve £000	Statutory distributable reserve £000	Retained earnings £000	Available for sale reserve £000
At beginning of year	171,690	316,724	(53)	171,690	244,973	-
Profit for the year	-	153,341	-	-	110,232	-
Actuarial (losses)/gains recognised in the pension scheme	-	10,015	-	-	(15,005)	-
Deferred tax arising on losses / (gains) in the pension scheme	-	(2,003)	-	-	3,470	-
Shares not held for trading – revaluation losses	-	-	(25)	-	-	(34)
Transfer to Available for Sale reserve	-	-	-	-	19	(19)
Dividends on shares classified in Shareholder's funds	-	(29,046)	-	-	(26,965)	-
	<b>171,690</b>	<b>449,031</b>	<b>(78)</b>	<b>171,690</b>	<b>316,724</b>	<b>(53)</b>

**Statutory distributable reserve**

The statutory distributable reserve was established under enabling legislation.

## 19 Capital and reserves (continued)

### Dividends

The following dividends were declared and paid by the Company.

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
5.81 pence per allotted ordinary share (2013: 5.39 pence)	<b>29,046</b>	26,965

The dividends recorded in each financial year represent the final dividend of the preceding financial year.

## 20 Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and liquidity risk, see note 25.

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
<b>Non-current liabilities</b>		
Capital loan notes	<b>911,560</b>	882,560
Finance lease liabilities	<b>216,100</b>	213,222
	<b>1,127,660</b>	1,095,782
<b>Current liabilities</b>		
Current portion of finance lease liabilities	<b>2,806</b>	7,883
	<b>2,806</b>	7,883

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Nominal interest rate	Year of maturity	At 31 March 2014		At 31 March 2013	
			Face value £000	Carrying amount £000	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	<b>627,560</b>	<b>627,560</b>	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	<b>284,000</b>	<b>284,000</b>	255,000	255,000
PPP finance lease liabilities – Alpha	5.81%	2028	<b>96,060</b>	<b>96,060</b>	97,533	97,533
PPP finance lease liabilities – Omega	3.67%	2028	<b>118,840</b>	<b>118,840</b>	119,463	119,463
PPP finance lease liabilities – Kinnegar	3.99%	2018	<b>4,006</b>	<b>4,006</b>	4,109	4,109
			<b>1,130,466</b>	<b>1,130,466</b>	1,103,665	1,103,665

## 20 Loans and borrowings (continued)

The capital loan notes (denominated in GBP) have been issued under the instrument constituting £1,280,200k Fixed Coupon Unsecured loan notes 2027. During the year to 31 March 2014, £29m (2013: £75m) of loan notes were issued under this instrument. Capital loan notes are issued to DRD and are repayable in full in 2027. All loan notes in issue before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 carry fixed interest rates of 0.85% above the reference gilt rate as published by the UK HM Government Debt Management Office on the day of issue of the loan note. The gilt rates applying to loan drawdowns subsequent to 31 March 2010 range from 2.2% to 3.9%.

### Finance lease liabilities

Finance lease liabilities are payable as follows:

	At 31 March 2014			At 31 March 2013		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	£000	£000	£000	£000	£000	£000
Less than one year	23,181	20,375	2,806	29,683	21,800	7,883
Between one and five years	96,109	78,013	18,096	123,773	84,316	39,457
More than 5 years	345,760	147,756	198,004	346,040	172,275	173,765
	<b>465,050</b>	<b>246,144</b>	<b>218,906</b>	<b>499,496</b>	<b>278,391</b>	<b>221,105</b>

Finance lease liabilities relate to PPP contracts outlined in note 30.

## 21 Employee benefits

### Defined benefit pension scheme

The Company operates a defined benefit pension scheme, the Northern Ireland Water Limited Pension Scheme, which is open to all employees. Members had the option of transferring their pensionable service from the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS (NI)) and a bulk transfer was paid in respect of liabilities transferred in August 2010. The Company expects to contribute approximately £10.4m to its pension plan in 2014/15 which includes £0.5m for 2013/14 past service costs.

When first established the NI Water Pension Scheme was divided into three Defined Benefits sections – Classic, Classic Plus and Premium. All of these are now closed arrangements, which mean that no new members can join them. From 1 December 2010 the Company provides a new defined benefit arrangement called CARE for all new employees.

All pension sections of the scheme include an annual pension related to the length of service and, either pensionable earnings in the final year of service, or pensionable earnings for each year of service. The option to commute part of total benefits to an initial lump sum, death benefits and benefits for dependents, are also included in the scheme. Employees contribute either 1.5% or 3.5% of pensionable salaries to the scheme during the year.

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits which is applicable

## 21 Employee benefits (continued)

for annual periods beginning on or after 1 January 2013. As a result of this change, the company determines the net interest expense by applying the discount rate used to measure the pension obligation at the beginning of the annual period to the net liability.

The change in accounting policy has been applied for the period ended 31 March 2014. It increased the expense recognised in profit and loss and correspondingly increased the re-measurement gain recognised in other comprehensive income by £1.2m for the year ended 31 March 2014.

If applied in 2013, this amendment would have reduced the actuarial loss recognised for the year by £0.4m, with a corresponding increase in expenses in profit or loss. The amendments to the standard require retrospective application, with the restatement of disclosures in the comparative period. The company has determined that the adjustments required are not material to the values as previously disclosed and therefore no restatement has been made, however finance income and finance costs have been reclassified in accordance with IAS19 (see note 2(i) for further details).

The change in accounting policy had no impact on net assets as at 31 March 2014 or 31 March 2013.

### The significant assumptions used in this disclosure:

#### Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2014	Conditions at 31 March 2013
Rate of increase in salaries	4.30%	4.40%
Rate of increase in pensions in payment and deferred pensions	3.30%	3.40%
Discount rate	4.60%	4.40%
Inflation assumption	3.30%	3.40%

### Composition of the Scheme

The scheme is open to new entrants and therefore the service cost as a percentage of pensionable salaries is expected to remain steady over time. Accrued liabilities are based on approximate calculations carried out by a qualified independent actuary. The scheme's latest actuarial valuation was carried out as at 31 March 2011.

#### Assumed life expectancies on retirement at age 60

	31 March 2014			
	Non-industrial		Industrial	
	Male	Female	Male	Female
Member age 60 (current life expectancy)	27.7	30.3	26.0	28.5
Member age 40 (life expectancy at age 60)	30.2	32.8	28.4	31.0



**21 Employee benefits (continued)**

	31 March 2013			
	Non-industrial		Industrial	
	Male	Female	Male	Female
Member age 60 (current life expectancy)	27.6	30.2	25.9	28.4
Member age 40 (life expectancy at age 60)	30.1	32.7	28.3	30.9

**The weighted-average target asset allocations were as follows:**

<b>Asset category</b>	<b>Total scheme assets at 31 March 2014</b>	<b>Total scheme assets at 31 March 2013</b>
Equities	<b>27.5%</b>	27.5%
Corporate bonds	<b>15.0%</b>	20.0%
Gilts	<b>25.0%</b>	25.0%
Other*	<b>22.5%</b>	22.5%
Property	<b>10.0%</b>	5.0%
	<b>100.0%</b>	100.0%
<b>Fair value of plan assets</b>	<b>£000</b>	<b>£000</b>
Equities	<b>49,362</b>	44,271
Corporate bonds	<b>31,640</b>	28,579
Gilts	<b>45,455</b>	41,566
Other	<b>36,123</b>	33,795
Property	<b>8,413</b>	7,577
Total market value of assets	<b>170,993</b>	155,788
Actuarial value of liabilities	<b>(167,513)</b>	(161,142)
Surplus / (Deficit) in the scheme – pension asset/(liability)	<b>3,480</b>	(5,354)
Related deferred tax (liability)/asset	<b>(696)</b>	1,231
Net pension asset/(liability)	<b>2,784</b>	(4,123)

The investment in equities is approximately 31% in UK equities and 69% in overseas equities. The investments shown as 'Other' includes Global Tactical Asset Allocation and Diversified Growth Fund. These investments are intended to reduce the reliance on equity markets, diversify the sources of risk to which the fund is exposed and provide exposure to a wide variety of equity, bond, currency, commodity and other alternatives markets.

## 21 Employee benefits (continued)

### Defined benefit obligation by participant status

	<b>Total at 31 March 2014 £000</b>	Total at 31 March 2013 £000
Actives	111,543	112,604
Vested deferreds	4,775	4,910
Retirees	51,195	43,628
Total defined benefit obligation	<u>167,513</u>	<u>161,142</u>

### Change in the fair value of plan assets

	<b>Total year to 31 March 2014 £000</b>	Total year to 31 March 2013 £000
Fair value of plan assets at end of prior year	155,788	130,195
<i>Movement in year</i>		
Expected return on assets	-	7,126
Interest on pension scheme assets	7,100	-
Contributions by plan participants	861	858
Contributions by employer	11,424	10,909
Actuarial (loss) / gain	(1,260)	7,649
Benefits paid	(2,799)	(2,501)
Administration expenses paid from plan assets	(547)	-
Insurance premiums for risk benefits	(101)	-
Settlement in relation to PCSPS bulk transfer	527	-
Actuarial gain in respect of re-admission of Northgate employees	-	1,402
Curtailment in respect of cessation contribution from Northgate*	-	150
	<u>170,993</u>	<u>155,788</u>

\* Northgate Managed Services was a supplier to NI Water until 31 March 2012. Under this arrangement Northgate was a participating employer in the NI Water Pension Fund. When this contract ended on 31 March 2012, Northgate were obliged to pay a final contribution of £150k into the fund and cease being participating employers of the scheme.

## 21 Employee benefits (continued)

### Analysis of the present value of the defined benefit obligations

	<b>Total year to 31 March 2014 £000</b>	Total year to 31 March 2013 £000
At the beginning of the year	<b>161,142</b>	120,652
<i>Movement in year</i>		
Current service cost	<b>11,200</b>	10,161
Interest on scheme liabilities	<b>7,400</b>	6,277
Past service costs	<b>457</b>	1,639
Actuarial (gain)/loss –change in financial assumptions	<b>(11,275)</b>	22,654
Contributions by plan participants	<b>861</b>	858
Benefits paid	<b>(2,799)</b>	(2,501)
Settlement in relation to PCSPS bulk transfer	<b>527</b>	-
Actuarial loss in respect of re-admission of Northgate employees	<b>-</b>	1,402
	<b>167,513</b>	161,142

### Components of defined benefit cost

	<b>Total year to 31 March 2014 £000</b>	Total year to 31 March 2013 £000
<b>Service cost</b>		
Current service costs (operating costs - staff costs)*	<b>11,848</b>	10,161
Past service costs (operating costs - staff costs)	<b>457</b>	1,639
Curtailement in respect of cessation contribution from Northgate	<b>-</b>	(150)
Total service cost	<b>12,305</b>	11,650

\* Including administration expenses and insurance premiums £648k (2013: £754k)

**21 Employee benefits (continued)**

**Analysis of amounts included in the Statement of Comprehensive Income**

	<b>Total year to 31 March 2014 £000</b>	Total year to 31 March 2013 £000
Total service cost	(12,305)	(11,650)
Finance (cost) / income on pension scheme	(300)	849
Net interest cost/(income)	<u>(300)</u>	<u>849</u>
Defined benefit cost charged to profit	<u>(12,605)</u>	<u>(10,801)</u>

**Analysis of amount recognised in other comprehensive income**

	<b>Total year to 31 March 2014 £000</b>	Total year to 31 March 2013 £000
Actual return on assets less interest	(1,260)	-
Actuarial gain on assets*	-	7,649
Experience gains and losses	-	763
Actuarial loss on liabilities	<u>11,275</u>	<u>(23,417)</u>
Net actuarial gain/(loss) recognised in other comprehensive income	<u>10,015</u>	<u>(15,005)</u>

	<b>Total year to 31 March 2014 £000</b>	Total year to 31 March 2013 £000
Actual return on plan assets	5,840	14,775

\* The actuarial gain on assets in the prior year has not been reclassified in the current year as a result of the amendment to IAS19. See page 170 for further details.

## 21 Employee benefits (continued)

### Sensitivity of key assumptions

The sensitivities to assumptions shown below are broadly symmetrical, i.e., an increase or decrease in the assumption will result in a similar movement in either direction.

#### Impact of:

	Change in liability 2013/14 %	Change in liability 2013/14 £000	Change in liability 2012/13 %	Change in liability 2012/13 £000
+ or - 0.25% in discount rate	5.5%	9,200	6.0%	9,700
+ or - 0.25% in rate of inflation	5.2%	8,700	5.6%	9,100
+ or - 0.25% in salary inflation	2.0%	3,300	2.3%	3,600
Increase in life expectancy of 1 year	2.2%	3,700	2.3%	3,800

## 22 Deferred income

Deferred income classified as current consists of deferred revenue associated with the annual unmeasured water bill cycle and the portion of deferred government grants that will be recognised as income in the next year. Deferred income classified as non-current consists of the non-current portion of deferred government grants.

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Government grants	<b>6,982</b>	6,968
Customer billing in advance	<b>2,266</b>	37
	<b>9,248</b>	7,005
Non-current	<b>6,635</b>	6,621
Current	<b>2,613</b>	384
	<b>9,248</b>	7,005

The Company received a capital grant of £366k towards the refurbishment of facilities for visitors at Silent Valley. The balance of grants noted above relates to awards made previously to DRD Water Service. These have been recognised as deferred income, and are being amortised over the useful economic life of the related asset.

## 23 Provisions

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	<b>Total £000</b>
Balance at 1 April 2013	2,020	395	7,053	120	680	<b>10,268</b>
New Provisions	2,172	295	-	-	1,000	<b>3,467</b>
Utilised	(779)	(216)	-	(14)	-	<b>(1,009)</b>
Transferred to Accruals	-	-	(500)	-	-	<b>(500)</b>
Amounts released unused	(1,254)	23	-	-	(5)	<b>(1,236)</b>
<b>Balance at 31 March 2014</b>	<b>2,159</b>	<b>497</b>	<b>6,553</b>	<b>106</b>	<b>1,675</b>	<b>10,990</b>
Non-current	1,296	373	2,403	-	675	<b>4,747</b>
Current	863	124	4,150	106	1,000	<b>6,243</b>
	<b>2,159</b>	<b>497</b>	<b>6,553</b>	<b>106</b>	<b>1,675</b>	<b>10,990</b>

### Public and employer liability claims

The public liability and employer liability claims at 31 March 2014 relate to unsettled claims. The public liability claims principally relate to previous operational incidents and contractors' business interruption incidents in prior years. The provisions represent potential liabilities on these claims above the amount of insurance cover in place. Professional advice has been sought on the potential liability for individual claims. Claims submitted against the Company are in excess of the provisions made as management have made best estimates of the required provisions based on past experience of similar claims. Until claims are progressed through the formal claims process some degree of uncertainty will remain as to the amount and timing of any final settlement figure. The employer liability claims principally relate to incidents incurred by employees on Company premises.

A related contingent liability has also been disclosed at note 28. The contingent liability for public and employer liability of £0.8m represents an amount relating to the value of claims received above the provision included in the financial statements.

### Environmental liability

The environmental provision was calculated after carrying out an Environmental and Liability Assessment at various services sites. This provision relates to a contract which is in place to carry out the required remedial work. The amount provided represents the best estimate of the Company's liability after discussions and agreement with the environmental regulator (NIEA) on the work to be carried out.

## 23 Provisions (continued)

### Early retirement provisions

The early retirement provision relates to those retirement benefits accruing to those members who took early retirement prior to 1 April 2007. The provision represents the total of retirement benefits due to those members from 31 March 2014 to their official date of retirement. These payments are made on a monthly basis to DFP and the amounts and timing of these should not be subject to any uncertainty.

### Other provisions

Other provisions relates to management's best estimates of the value of unused staff holiday entitlement at the year end of £675k (2013: £680k) and of third party costs in relation to the resolution of contractual disputes of £1,000k (2013: nil).

The expected timing of any resulting outflows of economic benefits is as follows:

#### 31 March 2014

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	<b>Total £000</b>
Within one year	863	124	4,150	106	1,000	<b>6,243</b>
In the second to fifth years	1,296	373	2,403	-	675	<b>4,747</b>
Over five years	-	-	-	-	-	-
	<b>2,159</b>	<b>497</b>	<b>6,553</b>	<b>106</b>	<b>1,675</b>	<b>10,990</b>

#### 31 March 2013

	Public liability claims £000	Employer liability claims £000	Environmental liability £000	Early retirement provisions £000	Other provisions £000	<b>Total £000</b>
Within one year	808	99	1,650	120	-	<b>2,677</b>
In the second to fifth years	1,212	296	5,403	-	-	<b>6,911</b>
Over five years	-	-	-	-	680	<b>680</b>
	<b>2,020</b>	<b>395</b>	<b>7,053</b>	<b>120</b>	<b>680</b>	<b>10,268</b>

## 24 Trade and other payables

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Payments received on account	1,192	1,127
Trade payables	6,732	2,639
Taxation and social security	1,034	1,119
Accruals – operating expenditure	45,855	48,557
Accruals – capital expenditure	57,410	54,375
Accruals to related parties (see note 29)	775	1,226
	<b>112,998</b>	<b>109,043</b>

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

### Other payables

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Non-current	914	1,076
Current	8,387	6,942
	<b>9,301</b>	<b>8,018</b>

Non-current other payables relates to retentions from capital projects all of which will fall due within two to five years.

## 25 Financial instruments

### Credit risk

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

<b>Loans and receivables</b>	<i>Note</i>	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Non-current investment	14	-	15
Trade and other receivables	17	12,255	9,870
Unbilled income included within prepayments		9,598	10,978
Cash and cash equivalents	18	2,700	20,872
		<b>24,553</b>	<b>41,735</b>

The total exposure to credit risk at the reporting date is with UK counterparties.



## 25 Financial instruments (continued)

All financial assets which are subject to credit risk are measured at amortised cost with the exception of non-current investment in 2013 which is measured at fair value through other comprehensive income.

The maximum exposure to credit risk for trade and other receivables and unbilled income at the reporting date by type of counterparty was:

	<b>Carrying amount</b>	
	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
End-user customers	<b>21,853</b>	20,848

The maximum exposure to cash and cash equivalents (note 18) is £2,700k (2013: £20,872k). The majority of this balance relates to monies held at the Company's principal banker, Danske Bank.

### Impairment losses

The aging and impairment losses of loans and receivables at the reporting date were:

	<b>Gross</b>	<b>Impairment</b>	Gross	Impairment
	<b>At 31 March 2014</b>		At 31 March 2013	
	<b>£000</b>	<b>£000</b>	£000	£000
Not past due	<b>18,251</b>	<b>181</b>	17,650	363
Past due 0-30 days	<b>1,632</b>	<b>47</b>	1,622	49
Past due 31-60 days	<b>577</b>	<b>28</b>	565	35
Past due 61-90 days	<b>335</b>	<b>15</b>	294	23
Past due 91-120 days	<b>573</b>	<b>133</b>	517	109
Past due 121-150 days	<b>371</b>	<b>152</b>	346	144
Past due 151-365 days	<b>1,176</b>	<b>827</b>	1,261	839
Past due 1-2 years	<b>1,324</b>	<b>1,178</b>	1,633	1,504
Past due 2+ years *	<b>2,310</b>	<b>2,135</b>	1,952	1,926
	<b>26,549</b>	<b>4,696</b>	25,840	4,992

\* includes contractual debtors where there are fewer concerns over recoverability and therefore no provision for impairment.

The above figures include amounts relating to accrued income included in the Statement of Financial Position.

The Company holds no collateral in respect of these financial assets. The aging of trade receivables is based on detailed trade receivables listings and management's best estimate of the debt profile.

There are no individual customers who account for more than 5% of total net trade and other receivable balances.

## 25 Financial instruments (continued)

The aging of loans and receivables at the reporting date can also be shown as follows:

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Not past due	17,717	17,086
Past due 0-30 days	1,719	1,338
Past due 31-60 days	559	546
Past due 61-90 days	298	236
Past due 91-120 days	475	396
Past due 121-150 days	365	217
Past due 151-365 days	1,157	1,219
Past due 1-2 years	1,078	1,564
Past due 2+ years	3,181	3,238
	<b>26,549</b>	<b>25,840</b>

This analysis takes an alternative view of aging with most customer balances allocated to the aging category of the oldest invoice outstanding on that account. Certain customer balances have not been restated in this way as it has been assumed that there is no additional risk of non-collection on these accounts due to the existence of the older unpaid invoices on the account. These accounts include customers in the public sector, key accounts, customers on direct debit or repayment plans and accounts with invoices under query.

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Balance at 1 April	4,992	5,902
New provisions	2,737	2,827
Ad debt provision utilised	(1,020)	(1,285)
Provision released unused	(2,013)	(2,452)
Balance at 31 March	<b>4,696</b>	<b>4,992</b>

## 25 Financial instruments (continued)

The Company establishes an allowance for impairment by applying a range of expected recovery rates, based on the risk of default across different industries, to an aged debt profile.

Age of Debt	Impairment %
Greater than 3 years	100%
2 - 3 years	75% to 100%
1 - 2 years	50% to 100%
181 - 365 days	30% to 80%
151 - 180 days	20% to 65%
121 - 150 days	10% to 35%
61 - 120 days	1% to 10%
0 - 60 days	1% to 5%

Specific allowances are applied in instances where non-collection is considered to be certain at the reporting date. The impairment percentages above are based on historic collection rates and are reviewed for accuracy on an annual basis. The Company believes that the unimpaired amounts that are past due are still collectible and no impairment allowance is necessary in respect of trade receivables not past due.

### Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments.

#### 31 March 2014

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6 -12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
Capital loan notes	911,560	(1,492,408)	(22,387)	(22,265)	(44,775)	(133,957)	(1,269,024)
Finance lease liabilities	218,906	(465,050)	(11,590)	(11,590)	(23,520)	(72,589)	(345,761)
Trade and other payables	122,299	(122,299)	(121,385)	-	-	(914)	-
	<b>1,252,765</b>	<b>(2,079,757)</b>	<b>(155,362)</b>	<b>(33,855)</b>	<b>(68,295)</b>	<b>(207,460)</b>	<b>(1,614,785)</b>

## 25 Financial instruments (continued)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

### 31 March 2013

	<b>Carrying amount £000</b>	Contractual cash flows £000	6 months or less £000	6 -12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
Capital loan notes	<b>882,560</b>	(1,491,877)	(21,808)	(21,689)	(43,497)	(130,611)	(1,274,272)
Finance lease liabilities	<b>221,105</b>	(499,496)	(15,246)	(14,437)	(31,034)	(92,739)	(346,040)
Trade and other payables	<b>117,061</b>	(117,061)	(115,985)	-	-	(1,076)	-
	<b>1,220,726</b>	(2,108,434)	(153,039)	(36,126)	(74,531)	(224,426)	(1,620,312)

Details of the timing of the cash outflows in respect of provisions are set out in note 23.

### Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	<b>Carrying amount</b>	
	<b>At 31 March 2014 £000</b>	<b>At 31 March 2013 £000</b>
<b>Fixed rate instruments</b>		
Financial assets	-	-
Financial liabilities	<b>(1,130,466)</b>	(1,103,665)
	<b>(1,130,466)</b>	(1,103,665)
<b>Variable rate instruments</b>		
Financial assets	<b>2,700</b>	20,872
Financial liabilities	-	-
	<b>2,700</b>	20,872

### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss or cash flow.

## 25 Financial instruments (continued)

### Accounting classifications and fair values

#### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are set out below.

	<i>Note</i>	Available for sale £000	Loans and receivables £000	Liabilities at amortised cost £000	Total carrying amount £000
<b>31 March 2014</b>					
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents	18	-	2,700	-	2,700
Trade and other receivables	17	-	12,255	-	12,255
Unbilled income		-	9,598	-	9,598
<b>Financial assets measured at fair value</b>					
Investment securities:					
- Equity securities	14	13	-	-	13
		13	24,553	-	24,566
<b>Financial liabilities not measured at fair value</b>					
Finance lease liabilities	20	-	-	(218,906)	(218,906)
Trade payables	24	-	-	(112,998)	(112,998)
Loans and borrowings	20	-	-	(911,560)	(911,560)
		-	-	(1,243,464)	(1,243,464)
<b>31 March 2013</b>					
<b>Financial assets not measured at fair value</b>					
Non current investment		-	15	-	15
Cash and cash equivalents	18	-	20,872	-	20,872
Trade and other receivables	17	-	9,870	-	9,870
Unbilled income		-	10,978	-	10,978
<b>Financial assets measured at fair value</b>					
Investment securities:					
- Equity securities	14	53	-	-	53
		53	41,735	-	41,788
<b>Financial liabilities not measured at fair value</b>					
Finance lease liabilities	20	-	-	(221,105)	(221,105)
Trade payables	24	-	-	(109,043)	(109,043)
Loans and borrowings	20	-	-	(882,560)	(882,560)
		-	-	(1,212,708)	(1,212,708)

## 25 Financial instruments (continued)

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans and borrowings, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings is £1,006m (2013: £1,045m).

The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies.

The following table shows the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Loans and borrowings*	Discounted cash flows	Not applicable

\* Loans and borrowings include capital loan notes issued to the company's sponsoring department, the Department for Regional Development.

## 26 Operating leases

### Leases as lessee

Total future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Less than one year	<b>19</b>	82
Between one and five years	<b>58</b>	65
	<b><u>77</u></b>	<u>147</u>

The Company leases office buildings and photocopiers under operating leases. The office leases typically run for a period of five years.

During the year ended 31 March 2014 an amount of £57k was recognised as an expense in profit or loss in respect of operating leases (2013: £176k).

## 27 Capital commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Contracted	<b>88,584</b>	65,984

In addition to the above, at the end of the financial year the Company had entered into commitments amounting to £357m (2013: £360m). These commitments relate to planned future capital spend. The contracted amount of £89m is in relation to actual spend contracted with suppliers to date.

## 28 Contingencies

The Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £0.8m (2013: £0.8m). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. In addition, the Company is disputing a number of claims from contractors amounting to £7.35m (2013: £6.95m) which the Directors consider there is less than a 50% likelihood of a loss.

A summary of contingent liabilities is set out below:

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Public and employer liability	<b>826</b>	770
Contractor Claims	<b>7,350</b>	6,950
	<b><u>8,176</u></b>	<u>7,720</u>

### Debenture to DRD

DRD has entered into deeds of guarantee with the concessionaires of the Alpha and Omega PPP contracts to guarantee all future liabilities of the Company under these contracts. The Company has entered into an environmental indemnity with DRD and the Department of the Environment in respect of any future environmental liabilities arising for NI Water. The Company has registered a debenture to counter indemnify DRD in relation to these three guarantees. Under this debenture the Company pledges to DRD by way of first floating charge and as a continuing security for the payment and discharge of the secured liabilities all of the Company's rights to and title, and interest on property, assets rights and revenues. No provision has been made in the financial statements in respect of this guarantee as the conditions under which the liability would crystallise have not been breached.

The debenture granted to DRD is a deemed insurance contract and is accounted for in accordance with IAS 37.

## 28 Contingencies (continued)

### Contingent assets

The Company received a number of cash performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2014 is £3.74m and this balance is included in accruals (see note 24). The bond would only be recognised in income when customers are in default of agreed conditions. The Company has also received a number of paper performance bonds issued by banks and the National House Building Council (NHBC) on behalf of customers in relation to requisition of water mains and sewerage services. These are not recognised in the financial statements. The value of paper bonds held at 31 March 2014 is £15.89m. These items are considered contingent assets as an inflow of economic benefits is considered to be remote as there is no information available at this time that would indicate that the performance bonds are likely to be presented to the issuing party in respect of non-performance by the customer.

## 29 Related parties

### Parent and ultimate controlling party

The Company is a Government Company, wholly owned by its ultimate controlling party, DRD. The results of the Company will not be within the annual financial statements prepared by DRD, nor in the financial statements of any other entity. Inter-company receivable and payable balances with DRD and other government bodies will be supplied to DRD for the Whole of Government Accounts. The Company transacts with other Government Departments, Agencies, and NDPBs, in the normal course of business and in accordance with standard business terms. Related party disclosures with DRD are as follows:

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
<b>Subsidy</b>		
Revenue subsidy from DRD (credited to revenue)	<b>277,345</b>	281,677
Revenue relating to Road Drainage (credited to revenue)	<b>20,049</b>	20,911
Revenue subsidy from DRD relating to third party contributions (credited to revenue)	<b>12</b>	22
Other receivables - subsidy (included in other receivables - note 17)	<b>1,259</b>	1,220
Other sales to DRD (credited to revenue)	<b>1,622</b>	2,006
Trade receivables - other sales to DRD (included in Trade receivables - note 17)	<b>237</b>	198
<b>Purchases</b>		
Purchases from DRD (included in operating costs or capital expenditure)	<b>957</b>	933
Accruals - purchases from DRD (included in Accruals - note 24)	<b>775</b>	1,226
<b>Loans and borrowings</b>		
Loans from DRD during the year	<b>29,000</b>	75,000
Balance on loans from DRD at year end - note 20	<b>911,560</b>	882,560
Loan interest to DRD - note 9 *	<b>41,406</b>	44,103
Loan interest owed to DRD at year end	<b>386</b>	2,678
<b>Dividends</b>		
Dividend to Shareholder - note 19	<b>29,046</b>	26,965

\* loan interest stated before capitalisation of £3,911k (2013: £3,838k) of interest.



## 29 Related parties (continued)

No guarantees are given to or received from DRD in relation to the previous balances. There are no provisions for doubtful debts related to the amounts above and no expense recognised in the year in respect of bad and doubtful debts due from DRD.

### Transactions with key management personnel Key management personnel's compensation

Details of the key management personnel's post-employment defined benefit plan and termination benefits are included in the Directors' remuneration report on pages 123 to 127.

Key management personnel's compensation is disclosed in note 8a.

### Key management personnel's and Directors' transactions

George Butler is an Executive Director of NI Water. He is also Chairman of NI Water Pension Trust Company and a Director of the UK Water Industry Research Company (UK WIR). During the year the Company purchased £99k (2013: £101k) of services from UK WIR.

## 30 Service concession agreements

The transfer of ownership of the assets and liabilities of Water Service from an agency of DRD to NI Water on 1 April 2007 included the transfer of a number of service concession arrangements with private sector companies (PPP Companies) in the form of Private Finance Initiative contracts for the supply of water and wastewater services.

The capital cost of each contract is included within 'property, plant and equipment' (see note 11) and as PPP creditor in 'loans and borrowings' (see note 20) in the SOFP. No changes in the arrangements occurred during the year. A description of the arrangements, their significant terms, and the nature and extent of rights and obligations are outlined below.

### Description

#### ***Kinnegar***

A contract with Coastal ClearWater Limited was signed on 30 April 1999 for the provision of sewage treatment which covered the upgrading of the Kinnegar Waste Treatment Works with a capital cost in the region of £11 million. The contract is for 25 years with an end date of 30 April 2024. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2014 is £12.01m and £6.94m respectively (2013: £11.98m, £7.25m). The amount included in PPP Creditors at 31 March 2014 is £4.01m (2013: £4.11m).

#### ***Alpha***

A contract with Dalriada Water Limited was signed on 30 May 2006 for the provision of bulk drinking Water supplies. This has a capital cost in the region of £111 million. The service provision commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2014 is £115.59m and £96.86m respectively (2013: £115.09m, £99.84m). The amount included in PPP Creditors at 31 March 2014 is £96.06m (2013: £97.53m).

### 30 Service concession agreements (continued)

#### **Omega**

A contract with Glen Water Limited was signed on 6 March 2007 for the provision of sewage treatment and sludge disposal at five sites with a capital cost in the region of £132 million. The contract is for 25 years with an end date of 5 March 2032. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2014 is £140.49m and £119.42m respectively (2013: £140.49m, £123.86m). The amount included in PPP Creditors at 31 March 2014 is £118.84m (2013: £119.46m).

#### **Significant terms**

The key terms relate to the basis upon which the Company pays for the services provided by the PPP Companies. The levels of such payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable. The Company also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated wastewater and drinking water.

The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law but also by agreement to a change in the level of service or a refinancing change. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

#### **Nature and extent of rights and obligations**

The Company's primary obligations are to deliver raw water and wastewater to the PPP companies and thereafter the Company pays for the treatment services provided, making the appropriate deduction where the PPP companies fail to meet the appropriate performance standards. The PPP companies provided the initial construction services through a sub-contract and also entered into sub-contracts for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are now in their operational phase. Sites are licensed or leased to the PPP companies through the contract.

Termination in full or in part (in some circumstances) during the contractual period can arise for a number of reasons including default (by either the PPP Company or the Company), force majeure, uninsurable events or voluntary termination by the Company. Each contract contains a formula from which termination compensation payable by the Company is derived.

Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and / or disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes.

The contracts also stipulate a range of 'hand-back' conditions linked to the remaining life of certain assets.

### 31 Subsequent events

There were no subsequent events that need to be brought to the attention of the users of the financial statements.

## Independent Auditors' Report to the Members of Northern Ireland Water Limited

We have audited the financial statements of Northern Ireland Water Limited for the year ended 31 March 2014 which comprise the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditor

As described in the Statement of Directors' responsibilities set out on page 128, the Company's Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Independent Auditors' Report to the Members of Northern Ireland Water Limited (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

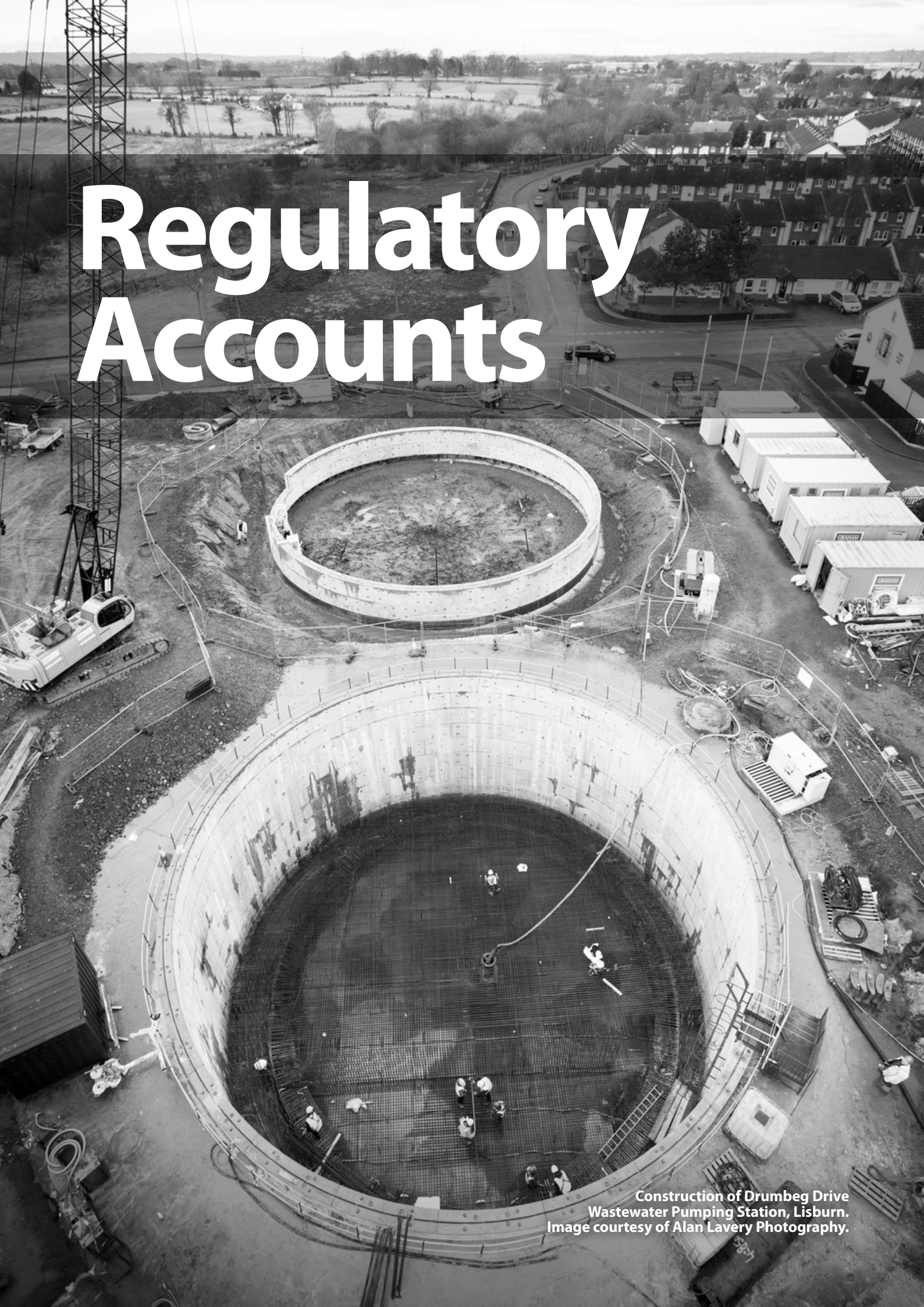
### Opinion on regularity

In our opinion, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Department for Regional Development as set out in their direction to the Company of 18 November 2010 and the financial transactions conform to the authorities which govern them.



Arthur O'Brien (Senior Statutory Auditor)  
for and on behalf of KPMG, Statutory Auditor  
KPMG Chartered Accountants  
16 – 25 College Square East  
Belfast BT1 6DH  
25 June 2014

# Regulatory Accounts



Construction of Drumbeg Drive  
Wastewater Pumping Station, Lisburn.  
Image courtesy of Alan Lavery Photography.

## Introduction

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 Regulatory Accounting Guidelines.

## 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). This may be subject to any decisions that are reached by the NI Executive in relation to public expenditure;
- (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) 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  
25 June 2014

## HISTORICAL COST FINANCIAL STATEMENTS

### Profit and loss account

	Year to 31 March 2014			Year to 31 March 2013		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Turnover</b>	<b>361,313</b>	<b>5,236</b>	<b>366,549</b>	366,398	5,211	371,609
Operating costs	(209,657)	(3,573)	(213,230)	(201,982)	(3,693)	(205,675)
Historical cost depreciation	<u>(48,580)</u>	<u>(16)</u>	<u>(48,596)</u>	<u>(44,871)</u>	<u>(16)</u>	<u>(44,887)</u>
<b>Operating profit</b>	<b>103,076</b>	<b>1,647</b>	<b>104,723</b>	119,545	1,502	121,047
Net interest receivable/(payable)	<u>(48,580)</u>	<u>-</u>	<u>(48,580)</u>	<u>(55,067)</u>	<u>14</u>	<u>(55,053)</u>
<b>Profit on ordinary activities before taxation</b>	<b>54,496</b>	<b>1,647</b>	<b>56,143</b>	64,478	1,516	65,994
<i>Taxation on profit on ordinary activities:</i>						
Corporation tax	-	(548)	(548)	-	-	-
Deferred tax	<u>13,798</u>	<u>1,634</u>	<u>15,432</u>	<u>(24,872)</u>	<u>(334)</u>	<u>(25,206)</u>
<b>Profit on ordinary activities after taxation</b>	<b>68,294</b>	<b>2,733</b>	<b>71,027</b>	39,606	1,182	40,788
Dividends	<u>(21,391)</u>	<u>(7,655)</u>	<u>(29,046)</u>	<u>(26,587)</u>	<u>(378)</u>	<u>(26,965)</u>
<b>Retained profit/(loss) for the financial year</b>	<b>46,903</b>	<b>(4,922)</b>	<b>41,981</b>	13,019	804	13,823

## Balance sheet

	At 31 March 2014			At 31 March 2013		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Fixed assets</b>						
Tangible assets	1,994,848	81	1,994,929	1,907,525	97	1,907,622
Investments	91	-	91	106	-	106
	<u>1,994,939</u>	<u>81</u>	<u>1,995,020</u>	<u>1,907,631</u>	<u>97</u>	<u>1,907,728</u>
<b>Current assets</b>						
Stocks	2,021	8	2,029	2,379	8	2,387
Debtors	27,167	379	27,546	28,824	404	29,228
Infrastructure renewals prepayment	50	-	50	3,341	-	3,341
Cash at bank and in hand	2,237	463	2,700	14,402	6,470	20,872
	<u>31,475</u>	<u>850</u>	<u>32,325</u>	<u>48,946</u>	<u>6,882</u>	<u>55,828</u>
<b>Creditors: amounts falling due within one year</b>						
Payments received on account	(3,459)	-	(3,459)	(1,164)	-	(1,164)
Trade creditors	(6,656)	(76)	(6,731)	(2,621)	(28)	(2,649)
Taxation and social security	(1,492)	-	(1,492)	(1,119)	-	(1,119)
Other creditors	(8,458)	-	(8,458)	(9,738)	-	(9,738)
Accruals and deferred income	(102,667)	(855)	(103,523)	(100,958)	(395)	(101,353)
Deferred grants and contributions	(832)	-	(832)	(808)	-	(808)
PPP finance lease	(1,672)	-	(1,672)	(2,422)	-	(2,422)
	<u>(125,236)</u>	<u>(931)</u>	<u>(126,167)</u>	<u>(118,830)</u>	<u>(423)</u>	<u>(119,253)</u>
<b>Net current (liabilities)/assets</b>	<u>(93,761)</u>	<u>(81)</u>	<u>(93,842)</u>	<u>(69,884)</u>	<u>6,459</u>	<u>(63,425)</u>
<b>Total assets less current liabilities</b>	<u>1,901,178</u>	<u>-</u>	<u>1,901,178</u>	<u>1,837,747</u>	<u>6,556</u>	<u>1,844,303</u>
<b>Creditors: amounts falling due after more than one year</b>						
Loans and other borrowings	(911,560)	-	(911,560)	(882,560)	-	(882,560)
Other creditors	(114,255)	-	(114,255)	(114,835)	-	(114,835)
	<u>(1,025,815)</u>	<u>-</u>	<u>(1,025,815)</u>	<u>(997,395)</u>	<u>-</u>	<u>(997,395)</u>
<b>Provisions for liabilities and charges</b>						
Deferred tax provision	(173,693)	-	(173,693)	(187,416)	(1,634)	(189,050)
Other provisions	(10,315)	-	(10,315)	(9,589)	-	(9,589)
	<u>(184,008)</u>	<u>-</u>	<u>(184,008)</u>	<u>(197,005)</u>	<u>(1,634)</u>	<u>(198,639)</u>
<b>Pension asset/(liability)</b>	<u>2,784</u>	<u>-</u>	<u>2,784</u>	<u>(4,123)</u>	<u>-</u>	<u>(4,123)</u>
<b>Net Assets</b>	<u>694,139</u>	<u>-</u>	<u>694,139</u>	<u>639,224</u>	<u>4,922</u>	<u>644,146</u>
<b>Capital and reserves</b>						
Called up share capital	500,000	-	500,000	500,000	-	500,000
Distributable reserve	171,690	-	171,690	171,690	-	171,690
Profit and loss account	22,449	-	22,449	(32,466)	4,922	(27,544)
	<u>694,139</u>	<u>-</u>	<u>694,139</u>	<u>639,224</u>	<u>4,922</u>	<u>644,146</u>
<b>Shareholder's funds</b>	<u>694,139</u>	<u>-</u>	<u>694,139</u>	<u>639,224</u>	<u>4,922</u>	<u>644,146</u>

These financial statements were approved and authorised for issue by the Board of Directors on 25 June 2014 and were signed on its behalf by:

*Sara Venning*

Sara Venning  
Chief Executive  
25 June 2014



## Statement of total recognised gains and losses

	Year to 31 March 2014			Year to 31 March 2013		
	Appointed business	Non - Appointed business	Total	Appointed business	Non - Appointed business	Total
	£000	£000	£000	£000	£000	£000
<b>Profit / (loss) for the financial year</b>	<b>46,903</b>	<b>(4,922)</b>	<b>41,981</b>	13,019	804	13,823
Actuarial gain / (loss) recognised in the pension scheme	10,015	-	10,015	(15,005)	-	(15,005)
Deferred tax arising on (gains) / losses in the pension scheme	<u>(2,003)</u>	<u>-</u>	<u>(2,003)</u>	<u>3,470</u>	<u>-</u>	<u>3,470</u>
<b>Total recognised gains and losses relating to the financial year</b>	<b><u>54,915</u></b>	<b><u>(4,922)</u></b>	<b><u>49,993</u></b>	<u>1,484</u>	<u>804</u>	<u>2,288</u>

## 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 2014. However the Regulatory Accounts are prepared on the basis of Regulatory Accounting Guidelines and UK GAAP. The principal differences between the Company's Statutory Accounts and its Regulatory Accounts are set out below.

<b>Profit and loss account / Statement of comprehensive income</b>	<b>Year to 31 March 2014 £000</b>
a) Operating profit / Results from operating activities	104,723
<b>Per Regulatory Accounts</b>	
Difference in income under IFRIC 18	66,153
Difference in infrastructure accounting	18,929
Difference in depreciation - non infrastructure	(4,707)
Difference in amortisation of grants and contributions	(473)
Difference in treatment of PPP contracts	13,138
Difference in capitalisation of expenditure	(988)
Other IFRS / UK GAAP differences	6
<b>Per Statutory Accounts</b>	<b>196,781</b>
b) Net interest receivable/(payable) / Net finance costs	
<b>Per Regulatory Accounts</b>	(48,580)
Capitalised interest under IFRS	3,911
Notional lease interest on PPP assets reclassified under IFRS	(13,655)
<b>Per Statutory Accounts</b>	<b>(58,324)</b>
c) Deferred taxation/Income tax expense	
<b>Per Regulatory Accounts</b>	14,884
<b>Per Statutory Accounts</b>	<b>14,884</b>

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

<b>Balance sheet / Statement of financial position</b>	<b>At 31 March 2014 £000</b>
a) Fixed Assets / Property, plant and equipment	
Cost	
<b>At 31 March per Regulatory Accounts</b>	<b>2,443,963</b>
Reverse regulatory infrastructure (accrual) / prepayment	50
Intangible assets separately identified under IFRS	(61,399)
Investment properties separately identified under IFRS	(20,656)
Assets identified as classified as held for sale	(4,029)
Difference in capitalisation of expenditure	(15,140)
Capitalised interest under IFRS	10,714
PPP assets treated 'on balance sheet' under IFRS	129,006
Capital contributions treated differently under IFRS	287,760
De-recognition of infrastructure assets	(16,553)
Decommissioning of Omega assets under UK GAAP	6,939
<b>At 31 March per Statutory Accounts</b>	<b>2,760,655</b>
Depreciation	
<b>At 31 March per Regulatory Accounts</b>	<b>449,034</b>
Intangible assets separately identified under IFRS	(23,812)
Investment properties separately identified under IFRS	(13,052)
Assets identified as classified as held for sale	(3,167)
Difference in depreciation of infrastructure assets	(144,687)
Difference in depreciation of non-infrastructure assets	21,995
De-recognition of infrastructure assets	(16,553)
Decommissioning of Omega assets under UK GAAP	6,763
<b>At 31 March per Statutory Accounts</b>	<b>276,521</b>
b) Debtors due in less than one year / trade and other receivables	
<b>At 31 March per Regulatory Accounts</b>	<b>27,546</b>
Prepayments shown separately under IFRS	(10,442)
Capital maintenance prepayment for IFRS PPP reclassified assets	2,089
<b>At 31 March per Statutory Accounts</b>	<b>19,193</b>

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

<b>Balance sheet/ Statement of financial position</b>	<b>At 31 March 2014 £000</b>
c) Provisions	
<b>At 31 March per Regulatory Accounts</b>	<b>10,315</b>
Holiday pay provision under IFRS	675
<b>At 31 March per Statutory Accounts</b>	<b>10,990</b>
Provisions classified as non-current liabilities	4,747
Provisions classified as current liabilities	6,243
<b>At 31 March per Statutory Accounts</b>	<b>10,990</b>
d) Loans and borrowings	
<b>At 31 March per Regulatory Accounts</b>	<b>911,560</b>
Add: Alpha PPP lease liability shown in Regulatory Accounts within creditors: amounts falling due after more than one year	94,388
Add: Alpha PPP lease liability shown in Regulatory Accounts within creditors: amounts falling due within one year	1,672
Add: finance leases for PPP assets (Omega and Kinnegar) included as on balance sheet under IFRS and included within loans and borrowings	122,846
<b>At 31 March per Statutory Accounts</b>	<b>1,130,466</b>
Loans and borrowings classified as non-current liabilities	1,127,660
Loans and borrowings classified as current liabilities	2,806
<b>At 31 March per Statutory Accounts</b>	<b>1,130,466</b>

## CURRENT COST FINANCIAL STATEMENTS

### Profit and loss account for the appointed business

	<i>Note</i>	<b>Year to 31 March 2014</b>	Year to 31 March 2013
		<b>£000</b>	£000
<b>Turnover</b>	3	<b>361,313</b>	366,398
Current cost operating costs	4	<b>(343,723)</b>	(349,470)
Current cost profit on disposal of fixed assets	3	<b>208</b>	303
Working capital adjustment	3,8	<b>2,001</b>	2,641
<b>Current cost operating profit</b>		<b>19,799</b>	19,872
Net interest payable		<b>(48,580)</b>	(55,067)
Financing adjustment	8	<b>23,962</b>	30,464
<b>Current cost loss before taxation</b>		<b>(4,819)</b>	(4,731)
Taxation on profit on ordinary activities:			
Deferred tax		<b>13,798</b>	(24,872)
<b>Current cost profit/(loss) attributable to Shareholder</b>		<b>8,979</b>	(29,603)
Dividends		<b>(21,391)</b>	(26,587)
<b>Current cost loss retained</b>	7	<b>(12,412)</b>	(56,190)

## Balance Sheet for the appointed business

	Note	At 31 March 2014		At 31 March 2013	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Tangible assets	5	8,707,701		8,438,992	
Third party contributions		<u>(384,624)</u>		<u>(313,278)</u>	
			<b>8,323,077</b>		8,125,714
Working capital	6	(93,032)		(81,590)	
Cash	9	1,637		9,102	
Short term deposits	9	600		5,300	
Infrastructure renewals prepayment		<u>50</u>		<u>3,341</u>	
			<b>(90,745)</b>		(63,847)
<b>Non-operating assets and liabilities</b>					
Non-trade debtors		20		7	
Non-trade creditors due within one year		(2,203)		(5,218)	
Investments		<u>91</u>		<u>106</u>	
<b>Total non-operating liabilities</b>			<b>(2,092)</b>		(5,105)
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings		(911,560)		(882,560)	
Other creditors		<u>(95,668)</u>		<u>(96,184)</u>	
			<b>(1,007,228)</b>		(978,744)
<b>Provisions for liabilities and charges</b>					
Deferred tax provision		(173,693)		(187,416)	
Other provisions		<u>(10,315)</u>		<u>(9,589)</u>	
			<b>(184,008)</b>		(197,005)
<b>Pension asset/(liability)</b>			<b>2,784</b>		(4,123)
<b>Net assets</b>			<u><b>7,041,788</b></u>		<u>6,876,890</u>
<b>Capital and reserves</b>					
Called up share capital		500,000		500,000	
Distributable reserve		171,690		171,690	
Profit and loss account	7	(360,120)		(355,720)	
Current cost reserves	8	<u>6,730,218</u>		<u>6,560,920</u>	
<b>Shareholder's funds</b>			<u><b>7,041,788</b></u>		<u>6,876,890</u>

These financial statements were approved and authorised for issue by the Board of Directors on 25 June 2014 and were signed on its behalf by:



Sara Venning  
Chief Executive  
25 June 2014

## Reconciliation of movements in Shareholder's funds

	<b>Year to 31 March 2014</b>	Year to 31 March 2013
	<b>£000</b>	£000
<b>Profit / (loss) for the financial year</b>	<b>8,979</b>	(29,603)
Dividends on shares classified in Shareholder's funds	<u>(21,391)</u>	<u>(26,587)</u>
<b>Retained loss</b>	<b>(12,412)</b>	(56,190)
Other recognised gains / (losses) relating to the year (net)	<u>8,012</u>	<u>(11,535)</u>
Profit and loss account	<b>(4,400)</b>	(67,725)
Increase in current cost reserves	<u>169,298</u>	<u>218,869</u>
<b>Net addition to Shareholder's funds</b>	<u>164,898</u>	<u>151,144</u>
Opening Shareholder's funds	<b>6,876,890</b>	6,725,746
<b>Closing Shareholder's funds</b>	<u>7,041,788</u>	<u>6,876,890</u>

## Cash flow statement

	Year to 31 March 2014			Year to 31 March 2013		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
<b>Net cash inflow from operating activities</b>	<b>190,580</b>	<b>1,738</b>	<b>192,318</b>	181,015	1,427	182,442
Note 11(a)						
<b>Returns on investments and servicing of finance</b>						
Interest received	114	-	114	134	14	148
Interest paid	(43,723)	-	(43,723)	(42,208)	-	(42,208)
Interest element of finance lease	(6,933)	-	(6,933)	(11,913)	-	(11,913)
<b>Net cash (outflow) / inflow from returns on investments and servicing of finance</b>	<b>(50,542)</b>	<b>-</b>	<b>(50,542)</b>	(53,987)	14	(53,973)
<b>Corporation tax paid</b>	<b>-</b>	<b>(90)</b>	<b>(90)</b>	-	-	-
<b>Capital expenditure and financial investment</b>						
Purchase of tangible fixed assets	(135,971)	-	(135,971)	(130,590)	-	(130,590)
Grants and contributions received	6,586	-	6,586	5,757	-	5,757
Infrastructure renewals expenditure	(30,118)	-	(30,118)	(31,368)	-	(31,368)
Disposal of fixed assets	1,164	-	1,164	1,177	-	1,177
<b>Net cash outflow from investing activities</b>	<b>(158,339)</b>	<b>-</b>	<b>(158,339)</b>	(155,024)	-	(155,024)
<b>Equity dividends paid to the Shareholder</b>	<b>(21,391)</b>	<b>(7,655)</b>	<b>(29,046)</b>	(26,587)	(378)	(26,965)
<b>Cash (outflow) / inflow before management of liquid resources and financing</b>	<b>(39,692)</b>	<b>(6,007)</b>	<b>(45,699)</b>	(54,583)	1,063	(53,520)
Management of liquid resources	4,700	-	4,700	(5,300)	-	(5,300)
<b>Cash (outflow) / inflow from management of liquid resources</b>	<b>4,700</b>	<b>-</b>	<b>4,700</b>	(5,300)	-	(5,300)
<b>Net cash flow before financing</b>	<b>(34,992)</b>	<b>(6,007)</b>	<b>(40,999)</b>	(59,883)	1,063	(58,820)
<b>Financing</b>						
Loans advanced	29,000	-	29,000	75,000	-	75,000
Capital element of finance lease repayments	(1,473)	-	(1,473)	(3,675)	-	(3,675)
<b>Net cash inflow from financing</b>	<b>27,527</b>	<b>-</b>	<b>27,527</b>	71,325	-	71,325
<b>Net (decrease) / increase in cash</b>	<b>(7,465)</b>	<b>(6,007)</b>	<b>(13,472)</b>	11,442	1,063	12,505



## Notes to the Regulatory Accounts

### 1 Regulatory reporting

The Regulatory Accounts should be read in conjunction with the Strategic Report on pages 1 to 102, for further understanding of the performance of the business.

The Directors' report provides information on the dividend policy on page 120 and on 'Disclosure of information to auditors' on page 122.

The Directors' remuneration report is on pages 123 to 127 and includes 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 2014.

### 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 those 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 Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors are content to adopt this approach for the following reasons:

- a market for services for the provision of water and sewerage services will continue to exist and a Licence is in place with the Utility Regulator, that is underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, that designates Northern Ireland Water Limited as the sole Water and Sewerage undertaker for Northern Ireland;
- DRD provides substantial revenue funding to the business and will continue to do so until domestic charging is introduced;
- DRD also provides a capital loan facility to fund the capital expenditure for the business; and
- cash flow projections indicate that the Company will be able to meet its liabilities as they fall due.

#### *(b) General*

The regulatory accounting policies are based on UK GAAP. 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 197 to 199). 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 value of tangible fixed assets at 1 April 2007 included in the current cost accounts are based on the closing balances included in DRD Water Service's audited accounts at 31 March 2007 prior to the application of the impairment adjustment. The current cost values in DRD Water Service were based on an asset management plan which reported at 1 September 2001 and which was updated to include subsequent expenditure and indexed to reflect inflation. Assets with an open market value, including surplus land, were separately valued at 31 March 2007 and these values have been adopted at 1 April 2007.

The RAGs and any modifications issued by the Utility Regulator have been followed in the preparation of the current cost accounts.

There are on-going discussions with the Utility Regulator on the need for NI Water to revalue its assets on a Modern Equivalent Asset Value (MEAV) basis, in accordance with the RAGs. This has not been required by the Utility Regulator as part of PC13 and is currently not a requirement for PC15. NI Water will also continue to evaluate the need for such an exercise as an element of its asset management planning process.

Tangible fixed assets are restated to current value each year. From 2007/08, the Retail Price Index (RPI) has been used to reflect changes in the general level of inflation during the year. Assets in the course of construction are not indexed until they are brought into use.

The infrastructure renewals charge (IRC) is part of the renewals accounting approach permitted under UK GAAP 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 PC13. The Utility Regulator determined that the IRC should be set equal to the anticipated IRE for each year of the two years contained within the business plan. The IRE formed part of the PC13 capital expenditure plan.

The IRE in the year ended 31 March 2014 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 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 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.

## 2 Accounting policies (continued)

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 UKGAAP and adopted in the Regulatory Accounts as outlined above in note 2(c). Under UKGAAP 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) Real financial capital maintenance adjustments*

These adjustments are made to historical cost operating profit in order to arrive at profit after the maintenance of financial capital in real terms:

- working capital adjustment – this is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock, less trade creditors; and
- financing adjustment – this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all assets and liabilities in the balance sheet apart from those included in working capital and excluding fixed assets, deferred taxation provision, index linked debt and dividends payable.

### *(f) 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, DRD 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.

### *(g) PPP contracts*

The Regulatory Accounts under 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 UK GAAP and the assessment of where the risks and rewards of the contracts reside.

Under this approach, 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). Under this approach, 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.

### *(h) Provisions*

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

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

	Year to 31 March 2014			Year to 31 March 2013		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
<b>Turnover</b>						
Unmeasured – household	122,139	138,161	260,300	121,195	143,905	265,100
Unmeasured – non household	2,049	2,545	4,594	2,211	2,766	4,977
<b>Total unmeasured</b>	<b>124,188</b>	<b>140,706</b>	<b>264,894</b>	<b>123,406</b>	<b>146,671</b>	<b>270,077</b>
Measured – non household	38,465	24,148	62,613	38,751	22,144	60,895
<b>Total measured</b>	<b>38,465</b>	<b>24,148</b>	<b>62,613</b>	<b>38,751</b>	<b>22,144</b>	<b>60,895</b>
Trade effluent	-	3,889	3,889	-	4,326	4,326
Large user and special agreements	5,243	4,041	9,284	5,354	4,290	9,644
<b>Total trade effluent and large user special agreements</b>	<b>5,243</b>	<b>7,930</b>	<b>13,173</b>	<b>5,354</b>	<b>8,616</b>	<b>13,970</b>
Rechargeable works	92	92	184	93	93	186
Other third party services	162	20,287	20,449	172	21,098	21,270
<b>Total third party services</b>	<b>254</b>	<b>20,379</b>	<b>20,633</b>	<b>265</b>	<b>21,191</b>	<b>21,456</b>
<b>Total turnover</b>	<b>168,150</b>	<b>193,163</b>	<b>361,313</b>	<b>167,776</b>	<b>198,622</b>	<b>366,398</b>
	Year to 31 March 2014			Year to 31 March 2013		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
<b>Operating income and working capital adjustment for the appointed business:</b>						
Current cost profit / (loss) on disposal of fixed assets	208	-	208	133	170	303
Working capital adjustment	2,001	-	2,001	2,641	-	2,641

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

	Year to 31 March 2014							
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
<b>Direct costs</b>								
Employment costs	3,781	9,625	13,406	3,661	4,767	576	9,004	<b>22,410</b>
Power	10,475	3,664	14,139	5,625	10,762	3,219	19,606	<b>33,745</b>
Hired and contracted services	2,328	5,340	7,668	6,657	1,265	2,582	10,504	<b>18,172</b>
Materials and consumables	3,598	476	4,074	97	484	538	1,119	<b>5,193</b>
Service Charges	715	7	722	160	745	183	1,088	<b>1,810</b>
Other direct costs	4	30	34	11	9	1	21	<b>55</b>
<b>Total direct costs</b>	<b>20,901</b>	<b>19,142</b>	<b>40,043</b>	<b>16,211</b>	<b>18,032</b>	<b>7,099</b>	<b>41,342</b>	<b>81,385</b>
General and support expenditure	7,598	7,928	15,526	7,388	10,231	2,379	19,998	<b>35,524</b>
<b>Total functional expenditure</b>	<b>28,499</b>	<b>27,070</b>	<b>55,569</b>	<b>23,599</b>	<b>28,263</b>	<b>9,478</b>	<b>61,340</b>	<b>116,909</b>
<b>Business activities</b>								
Customer services			4,472				4,564	<b>9,036</b>
Scientific services			1,193				1,217	<b>2,410</b>
Other business activities			1,123				1,146	<b>2,269</b>
Rates			8,020				4,791	<b>12,811</b>
Doubtful debts			521				233	<b>754</b>
<b>Total operating expenditure less third party services</b>			<b>70,898</b>				<b>73,291</b>	<b>144,189</b>
Services for third parties			16				9	<b>25</b>
Total PPP unitary charge			8,234				24,896	<b>33,130</b>
<b>Total operating expenditure</b>			<b>79,148</b>				<b>98,196</b>	<b>177,344</b>
<b>Capital costs</b>								
Infrastructure renewals charge			23,935				9,474	<b>33,409</b>
Current cost depreciation:								
service activities	21,190	30,581	51,771	3,184	78,642	1,682	83,508	<b>135,279</b>
business activities			167				12	<b>179</b>
Amortisation of grants			(962)				(1,526)	<b>(2,488)</b>
<b>Total capital costs</b>			<b>74,911</b>				<b>91,468</b>	<b>166,379</b>
<b>Total operating costs</b>			<b>154,059</b>				<b>189,664</b>	<b>343,723</b>
<b>Analysis of tangible fixed assets – MEAV<sup>37</sup></b>								
Service activities	790,229	3,292,120	4,082,349	3,285,604	1,305,525	33,039	4,624,168	<b>8,706,517</b>
Business activities			669				515	<b>1,184</b>
<b>Total</b>			<b>4,083,018</b>				<b>4,624,683</b>	<b>8,707,701</b>

<sup>37</sup> Asset values shown above are based on the valuation method described in note 2(c) to the Regulatory Accounts.

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

	Year to 31 March 2013							
	Water Services			Sewerage Services				
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	Total £000
<b>Direct costs</b>								
Employment costs	3,506	11,265	14,771	3,953	5,145	1,119	10,217	<b>24,988</b>
Power	11,163	3,503	14,666	5,155	10,889	3,347	19,391	<b>34,057</b>
Hired and contracted services	2,226	5,395	7,621	6,422	1,403	2,442	10,267	<b>17,888</b>
Materials and consumables	3,431	584	4,015	256	588	443	1,287	<b>5,302</b>
Service Charges	698	11	709	157	760	176	1,093	<b>1,802</b>
Other direct costs	5	19	24	14	4	1	19	<b>43</b>
<b>Total direct costs</b>	<b>21,029</b>	<b>20,777</b>	<b>41,806</b>	<b>15,957</b>	<b>18,789</b>	<b>7,528</b>	<b>42,274</b>	<b>84,080</b>
General and support expenditure	7,825	7,557	15,382	7,433	7,156	2,100	16,689	<b>32,071</b>
<b>Total functional expenditure</b>	<b>28,854</b>	<b>28,334</b>	<b>57,188</b>	<b>23,390</b>	<b>25,945</b>	<b>9,628</b>	<b>58,963</b>	<b>116,151</b>
<b>Business activities</b>			4,270				4,266	<b>8,536</b>
Customer services								
Scientific services			1,289				1,288	<b>2,577</b>
Other business activities			927				926	<b>1,853</b>
Rates			7,850				6,601	<b>14,451</b>
Doubtful debts			327				37	<b>364</b>
<b>Total operating expenditure less third party services</b>			<b>71,851</b>				<b>72,081</b>	<b>143,932</b>
Services for third parties			32				30	<b>62</b>
Total PPP unitary charge			1,845				26,488	<b>28,333</b>
<b>Total operating expenditure</b>			<b>73,728</b>				<b>98,599</b>	<b>172,327</b>
<b>Capital costs</b>								
Infrastructure renewals charge			19,902				10,859	<b>30,761</b>
<i>Current cost depreciation:</i>								
service activities	65,587	18,333	83,920	3,311	61,123	2,338	66,772	<b>150,692</b>
business activities			173				30	<b>203</b>
Amortisation of grants			(1,807)				(2,706)	<b>(4,513)</b>
<b>Total capital costs</b>			<b>102,188</b>				<b>74,955</b>	<b>177,143</b>
<b>Total operating costs</b>			<b>175,916</b>				<b>173,554</b>	<b>349,470</b>
<b>Analysis of tangible fixed assets – MEAV<sup>38</sup></b>								
Service activities	786,322	3,200,313	3,986,635	3,207,400	1,213,587	29,900	4,450,887	<b>8,437,522</b>
Business activities			854				616	<b>1,470</b>
<b>Total</b>			<b>3,987,489</b>				<b>4,451,503</b>	<b>8,438,992</b>

<sup>38</sup> Asset values shown above are based on the valuation method described in note 2(c) to the Regulatory Accounts.

#### **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 2014 in respect of infrastructure assets amounted to £9.2m (2013: £9.3m) for water services and £4.9m (2013: £4.9m) for sewerage services.

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

Water Services	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
<b>Gross replacement cost</b>					
At 1 April 2013	985,520	9,934	3,256,150	47,147	4,298,751
Opening balance adjustments	-	(1)	-	-	(1)
RPI and other adjustments	22,897	259	79,968	1,096	104,220
Disposals	(11)	(1,733)	-	(2,919)	(4,663)
Additions	25,174	-	22,695	3,492	51,361
<b>At 31 March 2014</b>	<b>1,033,580</b>	<b>8,459</b>	<b>3,358,813</b>	<b>48,816</b>	<b>4,449,668</b>
<b>Depreciation</b>					
At 1 April 2013	(223,962)	(3,570)	(51,987)	(31,743)	(311,262)
Opening balance adjustments	42	(36)	-	3	9
RPI and other adjustments	(5,478)	(89)	(1,282)	(779)	(7,628)
Disposals	-	1,257	-	2,912	4,169
Charge for year	(46,617)	(474)	(21)	(4,826)	(51,938)
<b>At 31 March 2014</b>	<b>(276,015)</b>	<b>(2,912)</b>	<b>(53,290)</b>	<b>(34,433)</b>	<b>(366,650)</b>
<b>Net book value at 31 March 2014</b>	<b>757,565</b>	<b>5,547</b>	<b>3,305,523</b>	<b>14,383</b>	<b>4,083,018</b>
Net book value at 1 April 2013	761,558	6,364	3,204,163	15,404	3,987,489
<b>Sewerage Services</b>					
	Specialised Operational Assets £000	Non - Specialised Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
<b>Gross replacement cost</b>					
At 1 April 2013	1,497,960	12,966	3,262,654	49,374	4,822,954
Opening balance adjustments	2	-	45	-	47
RPI and other adjustments	33,955	318	79,820	1,409	115,502
Disposals	-	(1,234)	-	(5,316)	(6,550)
Additions	79,584	-	68,463	2,747	150,794
<b>At 31 March 2014</b>	<b>1,611,501</b>	<b>12,050</b>	<b>3,410,982</b>	<b>48,214</b>	<b>5,082,747</b>
<b>Depreciation</b>					
At 1 April 2013	(329,066)	(4,191)	(1,277)	(36,917)	(371,451)
Opening balance adjustments	(71)	-	-	1	(70)
RPI and other adjustments	(8,074)	(104)	(28)	(905)	(9,111)
Disposals	-	872	-	5,216	6,088
Charge for year	(76,471)	(672)	(1,418)	(4,959)	(83,520)
<b>At 31 March 2014</b>	<b>(413,682)</b>	<b>(4,095)</b>	<b>(2,723)</b>	<b>(37,564)</b>	<b>(458,064)</b>
<b>Net book value at 31 March 2014</b>	<b>1,197,819</b>	<b>7,955</b>	<b>3,408,259</b>	<b>10,650</b>	<b>4,624,683</b>
Net book value at 1 April 2013	1,168,894	8,775	3,261,377	12,457	4,451,503



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

<b>Total Services</b>	<b>Specialised Operational Assets £000</b>	<b>Non - Specialised Operational Assets £000</b>	<b>Infrastructure Assets £000</b>	<b>Other Assets £000</b>	<b>Total £000</b>
<b>Gross replacement cost</b>					
At 1 April 2013	2,483,480	22,900	6,518,804	96,521	<b>9,121,705</b>
Opening balance adjustments	2	(1)	45	-	<b>46</b>
RPI and other adjustments	56,852	577	159,788	2,505	<b>219,722</b>
Disposals	(11)	(2,967)	-	(8,235)	<b>(11,213)</b>
Additions	104,758	-	91,158	6,239	<b>202,155</b>
<b>At 31 March 2014</b>	<b>2,645,081</b>	<b>20,509</b>	<b>6,769,795</b>	<b>97,030</b>	<b>9,532,415</b>
<b>Depreciation</b>					
At 1 April 2013	(553,028)	(7,761)	(53,264)	(68,660)	<b>(682,713)</b>
Opening balance adjustments	(29)	(36)	-	4	<b>(61)</b>
RPI and other adjustments	(13,552)	(193)	(1,310)	(1,684)	<b>(16,739)</b>
Disposals	-	2,129	-	8,128	<b>10,257</b>
Charge for year	(123,088)	(1,146)	(1,439)	(9,785)	<b>(135,458)</b>
<b>At 31 March 2014</b>	<b>(689,697)</b>	<b>(7,007)</b>	<b>(56,013)</b>	<b>(71,997)</b>	<b>(824,714)</b>
<b>Net book value at 31 March 2014</b>	<b>1,955,384</b>	<b>13,502</b>	<b>6,713,782</b>	<b>25,033</b>	<b>8,707,701</b>
Net book value at 1 April 2013	1,930,452	15,139	6,465,540	27,861	8,438,992

### 5 Current 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 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 tangible fixed assets shown in the Regulatory Accounts to those shown in the Statutory Accounts is set out below:

	<b>Infrastructure Assets £000</b>
<b>Cost</b>	
<b>At 31 March 2014 per Regulatory Accounts</b>	<b>6,769,795</b>
Adjustment to opening balance at 1 April 2013 <sup>39</sup>	(5,554,108)
Add back capital contributions	287,760
Infrastructure renewals expenditure capitalised in the year	30,118
Decommissioning of Omega assets under UK GAAP	2,522
<b>IFRS adjustments:</b>	
Difference in treatment of capitalisation of expenditure	(15,140)
Capitalised interest	3,383
Difference in treatment of PPP assets	9,509
De-recognition of assets	(16,553)
<b>At 31 March 2014 per Statutory Accounts</b>	<b>1,517,286</b>
<b>Depreciation</b>	
<b>At 31 March 2014 per Regulatory Accounts</b>	<b>(56,013)</b>
Depreciation charge for infrastructure expenditure	(23,355)
<b>At 31 March 2014 per Statutory Accounts</b>	<b>(79,368)</b>
<b>Net book value</b>	
<b>At 31 March 2014 per Regulatory Accounts</b>	<b>6,713,782</b>
Adjustment to opening balance at 1 April 2013	(5,554,108)
Add back capital contributions	287,760
Infrastructure renewals expenditure capitalised in the year	30,118
Decommissioning of Omega assets under UK GAAP	2,522
Depreciation charge for infrastructure expenditure	(23,355)
IFRS adjustments	(18,801)
<b>At 31 March 2014 per Statutory Accounts</b>	<b>1,437,918</b>
<b>Infrastructure renewals prepayment</b>	
<b>At 31 March 2014 per Regulatory Accounts</b>	<b>50</b>
Less infrastructure renewals prepayment	(50)
<b>At 31 March 2014 per Statutory Accounts</b>	<b>-</b>

<sup>39</sup> This adjustment includes the impact of reporting the additions to infrastructure assets in 'Assets in course of construction' within the Statutory Accounts.

### 6 Working capital (current cost)

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
Stocks	2,021	2,379
Trade debtors:		
- measured non-household	8,037	7,596
- unmeasured non-household	2,764	402
Other trade debtors	383	612
Measured income accrual	9,180	10,777
Prepayments and other debtors	6,783	9,431
Trade creditors	(6,656)	(2,621)
Deferred income – customer advance receipts	(3,459)	(1,164)
Capital creditors	(59,734)	(56,698)
Accruals and other creditors	(52,351)	(52,304)
	<u>(93,032)</u>	<u>(81,590)</u>

### 7 Profit and loss reserve

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
<b>At 1 April</b>	<b>(355,720)</b>	<b>(287,995)</b>
Retained current loss for year	(12,412)	(56,190)
FRS 17 actuarial gain / (loss)	10,015	(15,005)
Deferred tax on actuarial (gain) / loss	(2,003)	3,470
<b>At 31 March</b>	<b><u>(360,120)</u></b>	<b><u>(355,720)</u></b>

### 8 Movement on current cost reserve

	<b>At 31 March 2014 £000</b>	At 31 March 2013 £000
<b>At 1 April</b>	<b>6,560,920</b>	<b>6,342,051</b>
<b>RPI adjustments:</b>		
Fixed assets	202,983	260,354
Grants and third party contributions	(7,722)	(8,380)
Working capital	(2,001)	(2,641)
Financing	(23,962)	(30,464)
<b>At 31 March</b>	<b><u>6,730,218</u></b>	<b><u>6,560,920</u></b>

## 9 Net debt analysis

	<b>Fixed rate Year to 31 March 2014 £000</b>	<b>Total Year to 31 March 2014 £000</b>	Fixed rate Year to 31 March 2013 £000	Total Year to 31 March 2013 £000
<b>Maturity Profile</b>				
Less than one year	(1,672)	(1,672)	(2,422)	(2,422)
Between one and two years	(4,010)	(4,010)	(5,668)	(5,668)
Between two and five years	(7,973)	(7,973)	(8,501)	(8,501)
Between five and twenty years	(993,965)	(993,965)	(963,502)	(963,502)
More than twenty years	-	-	-	-
Total borrowings	<u>(1,007,620)</u>	<u>(1,007,620)</u>	<u>(980,093)</u>	<u>(980,093)</u>
Cash	1,637	1,637	9,102	9,102
Short term deposits	600	600	5,300	5,300
Net debt at 31 March	<u>(1,005,383)</u>	<u>(1,005,383)</u>	<u>(965,691)</u>	<u>(965,691)</u>

## 10 Reconciliation of historical cost profit to current cost loss

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
<b>Historical cost profit per regulatory accounts</b>	<b>41,981</b>	13,823
Add back / (less) non-appointed activities loss / (profit)	<u>4,922</u>	<u>(804)</u>
<b>Sub-total historical cost profit</b>	<b>46,903</b>	13,019
Less difference in profit on disposals	(68)	(31)
Working capital adjustment	2,001	2,641
Financing adjustment	23,962	30,464
Add back historical cost depreciation including infrastructure renewals charge	81,989	75,632
Less current cost depreciation	(135,458)	(150,895)
Less infrastructure renewals charge	(33,409)	(30,761)
Add back historical cost amortisation of grant reserve	(820)	(772)
Less current cost amortisation of grant reserve	2,488	4,513
<b>Current cost operating loss</b>	<u>(12,412)</u>	<u>(56,190)</u>

**11a Reconciliation of current cost operating profit to net cash inflow from operating activities for the appointed business**

	<b>Year to 31 March 2014 £000</b>	Year to 31 March 2013 £000
Current cost operating profit	<b>19,799</b>	19,872
Working capital adjustment	<b>(2,001)</b>	(2,641)
Movement in working capital	<b>8,388</b>	595
Current cost depreciation	<b>135,458</b>	150,895
Current cost profit on sale of fixed assets	<b>(208)</b>	(303)
Infrastructure renewals charge	<b>33,409</b>	30,761
<b>Other non-cash items</b>		
Amortisation of deferred grants and contributions	<b>(2,488)</b>	(4,513)
PPP residual asset credits	<b>(3,385)</b>	(3,303)
Excess of pension payments over FRS17 charge	<b>881</b>	741
Movement in provisions and creditors > 1 year	<b>727</b>	(11,089)
<b>Net cash inflow from operating activities</b>	<b>190,580</b>	181,015

**11b Analysis of net debt**

	<b>1 April 2013 £000</b>	<b>Cash flows £000</b>	<b>Non cash* changes £000</b>	<b>31 March 2014 £000</b>
Cash at bank and in hand	9,102	(7,465)	-	1,637
Deposits and investments	5,300	(4,700)	-	600
	<u>14,402</u>	<u>(12,165)</u>	<u>-</u>	<u>2,237</u>
Debt due within one year	(2,422)	-	750	(1,672)
Debt due after one year (including PPP liability)	(977,671)	(27,527)	(750)	(1,005,948)
<b>Total</b>	<b><u>(965,691)</u></b>	<b><u>(39,692)</u></b>	<b><u>-</u></b>	<b><u>(1,005,383)</u></b>

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

## 12 Regulatory capital value (RCV)

The 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 2013/14 are therefore consistent with figures contained within the Water and Sewerage Service Price Control 2013-2015 (PC13) published by the Utility Regulator in December 2012.

Within the RCV, the prior year balance has been indexed by the average Retail Price Index (RPI) over the year to March and the capital expenditure has been indexed by the latest available Construction Output Prices Index (COPI) forecast.

	At 31 March 2014 £'m	At 31 March 2013 £'m
Prior Year Closing RCV	1,812.8	1,725.4
Indexation and other adjustments	52.3	53.3
Opening RCV	<u>1,865.1</u>	<u>1,778.7</u>
Capital expenditure	137.3	159.8
Infrastructure renewals expenditure	34.1	29.7
Infrastructure renewals charge	(34.1)	(29.7)
Grants and contributions	(5.8)	(4.1)
Depreciation (including capital grants)	(46.7)	(51.6)
Disposal of assets	(1.1)	(4.4)
Closing RCV (pre regulatory adjustments)	<u>1,948.8</u>	<u>1,878.4</u>
Regulatory adjustments	-	(65.6)
<b>Closing RCV</b>	<u>1,948.8</u>	<u>1,812.8</u>
Average RCV	<u>1,880.8</u>	<u>1,769.1</u>

There are no regulatory adjustments required in the 2013/14 year as these are linked to Price Control Determinations made by the Utility Regulator. They will therefore only be present at the end of a Price Control period when the Utility Regulator takes a view on actual capital expenditure over that period.

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

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") for the year ended 31 March 2014 as set out on pages 192 to 217 which comprise:

- the regulatory historical cost accounting 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 and the historical cost reconciliation between the Statutory and Regulatory Accounts; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost reconciliation of movements in Shareholder's funds, the current cost cash flow statement and the related notes to the current cost financial statements 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.

This report is made, on terms that have been agreed, solely to the Company and the Northern Ireland Authority for Utility Regulation ("NIAUR") 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 NIAUR 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 NIAUR 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 NIAUR, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the NIAUR, the Directors and the auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 128, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Financial Reporting Council Ethical Standards for Auditors.

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

### Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed 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 includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of the Regulatory Accounts are determined by the NIAUR, 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 & Ireland).

### Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the NIAUR and the accounting policies set out on pages 204 to 206, the state of the Company's affairs at 31 March 2014 on an historical cost and current cost basis, and its historical cost profit, the current cost loss and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

### Emphasis of matter in respect of the basis of valuation of tangible fixed assets

The accounting policies of the Regulatory Accounts set out details in respect of the current cost basis of valuation of tangible fixed assets. We draw your attention to the fact that the valuation is not based on a Modern Equivalent Asset Value (MEAV) as required by the Regulatory Accounting Guidelines. Our opinion is not qualified in this regard.

### Emphasis of matter regarding 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.



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

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 194 to 199 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 disapplied. The effect of this departure from 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 198 to 199.

### Opinion on other matters prescribed by Condition F

Under the terms of our contract, 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.

### Other matters

The nature, form and content of Regulatory Accounts are determined by the NIAUR. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the NIAUR's purposes. Accordingly, we make no such assessment.

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 2014 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.



KPMG  
Chartered Accountants  
Belfast  
25 June 2014

**Notes:**

1. The maintenance and integrity of the Company's web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.

# Appendix



Construction phase on Wastewater Pumping Station at Bangor, Luke's Point, County Down. Image courtesy of Alan Lavery Photography.

# KPI explanation and trends

## Target 1 – Overall Performance Assessment (OPA) Score

**Purpose** - the OPA is a weighted, composite measure of the overall levels of service to customers. It was used by Ofwat to benchmark performance until 2009/10, when a new measure was adopted – the Service Incentive Mechanism (SIM). NI Water is in discussion with the Utility Regulator around the development of a SIM.

**Parameters of target** - the OPA comprises 11 measures:

- DG2 - Properties at risk of low pressure
- DG3 - Properties with unplanned interruptions
- DG4 - Population with hosepipe bans
- Drinking water quality
- Customer Service (Combined customer contact)
- Category 1 & 2 Pollution Incidents. (Sewerage)
- Category 3 Pollution Incidents. (Sewerage)
- Category 1 & 2 Pollution Incidents. (Water)
- WwTWs in breach of their consents
- Sludge Disposal
- Leakage Assessment

**Calculation of target** - the target is set by the Utility Regulator in the Final Determination for each Price Control Period and is determined from the outputs contained in the Final Determination.

**Assumptions and limitations** - NI Water continues to be measured against an OPA target in the absence of a SIM or equivalent measure in Northern Ireland. The Utility Regulator has therefore included an OPA target (based on 11 of the 16 measures used by Ofwat) within the PC13 Final Determination.

## Target 2 – Supply interruptions (DG3)

**Purpose** - the purpose of this KPI is to measure the percentage of properties that experience an unplanned interruption to supply greater than 6 hours, 12 hours and 24 hours.

**Parameters of target** - defined as the percentage of overall properties connected to the water distribution system that is affected by unplanned interruptions in water supply lasting greater than 6 hours, 12 hours and 24 hours. Unplanned interruptions exclude interruptions caused by third parties and overruns of planned interruptions.

**Calculation of target** - detailed interruption data pertaining to each interruption to supply is collected and recorded on a spread sheet, where it is checked for accuracy and categorised according to the type and duration of the interruption. Information pertaining to unplanned interruptions to supply greater than 6 hours, 12 hours and 24 hours is presented in a form similar to that of the Annual Information Return table. Corresponding percentages are calculated and presented against KPI targets each month.

**Assumptions and limitations** - there are two methodologies for recording the number of properties affected by an interruption. In general the number of properties is counted on site during the course of the repair. Alternatively, mainly for larger interruptions, house numbers are recorded using a Geographic Information System (GIS).

### Target 3 – Customer contacts

**Purpose** - the aim of this indicator is to identify the number of customers contacting NI Water via the Principal Advertised Customer Contact Points, the number of repeat contacts, the number of contacts with first time resolution and their satisfaction with the way the Company handles their telephone call.

**Parameters of target** - the target relates to the number of customers contacting NI Water via the Principal Advertised Customer Contact Points.

**Measurement of target** - the total calls received to Principal Advertised Customer Contact Points are recorded monthly and reviewed to establish the volume answered, or abandoned, by either an agent or automated system, using system generated reports. Total call handling satisfaction is measured by means of a survey conducted by a third party provider.

**Sources, assumptions and limitations** - the indicator is intended to monitor incoming contacts which can be regarded as originating from NI Water's customer base. NI Water can exclude:

- calls from contractors and suppliers, or calls made by a contractor's field operatives to contractor's offices e.g. switchboard calls;
- calls to organisations acting as agents for NI Water, e.g. debt collection agencies are excluded from the measure, unless they represent a principal customer contact point for NI Water; and
- calls to the direct lines of named individuals or specialist sections, except where the specialist section (such as Debt Recovery) specifically prints its Direct Dial numbers on NI Water's letterhead.

### Targets 4(a) and (b) – Total complaints received / response to written complaints (DG7)

**Purpose** - to measure the number of written complaints received during the year and the time taken to respond to them.

**Parameters of target** - a written complaint is any written letter, fax or e-mail expressing a dissatisfaction, however mildly worded, that draws attention to an action or inaction of NI Water, or a service provided by NI Water, agent or contractor, that has fallen short of the correspondent's expectations.

**Measurement of target** - calculated as the number of written complaints answered within 10 working days, as a percentage of total complaints received in the year. The day of receipt of the contact is treated as day zero and the next working day as day one. Written customer contact activities are managed by NI Water Account Services, then validated and reported on by the Customer Services Delivery Directorate. This differs from our monthly SLA reporting, which is expressed as a percentage over total complaints closed.

**Sources, assumptions and limitations** - implementation of a Customer Service Improvement Programme, linked to Business Improvement, has consolidated the new Customer Relations Centre systems and streamlined the interfaces with operational service delivery. Through this programme, NI Water is improving the service provided in response to queries and resolving customer issues. In all cases the aim is to give a prompt, courteous and professional response.

## Targets 4(c) – CCNI Stage 2 complaints

**Purpose** - to measure the number of Stage 2 complaints referred to the Company by CCNI during the year.

**Parameters of target** - a Stage 2 complaint is one where the Company is deemed to have had a chance to resolve the complaint for the customer but has not done so to their satisfaction. The Customer has then sought independent advice from CCNI, who in turn refers their complaint to the Company for further investigation/advice.

**Measurement of target** - calculated as the number of Stage 2 complaints received.

**Sources, assumptions and limitations** - this is a new target introduced for 2013/14. This target measures one of the stages in the CCNI complaints process. An established Challenge process exists which affords the Company the opportunity to try and reduce the status of the Stage 2 complaint to that of a Stage 1 complaint. It should be noted that performance against the target can be adversely affected by significant operational events such as extreme weather conditions or corporate matters.

## Target 5 – Leakage

**Purpose** - the purpose of this target is to determine the volume of water lost from the water supply network which is leakage from both Company and domestic pipes or unaccounted for water.

**Parameters of target** - this target relates to the reduction in the level of leakage from the water distribution system.

**Measurement of target** - the annual average leakage figure is based on the end of year water balance and includes the key components of water produced into distribution, metered consumption, and domestic consumption estimates.

**Sources, assumptions and limitations** - leakage is an estimate. It is based on the assessment of various demand components as well as an estimate of bottom up leakage utilising leakage management software to determine night flows. Both internal and external sources of data are utilised and a confidence grade is applied to each estimate.

## Target 6(a) – Sewer flooding (at risk)

**Purpose** - the purpose of this KPI is to measure the number of properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload, once in 20 years, or more frequently, against the outputs specified in the PC13 Final Determination.

**Parameters of target** - number of properties removed from the 'at risk' Register of internal flooding by sewage, caused by overload of a sewer (also termed hydraulic incapacity) excluding those incidents resulting from severe weather, once in 20 years or more frequently.

**Measurement of target** - most removals from the register will be as a result of a capital scheme, however all removals have to be approved by the DG5 panel of experts. These are key internal personnel who examine the evidence and approve or reject a request for removal of a property from the register. Measurement is the number of removals approved by the DG5 panel.

**Sources, Assumptions and limitations** - NI Water has developed a register of properties 'at risk' of internal flooding by sewage. A structured prioritised programme of capital interventions will be carried out in the PC13 and PC15 periods to remove properties from the risk of internal flooding by sewage, caused by overload, once in 20 years, or more frequently.

### Target 6(b) – Sewer flooding (overload)

**Purpose** - the purpose of this KPI is to measure the number of properties affected by an incident of internal sewage flooding caused by an overload of a sewer (also termed hydraulic capacity) excluding those incidents resulting from severe weather.

**Parameters of target** - number of properties affected by an incident of internal sewerage flooding caused by an overload of a sewer (also termed hydraulic incapacity), excluding those incidents resulting from severe weather.

**Measurement of target** - the register is held on an Oracle database represented on the Corporate Asset Register. The database is maintained and updated by NI Water's asset management team. Reporting for internal flooding is made using the internal flooding Oracle database.

**Assumptions and limitations** - this process was under development. As the quality of information improved during the PC10 period, NI Water was able to set service targets for 2013 and beyond.

### Target 6(c) – Sewer flooding (other causes)

**Purpose** - the purpose of this KPI is to have a readily available record of each individual property affected by an incident of **internal** sewage flooding caused by equipment failure in, blockage or collapse of, a sewer (also termed other causes), thus meeting regulatory requirements.

**Parameters of target** - number of properties affected by an incident of internal sewage flooding, caused by equipment failures, blockages or collapses of a sewer (collectively termed other causes).

**Measurement of target** - a download of internal sewer flooding records is obtained from the Ellipse system on a month by month basis. Investigations are carried out for each reported incident and those properties found not to be flooded, after investigation using information from the contractor, flooding incident report forms, field manager reports and contacting the customers directly, are removed and the remaining properties are combined to give the yearly total.

**Sources, assumptions and limitations** - we have assumed that a single incident includes recorded complaints from the same property on the same day or within three days.

### Target 7 – Health and safety

**Purpose** - to monitor accident trends and allow NI Water to take positive action to reduce accidents, both for NI Water staff, and for contractors working for NI Water.

**Parameters of target** - this target includes any accident resulting from NI Water's undertakings which leads to more than 3 days absence from work, following the date of the accident. NI Water's health and safety accident reporting procedures require staff to report accidents within 24 hours of occurrence.

**Measurement of target** - the 2013/14 target was 'not more than 7 RIDDOR incidents', reducing to 'not more than 6 RIDDOR incidents' in 2014/15. This is in line with NI Water's 'Zero Accident Ambition'. Health and Safety is reported to the NI Water Board each month and taken as the first item on the Board agenda.

**Sources, assumptions and limitations** - health and safety incidents are reported by line managers on DATIX, the NI Water approved risk management software package, from which health and safety statistics are compiled.

## Target 8 – Employee attendance

**Purpose** - to monitor NI Water employees' attendance.

**Parameters of target** - based on the number of permanent full and part time employees, their total working days available, and their attendance at work.

**Measurement of target** - based upon the number of days an employee attends for work against the total number of days available for work, expressed as a percentage.

**Sources, assumptions and limitations** - this is based upon data provided by the Oracle HR IT system and excludes temporary employees.

## Target 9 – Employee engagement

**Purpose** - the employee engagement survey is designed to give a real insight to how we are doing against the goal - 'We want NI Water to be a truly great place to work', and how we are coping with the transformation of our organisation. The survey offers a standardised method of measuring our progress that can facilitate benchmarking with other comparator organisations.

**Parameters of target** - the response rate for each survey will be measured. However, the target is a combined measurement of a number of critical statements for every respondent, which when analysed across all the responses equates to a corporate engagement score out of 100. The target is set to measure the improvement in engagement of those employees that were previously 'neutral', to a position of 'agree', which will be based on the previous response rates in the survey.

**Measurement of target** - the engagement score is measured against a number of elements as determined by the provider.

**Sources, assumptions and limitations** - the survey is carried out through an online and paper exercise as there is a need to continue with the distribution of paper surveys to the front line employees who currently do not have online access to the survey.

## Target 10 – Water quality at the tap (Mean Zonal Compliance)

**Purpose** - the purpose of the Mean Zonal Compliance (MZC) assessment is to monitor regulatory compliance at the customer's tap.

**Parameters of target** - MZC is a statistical measure of compliance with Drinking Water Standards.

**Measurement of target** - for any one zone, the zonal compliance for any one parameter is the percentage of samples meeting the prescribed concentration or value. For any parameter, mean zonal compliance is the mean of the zonal compliance values for all zones in Northern Ireland. Overall MZC is the mean or average of the MZC values for 39 parameters.

**Sources, assumptions and limitations** - compliance assessment is facilitated by a random sample programme which means that a specified number of samples are collected from randomly selected



addresses. The MZC comparison year on year is dependent on selecting a consistent representation of customer addresses each year. MZC, as measured at the customer tap, continues to improve despite changes to drinking water quality regulations. MZC is useful in providing information on trends or can be used as indicators from which comparisons can be made.

## Target 11 – Water quality events

**Purpose** - the purpose is to monitor the number of water quality events which are assessed as Significant, Serious or Major by the DWI.

**Parameters of target** - the target relates to the number of Significant, Serious or Major category water quality events reported by NI Water to the DWI. The target is set on an annual basis, taking into account annual event numbers.

**Measurement of target** - the number of Significant, Serious or Major category water quality events is based on DWI assessment and classification of the seriousness of the event.

**Sources, assumptions and limitations** - the compliance outturn is reported on DWI audited figures.

## Target 12 – Wastewater quality

**Purpose** - the purpose is to monitor the population equivalent being served by compliant WwTWs.

**Parameters of target** - the target relates to performance of the same WwTWs but measurement is against the population equivalent served by compliant works. Performance is assessed on a calendar year basis.

**Measurement of target** - samples are taken at each WwTW relating to the population equivalent served by the works. Our in-house laboratory analyses samples for those parameters included in the Water Order Consent. Compliance for each WwTWs is assessed on a parameter basis using the Urban Wastewater Treatment Regulations (NI) 1995 Look-up Table. This statistically derived methodology permits a certain number of exceedances, based on the number of samples taken, for each sanitary parameter included in the Water Order Consent. When this number of exceedances is surpassed, a works is deemed to fail. A number of WwTWs have upper tier limits on the parameters included in the Water Order Consent discharge standards and one exceedance of these values will result in the failure of a works. The population equivalent served by compliant works as a percentage of the total population equivalent served is calculated. Upper tier failures are excluded in this calculation, as agreed with the Utility Regulator.

**Sources, assumptions and limitations** - the population equivalent is based on our annual assessment for all WwTWs with numeric standards, as agreed with NIEA.

## Target 13 – Pollution incidents

**Purpose** - to provide a means of monitoring the number of high and medium category water pollution incidents attributed to NI Water by NIEA.

**Parameters of target** - the target relates to the number of high and medium category water pollution incidents attributed to NI Water by NIEA in a calendar year. The target is set on an annual basis, taking into account annual fluctuations in pollution incident numbers.

**Measurement of target** - NIEA provide a quarterly audit report indicating the number of high, medium and low pollution category incidents that they have attributed to NI Water. The number of high and medium

pollution incidents attributed to NI Water is based on NIEA classifications. NI Water can challenge the NIEA initial classifications and audited samples relating to the 2012 outturn.

**Sources, assumptions and limitations** - the compliance outturn is reported from the NIEA annual audited figures.

### Target 14 – Capital Investment Programme outputs

**Purpose** - to provide a means of monitoring the delivery of capital programme outputs.

**Parameters of target** - the outputs are set out in the PC13 Final Determination (subject to agreed changes via change protocol) and relate to named schemes or activity to be undertaken (e.g. length of sewers replaced or renovated).

**Measurement of target** - delivery is tracked using NI Water's Capital Programme Monitoring and Reporting system (CPMR). This system facilitates management and tracking of capital expenditure and key project milestone dates

**Sources, assumptions and limitations** - reported figures provide a high-level summary of the capital programme and nominated outputs reported.

### Target 15 – Capital Investment Programme expenditure

**Purpose** - to provide a means of monitoring the delivery of capital programme outputs.

**Parameters of target** - the outputs are set out in the PC13 Final Determination and relate to named schemes or activity to be undertaken (e.g. length of new water mains).

**Measurement of target** - delivery is tracked using NI Water's Capital Investment Monitoring and Reporting system. This system facilitates management and tracking of capital expenditure and key project milestone dates.

**Sources, assumptions and limitations** - reported figures provide a high-level summary of the capital programme expenditure.

### Target 16 – Operating cost efficiency gap

**Purpose** - to monitor the operating cost efficiency gap with English and Welsh water and wastewater companies.

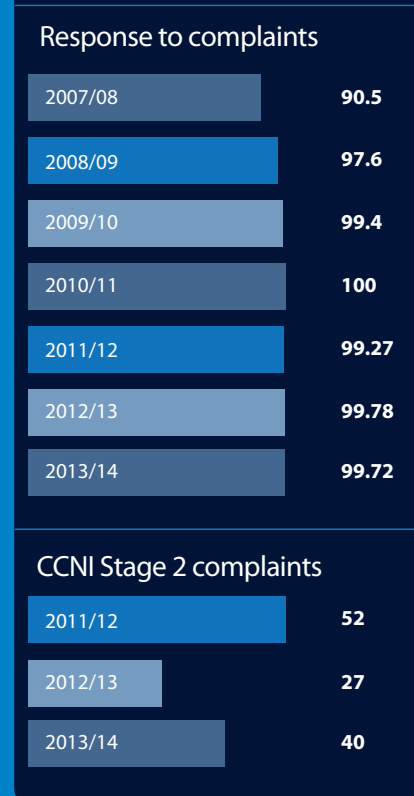
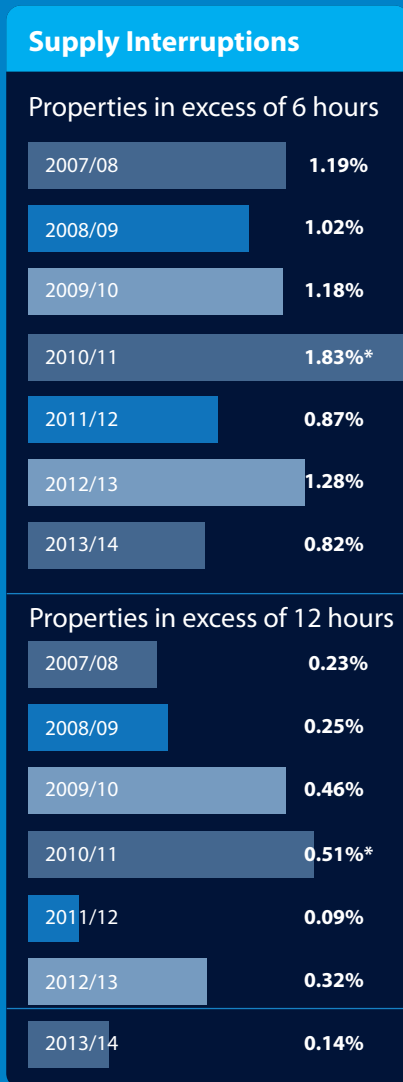
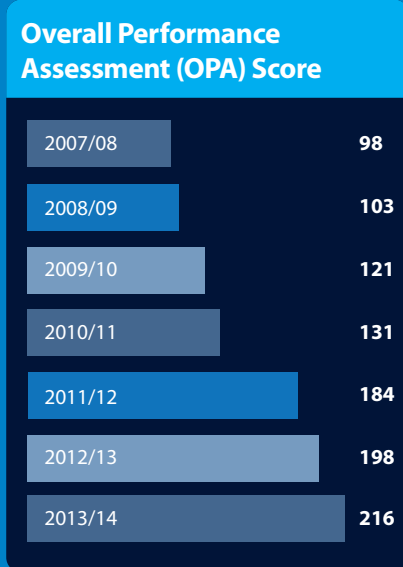
**Parameters of target** - the assessment of the efficiency gap is made using a methodology set by the Utility Regulator.

**Measurement of target** - the efficiency gap is calculated by comparing NI Water's actual operating expenditure, adjusted to take account of local factors, with that of the most efficient water and sewerage companies in England and Wales, calculated using econometrics and unit costs.

**Sources, assumptions and limitations** - the analysis uses a series of economic models derived by Ofwat which could be recalibrated each year using data from the English and Welsh 'June Return' data submissions. Ofwat have stopped using these models and the data used to recalibrate is no longer produced each year.

# KPI Trends

The information below shows the actual performance trends against the KPIs



\*Excluding freeze/thaw 21 December 2010 to 6 January 2011

## Leakage

### Million litres per day

2009/10	187
2010/11	177
2011/12	168
2012/13	162
2013/14	167*

## Sewer flooding

### Properties removed from 'at risk' register

2010/11	4
2011/12	14
2012/13	66
2013/14	11

### Properties affected by overload of a sewer

2007/08	86
2008/09	3
2009/10	6
2010/11	6
2011/12	14
2012/13	8
2013/14	1

## Sewer flooding

### Properties affected by other causes

2007/08	366
2008/09	23
2009/10	5
2010/11	28
2011/12	23
2012/13	41
2013/14	55

## Health and safety

### Lost time accidents

2007/08	16
2008/09	14
2009/10	11
2010/11	4
2011/12	4
2012/13	6
2013/14	6

## Employee attendance

2007/08	95%
2008/09	95.3%
2009/10	96.8%
2010/11	96.6%
2011/12	97.1%
2012/13	96.8%
2013/14	96.4%

## Employee engagement

### Response rate to survey

2010/11	61%
2011/12	63%
2013/14	56%

## Water quality at the tap\*\*

### Mean zonal compliance

2007	99.30%
2008	99.49%
2009	99.74%
2010	99.82%
2011	99.83%
2012	99.80%
2013	99.85%

## Water quality events\*\*

2012	38
2013	26

## Wastewater quality\*\*

### Population served by compliant wastewater treatment works

2010	95.5
2011	96.5
2012	98.8
2013	98.0

\*NI Water rebased leakage from 162 ML/d at the end of 2012/13 to 171 ML/d at the start of 2013/14. This was primarily due to a change in software and also in methodology to industry best practice.

\*\*These targets are measured on a calendar year basis

### Pollution incidents\*

High / medium severity incidents attributed to NI Water

2007	67
2008	56
2009	55
2010	46
2011	44
2012	18
2013	26

### Operating cost efficiency gap (to frontier)\*\*

2007/08	48.7%
2008/09	43.2%
2009/10	39.7%
2010/11	38.1%
2011/12	31.3%
2012/13	19.0%

### Capital investment programme expenditure

2010/11	£155.4m
2011/12	£186.0m
2012/13	£156.4m
2013/14	£160.7m

\*This target is measured on a calendar year basis

\*\*Measured 1 year in arrears



**Northern Ireland Water**

PO Box 1026  
Belfast  
BT1 9DJ

**Email:** [waterline@niwater.com](mailto:waterline@niwater.com)

**Waterline:** 08457 440088

**Text Relay:** 08457 440088

**[www.niwater.com](http://www.niwater.com)**



Facebook: Northern Ireland Water



Twitter: @niwnews

Northern Ireland Water is a trademark of Northern Ireland Water Limited, incorporated in Northern Ireland, Registered Number NI054463. Registered Office: Westland House, 40 Old Westland Road, Belfast, BT14 6TE



ISBN 978-1-907007-11-8