

northern ireland
water



Delivering what matters

Regulatory Accounts 2019/20

Statement of Directors' Responsibilities

The Directors of NI Water are required to prepare financial statements which comply with the requirements of Condition F of the Instrument of Appointment of Northern Ireland Water Limited as a Water and Sewerage undertaker under the Water and Sewerage Services (Northern Ireland) Order 2006 and the relevant Regulatory Accounting Guidelines (RAGs).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For and on behalf of the Board



Sara Venning
Chief Executive
25 June 2020

HISTORICAL COST FINANCIAL STATEMENTS

Profit and loss account

	Year to 31 March 2020			Year to 31 March 2019		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Turnover	422,314	7,103	429,417	406,517	7,010	413,527
Operating costs	(195,305)	(3,869)	(199,174)	(183,275)	(4,292)	(187,567)
Historical cost depreciation	(84,274)	-	(84,274)	(82,165)	(16)	(82,181)
Operating profit	142,735	3,234	145,969	141,077	2,702	143,779
Net interest payable	(64,374)	-	(64,374)	(63,684)	-	(63,684)
Profit on ordinary activities before taxation	78,361	3,234	81,595	77,393	2,702	80,095
<i>Taxation on profit on ordinary activities:</i>						
Corporation tax	(405)	(147)	(552)	(17)	17	-
Deferred tax	(35,032)	-	(35,032)	(14,018)	-	(14,018)
Profit on ordinary activities after taxation	42,924	3,087	46,011	63,358	2,719	66,077
Dividends	(25,185)	(3,087)	(28,272)	(23,742)	(2,719)	(26,461)
Retained profit for the financial year	17,739	-	17,739	39,616	-	39,616

Balance sheet

	At 31 March 2020			At 31 March 2019		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Fixed assets						
Tangible assets	3,274,623	-	3,274,623	3,128,612	-	3,128,612
Investments	5,015	-	5,015	15	-	15
	<u>3,279,638</u>	<u>-</u>	<u>3,279,638</u>	<u>3,128,627</u>	<u>-</u>	<u>3,128,627</u>
Current assets						
Stocks	3,554	4	3,558	2,947	7	2,954
Debtors	71,492	1,194	72,686	70,855	627	71,482
Cash at bank and in hand	2,635	445	3,080	6,982	749	7,731
	<u>77,681</u>	<u>1,643</u>	<u>79,324</u>	<u>80,784</u>	<u>1,383</u>	<u>82,167</u>
Creditors: amounts falling due within one year						
Payments received on account	(952)	-	(952)	(3,953)	-	(3,953)
Trade creditors	(3,035)	(31)	(3,066)	(1,015)	(12)	(1,027)
Taxation and social security	(2,376)	-	(2,376)	(926)	-	(926)
Other creditors	(18,553)	-	(18,553)	(17,927)	-	(17,927)
Accruals and deferred income	(94,689)	(1,612)	(96,301)	(95,757)	(1,371)	(97,128)
Deferred grants and contributions	(234)	-	(234)	(381)	-	(381)
PPP finance lease	(8,091)	-	(8,091)	(6,697)	-	(6,697)
Other provisions	(1,671)	-	(1,671)	(1,680)	-	(1,680)
	<u>(129,601)</u>	<u>(1,643)</u>	<u>(131,244)</u>	<u>(128,336)</u>	<u>(1,383)</u>	<u>(129,719)</u>
Net current liabilities	<u>(51,920)</u>	<u>-</u>	<u>(51,920)</u>	<u>(47,552)</u>	<u>-</u>	<u>(47,552)</u>
Total assets less current liabilities	<u>3,227,718</u>	<u>-</u>	<u>3,227,718</u>	<u>3,081,075</u>	<u>-</u>	<u>3,081,075</u>
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(1,371,904)	-	(1,371,904)	(1,337,867)	-	(1,337,867)
Other creditors	(483,703)	-	(483,703)	(429,722)	-	(429,722)
	<u>(1,855,607)</u>	<u>-</u>	<u>(1,855,607)</u>	<u>(1,767,589)</u>	<u>-</u>	<u>(1,767,589)</u>
Provisions for liabilities and charges						
Deferred tax provision	(206,586)	-	(206,586)	(170,041)	-	(170,041)
Other provisions	(2,319)	-	(2,319)	(2,490)	-	(2,490)
	<u>(208,905)</u>	<u>-</u>	<u>(208,905)</u>	<u>(172,531)</u>	<u>-</u>	<u>(172,531)</u>
Pension liability	<u>(34,436)</u>	<u>-</u>	<u>(34,436)</u>	<u>(29,574)</u>	<u>-</u>	<u>(29,574)</u>
Net Assets	<u>1,128,770</u>	<u>-</u>	<u>1,128,770</u>	<u>1,111,381</u>	<u>-</u>	<u>1,111,381</u>
Capital and reserves						
Called up share capital	500,000	-	500,000	500,000	-	500,000
Distributable reserve	171,690	-	171,690	171,690	-	171,690
Profit and loss account	457,080	-	457,080	439,691	-	439,691
	<u>1,128,770</u>	<u>-</u>	<u>1,128,770</u>	<u>1,111,381</u>	<u>-</u>	<u>1,111,381</u>
Shareholder's funds	<u>1,128,770</u>	<u>-</u>	<u>1,128,770</u>	<u>1,111,381</u>	<u>-</u>	<u>1,111,381</u>

These financial statements were approved and authorised for issue by the Board of Directors on 25 June 2020 and were signed on its behalf by:


Sara Venning
Chief Executive
25 June 2020

Statement of total recognised gains and losses

	Year to 31 March 2020			Year to 31 March 2019		
	Appointed business	Non - Appointed business	Total	Appointed business	Non - Appointed business	Total
	£000	£000	£000	£000	£000	£000
Profit for the financial year	17,739	-	17,739	39,616	-	39,616
Available for sale shares - fair value loss	-	-	-	(13)	-	(13)
Actuarial losses recognised in the pension scheme	(858)	-	(858)	(11,341)	-	(11,341)
Deferred tax arising on losses in the pension scheme	505	-	505	1,928	-	1,928
Total recognised gains and losses relating to the financial year	17,386	-	17,386	30,190	-	30,190

Cash flow statement

	Year to 31 March 2020			Year to 31 March 2019		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Net cash inflow from operating activities (Note 7(a))	229,446	2,783	232,229	221,058	2,806	223,864
Returns on investments and servicing of finance						
Interest received	455	-	455	429	-	429
Interest paid	(45,293)	-	(45,293)	(44,185)	-	(44,185)
Interest element of finance lease	(18,261)	-	(18,261)	(18,826)	-	(18,826)
Net cash outflow from returns on investments and servicing of finance	(63,099)	-	(63,099)	(62,582)	-	(62,582)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	(184,328)	-	(184,328)	(188,311)	-	(188,311)
Additional loan to subsidiaries	(392)	-	(392)	(2,998)	-	(2,998)
Grants and contributions received	4,772	-	4,772	1,384	-	1,384
Disposal of fixed assets	117	-	117	446	-	446
Insurance proceeds	1,350	-	1,350	200	-	200
Net cash outflow from investing activities	(178,481)	-	(178,481)	(189,279)	-	(189,279)
Equity dividends paid to the Shareholder	(25,185)	(3,087)	(28,272)	(23,742)	(2,719)	(26,461)
Cash (outflow) / inflow before management of liquid resources and financing	(37,319)	(304)	(37,623)	(54,545)	87	(54,458)
Management of liquid resources	(6)	-	(6)	1,237	-	1,237
Cash (outflow) / inflow from management of liquid resources	(6)	-	(6)	1,237	-	1,237
Net cash flow before financing	(37,325)	(304)	(37,629)	(53,308)	87	(53,221)
Financing						
Loans advanced	40,000	-	40,000	64,000	-	64,000
Capital element of finance lease repayments	(7,028)	-	(7,028)	(5,706)	-	(5,706)
Net cash inflow from financing	32,972	-	32,972	58,294	-	58,294
Net (decrease)/increase in cash	(4,353)	(304)	(4,657)	4,986	87	5,073

Notes to the Regulatory Accounts

1 Regulatory reporting

To further understand the performance of the business the Regulatory Accounts should be read in conjunction with the Strategic Report on pages 9 to 82 of the Northern Ireland Water Annual Report and Accounts 2019/20 ('The Annual Report'). Reference should be made to the Directors' report in the Annual Report which provides information on the dividend policy (page 104) and on 'Disclosure of information to auditors' (page 109). The Annual Report also includes The Directors' remuneration report on pages 110 to 113 and information on Directors' pay and standards of performance in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006. The Directors confirm that no amounts were given to charitable trusts assisting customers or similar funds in the year ended 31 March 2020.

2 Accounting policies

(a) Basis of preparation

The Regulatory Accounts have been prepared on such a basis as to comply with the requirements of the Utility Regulator. These requirements are similar to previous guidance issued by Ofwat, the economic regulator for the water and sewerage industry in England and Wales. The Regulatory Accounts have been prepared in accordance with Condition F of the 'Instrument of Appointment by the Department for Regional Development' of Northern Ireland Water Limited as a Water and Sewerage undertaker' and the Ofwat Regulatory Accounting Guidelines (RAGS) adopted by the Utility Regulator and modified where required for conditions prevalent in Northern Ireland, the accounting policies set out in these notes and, in the case of the Regulatory Historic Cost Accounts, under the historical cost convention. The Utility Regulator has instructed that for the year ended 31 March 2018, 31 March 2019 and 31 March 2020 accounts should not be reported on a current cost basis. The Regulatory Accounts have been prepared on a going concern basis notwithstanding the net current liabilities. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Company operates as described below.

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

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

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

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

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

2 Accounting policies (continued)

(a) Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

- a capital loan arrangement to 31 March 2022 to fund the capital expenditure for the business. This also includes the facility to drawdown loan notes to cover unforeseen events/emergency situations;
- a £20m working capital facility to 31 March 2022 which will provide access to cash facilities for short-term needs and for unforeseen events/emergency situations including the current Covid 19 emergency;
- the Subsidy Agreement with DfI permits the early drawdown of subsidy in year if the cash is required; and
- Access to transactional banking services under the Northern Ireland Civil Service arrangements established from 1 April 2016.

(b) General

The regulatory accounting policies are based on IFRSs (as adopted by the EU) as directed by the Utility Regulator.

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

	Year to 31 March 2020			Year to 31 March 2019		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
Turnover						
Unmeasured – household	129,067	158,833	287,900	126,735	151,465	278,200
Unmeasured – non household	2,153	2,486	4,639	2,027	2,360	4,387
Total unmeasured	131,220	161,319	292,539	128,762	153,825	282,587
Measured – non household	43,914	30,037	73,951	44,876	28,028	72,904
Total measured	43,914	30,037	73,951	44,876	28,028	72,904
Trade effluent	-	4,977	4,977	-	5,236	5,236
Large user and special agreements	5,879	5,210	11,089	5,517	5,109	10,626
Total trade effluent and large user special agreements	5,879	10,187	16,066	5,517	10,345	15,862
Rechargeable works	143	143	286	142	142	284
Other third party services	6,156	33,316	39,472	6,349	28,531	34,880
Total third party services	6,299	33,459	39,758	6,491	28,673	35,164
Total turnover	187,312	235,002	422,314	185,646	220,871	406,517

	Year to 31 March 2020			Year to 31 March 2019		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
Operating income and working capital adjustment for the appointed business:						
Historical cost profit on disposal of fixed assets	406	61	467	243	308	551

4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2020							
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
Direct costs								
Employment costs	4,403	9,708	14,111	4,348	4,669	298	9,315	23,426
Power	10,708	3,585	14,293	4,909	10,225	2,591	17,725	32,018
Hired and contracted services	2,718	9,328	12,046	5,153	1,719	2,287	9,159	21,205
Materials and consumables	5,293	544	5,837	255	666	519	1,440	7,277
Service charges	799	-	799	1	773	271	1,045	1,844
Other direct costs	14	41	55	3	5	-	8	63
Total direct costs	23,935	23,206	47,141	14,669	18,057	5,966	38,692	85,833
General and support expenditure	9,879	11,633	21,512	9,651	10,863	2,351	22,865	44,377
Total functional expenditure	33,814	34,839	68,653	24,320	28,920	8,317	61,557	130,210
Business activities								
Customer services			5,658				4,590	10,248
Scientific services			2,040				1,655	3,695
Other business activities			456				370	826
Rates			16,962				10,517	27,479
Doubtful debts			449				618	1,067
Total operating expenditure less third party services			94,218				79,307	173,525
Services for third parties			-				-	-
Total PPP unitary charge			9,549				12,721	22,270
Total operating expenditure			103,767				92,028	195,795
Capital costs								
<i>Historical cost depreciation:</i>								
service activities			33,253				51,020	84,273
business activities			1				-	1
Amortisation of grants			(13)				(3,260)	(3,273)
Total capital costs			33,241				47,760	81,001
Total operating costs			137,008				139,788	276,796
Analysis of tangible fixed assets – Historical Cost								
Service activities	301,097	938,657	1,239,754	1,124,555	893,312	16,991	2,034,858	3,274,612
Business activities			11				-	11
Total			1,239,765				2,034,858	3,274,623

4b Analysis of operating costs and tangible fixed assets

	Year to 31 March 2019							
	Water Services			Sewerage Services				
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	Total £000
Direct costs								
Employment costs	4,586	8,654	13,240	2,147	4,740	318	7,205	20,445
Power	12,170	3,854	16,024	4,356	10,707	2,743	17,806	33,830
Hired and contracted services	3,034	8,000	11,034	4,314	1,878	2,217	8,409	19,443
Materials and consumables	4,164	389	4,553	193	679	472	1,344	5,897
Service charges	776	-	776	-	752	283	1,035	1,811
Other direct costs	8	40	48	2	12	-	14	62
Total direct costs	<u>24,738</u>	<u>20,937</u>	<u>45,675</u>	<u>11,012</u>	<u>18,768</u>	<u>6,033</u>	<u>35,813</u>	<u>81,488</u>
General and support expenditure	<u>10,565</u>	<u>10,537</u>	<u>21,102</u>	<u>7,654</u>	<u>13,444</u>	<u>2,875</u>	<u>23,973</u>	<u>45,075</u>
Total functional expenditure	<u>35,303</u>	<u>31,474</u>	<u>66,777</u>	<u>18,666</u>	<u>32,212</u>	<u>8,908</u>	<u>59,786</u>	<u>126,563</u>
Business activities								
Customer services			5,086				3,936	9,022
Scientific services			1,944				1,504	3,448
Other business activities			560				433	993
Rates			16,772				10,169	26,941
Doubtful debts			(41)				(226)	(267)
Total operating expenditure less third party services			<u>91,098</u>				<u>75,602</u>	<u>166,700</u>
Services for third parties			1				-	1
Total PPP unitary charge			<u>9,721</u>				<u>10,908</u>	<u>20,629</u>
Total operating expenditure			<u>100,820</u>				<u>86,510</u>	<u>187,330</u>
Capital costs								
<i>Historical cost depreciation:</i>								
service activities			32,025				50,139	82,164
business activities			1				-	1
Amortisation of grants			(160)				(3,345)	(3,505)
Total capital costs			<u>31,866</u>				<u>46,794</u>	<u>78,660</u>
Total operating costs			<u>132,686</u>				<u>133,304</u>	<u>265,990</u>
Analysis of tangible fixed assets – Historical Cost								
Service activities	285,594	905,084	1,190,678	1,060,763	860,138	17,021	1,937,922	3,128,600
Business activities			12				-	12
Total			<u>1,190,690</u>				<u>1,937,922</u>	<u>3,128,612</u>

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

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

Reactive and planned maintenance

Expenditure on reactive and planned maintenance included in operating costs for the year ended 31 March 2020 in respect of infrastructure assets amounted to £10.5m (2019: £9.5m) for water services and £2.5m (2019: £2.3m) for sewerage services.

5 Historical cost analysis of tangible fixed assets by assets type

Water Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross book value				
At 1 April 2019	485,765	900,699	70,888	1,457,352
Disposals	-	(943)	(259)	(1,202)
Additions	33,181	41,456	7,692	82,329
At 31 March 2020	518,946	941,212	78,321	1,538,479
Depreciation				
At 1 April 2019	(133,046)	(89,553)	(44,063)	(266,662)
Disposals	-	943	259	1,202
Charge for year	(17,696)	(10,408)	(5,150)	(33,254)
At 31 March 2020	(150,742)	(99,018)	(48,954)	(298,714)
Net book value at 31 March 2020	368,204	842,194	29,367	1,239,765
Net book value at 1 April 2019	352,719	811,146	26,825	1,190,690

Sewerage Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross book value				
At 1 April 2019	1,129,998	1,156,439	76,221	2,362,658
Disposals	-	-	(165)	(165)
Additions	66,282	70,207	11,467	147,956
At 31 March 2020	1,196,280	1,226,646	87,523	2,510,449
Depreciation				
At 1 April 2019	(306,306)	(67,777)	(50,653)	(424,736)
Disposals	-	-	165	165
Charge for year	(39,295)	(8,222)	(3,503)	(51,020)
At 31 March 2020	(345,601)	(75,999)	(53,991)	(475,591)
Net book value at 31 March 2020	850,679	1,150,647	33,532	2,034,858
Net book value at 1 April 2019	823,692	1,088,662	25,568	1,937,922

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

Total Services	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross book value				
At 1 April 2019	1,615,763	2,057,138	147,109	3,820,010
Disposals	-	(943)	(424)	(1,367)
Additions	99,463	111,663	19,159	230,285
At 31 March 2020	1,715,226	2,167,858	165,844	4,048,928
Depreciation				
At 1 April 2019	(439,352)	(157,330)	(94,716)	(691,398)
Disposals	-	943	424	1,367
Charge for year	(56,991)	(18,630)	(8,653)	(84,274)
At 31 March 2020	(496,343)	(175,017)	(102,945)	(774,305)
Net book value at 31 March 2020	1,218,883	1,992,841	62,899	3,274,623
Net book value at 1 April 2019	1,176,411	1,899,808	52,393	3,128,612

6 Net debt analysis

	Fixed rate Year to 31 March 2020 £000	Total Year to 31 March 2020 £000	Fixed rate Year to 31 March 2019 £000	Total Year to 31 March 2019 £000
Maturity Profile				
Less than one year	(8,091)	(8,091)	(6,697)	(6,697)
Between one and two years	(17,857)	(17,857)	(15,476)	(15,476)
Between two and five years	(26,785)	(26,785)	(23,213)	(23,213)
Between five and twenty years	(1,327,262)	(1,327,262)	(1,299,178)	(1,299,178)
More than twenty years	-	-	-	-
Total borrowings	<u>(1,379,995)</u>	<u>(1,379,995)</u>	<u>(1,344,564)</u>	<u>(1,344,564)</u>
Cash	1,359	1,359	5,712	5,712
Short term deposits	1,276	1,276	1,270	1,270
Net debt at 31 March	<u>(1,377,360)</u>	<u>(1,377,360)</u>	<u>(1,337,582)</u>	<u>(1,337,582)</u>

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

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Historical cost operating profit	142,734	141,077
Movement in working capital	1,870	3,535
Historical cost depreciation	84,274	82,165
Historical cost profit on sale of fixed assets	(467)	(551)
Other non-cash items		
Amortisation of deferred grants and contributions	(3,273)	(3,505)
Excess of pension payments over FRS17 charge	4,346	(129)
Movement in provisions and creditors greater than 1 year	(38)	(1,534)
Net cash inflow from operating activities	<u>229,446</u>	<u>221,058</u>

7b Analysis of net debt

	1 April 2019 £000	Additions** £000	Cash flows £000	Non cash* changes £000	31 March 2020 £000
Cash at bank and in hand	5,712	-	(4,353)	-	1,359
Deposits and investments	1,270	-	6	-	1,276
	<u>6,982</u>	<u>-</u>	<u>(4,347)</u>	<u>-</u>	<u>2,635</u>
Debt due within one year	(6,697)	-	-	(1,394)	(8,091)
Debt due after one year (including PPP liability)	(1,337,867)	(2,459)	(32,972)	1,394	(1,371,904)
Total	<u>(1,337,582)</u>	<u>(2,459)</u>	<u>(37,319)</u>	<u>-</u>	<u>(1,377,360)</u>

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

** Additions relate to new finance leases added during the year with the implementation of IFRS 16 Leases.

8 Regulatory capital value (RCV)

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

In line with Regulatory Accounting Guideline (RAG) 3.06, this note is compiled using figures assumed in setting prices during the Price Control (PC) process. Figures in 2019/20 are therefore consistent with figures contained within the Water and Sewerage Service Price Control 2015-2021 (PC15) published by the Utility Regulator in December 2014.

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

	At 31 March 2020	At 31 March 2019
	£'m	£'m
Prior Year Closing RCV	2,537.9	2,396.1
Indexation and other adjustments	65.7	73.2
Opening RCV	2,603.6	2,469.3
Capital expenditure	137.7	135.9
Infrastructure renewals expenditure	26.9	26.4
Infrastructure renewals charge	(26.9)	(26.4)
Grants and contributions	(6.6)	(6.5)
Depreciation (including capital grants)	(60.9)	(59.5)
Disposal of assets	(1.4)	(1.3)
Closing RCV (pre regulatory adjustments)	2,672.4	2,537.9
Regulatory adjustments	-	-
Closing RCV	2,672.4	2,537.9
Average RCV	2,605.1	2,467.0

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

9 Atypical and re-organisational operating expenditure items

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

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Brexit related expenditure	2,300	-
Covid-19 pandemic costs	300	-
Business improvement programme	600	900
Voluntary Early Retirement / Voluntary Severance schemes	200	200
PPP performance deductions	(1,200)	(400)
Balance of 2018-19 RPDM & UR credit accruals increased in 2019-20	100	(500)
Technical & legal advisors costs in relation to Project Omega	-	500
Extreme weather costs	-	1,200
	<hr/>	<hr/>
Total	2,300	1,900

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

Report on the audit of the Regulatory Accounts

Opinion

We have audited the Regulatory Accounts of Northern Ireland Water Limited ("the Company") for the year ended 31 March 2020 as set out on pages 4 to 17 which comprise the regulatory historical cost financial statements for the appointed and non-appointed business comprising the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement and the related notes to the regulatory accounts including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the Company's Regulatory Licence, Regulatory Accounting Guidelines 1.04, 2.03, 3.06, 4.03 and 50.4 ("the RAGs") and the basis of preparation and accounting policies set out in the Statement of Accounting Policies. The Regulatory Accounts have been prepared for the reasons set out in note 2 to the financial statements.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and having regard to the guidance contained in ICAEW Technical Release 02/16AAF (Revised) Reporting to regulators on regulatory accounts. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Regulatory Accounts section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the Regulatory Accounts in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - basis of preparation

We draw attention to the fact that the Regulatory Accounts have been prepared in accordance with a special purpose framework, condition F of the Company's Regulatory Licence, the RAGs issued by the Regulator, the accounting policies set out in the statement of accounting policies and in the case of the regulatory historical cost accounting statements, under the historical cost convention. The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

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 European Union ("IFRS"). Financial information other than that prepared on the basis of IFRS 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.

Our opinion is not modified in respect of this matter.

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

We have nothing to report on going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Condition F6A of the Licence (Directors' certificate of going concern). The Regulatory Accounts and our auditor's report thereon do not comprise part of the other information. Our opinion on the Regulatory Accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Regulatory Accounts audit work, the information therein is materially misstated or inconsistent with the Regulatory Accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Directors' responsibilities

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

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

Auditor's responsibilities

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

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

Our opinion on other matters prescribed by Condition F is unmodified

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

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

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

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

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

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

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 2020 on which we reported on XX June 2020, 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

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

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
26 June 2020