

northern ireland
water



Delivering what matters

Regulatory Accounts 2021/22

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 8 fully outlines the current funding position for the Company and a short summary of this is provided below:

The Board of NI Water accepted the PC21 Final Determination in July 2021, encouraged that the first year of PC21 (2021/22) was fully funded by the Department for Infrastructure and the NI Executive and on the basis of a continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.

Since then, global energy prices have risen to unprecedented levels which created a c.£20m shortfall in Resource DEL in 2021/22. The shortfall was met by DfI in January Monitoring Round however pressures in relation to energy and inflation are expected to prevail into 2022/23 and beyond.

NI Water's Operating Plan and Budget for the 2022/23 year sets out a Resource Cash DEL requirement of £173.2m and a Capital DEL requirement of £282m. This reflects the second year of the PC21 Final Determination (2022/23) adjusted for higher energy costs and higher than forecast inflation. Since then, energy prices have continued to fluctuate and current best estimate of our Resource Cash DEL requirement for 2022/23 is £184m.

DfI Accounting Officer has written to NI Water setting out current arrangements in relation to Resource DEL and Capital DEL planning envelopes for 2022/23 in the absence of budgets being approved by the NI Executive.

- The indicative Resource DEL allocation shared was £107.8m, a £65m shortfall to the 2022/23 Operating Plan and Budget approved by the NI Water Board in January 2022 and a £76m shortfall to the current best estimate.
- The Capital DEL allocation shared was £250m, a £32m shortfall to the 2022/23 Operating Plan and Budget approved by the NI Water Board in January 2022.
- The expectation is that current shortfalls in both Resource Cash DEL and Capital DEL can be successfully bid for in Monitoring Rounds.

DfI has subsequently confirmed full Capital DEL allocation for 2022/23 of £282m to secure necessary investment in Northern Ireland's vital water and wastewater infrastructure. DfI Accounting Officer has provided a letter of assurance to NI Water in relation to the current shortfall in the Resource DEL planning envelope and contingency arrangements that may need to be put in place such that NI Water can continue to trade and meet its liabilities as they fall due for at least 12 months from the date of signing the financial

statements for the year ended 21 March 2022. The letter of assurance provides the confirmation required to enable NI Water to comply with its statutory duties and secure the continued provision of water and wastewater services.

NI Water has access to cash through the new loan note instrument which enables the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027. In addition, the Company has access to a working capital facility of £20m.

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
29 June 2022

HISTORICAL COST FINANCIAL STATEMENTS

Profit and loss account

	Year to 31 March 2022			Year to 31 March 2021		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Turnover	434,164	7,329	441,493	412,533	6,675	419,208
Operating costs	(241,531)	(3,642)	(245,173)	(209,488)	(3,556)	(213,044)
Historical cost depreciation	<u>(91,424)</u>	-	<u>(91,424)</u>	<u>(88,080)</u>	-	<u>(88,080)</u>
Operating profit	101,209	3,687	104,896	114,965	3,119	118,084
Net interest payable	<u>(62,660)</u>	-	<u>(62,660)</u>	<u>(62,362)</u>	-	<u>(62,362)</u>
Profit on ordinary activities before taxation	38,549	3,687	42,236	52,603	3,119	55,722
<i>Taxation on profit on ordinary activities:</i>						
Corporation tax	-	-	-	405	147	552
Deferred tax	<u>(76,278)</u>	-	<u>(76,278)</u>	<u>(11,798)</u>	-	<u>(11,798)</u>
Profit on ordinary activities after taxation	(37,729)	3,687	(34,042)	41,210	3,266	44,476
Dividends	<u>(27,482)</u>	<u>(3,687)</u>	<u>(31,169)</u>	<u>(26,619)</u>	<u>(3,266)</u>	<u>(29,885)</u>
Retained profit for the financial year	(65,211)	-	(65,211)	14,591	-	14,591

Balance sheet

	At 31 March 2022			At 31 March 2021		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Fixed assets						
Tangible assets	3,601,661	-	3,601,661	3,414,428	-	3,414,428
Investments	5,000	-	5,000	5,000	-	5,000
	<u>3,606,661</u>	<u>-</u>	<u>3,606,661</u>	<u>3,419,428</u>	<u>-</u>	<u>3,419,428</u>
Current assets						
Stocks	4,424	-	4,424	4,310	2	4,312
Debtors	82,202	349	82,551	65,229	794	66,023
Cash at bank and in hand	68,490	1,645	70,135	25,136	1,025	26,161
	<u>155,116</u>	<u>1,994</u>	<u>157,110</u>	<u>94,675</u>	<u>1,821</u>	<u>96,496</u>
Creditors: amounts falling due within one year						
Payments received on account	(1,582)	-	(1,582)	(2,128)	-	(2,128)
Trade creditors	(2,815)	(27)	(2,842)	(3,773)	(37)	(3,810)
Taxation and social security	(2,561)	-	(2,561)	(2,419)	-	(2,419)
Other creditors	(20,060)	-	(20,060)	(19,590)	-	(19,590)
Accruals and deferred income	(138,398)	(1,967)	(140,365)	(116,010)	(1,784)	(117,794)
Deferred grants and contributions	(1,090)	-	(1,090)	(1,104)	-	(1,104)
PPP finance lease	(10,699)	-	(10,699)	(8,949)	-	(8,949)
Other provisions	(8,515)	-	(8,515)	(1,735)	-	(1,735)
	<u>(185,720)</u>	<u>(1,994)</u>	<u>(187,714)</u>	<u>(155,708)</u>	<u>(1,821)</u>	<u>(157,529)</u>
Net current liabilities	<u>(30,604)</u>	<u>-</u>	<u>(30,604)</u>	<u>(61,033)</u>	<u>-</u>	<u>(61,033)</u>
Total assets less current liabilities	<u>3,576,057</u>	<u>-</u>	<u>3,576,057</u>	<u>3,358,395</u>	<u>-</u>	<u>3,358,395</u>
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(1,605,279)	-	(1,605,279)	(1,445,962)	-	(1,445,962)
Other creditors	(561,037)	-	(561,037)	(524,499)	-	(524,499)
	<u>(2,166,316)</u>	<u>-</u>	<u>(2,166,316)</u>	<u>(1,970,461)</u>	<u>-</u>	<u>(1,970,461)</u>
Provisions for liabilities and charges						
Deferred tax provision	(299,339)	-	(299,339)	(218,763)	-	(218,763)
Other provisions	(1,349)	-	(1,349)	(1,246)	-	(1,246)
	<u>(300,688)</u>	<u>-</u>	<u>(300,688)</u>	<u>(220,009)</u>	<u>-</u>	<u>(220,009)</u>
Pension liability	<u>(19,898)</u>	<u>-</u>	<u>(19,898)</u>	<u>(48,545)</u>	<u>-</u>	<u>(48,545)</u>
Net Assets	<u>1,089,155</u>	<u>-</u>	<u>1,089,155</u>	<u>1,119,380</u>	<u>-</u>	<u>1,119,380</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	417,465	-	417,465	447,690	-	447,690
	<u>1,089,155</u>	<u>-</u>	<u>1,089,155</u>	<u>1,119,380</u>	<u>-</u>	<u>1,119,380</u>
Shareholder's funds	<u>1,089,155</u>	<u>-</u>	<u>1,089,155</u>	<u>1,119,380</u>	<u>-</u>	<u>1,119,380</u>

These financial statements were approved and authorised for issue by the Board of Directors on 29 June 2022 and were signed on its behalf by:



Sara Venning
Chief Executive

29 June 2022

Statement of total recognised gains and losses

	Year to 31 March 2022			Year to 31 March 2021		
	Appointed business	Non - Appointed business	Total	Appointed business	Non - Appointed business	Total
	£000	£000	£000	£000	£000	£000
Profit for the financial year	(65,211)	-	(65,211)	14,591	-	14,591
Available for sale shares - fair value loss	-	-	-	-	-	-
Actuarial losses recognised in the pension scheme	44,209	-	44,209	(29,609)	-	(29,609)
Deferred tax arising on losses in the pension scheme	(11,052)	-	(11,052)	5,626	-	5,626
Total recognised gains and losses relating to the financial year	(32,054)	-	(32,054)	(9,392)	-	(9,392)

Cash flow statement

	Year to 31 March 2022			Year to 31 March 2021		
	Appointed business £000	Non - Appointed business £000	Total £000	Appointed business £000	Non - Appointed business £000	Total £000
Net cash inflow from operating activities (Note 7(a))	182,859	4,309	187,168	197,146	3,846	200,992
Returns on investments and servicing of finance						
Interest received	1,356	-	1,356	1,525	-	1,525
Interest paid	(46,119)	-	(46,119)	(45,113)	-	(45,113)
Interest element of finance lease	(16,692)	-	(16,692)	(17,521)	-	(17,521)
Net cash outflow from returns on investments and servicing of finance	(61,455)	-	(61,455)	(61,109)	-	(61,109)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	(216,274)	-	(216,274)	(171,998)	-	(171,998)
Additional loan to subsidiaries	-	-	-	(1,097)	-	(1,097)
Repayment of loan from subsidiaries	710	-	710			
Grants and contributions received	2,257	-	2,257	11,076	-	11,076
Disposal of fixed assets	613	-	613	250	-	250
Insurance proceeds	1,120	-	1,120	-	-	-
Net cash outflow from investing activities	(211,574)	-	(211,574)	(161,769)	-	(161,769)
Equity dividends paid to the Shareholder	(27,482)	(3,687)	(31,169)	(26,619)	(3,266)	(29,885)
Cash (outflow) / inflow before management of liquid resources and financing	(117,652)	622	(117,030)	(52,351)	580	(51,771)
Management of liquid resources	(1)	-	(1)	(1)	-	(1)
Cash (outflow) / inflow from management of liquid resources	(1)	-	(1)	(1)	-	(1)
Net cash flow before financing	(117,653)	622	(117,031)	(52,352)	580	(51,772)
Financing						
Loans advanced	170,000	-	170,000	83,000	-	83,000
Capital element of finance lease repayments	(8,994)	-	(8,994)	(8,148)	-	(8,148)
Net cash inflow from financing	161,006	-	161,006	74,852	-	74,852
Net (decrease)/increase in cash	43,353	622	43,975	22,500	580	23,080

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 8 to 107 of the Northern Ireland Water Annual Report and Accounts 2021/22 ('The Annual Report'). Reference should be made to the Directors' report in the Annual Report which provides information on the dividend policy (page 132) and on 'Disclosure of information to auditors' (page 135). The Annual Report also includes The Directors' remuneration report on pages 136 to 142 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 2022.

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, 31 March 2020, 31 March 2021 and 31 March 2022 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.
- Following the launch of the 25-year strategy in September 2019, NI Water submitted its Business Plan for the PC21 Price Control period (April 2021 to March 2027) to the Utility Regulator in January 2020. The PC21 Business Plan is a strong, challenging, and ambitious plan seeking to balance service delivery and consumer interests with continuing efficiency over both the near and longer term;
- The Utility Regulator published the PC21 Final Determination in May 2021 endorsing the proposals outlined in the PC21 Business Plan and adding further challenge in some areas;
- The Board of NI Water accepted the PC21 Final Determination in July 2021, encouraged that the first year of PC21 (2021/22) was fully funded by the Department for Infrastructure and the NI Executive and

*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)

on the basis of a continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.

- Since then, global energy prices have risen to unprecedented levels which created a c.£20m shortfall in Resource DEL in 2021/22. The shortfall was met by Dfl in January Monitoring Round however pressures in relation to energy and inflation are expected to prevail into 2022/23 and beyond.
- NI Water's Operating Plan and Budget for the 2022/23 year sets out a Resource Cash DEL[†] requirement of £173.2m and a Capital DEL requirement of £282m. This reflects the second year of the PC21 Final Determination (2022/23) adjusted for higher energy costs and higher than forecast inflation. Since then, energy prices have continued to fluctuate and current best estimate of our Resource Cash DEL requirement for 2022/23 is £184m.
- Dfl Accounting Officer has written to NI Water setting out current arrangements in relation to Resource DEL and Capital DEL planning envelopes for 2022/23 in the absence of budgets being approved by the NI Executive.
 - The indicative Resource DEL allocation shared was £107.8m, a £65m shortfall to the 2022/23 Operating Plan and Budget approved by the NI Water Board in January 2022 and a £76m shortfall to the current best estimate.
 - The Capital DEL allocation shared was £250m, a £32m shortfall to the 2022/23 Operating Plan and Budget approved by the NI Water Board in January 2022.
 - The expectation is that current shortfalls in both Resource Cash DEL and Capital DEL can be successfully bid for in Monitoring Rounds.
- Dfl has subsequently confirmed full Capital DEL allocation for 2022/23 of £282m to secure necessary investment in Northern Ireland's vital water and wastewater infrastructure.
- Dfl Accounting Officer has also provided a letter of assurance to NI Water in relation to the current shortfall in the Resource DEL planning envelope and contingency arrangements that may need to be put in place such that NI Water can continue to trade and meet its liabilities as they fall due for at least 12 months from the date of signing the financial statements for the year ended 21 March 2022. The letter of assurance provides the confirmation required to enable NI Water to comply with its statutory duties and secure the continued provision of water and wastewater services.

On the basis of the 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 to continue as a going concern.

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

- a new capital loan arrangement which enables the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027 to fund the capital expenditure for the business;

[†] Departmental Expenditure Limits (DEL) are government budgets. The budgets are split between Resource DEL (RDEL) for day-to-day spending and Capital DEL (CDEL) for investment.

2 Accounting policies (continued)

(a) Basis of preparation (continued)

- a £20m working capital facility to 31 March 2023 which will provide access to cash facilities for short-term needs and for unforeseen events/emergency situations;
- the Subsidy Agreement with DfI permits the early drawdown of subsidy in year if the cash is required; and
- Access to transactional banking services under the Northern Ireland Civil Service arrangements established from 1 April 2016.

(b) General

The regulatory accounting policies are based on 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 2022			Year to 31 March 2021		
	Water services £000	Sewerage services £000	Total £000	Water services £000	Sewerage services £000	Total £000
Turnover						
Unmeasured – household	130,334	165,666	296,000	128,664	162,836	291,500
Unmeasured – non household	<u>2,460</u>	<u>2,780</u>	<u>5,240</u>	2,228	2,591	4,819
Total unmeasured	<u>132,794</u>	<u>168,446</u>	<u>301,240</u>	130,892	165,427	296,319
Measured – non household	<u>46,040</u>	<u>27,824</u>	<u>73,864</u>	40,628	23,082	63,710
Total measured	<u>46,040</u>	<u>27,824</u>	<u>73,864</u>	40,628	23,082	63,710
Trade effluent	-	5,262	5,262	-	4,622	4,622
Large user and special agreements	<u>6,463</u>	<u>5,301</u>	<u>11,764</u>	5,953	4,882	10,835
Total trade effluent and large user special agreements	<u>6,463</u>	<u>10,563</u>	<u>17,026</u>	5,953	9,504	15,457
Rechargeable works	53	53	106	67	67	134
Other third-party services	<u>6,940</u>	<u>34,988</u>	<u>41,928</u>	5,538	31,375	36,913
Total third-party services	<u>6,993</u>	<u>35,041</u>	<u>42,034</u>	5,605	31,442	37,047
Total turnover	<u>192,290</u>	<u>241,874</u>	<u>434,164</u>	183,078	229,455	412,533
Operating income and working capital adjustment for the appointed business:						
Historical cost profit on disposal of fixed assets	<u>222</u>	<u>364</u>	<u>586</u>	94	99	193

4a Analysis of operating costs and tangible fixed assets

	Year to 31 March 2022							
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
Direct costs								
Employment costs	3,855	10,233	14,088	4,152	4,632	50	8,834	22,922
Power	21,697	6,703	28,400	8,067	19,401	5,725	33,193	61,593
Hired and contracted services	3,164	12,629	15,793	6,536	2,303	3,259	12,098	27,891
Materials and consumables	5,303	444	5,747	368	959	327	1,654	7,401
Service charges	802	1	803	2	801	291	1,094	1,897
Other direct costs	16	36	52	30	23	-	53	105
Total direct costs	34,837	30,046	64,883	19,155	28,119	9,652	56,926	121,809
General and support expenditure	13,366	13,010	26,376	9,574	15,975	3,496	29,045	55,421
Total functional expenditure	48,203	43,056	91,259	28,729	44,094	13,148	85,971	177,230
Business activities								
Customer services			6,172				5,365	11,537
Scientific services			2,076				1,805	3,881
Other business activities			543				472	1,015
Rates			16,974				11,540	28,514
Doubtful debts			121				130	251
Total operating expenditure less third-party services			117,145				105,283	222,428
Services for third parties			-				-	-
Total PPP unitary charge			11,161				9,551	20,712
Total operating expenditure			128,306				114,834	243,140
Capital costs								
<i>Historical cost depreciation:</i>								
service activities			36,036				55,387	91,423
business activities			1				-	1
Amortisation of grants			(127)				(4,684)	(4,811)
Total capital costs			35,910				50,703	86,613
Total operating costs			164,216				165,537	329,753
Analysis of tangible fixed assets – Historical Cost								
Service activities	316,243	1,039,069	1,355,312	1,230,477	997,189	18,675	2,246,341	3,601,653
Business activities			8				-	8
Total			1,355,320				2,246,341	3,601,661

4b Analysis of operating costs and tangible fixed assets

Year to 31 March 2021								
	Water Services			Sewerage Services				Total £000
	Resource and treatment £000	Distribution £000	Water services subtotal £000	Sewerage £000	Sewage treatment £000	Sludge treatment and disposal £000	Sewerage services subtotal £000	
Direct costs								
Employment costs	3,872	9,887	13,759	4,047	4,483	28	8,558	22,317
Power	10,476	3,686	14,162	5,136	10,302	2,594	18,032	32,194
Hired and contracted services	2,627	12,074	14,701	6,249	2,244	2,409	10,902	25,603
Materials and consumables	5,006	75	5,081	231	628	513	1,372	6,453
Service charges	823	-	823	-	759	280	1,039	1,862
Other direct costs	16	40	56	11	12	-	23	79
Total direct costs	22,820	25,762	48,582	15,674	18,428	5,824	39,926	88,508
General and support expenditure	12,839	14,277	27,116	9,642	13,383	2,672	25,697	52,813
Total functional expenditure	35,659	40,039	75,698	25,316	31,811	8,496	65,623	141,321
Business activities								
Customer services			5,710				4,642	10,352
Scientific services			2,096				1,704	3,800
Other business activities			342				278	620
Rates			16,849				11,460	28,309
Doubtful debts			723				985	1,708
Total operating expenditure less third-party services			101,418				84,692	186,110
Services for third parties			-				-	-
Total PPP unitary charge			10,076				14,052	24,128
Total operating expenditure			111,494				98,744	210,238
Capital costs								
<i>Historical cost depreciation:</i>								
service activities			34,327				53,752	88,079
business activities			1				-	1
Amortisation of grants			(130)				(3,926)	(4,056)
Total capital costs			34,198				49,826	84,024
Total operating costs			145,692				148,570	294,262
Analysis of tangible fixed assets – Historical Cost								
Service activities	293,328	993,202	1,286,530	1,175,801	934,929	17,159	2,127,889	3,414,419
Business activities			9				-	9
Total			1,286,539				2,127,889	3,414,428

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 2022 in respect of infrastructure assets amounted to £11.1m (2021: £11.0m) for water services and £2.7m (2021: £3.2m) 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 2021	551,445	978,727	88,342	1,618,514
Disposals	-	(596)	(291)	(887)
Additions	62,354	31,564	10,900	104,818
At 31 March 2022	613,799	1,009,695	98,951	1,722,445
Depreciation				
At 1 April 2021	(168,977)	(108,931)	(54,066)	(331,974)
Disposals	-	596	291	887
Charge for year	(19,539)	(10,900)	(5,597)	(36,036)
At 31 March 2022	(188,516)	(119,235)	(59,372)	(367,123)
Net book value at 31 March 2022	425,283	890,460	39,579	1,355,322
Net book value at 1 April 2021	382,468	869,796	34,276	1,286,540

Sewerage Services

	Operational Assets £000	Infrastructure Assets £000	Other Assets £000	Total £000
Gross book value				
At 1 April 2021	1,264,964	1,288,911	100,833	2,654,708
Disposals	-	(193)	(609)	(802)
Additions	86,580	69,488	17,798	173,866
At 31 March 2022	1,351,544	1,358,206	118,022	2,827,772
Depreciation				
At 1 April 2021	(384,550)	(84,623)	(57,647)	(526,820)
Disposals	-	193	581	774
Charge for year	(42,336)	(9,199)	(3,852)	(55,387)
At 31 March 2022	(426,886)	(93,629)	(60,918)	(581,433)
Net book value at 31 March 2022	924,658	1,264,577	57,104	2,246,339
Net book value at 1 April 2021	880,414	1,204,288	43,186	2,127,888

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 2021	1,816,409	2,267,638	189,175	4,273,222
Disposals	-	(789)	(900)	(1,689)
Additions	148,934	101,052	28,698	278,684
At 31 March 2022	1,965,343	2,367,901	216,973	4,550,217
Depreciation				
At 1 April 2021	(553,527)	(193,554)	(111,713)	(858,794)
Disposals	-	789	872	1,661
Charge for year	(61,875)	(20,099)	(9,449)	(91,423)
At 31 March 2022	(615,402)	(212,864)	(120,290)	(948,556)
Net book value at 31 March 2022	1,349,941	2,155,037	96,683	3,601,661
Net book value at 1 April 2021	1,262,882	2,074,084	77,462	3,414,428

6 Net debt analysis

	Fixed rate Year to 31 March 2022 £000	Total Year to 31 March 2022 £000	Fixed rate Year to 31 March 2021 £000	Total Year to 31 March 2021 £000
Maturity Profile				
Less than one year	(10,700)	(10,700)	(8,949)	(8,949)
Between one and two years	(22,841)	(22,841)	(20,034)	(20,034)
Between two and five years	(34,261)	(34,261)	(30,051)	(30,051)
Between five and twenty years	(1,548,176)	(1,548,176)	(1,395,877)	(1,395,877)
More than twenty years	-	-	-	-
Total borrowings	<u>(1,615,978)</u>	<u>(1,615,978)</u>	<u>(1,454,911)</u>	<u>(1,454,911)</u>
Cash	67,213	67,213	23,859	23,859
Short term deposits	1,278	1,278	1,277	1,277
Net debt at 31 March	<u>(1,547,487)</u>	<u>(1,547,487)</u>	<u>(1,429,775)</u>	<u>(1,429,775)</u>

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

	Year to 31 March 2022 £000	Year to 31 March 2021 £000
Historical cost operating profit	101,209	114,964
Movement in working capital	(19,199)	11,878
Historical cost depreciation	91,424	88,080
Historical cost profit on sale of fixed assets	(585)	(193)
Other non-cash items		
Amortisation of deferred grants and contributions	(4,811)	(4,056)
Excess of pension payments over FRS17 charge	8,026	(11,372)
Movement in provisions and creditors greater than 1 year	6,795	(2,155)
Net cash inflow from operating activities	<u>182,859</u>	<u>197,146</u>

7b Analysis of net debt

	1 April 2021 £000	Additions** £000	Cash flows £000	Non cash* changes £000	31 March 2022 £000
Cash at bank and in hand	23,859	-	43,354	-	67,213
Deposits and investments	1,277	-	1	-	1,278
	25,136	-	43,355	-	68,491
Debt due within one year	(8,949)	-	-	(1,751)	(10,700)
Debt due after one year (including PPP liability)	(1,445,962)	(61)	(161,006)	1,751	(1,605,278)
Total	<u>(1,429,775)</u>	<u>(61)</u>	<u>(117,651)</u>	<u>-</u>	<u>(1,547,487)</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) 1.04, this note is compiled using figures assumed in setting prices during the Price Control (PC) process. Figures in the year to 31st March 2022 are therefore consistent with figures contained within the Water and Sewerage Service Price Control 2021-2027 (PC21) published by the Utility Regulator in May 2021.

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 2022	At 31 March 2021
	£'m	£'m
Prior Year Closing RCV	2,611.2	2,672.4
Indexation and other adjustments	148.2	35.1
Opening RCV	<u>2,759.4</u>	<u>2,707.5</u>
Capital expenditure	162.6	140.3
Infrastructure renewals expenditure	26.1	27.1
Infrastructure renewals charge	(26.1)	(27.1)
Grants and contributions	(13.6)	(6.7)
Depreciation (including capital grants)	(76.1)	(61.6)
Disposal of assets	(0.7)	(1.4)
Closing RCV (pre regulatory adjustments)	<u>2,831.6</u>	<u>2,778.1</u>
Regulatory adjustments	-	(166.9)
Closing RCV (post regulatory adjustments)	<u>2,831.6</u>	<u>2,611.2</u>
Average RCV	<u>2,721.4</u>	<u>2,641.8</u>
Regulatory Adjustments for the PC15 period	£'m	
i) Logging up/ (down)	(100.4)	
ii) Asset disposals	4.3	
iii) Depreciation of capital grants	(39.1)	
iv) Indexation and return	(31.7)	
Total PC15 Regulatory Adjustments	<u>(166.9)</u>	

The PC21 Final Determination includes a number of regulatory adjustments within the roll forward of the PC15 RCV at 31st March 2021. These adjustments are set out in the Utility Regulator's PC21 Final Determination 'Annex A - Financing Investment'. Similar adjustments for the PC21 period will be included at 31st March 2027.

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 2022 £000	Year to 31 March 2021 £000
Brexit related expenditure	-	354
Covid-19 pandemic costs	400	5,730
Business improvement programme	1,300	1,026
Voluntary Early Retirement / Voluntary Severance schemes	800	1,100
PPP performance deductions	(2,200)	(678)
Balance of 2019-20 RPDM & UR credit accruals increased in 2020-21	(200)	332
Major incidents from various incidents including demand Surge, Killyhevlín & Drought Mitigation	1,300	660
Additional pension costs in 2021-22 relating to McCloud pension judgement	600	2,100
Total	<u>2,000</u>	<u>10,624</u>

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 ("Regulatory Accounts") of Northern Ireland Water Limited ("the Company") for the year ended 31 March 2022 as set out on pages 4 to 18 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 set out in note 2.

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 Regulatory Accounts.

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, the terms of our engagement letter dated 29 June 2022, 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, being 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 Regulatory Accounts 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 Regulatory Accounts ("the going concern period").

In auditing the Regulatory Accounts, we have concluded that the director's use of the going concern basis of accounting in the preparation of the Regulatory Accounts is appropriate.

In our evaluation of the director's 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date when the Regulatory Accounts are authorised for issue.

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.

Detecting irregularities including fraud

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the Regulatory Accounts and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the directors. In addition, our risk assessment procedures included: inquiring with the directors as to the Company's policies and procedures regarding compliance with laws and regulations and prevention and detection of fraud; inquiring whether the directors have knowledge of any actual or suspected non-compliance with laws or regulations or alleged fraud; inspecting the Company's regulatory and legal correspondence; and reading Board and audit committee minutes.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

The Company is subject to laws and regulations that directly affect the regulatory accounts including companies and financial reporting legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items, including assessing the financial statement disclosures and agreeing them to supporting documentation when necessary.

The Company is not subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the regulatory accounts.

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

Detecting irregularities including fraud (continued)

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations to inquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the regulatory accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the regulatory accounts, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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 in accordance with the special purpose basis of preparation and accounting policies as set out in note 2 to the Regulatory accounts; determining that the basis of preparation is acceptable in the circumstances; 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 2022 on which we reported on 29 June 2022, 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

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

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

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

06 July 2022