



# Independent Review of Northern Ireland Water's Resource Budgeting

**Department for Infrastructure**

**June 2025**



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# Glossary

<b>Term</b>	<b>Acronym</b>
Arm's Length Body	ALB
Capital Departmental Expenditure Limit	CDEL
Chief Executive Officer	CEO
Department for Infrastructure	The Department
Department of Finance	DoF
Departmental Expenditure Limit	DEL
Government-Owned Company	GoCo
Managing Public Money Northern Ireland	MPMNI
Mid-Term Review	MTR
Memorandum of Understanding	MOU
Non-Departmental Public Body	NDPB
Non-Executive Director	NED
Northern Ireland Environment Agency	NIEA
Northern Ireland Water Limited	NIW or the Company
Price Control	PC
Public Private Partnerships	PPP
Resource Departmental Expenditure Limit	RDEL
Shareholder Unit	SU
Utility Regulator for Northern Ireland	UR
The Water and Drainage Policy Division	WDPD
The Water and Sewerage Services (NI) Order 2006	The Order

# 1. Introduction

- 1.1. On 11 March 2025, the Chair of Northern Ireland Water Limited (“NIW” or “the Company”) formally wrote to the Department for Infrastructure (“DfI”, “you” or “the Department”) to advise that the Board of NIW *“has formed the opinion that it cannot deliver core services in a safe manner within current allocations from DfI. Accordingly, the Board has determined that the [Chief Executive Officer (“CEO”)] should be directed to overspend against the [resource] budget allocation”* for the financial year ended 31 March 2025, unless its request for a further resource allocation, or an authorisation to overspend up to £5m was granted. NIW subsequently advised DfI that the projected overspend would be £2.3m.
- 1.2. As NIW was unable to give the Department assurance that it would not breach its resource budget allocation and therefore risk an unauthorised overspend, on 25 March 2025, the Minister for Infrastructure announced to the Northern Ireland Assembly the decision to appoint a forensic accountant to undertake an independent review of how NIW managed its resource budget during the 2024-25 financial year. The Minister also confirmed an additional allocation to NIW of £3m resource budget for 2024-25.
- 1.3. The Department published Terms of Reference (“ToR”) for forensic accounting services which included both the objectives of the review and related scope of work. The Department subsequently engaged PricewaterhouseCoopers LLP (“PwC”, “we”, “our” or “us”) by our Letter of Engagement dated 11 April 2025, which sets out the contractual terms of our engagement, to undertake the review.
- 1.4. This review, as highlighted in the ToR, was to be completed over a condensed, 6-week timeline.
- 1.5. You told us that while the regulatory and statutory environment within which NIW operates is relevant context, neither form part of the scope of work. Similarly, consideration of the current or any alternative funding models of NIW is also excluded from the scope of work.

## Objectives

- 1.6. The primary objectives of the review, for the financial year ended 31 March 2025, per the ToR, are as follows:
  - i. Undertake a fact-finding investigation to provide an independent assessment of NIW profiling and resource expenditure; **[See Section 6]**
  - ii. Assess and comment on the underlying decisions leading to the overspend **[See Section 5]** and whether alternative options were available to avoid breaching the budget which could have been taken earlier in the financial year; **[See Section 6]**

- iii. Consider the decision-making process on spending options; [**See Section 7**]
- iv. Comment on any actual or potential areas of non-compliance with Managing Public Money (NI) identified during the investigation; [**See Section 7**] and
- v. Examine any associated corporate governance issues arising within the scope of the work carried out [**See Section 7**].

## Methodology

- 1.7. In line with the ToR, to undertake the work, we:
  - Reviewed NIW financial management reports, both internal and external, including the Operating Plan and Budget;
  - Analysed Company financial reports and data, including nominal ledger data, and relevant supporting documentation; and
  - Conducted interviews with key personnel involved in financial management, including NIW’s Chair, the Non-Executive Directors (“NEDs”), Executive Team and the Department (including Shareholder Unit).
- 1.8. We requested and were also provided with other relevant documentation including: 1) Board packs and associated minutes for the NIW Board, the Executive Team, and the three Board Committees; 2) all relevant letters both to and from the Department on matters relating to RDEL during the financial year; and 3) profiling returns and monitoring round submissions to the Department.
- 1.9. In our Letter of Engagement, we agreed to issue an interim report, in draft, outlining our findings and any recommendations for further work, which was to be provided to NIW for comment on any factual inaccuracies identified before the report is finalised. The same factual accuracy check was performed by DfI in advance of finalisation of the report. No additional documentation was provided or reviewed as part of this process.

## Limitations

- 1.10. This document has been prepared only for the Department and solely for the purpose and on the terms agreed with DfI. It should not be shared with any other party without our prior written consent. We accept no liability (including for negligence) or responsibility to any third party, including for the avoidance of doubt, NI Water or anyone else in connection with this document and the publication.

- 1.11. The disclosure and publication of the report is entirely at the Department’s discretion. By giving our consent to the disclosure and publication of the report, we do not accept any duty of care and deny any liability to the Department in connection with such disclosure and publication.
- 1.12. We have not carried out anything in the nature of an audit nor, except where otherwise stated, have we subjected the financial or other information contained in this report to checking or verification procedures. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of the information in this report, except where otherwise stated.
- 1.13. To the extent that our report touches on points of law it should not be taken as expressing a legal opinion or providing legal advice.
- 1.14. If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.
- 1.15. The remainder of our report is set out under the following headings:

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## 2. Background

### Corporate structure of NIW

- 2.1. Formerly an executive agency of the Northern Ireland government, on 1 April 2007 NIW was incorporated as a limited company to provide water and sewerage services to Northern Ireland. As a government-owned company (“GoCo”) its shares were allotted to, and remain wholly owned by, the Department.
- 2.2. At the time of incorporation, the intention was for the Company to operate as a regulated utility with an independent income stream from customer charging, operating at arm’s length from government. Due to the deferral of the introduction of domestic water charges in Northern Ireland, a government subsidy was paid, and continues to be paid, to the Company in lieu of customer charges. As a result, in 2008, NIW was classified<sup>1</sup> as a non-departmental public body (“NDPB”) for the purposes of public expenditure due to its majority public funding (almost 75% of its revenues).
- 2.3. NDPB status means that NIW does not have the freedoms and flexibilities normally available to a company. For example, it cannot hold reserves to deal with unexpected costs or raise its own capital, and it *“has no end-year flexibility, so it must arrange its resource departmental expenditure limit [known as “RDEL”<sup>2</sup>] and capital departmental expenditure limit [known as “CDEL”<sup>3</sup>] budgets to ensure that there is no overspend and that there is a minimum of underspend”*.<sup>4</sup>
- 2.4. The Water and Sewerage Services (NI) Order 2006 (“the Order”) appointed NIW as the sole water and sewerage undertaker for the whole of Northern Ireland from 1 April 2007 (Articles 13, 18 and 19). NIW’s principal duties under the Order are to develop and maintain an efficient and economical system of water supply, and to provide, improve and maintain a public sewerage network to accept and deal with sewage effluent.
- 2.5. While the Order imposes obligations on NIW for the provision of water and sewerage services, the standards to which these are provided is independently governed by the Northern Ireland Authority for Utilities Regulation (“UR” or “the Regulator”) under an Operating Licence.

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<sup>1</sup> By the Office of National Statistics

<sup>2</sup> RDEL (Resource Departmental Expenditure Limit) funding is a specific type of government funding allocated for day-to-day operational and administrative expenses. It covers costs like salaries, utilities, and other recurring expenses needed to maintain operations.

<sup>3</sup> RDEL funding is distinct from Capital DEL (CDEL), which is used for investments and long-term assets.

<sup>4</sup> Quoted from Committee for Regional Development - Northern Ireland Water Governance and Funding: Ministerial Briefing 8 May 2013

- 2.6. Article 6 of the Order lists the separate statutory functions of the Department and the UR in relation to the regulation of the water industry in Northern Ireland. Clause 1 states “(1) This Article shall have effect for imposing duties on the Department and the Authority [the UR] as to when and how they should carry out the following functions—(a) in the case of the Department, its functions under the provisions of this Order relating to the regulation of relevant undertakers; and (b) in the case of the Authority, its functions under the provisions of this Order relating to— (i) the regulation of relevant undertakers; (ii) the financial conditions of requisitions; or (iii) the movement of certain pipes.”
- 2.7. Clause 2 continues: “(2) The Department or, as the case may be, the Authority [the UR] shall carry out the functions mentioned in paragraph (1) in the manner that it considers is best calculated [...] (b) to secure that the functions of a water undertaker and of a sewerage undertaker are properly carried out as respects every area of Northern Ireland; and (c) to secure that companies holding appointments under Chapter I of Part III as relevant undertakers are able to finance the proper carrying out of the functions of such undertakers”.
- 2.8. Accordingly, NIW, as the sole undertaker under the Order, provides clean water services to approximately 920,000 customers and wastewater services to approximately 750,000 customers in Northern Ireland each year<sup>5</sup>. As discussed at paragraph 2.2 above, only businesses in Northern Ireland are directly charged for water and wastewater services; there remain no water charges for domestic customers. NIW’s operating costs are therefore partially offset by the income it receives from non-domestic customers each year; the remaining gap is funded through the subsidy provided by the Department, in lieu of domestic charging.
- 2.9. NIW uses Public Private Partnerships (“PPP”) for various infrastructure projects, including, historically, ‘Project Alpha’ for bulk water supply and ‘Project Omega’ for wastewater treatment. Project Alpha was a PPP between NIW and Dalriada Water Limited, and in 2017, was fully acquired by NIW to bring back into NIW ownership all clean water production in Northern Ireland.
- 2.10. NIW currently has three subsidiary companies: NI Water Clear Limited, Dalriada Water Limited and Northern Ireland Water Alpha Limited. All financial analysis in this report is presented at Group level, aligning with NIW’s annual reports, except for the analysis of nominal ledgers reviewed in Section 6.

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<sup>5</sup> <https://www.niwater.com/siteFiles/resources/2024/annual-report/pdf/About-NIW.pdf>

## RDEL allocations and spend under PC21 to date

- 2.11. NIW receives a significant budget allocation each year from the Department, by departmental budget allocation. For the financial year ended 31 March 2025, the total allocation to NIW for both RDEL and CDEL represented just under 40% of the total non-ring-fenced budget for the Department.
- 2.12. The Minister, when answering assembly questions in March 2025, highlighted how the Department has “*fully funded NI Water for the first three years of the current price control (PC) period [2021 to 2024] to the level that the Utility Regulator deemed necessary*”.
- 2.13. In November 2023, the Department informed NIW that it should be planning for a ‘Reasonable Worst-Case Scenario’ as RDEL funding would be constrained going forward. The NIW Annual Report & Accounts 2023/24 notes that the “*reasonable worse-case scenario*” was £138m, £145m and £145m of RDEL funding respectively for each of the three remaining years of PC21.
- 2.14. The annual Executive monitoring process provides a system for reviewing spending plans for each of Northern Ireland’s Departments. There are normally three formal monitoring rounds each year in June, October and January when Ministers can bid for additional funding to deal with financial pressures. These monitoring rounds have been used historically by NIW to request additional funding from the Department to help address potential funding (both RDEL and CDEL) shortfalls.
- 2.15. Summarised in the table below, there has been an increase from the Department’s opening to closing RDEL allocation in each of the current price control years, due to successful bids for additional funding through these monitoring rounds.

Table 1: RDEL Allocation from the Department for years 2021 - 2025

<b>RDEL Allocation from the Department</b>	<b>2021 / 2022 £m</b>	<b>2022 / 2023 £m</b>	<b>2023 / 2024 £m</b>	<b>2024 / 2025 £m</b>
Department Opening Allocation	120.30	121.40	145.15	137.73
Department Final Allocation	148.56	173.30	172.00	155.40
<b>Increase</b>	<b>28.26</b>	<b>51.90</b>	<b>26.85</b>	<b>17.67</b>

- 2.16. In the financial year ended 31 March 2025, £17.67m of additional funding was provided by the Department during the year. Over the current price control period (PC21), the average additional mid-year RDEL funding provided by the Department was £31.17m. This includes general additional funding provided through monitoring rounds and additional funding for specific ring-fenced purposes i.e. an additional £2.934m was provided on 25 February 2025 for additional costs related to Storm Eowyn.

- 2.17. In advance of each financial year, NIW begins working on its internal budget, the ‘Operating Plan and Budget’. This document is designed to underpin and support each year of the price control period. From discussions with the Board, the Operating Plan and Budget is *“built from the ground up each year incorporating trend analysis on cost drivers and the assumptions from PC21”*.
- 2.18. For the financial year ended 31 March 2025, after Depreciation, NIW’s largest cost was for Hired and Contracted Services (inc. PPP) (£88.7m), followed by Staff (£86.1m) and Power (£59.4m). Both the PPP cost (within Hired and Contracted Services) and Power are driven primarily by factors outside of NIW’s control.
- 2.19. PPP relates to NIW’s current or historic PPP contracts to supply clean water and treat wastewater. Both cost categories are heavily impacted by the weather. Reduced levels of rainfall, for example, will result in lower wastewater flows at the treatment works which in turn means a lower PPP unitary charge as it is calculated on purely volumetric basis. It can also increase the non-domestic income that NIW receives as businesses need to purchase additional water (particularly in the case of farmers). Both factors would reduce the forecasted RDEL requirement. Additionally, NIW is Northern Ireland’s largest energy consumer meaning it is particularly sensitive to the price volatility in the global energy and commodity markets which drive Power costs.
- 2.20. As the Operating Plan and Budget incorporates significant assumptions on both energy prices and the weather outturn, among other cost drivers, the forecasted RDEL requirement therefore fluctuates throughout the year as assumptions are realised. This can increase or decrease the forecasted RDEL requirement, in addition to any other cost savings or cost efficiencies made by the Company.

2.21. Table 2 below highlights the opening RDEL position, as budgeted by NIW and by the Department respectively for the first four years of PC21, and the closing RDEL outturn position for the same four-year period:

Table 2: Opening RDEL Position for financial years 2021 - 2025

<b>RDEL Opening Position</b>	<b>21/22 £m</b>	<b>22/23 £m</b>	<b>23/24 £m</b>	<b>24/25 £m</b>
PC21 RDEL requirement <sup>6</sup>	122.00	120.80	119.70	170.50
NIW Operating Plan and Budget	132.40	184.00	215.30	178.90
Departmental Opening Allocation	120.30	121.40	145.15	137.73
NIW Final Outturn	148.47	171.63	171.91	153.80
Departmental Final Allocation <i>(inclusive of ring-fenced additional funding)</i>	148.56	173.30	172.00*	155.40**
<b>Variance between Operating Plan and Budget requirement and final outturn</b>	<b>16.07</b>	<b>(12.37)</b>	<b>(43.39)</b>	<b>(25.10)</b>

\*Includes £26m of additional funding to regularise wastewater costs

\*\* Includes allocation of £3m on 27 March 2025 to cover the RDEL overspend, which was subsequently less than advised and resulted in a £1.6m easement

2.22. As shown in **Table 2**, other than the first year of PC21 (2021-2022), NIW's opening budget position reduced significantly during each of the later three years, by £12.37m, £43.39m, and £25.10m respectively against the final yearly outturn position. Discussed further in **Section 7 – Decision-making by the Board**, these movements are largely driven by a combination of factors including the impact of uncontrollable factors such as weather or global commodity prices, revisions to assumptions that have moved with the passage of time and by management decisions to reduce certain costs.

## Price control

2.23. Under the current regulatory model, the UR sets the maximum prices that NIW can charge for its services within a particular time period known as a price control period, in addition to the mandatory outputs NIW is required to achieve for service standards. The UR also plays a key role in reviewing and scrutinising NIW's annual cost projections to deliver its outputs.

2.24. All regulatory obligations are formalised through a Price Control Final Determination, with the most recent, PC21, published in May 2021 to cover the six years from 2021 to 2027.

<sup>6</sup> 21/22, 22/23 and 24/25 PC21 RDEL requirements reflect the FD – Nominal OBR Mar 21 figures for RDEL, 24/25 reflect the MTR – Nominal OBR Mar24, adjusted for inflation. <https://www.uregni.gov.uk/files/uregni/documents/2024-09/UR%20PC21%20MTR%20Final%20Determination%2001.00%20Final.pdf>

- 2.25. The Price Control Final Determination: 1) establishes the funding required by NIW to meet the Department’s priorities contained within its Social and Environmental Guidance; 2) requires NIW to deliver enhanced regulatory outputs, continued investment, improvements in service and efficiencies; and 3) aims to ensure value for money for consumers and determine how much NIW is allowed to charge non-domestic consumers.
- 2.26. There is a Memorandum of Understanding (“MOU”) in place between the Department and the UR which sets out several matters that will be agreed between the Department and the Regulator in writing, including procedures for dealing with alterations to funding. The Consequent Written Agreement deals with these matters.
- 2.27. The Consequent Written Agreement states that the appropriateness of NIW’s funding (and of related regulatory matters) will normally be reviewed at the time of the annual monitoring rounds. This review will consider issues relating to the current year and, where appropriate, future years. The review will be based on a reasoned submission from NIW and present the net funding position including details of subsidy, PE accounting, statutory and regulatory accounting, and provide reconciliation between these. An assessment of the impact on outputs should be included in all submissions.
- 2.28. Further, the Regulator and the Department will review NIW’s reasoned submission and agree proposals affecting NIW’s funding, subject to the Minister’s and Executive’s overall decisions and to the Regulator’s statutory duties.
- 2.29. A Mid-Term Review was included in PC21 to provide an opportunity for consideration of any material changes associated with the uncertainty that existed when PC21 was first published. Recognising an “*unprecedented increase in NI Water’s power costs*”, the UR’s Mid-Term Review Final Determination was published on 30 September 2024, which, as a result, determined an average tariff increase of 4.5% in each of the last two years of the PC21 period.
- 2.30. One driver of increasing power costs has been the impact of the Russia / Ukraine war on the global energy and commodities market from early 2021; NIW’s power costs increased by 33% from the first to second year of the current price control period (PC21).

## **Managing Public Money NI**

- 2.31. Managing Public Money NI (“MPMNI”) is the key guidance document setting out the principles for the proper handling and reporting of public money used by Government departments and their ALBs in Northern Ireland.

2.32. Section 4.5.2 of MPMNI states *“Each public sector organisation shall run efficient systems for managing payments. It shall also keep its use of public resources within the agreed budgets, take the limits into account when entering into commitments, and generally ensure that its spending profile is sustainable.”*

## Partnership Agreement with DfI

2.33. The Water and Drainage Policy Division<sup>7</sup> (“WDPD”) within the Department, is responsible for advising the Minister<sup>8</sup> on policy in relation to the water and sewerage industry and for discharging the Department’s statutory and other duties under the Order. WDPD also acts as the Shareholder (“Shareholder Unit” or “SU”) to ensure that the Department’s investment in NIW is protected.

2.34. There is a Partnership Agreement<sup>9</sup> in place between NIW and the Department which sets out the partnership arrangements and overall governance framework including the roles and responsibilities of each party. The Partnership Agreement is underpinned by the five principles of Leadership, Purpose, Assurance, Value and Engagement, as set out in the ‘NI Code of Good Practice: Partnerships between Departments and Arm’s Length Bodies’.

2.35. Section 4.3 states that *“NI Water is required to follow the principles, rules, guidance and advice in Managing Public Money Northern Ireland (MPMNI) subject to the derogations in Annex 3. A list of other applicable guidance and instructions, which NI Water is required to follow, is set out in Annex 7”.*

2.36. The Partnership Agreement states that while NIW is classified as a NDPB, it does not carry out its function on behalf of the Crown. Accordingly, as NIW is both a GoCo and NDPB, like other GoCos, the Company, its Officers and its Directors do not have Crown immunity and can be prosecuted for breaching any of its duties under the various regulatory statutes, in addition to the conditions under its Operating License.

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<sup>7</sup> <https://www.infrastructure-ni.gov.uk/articles/about-water-and-drainage-policy-division>

<sup>8</sup> Liz Kimmins was appointed Minister for Infrastructure on 3 February 2025 replacing John O’Dowd.

<sup>9</sup> <https://www.niwater.com/siteFiles/resources/pdf/2023/PartnershipAgreementbetweenDfIandNIWaterNov2022Final.pdf>

- 2.37. NIW's Chair and Non-Executive Directors ("NEDs") are appointed by the Minister for Infrastructure. Section 5.3 of the Partnership Agreement states that the Board will *"take appropriate measures to ensure that NI Water at all times conducts its operations as economically, efficiently and effectively as possible, with full regard to the relevant legislative provisions and guidance contained in MPMNI"*. Continuing at Section 5.4, *"Individual Board members will act in accordance with their wider responsibilities as members of the Board, namely to: comply at all times with all legislation including but not limited to Companies Legislation, the Licence, the FRC Code where appropriate, the Government Code where appropriate and with the rules and guidance relating to the use of public funds"*.
- 2.38. The CEO of NIW is responsible for all executive management matters affecting the Company and is the designated Accounting Officer. Section 9 of the Partnership Agreement states, *"As Accounting Officer the Chief Executive is responsible for safeguarding the public funds in their charge and ensuring they are applied only to the purposes for which they were voted and more generally for efficient and economical administration"*. They must *"ensure that all public funds made available to NI Water (including any income or other receipts) are used for the purpose intended by the Assembly, and that such monies, together with NI Water's assets, equipment and staff resources, are used economically, efficiently and effectively"*.
- 2.39. The Board is responsible for holding the CEO accountable for the management of the organisation and the delivery of agreed plans and outcomes (Section 5.6).
- 2.40. Throughout the year, the Department monitors the performance of NIW against a suite of targets. The SU has regular working meetings with NIW across the year including the bi-annual Shareholder Meeting. NIW also submits monthly profiling returns to the Department which include expenditure reporting and forecast outturn against public expenditure lines in order to facilitate reports to the Department of Finance. Annex 9 of the Partnership Agreement outlines the monitoring process.

## **Director's Duties and other statutory responsibilities**

- 2.41. Under condition 6A.2A of the Operating Licence, NIW must submit a certificate to the UR stating that *"in the opinion of the Directors the Appointee [NIW] 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."*
- 2.42. NIW is regulated by both the Northern Ireland Environment Agency ("NIEA") and the Drinking Water Inspectorate ("DWI") who have powers to enforce environmental compliance. There are duties for both NIW and its Board contained within the Urban Wastewater Treatment Regulations (NI) 2007, the Water Environment (Water Framework Directive) Regulations (NI) 2017, and the Water (NI) Order 1999.

2.43. There are also statutory duties of Directors owed to the Company contained in Sections 171 to 177 of the Companies Act 2006. These include the duty to exercise independent judgement, the duty to exercise reasonable care, skill and diligence, and the duty to promote the success of the Company for the benefit of its members as a whole, having regard, inter alia, to the likely consequences of any decision in the long term.

### 3. Executive Summary

- 3.1. On 11 March 2025, the Chair of Northern Ireland Water Limited (“NIW” or “the Company”) formally wrote to the Department for Infrastructure (“DfI” or “the Department”) to advise that the Board of NIW *“has formed the opinion that it cannot deliver core services in a safe manner within current allocations from DfI. Accordingly, the Board has determined that the [Chief Executive Officer (“CEO”)] should be directed to overspend against the [resource] budget allocation”* for the financial year ended 31 March 2025. The letter also stated that it was *“very much hoped by the Board that such a direction would not be necessary”* and in this context, referenced the Chair’s letter to the Permanent Secretary on the same date requesting further RDEL allocation, or an authorisation to overspend up to £5m.
- 3.2. As NIW was unable to give the Department assurance that it would not breach its resource budget allocation and therefore risk an unauthorised overspend, on 25 March 2025, the Minister for Infrastructure announced to the Northern Ireland Assembly the decision to appoint a forensic accountant to undertake an independent review of how NIW managed its resource budget during the 2024-25 financial year.
- 3.3. The Department published Terms of Reference (“ToR”) for forensic accounting services which included the objectives of the review. These are as follows:
  - Undertake a fact-finding investigation to provide an independent assessment of NIW profiling and resource expenditure;
  - Assess and comment on the underlying decisions leading to the overspend and whether alternative options were available to avoid breaching the budget which could have been taken earlier in the financial year;
  - Consider the decision-making process on spending options;
  - Comment on any actual or potential areas of non-compliance with Managing Public Money (NI) identified during the investigation; and
  - Examine any associated corporate governance issues arising within the scope of the work carried out.
- 3.4. The Department subsequently engaged PricewaterhouseCoopers LLP to undertake the review.

## Background

- 3.5. NIW was incorporated as government-owned company (“GoCo”) to provide water and sewerage services to Northern Ireland. Due to the deferral of the introduction of domestic water charges in Northern Ireland, a government subsidy was paid, and continues to be paid, to the Company in lieu of customer charges. As a result, in 2008, NIW was classified<sup>10</sup> as a non-departmental public body (“NDPB”) for the purposes of public expenditure due to its majority public funding.
- 3.6. NDPB status means that NIW does not have the freedoms and flexibilities normally available to a company. For example, it cannot hold reserves to deal with unexpected costs or raise its own capital, and it *“has no end-year flexibility, so it must arrange its resource departmental expenditure limit [known as “RDEL”<sup>11</sup>] and capital departmental expenditure limit [known as “CDEL”<sup>12</sup>] budgets to ensure that there is no overspend and that there is a minimum of underspend”*.<sup>13</sup>
- 3.7. The annual Executive monitoring process provides a system for reviewing spending plans for each of Northern Ireland’s Departments. These monitoring rounds have been used historically by NIW to request additional funding from the Department to help address potential funding (both RDEL and CDEL) shortfall.
- 3.8. There is a Partnership Agreement<sup>14</sup> in place between NIW and the Department which sets out the partnership arrangements and overall governance framework including the roles and responsibilities of each party. Section 4.3 states that *“NI Water is required to follow the principles, rules, guidance and advice in Managing Public Money Northern Ireland (MPMNI) subject to the derogations in Annex 3”*. Annex 3 states that the *“arrangements [for derogation] are consistent with the [Department of Finance (“DoF”)] model document in most respects except where there are conflicts resulting from NI Water’s need to comply with the requirements of Companies Legislation.”*
- 3.9. MPMNI is the key guidance document setting out the principles for the proper handling and reporting of public money used by Government departments and their ALBs in Northern Ireland. It states, *“Each public sector organisation ... shall also keep its use of public resources within the agreed budgets”* (Section 4.5.2).

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<sup>10</sup> By the Office of National Statistics

<sup>11</sup> RDEL (Resource Departmental Expenditure Limit) funding is a specific type of government funding allocated for day-to-day operational and administrative expenses. It covers costs like salaries, utilities, and other recurring expenses needed to maintain operations.

<sup>12</sup> RDEL funding is distinct from Capital DEL (CDEL), which is used for investments and long-term assets.

<sup>13</sup> Quoted from Committee for Regional Development - Northern Ireland Water Governance and Funding: Ministerial Briefing 8 May 2013

- 3.10. For the financial year ended 31 March 2025, the total allocation to NIW for both RDEL and CDEL represented just under 40% of the total non-ring-fenced budget for the Department. The opening allocation for RDEL was £137.73m which increased to £152.4m through additional funding provided mid-year.
- 3.11. Following the Chair’s letter to the Department on 11 March 2025 (as referenced at paragraph 3.1 above), the CEO wrote to the Permanent Secretary on 21 March 2025 highlighting that the RDEL gap was now “*trending [down] towards c£3m*” and requesting an “*update ... in relation to any progress ... to either secure additional RDEL cover or identify activity you would instruct to cease.*” The Minister, on 27 March 2025, approved an additional allocation of £3m to cover the final RDEL funding gap. This increased the Department’s total RDEL allocation for the year to £155.4m.

## Resource Expenditure

- 3.12. NIW receives income from businesses in Northern Ireland who are directly charged for water and wastewater services; there remain no water charges for domestic customers. NIW’s operating costs are therefore partially offset by the income it receives from non-domestic customers each year; the remaining gap is funded through the subsidy provided by the Department, in lieu of domestic charging.
- 3.13. NIW’s operating costs for the 2024-2025 financial year totalled £393.3m, which is an increase of 16.3% (£55.1m) from the start of the current price control (PC21); operating costs increased by 0.2% (£0.8m) from the prior financial year.
- 3.14. After Depreciation, NIW’s largest cost was for Hired and Contracted Services (inc. PPP) (£88.7m), followed by Staff (£86.1m) and Power (£59.4m). Both the PPP cost (within Hired and Contracted Services) and Power are driven primarily by factors outside of NIW’s control. When analysing the nominal ledger transactions for electricity, the volatility of this cost area can be observed in the final quarter of the financial year where costs unexpectedly dropped by 32% (£2.3m) from an in-year high of £7.3m in January 2025 to £5.0m in February 2025. Costs then fell by a further 2% (£0.08m) in March 2025. If these costs had not dropped, the RDEL gap at the end of the year could have been significantly higher, highlighting NIW’s sensitivity to a range of costs, including energy, consumables and service provision.
- 3.15. From the start of PC21, there has been a 59% increase (£12.02m) in ‘Other’ Costs, including a 4% (£1.17m) rise in 2024-2025 from the prior year to £32.4m. The make-up of NIW’s ‘Other’ costs includes expenditure on items such as IT & Comms, Regulatory Charges, Insurance, use of SME’s (including legal services) and Advertising & Publicity. The largest cost category under ‘Other’ is IT & Comms totalling £14.1m (which includes significant project costs in implementing two cloud-based systems), followed by Subject Matter Experts (SME’s), which totalled £5.2m.

- 3.16. There has been a significant decrease of 60% (£0.51m) in Advertising & Publicity from the prior financial year which aligns with decisions made by the Board highlighted in **Section 5 - Reductions to NIW's forecast RDEL requirement**.
- 3.17. The use of professional services (SME and Legal & Professional) also decreased by 7% (£0.37m) and 4% (£0.06m) respectively, from the prior financial year. There was also a small decrease in both Internal Hospitality from £0.045m to £0.044m, and External Hospitality from £0.02m to £0.015m respectively. Offsetting these decreases, however, is a 13% (£0.43m) increase in Regulatory Costs and an increase of 29% (£1.08m) in Insurance & Employer Liability / Public Liability, both areas arguably outside of NIW's control.

## Underlying Decisions Leading to the Overspend

- 3.18. In advance of each financial year, NIW begins working on its internal budget, the 'Operating Plan and Budget'. As this incorporates significant assumptions on both energy prices and the weather outturn, among other cost drivers, the forecasted RDEL requirement therefore fluctuates throughout the year as assumptions are realised.
- 3.19. Over the financial year ended 31 March 2025, the forecasted RDEL requirement reduced from a starting position of £178.9m to a final position of £153.84m, a total reduction of £25.06m.
- 3.20. Informed by discussions with the Board, we reviewed the cost items which moved during the year to provide an indicative view of whether the cost could be considered more likely to be 'controllable', 'uncontrollable', or a 'release of assumptions' informed by the key cost driver. Our findings are as follows:
- We have attributed £14.8m (59%) to reductions driven by controllable factors. The majority of this total is driven by Staff costs (£10.2m) followed by reductions of £1.5m in Other (Travel, Training, Advertising and SME's), £1m in Contractors, £1m in Chemicals, in addition to smaller reductions across Power (£0.6m), and YTD 'wins' (£0.5m);
  - We also attributed £7.95m (32%) of the reduction to a release of assumptions that were built into the Operating Plan and Budget;
  - The cost area which had the highest reduction was Staff with a reduction of £10.95m, the majority of which (£10.2m) is due to controllable factors<sup>15</sup>. This was followed by Power with a net reduction of £7.5m; however, this reduction was largely due to the release of assumptions related to weather and power costs; and

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<sup>15</sup> There are also accruals included in this cost category, the release/settlement of which has also contributed to the reduction, rather than a significant reduction in staff numbers at the Company during the year.

- The net total reduction attributable to majority uncontrollable factors was £2.31m. In keeping with the nature of this cost category however, we note that there were, in fact, £10.31m of reductions that were offset by rising costs, totalling £8m. This demonstrates the environment in which NIW operates and its susceptibility to cost pressures outside of its control.

## Alternative Options

3.21. As set out in detail in Section 4, our review of the available documentation, supported by our interviews with members, indicates that the Board implemented a number of measures to reduce the forecasted RDEL requirement during the year. The areas impacted included chemicals, contractors, staff and power, in addition to recruitment activity, advertising and energy consumption.

3.22. They also considered a number of alternative options that were, however, rejected by the Board as *“these would lead to failure to live within the requirement to provide core services and meet health & safety duties and responsibilities”*. It is not within our area of expertise to be able to comment on the likelihood of individual failures or potential consequences identified by NIW.

3.23. When looking at what alternative options were available to NIW in order to avoid breaching its spending limit we have focused on which categories of spend may be discretionary rather than assessing if there was alternative, more cost-effective option for the same product or service.

3.24. As highlighted above, after Depreciation, NIW’s highest costs are Hired and Contracted Services (inc. PPP), Staff and Power:

- Hired and Contracted Services (inc. PPP) – Regarding PPP specifically, as this is primarily clean water and wastewater services, we understand it is heavily weather dependent and not discretionary. These costs have been impacted by lower levels of rainfall, an uncontrollable factor for NIW. The last six months of the financial year, in fact, being the driest on record since 1953 which has caused an unexpected reduction in costs.
- Staff - One of the more significant costs during the year was the 2023/2024 pay award, amounting to approximately £7.4m which was accrued by the Company in the prior financial year as it was still subject to approval. The non-contractual elements of the award were arguably a discretionary cost: the Department is of the view that NIW could have chosen not to continue with the award (to release the accrual so that funds could be allocated to other costs in the current year), or to further defer or stagger the award (although this would not have had an impact on the financial performance of the Company in 2024/25). This decision was considered by the Board, who decided to proceed given the potential operational and

financial impact of industrial action which was threatened. As such, on this basis, they were of the unanimous view that the payment was not, in reality, discretionary.

- Power – Although the market is actively monitored by NIW, power costs are largely uncontrollable in nature and NIW has now recently received approval from the Department to pursue hedging strategies. This will support NIW to forecast its electricity costs with more certainty over the remainder of the current price control period and better respond to large fluctuations in price.

3.25. NIW's 'Other' costs totalled £32.4m for the financial year. As our work is being conducted over a relatively condensed timeline, the extent of our analysis is, as a result, also limited. Therefore, taking a risk-based approach, we focused our financial analysis to identify potential discretionary spend in the areas of most interest to the Department as discussed at the pre-engagement stage, i.e. the makeup of these 'Other' costs. We therefore sought to identify the top five vendors from the nominal ledger accounts to assess the nature of services being provided and, if possible, identify if there was any potential optionality or variability to the costs incurred.

3.26. Call off contracts provide NIW with flexibility to only order services when there is a business need. Whilst in the time available we have not performed a detailed analysis of business spend under each contract to be able to reach a conclusion, certain costs incurred under these contracts are arguably optional and as such, there may be an element of potential discretion open to NIW not to spend under these contracts. We requested a sample of relevant contract extracts, 21 in total, for those vendors identified with the largest expenditure in five of the ten nominal ledgers. We note the following:

- For eight of the ten nominal ledgers reviewed, over 70% of total expenditure was attributable to the top five vendors, highlighting the limited concentration of spend.
- In total, expenditure of £5.3m, relating to 18 of the 21 contracts we sampled, was incurred under call off contracts.
- In the absence of any other information, our high-level analysis of spend with the top five vendors does suggest elements of discretionary spend on certain nominal ledgers but the amounts identified have been all less than £50k. Acknowledging that RDEL gap was £11.1m as late in the financial year as February 2025, these savings would not have made a significant difference but do point to areas of discretion, however small.

3.27. Acknowledging that there are some potentially discretionary items of expenditure in this area, it would suggest that there may be room for additional cost savings to be made in NIW's 'other' costs, even if the saving is not going to immediately close any RDEL gap that exists. For reference only, if a 5% saving was applied across the nominal ledgers that make up 'other' costs, excluding **Regulatory Costs** and **Insurance & Employer Liability / Public Liability**, a potential further saving of nearly £1.2m could be realised.

## **Corporate Governance (including Managing Public Money (NI))**

3.28. While the NEDs undoubtedly have an awareness of the assumptions built into the Operating Plan and Budget, they do not consider them to be "*generous*". It was highlighted to us by one Board member that they typically set a high probability P80 budget i.e. implying an 80% confidence level that the total RDEL cost would not exceed the Operating Plan and Budget however, as "*it worked out this year, the final budget was less than P50*".

3.29. It is important to note that, despite the wider Government funding challenges in Northern Ireland, for the first three years of the price control period, the Department fully funded NIW's RDEL requirement through a combination of initial budget allocations and successful in-year monitoring bids. However, such fluctuations in the forecasted RDEL requirement make it difficult for both the Department and NIW to prepare an accurate budget with any level of certainty and, in the case of the Department, this has consequences for the allocation of the rest of its departmental budget.

3.30. The Board has expressed its preference for agreeing a budget that effectively shares the risk related to its assumptions with the Department at the start of the funding year. As a NDPB, however, the Department told us the Accounting Officer has a personal responsibility for public funds in their care, and the concept of a shared risk is not consistent with responsibilities under MPMNI or Companies Act. Further, the annual budget should align to the RDEL allocation with all fluctuations in the forecasted RDEL requirement bid for via the established monitoring rounds, like other NDPBs.

3.31. We also reviewed the Board packs that were circulated in advance of each monthly meeting during the financial year. Although there was unanimous consensus that the financial information included in the Board packs was "*absolutely sufficient*" to support effective decision-making, the NEDs are ultimately constrained in their ability to adequately monitor operating costs without a budget aligned with the RDEL allocation from the Department. This is undoubtedly a significant limitation to what, in our view, would otherwise appear to be detailed and substantive financial information.

- 3.32. MPMNI Section 4.1.4 includes key decisions for Boards, noting how they should apply “*scrutiny, challenge and control of significant policies, initiatives and projects*”. Additionally, Section 173 of the Companies Act 2006 states that “*a director of a company must exercise independent judgment*”. The NEDs stated how they had no reservations in challenging the Executive Team about cost-cutting options and could ask “*deep and meaningful questions about the spending of public money*”. Based on the evidence reviewed of additional financial information about specific costs and trends being requested during the year and subsequently provided to the Board by the Executive Team, this is a statement which our review would support.
- 3.33. As part of our review, we conducted interviews with NIW’s Board including the Chair, NEDs and the Executive Team. The Board noted how “*RDEL dominates every Board meeting*” and that they had “*satisfied themselves at a strategic level that the costs are reasonable*”. Our review would indicate that the Board had also satisfied itself that costs were reasonable at an operational level.
- 3.34. As part of these interviews, we asked specifically about the £25.06m reduction between the opening position of the Operating Plan and Budget and the final outturn position. There was a consistent observation that, although relevant data such as rainfall and power costs, was being monitored, the certainty of cost assumptions, or the realisation of many of the cost reductions, is driven largely “*by the passage of time*” as new information is received or as weather ultimately materialises.
- 3.35. On 11 March 2025, as part of an extraordinary meeting, the Board agreed that in light of the RDEL gap at that point in time (c.£5m) that it would be “*necessary to issue a Direction to the CEO to overspend against RDEL allocation to continue to deliver core services in a safe manner*”. It is clear from our conversations with the Board, and from our review of Board minutes and the letters throughout March 2025 that they were fully aware of the implications of this Direction under MPMNI, particularly Section 4.5.2 which states how they “*shall also keep its use of public resources within the agreed budgets*”. One member noted how the “*only remaining option was to seek derogation*” and therefore they initiated the process to “*notify the Department and protect the Accounting Officer [role] under MPMNI*”. There is unanimous agreement from the Board that “*nothing more could have been done*”; it was a “*last resort*” to consider issuing such a Direction.

## Conclusion

### Funding allocations and budget setting

- 3.36. The Department determines the total funds available to the Company as a general allocation amount, based on the previous year’s outturn. It is then for the Accounting Officer/CEO to determine how to spend the budget allocation.

3.37. There is no separate budget created by the NIW Board and Executive team that is made up to the Department's RDEL allocation, rather it prepares its Operating Plan and Budget based on monitoring of the underlying cost drivers and assumptions that support the service delivery requirements of PC21. Fundamentally, NIW does not consider the current allocation from DfI to be sufficient to deliver its core services safely and therefore has stated it would require direction on the reduced outputs to be provided by the DEL allocations to allow full alignment of the respective budgets and against which to track each cost item.

## **Underlying assumptions**

3.38. The assumptions made by NIW to manage the risk of uncontrollable factors to which its business is exposed, result in fluctuations in its forecast RDEL requirement throughout the year as the assumptions materialise. In FY25, based on our analysis, up to £7.95m of the £25.06m (32%) in cost reductions was driven by a release of assumptions.

3.39. The Board highlighted to us the importance of the independently tested price control benchmarks to support them in both assessing and challenging the reasonableness of costs and related assumptions. Although we are not able to comment on individual assumptions, as a process, this would seem to be a reasonable approach taken by the Board. We note, however, that in addition to the significant reduction of £25.06m in FY25, the total forecasted RDEL requirement reduced over the course of the previous two financial years by £12.37m and £43.39m respectively. The Company is hopeful that moving to hedging contracts in FY26 will reduce the volatility in its power cost forecasts and therefore reduce these forecast fluctuations.

## **Alternative options**

3.40. Because two of its biggest costs, PPP and Power, are most exposed to factors outside of NIW's control, options to reduce costs significantly, at least in the short term, are relatively limited. However, NIW also incurs significant amounts of 'Other' costs, mostly related to IT and Comms and the use of SMEs which, in total, increased significantly during the price control period. Our financial review indicated there may be the potential for additional cost savings across the 'Other' cost category, where expenditure totalling £5.3m, relating to 18 contracts, was incurred under call off contracts. Given the nature of these contracts, there may be an element of potential discretion open to NIW not to spend under each of these contracts, decisions which, in theory, could have taken place at any point in the financial year.

- 3.41. We identified limited evidence of targeted cost saving measures to reduce the SME spend under these call off contracts. Of the £25.06m in reductions that occurred this year, there was a cost reduction of £1m described as relating to, “*Other - TBC – assumed mixture of reduction in travel, non-mandatory training, winter advertising campaign, external SME support*”. This is the only reference to reducing SME spend and acknowledging this was grouped with several other items, it is likely the actual cost reduction is much lower than the £1m. Within our scope of work, it has not been possible, however, to assess the business need and therefore quantify the extent of any potential cost savings, if any, in these contracts. Equally, albeit small, there were also certain transactions identified in the nominal ledgers that are potentially discretionary.
- 3.42. Arguably the most substantial discretionary payment made during the year was the 2023 / 2024 pay award of approximately £7.4m (note that c.25% of the pay award was said to be CDEL, rather than RDEL funded). If the Board had decided to not go ahead with the pay award, it would have made a significant difference in reducing the forecast RDEL requirement in 2024/25. The pay award was approved by the Minister on the condition that it was affordable; at the time of the award, however, there was a gap in RDEL funding of c. £7m. Note however, the Board highlighted how, in their opinion, the impact and cost of industrial action, which the Board deemed likely to occur, would far outweigh the cost of the pay award, and there was unanimous agreement to proceed.
- 3.43. Any direction by the Board to overspend without the prior agreement of the Department is technically a breach of MPMNI. A legal opinion would be required to determine whether any intention to overspend, in particular in relation to making the pay award, if the Department did not allocate additional funding to NIW on 27 March 2025, is also a de facto breach of MPMNI.

## Recommendations

- 3.44. We have been told that NIW’s key stakeholders, collectively the Output Review Group (“ORG”), are cognisant of the budget constraints under which the Company is currently operating, both at a capital and resource level. We have also been told that much of the focus of ORG, in recent years, has been on capital, rather than resource funding for NIW.
- 3.45. As the current price control period approaches its end in March 2027 and as planning for the next price control period starts, within the confines of the regulatory process, the ORG should avail of the opportunity to engage on an approach to managing delivery within the available DEL budgets (including for resource expenditure) rather than an approach which is based predominantly on need. This is of particular importance if affordability continues to pose a challenge to service delivery.

3.46. Such an approach would facilitate the preparation by NIW of a budget aligned with the RDEL allocation from the Department, representing the total funds available to the Company. Such a budget is fundamental to NIW being able to adequately monitor its operating costs.

3.47. In addition, given the inevitably short-term focus of the cost-saving initiatives by the Board in FY25, there are longer-term options available to the Company to consider certain costs in a more substantive manner. These would include the following:

- **Baseline operating expenditure** – planning for PC27 is a key opportunity for NIW to thoroughly reappraise and establish its baseline Opex position, challenging the inclusion of each cost to identify cost reduction opportunities across its total operating cost base.
- **Contract Cost Benefit Analysis** – Acknowledging steps already taken by NIW to actively manage supplier spend, a comprehensive exercise could be completed to categorise supplier spend and the nature of the costs under each of the call off agreements (including where there is potential discretion). This analysis could include challenging the costs based on different levers, including Specification, Price, Demand, and Efficiency of spend; and
- **Transactional Testing** – Further work could also be completed to interrogate the actual transactions posted in each of the nominal ledgers to identify potential other ad-hoc items of discretionary spend.

## 4. Timeline of Events

### 2024/2025 financial year

- 4.1. This section of the report provides a high-level overview of 1) the correspondence between NIW and the Department and 2) NIW's discussions internally as a Board regarding RDEL as they occurred throughout the financial year ended 31 March 2025. Information is taken from the Board minutes (including accompanying Board packs), and the letters (or emails provided) both to and from the Department regarding RDEL.

### April 2024 to June 2024 (Quarter 1)

- 4.2. In advance of the start of the financial year, the Operating Plan and Budget for the year ended 31 March 2025 was approved by the Board on 27 February 2024 and submitted to the Shareholder Unit on 1 March 2024. This stated the forecasted RDEL requirement for the 2024-2025 financial year was c.£180m.
- 4.3. On 21 May 2024, the Minister met with NIW's CEO, regarding the indicative budget for 2024-2025. The Minister subsequently wrote to the CEO on 23 May 2024 to confirm that the allocations "*remain indicative at this stage*" but that the RDEL budget for the 2024-2025 financial year was likely to be £137,730,000. In his letter, the Minister noted that "*there is a variable resource cost base and that the Company has been impacted due to the volatility in energy and inflation in recent years. In light of this, it will be important to continue to keep in contact with Departmental officials on cost movements throughout the year*".
- 4.4. On 28 May 2024, a verbal update was shared at NIW's Board meeting about meetings with the Minister for Infrastructure and the Deputy Permanent Secretary about current funding. The Board agreed that a "*holding response*" would be issued to the Department in relation to the 24/25 indicative funding allocation letter with "*a more detailed response to include a revised Operating Plan and Budget by the end of June*". The Board also agreed that NIW should respond to the June monitoring round submission with bids for appropriate RDEL allocations aligned with the current Operating Plan and Budget.
- 4.5. On 29 May 2024, NIW submitted a bid to the Department for an additional £39m of RDEL as part of the June monitoring round. However, this was not successful and no additional funding was provided.

- 4.6. On 30 May 2024 the Minister wrote to the Chief Executives of the UR and NIEA advising of NIW's indicative RDEL budget of £137m, requesting the organisations *“work with NIW to ensure that the best possible outcomes are achieved within the indicative funding allocated”*. The Minister also advised that he was requesting a reasoned submission of how NIW plans to live within budget, and that his officials would be *“happy to assist as necessary in the spirit of partnership working and collaboration.”*
- 4.7. In June 2024 NIW produced a consequences document to demonstrate the potential impact of cessation of wastewater services, including specific examples of the impact, which was subsequently sent to the Department on 2 July 2025 (see paragraph 4.19 below). This was requested by the Board to *“quantify the consequences/impact on the environment of the current funding allocations to include quantitative impact and recovery times if possible”*.
- 4.8. On 20 June 2024, the Board wrote to the Minister expressing concerns about the budget allocation, and how this could impact health and safety protocols. The letter noted that the Board's current assessment is that *“an RDEL allocation of £137.7m can only be done by introducing more risk at a level that is disconcerting to the Board from the Company's perspective as well as from individual Director's perspectives.”*
- 4.9. The letter also noted that NIW *“advised the UR that the Company is unlikely to have adequate resources to enable it to carry out its regulated activities for at least the next 12 months”* which is a *“legal requirement under the Company's operating licence”*.
- 4.10. On 21 June 2024, the Chair wrote to the Permanent Secretary to advise that a limited Internal Audit opinion had been given due to *“the Governance Framework associated with the funding model and mismatch between funding and the current PC21 Regulatory obligations”*. Additionally, regarding the 2023/2024 Annual Report and Accounts, the Chair also advised that the external auditors had confirmed that the overall Audit Opinion is likely to be unmodified (i.e. unqualified) with the inclusion of a section entitled ‘Material Uncertainty Related to Going Concern’ due to the *“current funding position and its ongoing obligation to meet licence conditions”*.
- 4.11. The Chair further acknowledged that the Board understood that a Letter of Assurance from the Department was currently under consideration. The Chair outlined that *“such a letter is important to the Company (and its auditors) as it provides an ability to manage cashflow using the loan note facility and underpins the assessment of “going concern”*.
- 4.12. The Permanent Secretary responded on 21 June 2024 and formally acknowledged as Accounting Officer that *“NI Water is authorised to borrow against its current loan note in order to finance its normal trading activities in 2024-2025, ensuring that expenditure financed by loan funding is covered within its public expenditure budget agreed by the Department”*.

- 4.13. The Permanent Secretary also confirmed that NIW *“will also need to ensure that it is operating as efficiently as possible, with its essential public services continuing to be delivered and business critical projects progressed as far as possible, within its agreed budget allocation”*.
- 4.14. On 24 June 2024 the Minister wrote to NIW regarding the Limited Internal Audit Opinion within the Draft Annual Report for 2023/2024 and requested the Board provide the planned steps to move the opinion back to ‘Satisfactory’.
- 4.15. On 25 June 2024, the Board met and discussed the RDEL allocation of £137.73m and how this may result in cuts in service to meet this budget. The Board also approved proposals to address the funding shortfall by seeking a revised Operating Plan and Budget. In the meeting the Board considered *“in detail a number of proposals to reduce current RDEL requirement from £176m to £161.4m”*. Further options were also considered to meet the £137.73m allocation from the Department however the Board minutes record that the Board having *“considered their legal and licence obligations Members did not recommend the consequential cuts in service in meeting an RDEL allocation of £137.7m and, in particular, the cessation of treatment of wastewater which would amount to a dereliction of duty and would have serious consequences for the Company and, potentially, individual Directors and Officers”*.
- 4.16. On 28 June 2024, the Chair sent a letter to the Minister outlining the steps that the Board is taking to move the Limited Internal Audit Opinion back to ‘Satisfactory’. Regarding RDEL, the letter noted that NIW’s Executive team *“have been examining areas where we could curtail spending to deliver operational savings. These measures were discussed at the NI Water Board on the 25th June and a revised Operating Plan & Budget 2024/25 will be submitted to DfI”*. At the end of Quarter 1, a funding presentation as part of the June Board meeting stated NIW’s current assessment of the forecasted RDEL requirement was £175.9m against the funding allocation of £137.73m, equating to a shortfall of £38.17m.

## **July 2024 to September 2024 (Quarter 2)**

- 4.17. On 2 July 2024, NIW submitted a revised Operating Plan and Budget for the 2024/2025 financial year to the Department which included a forecasted RDEL requirement of £161.4m because of the Board taking a more risk-based approach to operating costs. The revised document states that the Board *“has taken steps to examine the cost base and ensure latest forecast is reflected, as well as taking additional cost risk in relation to power and chemicals cost. It has also implemented a range of cost cutting measures including restricted recruitment activity, reduced advertising costs and targeted lower energy consumption. This has identified cost reductions and savings in the order of approximately c.£16m whilst still maintaining an ability to provide the required services to customers and to seek to meet obligations under health & safety”*.

- 4.18. Further, *“a range of more extreme options was considered, including cessation of leakage detection, delaying responses to operational and customer incidents and failures and reducing spend on maintaining vehicle fleet. However, these would lead to failure to live within the requirement to provide core services and meet health & safety duties and responsibilities ... it is proposed that the remaining balance of £23m is recognised as inescapable and as such considered to be funded via monitoring rounds bids”*.
- 4.19. Included in the revised Operating Plan and Budget was a plan (requested by the Department) on the steps required to operate at the £137m RDEL allocation i.e. what cost reductions needed to be implemented. As part of this, NIW also provided the Department with a document named ‘NI Water – consequences document to demonstrate potential impact of cessation of wastewater services’, [referred to by NIW as a ‘consequences document’] that *“should be read as part of the Operating P[l]an & Budget”*, emphasising that if they were to operate at a £137m RDEL there would be cessation of water treatments which would have significant economic, legal and environmental impact. The document states *“these proposed scenarios would breach our company and director’s legal duties and responsibilities and would leave the population with no access to clean, safe drinking water or the removal of wastewater and therefore are not deemed to be viable options for the company to take”*.
- 4.20. On 16 July 2024, the Chair wrote to the Permanent Secretary outlining the areas identified by the Board to reduce operational costs and therefore help close the RDEL gap. These included:
- Examining NIW’s cost base and adjusting forecasts to reflect latest information;
  - Implementing a series of cost-cutting measures including restricting recruitment activity, reducing advertising costs, minimising travel costs and targeted lower energy consumption; and
  - Taking an increased risk-based approach in relation to power and chemical cost assumptions.
- 4.21. The Chair noted that *“these measures identified cost savings and reductions in the region of c. £15m whilst maintaining our ability to provide water and wastewater services as well as to meet (as far as reasonably practicable) health & safety obligations.”* Lastly, acknowledging the Minister’s comments in the letter dated 23 May 2024 regarding the impact of energy prices and other inflationary factors, the Chair also proposed that *“the remaining [RDEL] gap of c. £23m is managed on a shared risk approach with your officials through monitoring rounds”*.
- 4.22. On 22 July 2024, the Permanent Secretary responded to the Chair’s letter, acknowledging the work the Board had carried out to reduce costs and confirming that the Department would *“continue to work with NI Water in good faith throughout the remainder of the year”*.

- 4.23. The Permanent Secretary noted that additional funding requested in future monitoring rounds *“could not be guaranteed”* and that in such an instance, *“planning to live within the allocated budget remains an absolute requirement”*. Additionally, it would be *“necessary for the NI Water Board to ensure that options remain open for urgent remedial action to avoid an unauthorised overspend.”*
- 4.24. On 23 July 2024, the Board met and acknowledged the submission of the revised Operating Plan and Budget submission to the Department for 2024/2025 and agreed that *“Management could make an appropriate submission to DfI as part of the October monitoring round process, if required, in August.”*
- 4.25. The minutes from the Board meeting held on 24 September 2024 noted that the Board’s primary focus remained on the **£23m** RDEL gap. They record that an additional allocation of £23m was required for the Company to *“continue to provide core services and meet Health and Safety obligations in line with the DfI Minister’s direction”*. One Board member stated that *“at the current rate of spend, the Company’s current indicative RDEL allocation would be exhausted towards the end of the following month.”*
- 4.26. At the end of Quarter 2, the forecasted RDEL requirement was reported as £160.4m against the funding allocation of £137.73m, equating to a shortfall of **£22.67m**.

### **October 2024 to December 2024 (Quarter 3)**

- 4.27. On 2 October 2024, the Chair wrote to the Minister to provide an update on the status of NIW’s operating and capital forecast positions. The Chair noted that NIW had managed cost reductions of c. £21m in relation to energy, staff, rates, contractors and chemical costs. She also outlined that *“reductions have unfortunately been offset by increases beyond our control in energy (regulated charges) and PPP related costs (circa £5m).”*
- 4.28. The Chair also noted in her letter that these increases resulted in a c. £160m forecasted RDEL requirement for 2024/2025, which *“therefore shows a shortfall in RDEL required to sustain minimum viable service provision of c£23m to the current DfI allocation of c£137m.”*
- 4.29. On 3 October 2024, the Permanent Secretary wrote to the CEO regarding the 2023/2024 ‘Pay Remit’ for NIW. The Permanent Secretary outlined that *“before officials can advise the Minister in respect of this pay award ... we would need to understand how the proposed pay award can be deemed affordable. Specifically, at a time when you are highlighting a significant gap in your resource budget”* and that the Department *“would also need to understand the implications this could have on service delivery in the months ahead and in future years.”*

- 4.30. On 15 October 2024, NIW submitted a bid to the Department for an additional £23m of RDEL funding in the October Monitoring Round.
- 4.31. On 22 October 2024 the Board met and discussed various issues, including the threat of industrial action “*which would have a very severe impact on the Organisation and its Customers*”. The Board also received a budget update referencing the PC21 Mid-Term Review which reported a forecasted RDEL requirement of £170.5m for 2024/2025. At the same meeting, the minutes record how “*members scrutinised the breakdown of operating costs including those defined as “other” in detail to include Regulatory, Insurance, IT and Comms, Legal and Professional, SME, Advertising and Publicity, Travel and Training*”.
- 4.32. On 18 November 2024, the Minister wrote to the Chair to advise that NIW had been allocated an additional resource allocation of £11.5m as part of the October Monitoring Round. This brings the total RDEL funding allocation from the Department to £149.43m. In the same letter, the Minister states how this funding “*now represents NI Water’s final budget allocation for 2024-25 and is made on the clear understanding that no further funding is available this year. NI Water will therefore be required to live within this final budget envelope, including pay costs. In relation to this, and following on from our recent meeting, I am formally requesting that NI Water provides me with a plan to achieve this. The plan will need to include options for living within the budget envelope, other than proposing to stop or restrict essential water services; in line with the need to protect public health and safety*”.
- 4.33. The Minister outlined the total budget that NIW had been successful in securing to date, including an additional £0.2m for its Windsor Framework/ NI Protocol resource costs in its June monitoring round.
- 4.34. On 3 December 2024, NIW emailed the Department to submit its bid for the January Monitoring Round. NIW bid for c.£11m stating “*whilst there has been some minor movements across cost areas, the full year requirement remains at c£160m*”. The email also notes that “*the reduction of the funding gap pressure of c£11m might be realised only through a combination of reductions in energy consumption, chemical consumption and reduced contractor support across the asset base. Any such reductions mean that either our clean water or wastewater treatment processes, or both, might need to stop at some point likely to be during the early part of Q4 2024/25. In the event that this occurs it will likely result in significant disruption to the NI public and those businesses and organisations who use our services. This will result in NI Water (company - corporate and board – personally) being placed at risk of serious breach of various regulations and laws*”.
- 4.35. At the end of Quarter 3, the forecasted RDEL requirement was reported as £160.1m against the funding allocation of £149.43m, indicating a shortfall of **£10.67m**.

## January 2025 to March 2025 (Quarter 4)

- 4.36. On 21 January 2025, the Minister wrote to the Chair to approve the pay remit on the condition *"that NI Water proves that the pay award is affordable and that it will live within the allocated resource budget of £149.23m, without impacting on operational service delivery"*.
- 4.37. On 24 January 2025 the Minister wrote to the Chair providing confirmation that *"following careful consideration of the outcome of January Monitoring"* the current budget allocations to NIW were unchanged.
- 4.38. On 28 January 2025, the Board met to discuss the implications of the funding gaps and continued efforts to balance statutory duties alongside financial constraints. The Board agreed that *"the Company would continue to consider appropriate measures to reduce the current RDEL gap."*
- 4.39. On 30 January 2025, the Chair responded to the Minister's letter of 21 January stating that *"it is a priority of the Board to consider ways to close the current funding gap and ensure that pay settlements do not impact on operational service delivery."*
- 4.40. On 30 January 2025, the Chair emailed the Minister in response to the October and January monitoring round outcome and attached an Annex which detailed the reductions to the forecasted RDEL requirement across the year to date to bring the RDEL gap to **£7.1m**. This Annex is discussed on Page 39 under **Reductions to NIW's forecast RDEL requirement**.
- 4.41. Within the same email, the Chair noted that the revised RDEL requirement of *"circa £156-157m ... is the minimum it [NIW] needs to comply with core statutory obligations and to manage the business in a safe and proper manner"*.
- 4.42. On 30 January 2025, the Chair wrote a third letter to the Minister addressing the wider discussion points raised at the Shareholder Meeting held on 27 November 2024, including funding certainty, environmental obligations, going concern, and managing financial shocks. The Chair noted that the Board *"acknowledge the challenging financial constraints in terms of public funding and wish to work with you and your officials to build trust and deliver the best possible outcomes"*. The Chair then offered to meet the Minister *"at any time if this would be helpful"*.
- 4.43. At the following Board meeting, on 25 February 2025, the estimated gap between the forecasted RDEL allocation and required funding to maintain operations was discussed, urging immediate efforts to address the financial situation before the end of the financial year. The Board noted that *"The gap was currently estimated to be between **£7-8m** and did not include additional costs incurred as a result of Storm Eowyn."*

- 4.44. On 26 February 2025, WDPD wrote to the CEO informing her that additional funding of £2.934m had been approved by the Executive to be used towards meeting unexpected costs caused by responding to Storm Eowyn and that this allocation should be ring-fenced.
- 4.45. On 7 March 2025, the CEO wrote to the Permanent Secretary stating that in attempting to reconcile the Minister's request not to overspend this year while at the same time mitigating any impacts on human health and the environment, the Board has called an extraordinary Board meeting for the morning of 11 March 2025.
- 4.46. On 10 March 2025, the Permanent Secretary wrote to the CEO stating that *"it remains the responsibility of NI Water to live within the budget allocated by the Department. Accordingly, and in line with Managing Public Money Northern Ireland (MPMNI), I am not in a position to approve any overspend by NI Water."*
- 4.47. On 11 March 2025, the Chair wrote to the Permanent Secretary noting a *"current projected £5m overspend on RDEL"*, and that this followed the RDEL gap being *"recently closed from £7m, with £2m gap closure achieved as a result of reflecting actual outturn costs in some cost lines."* The Chair also included options to reduce potential RDEL overspend, including: 1) stopping septic tank emptying - £0.1m; 2) stopping the pursuit of leakage - £0.2m; and 3) stopping planned maintenance activity at water and wastewater sites on equipment and above ground assets - £0.2m. However, the Chair noted that this would only result in a reduction of overspend from £5m to £4.5m and would bring *"significant risk to NIW and the environment"*.
- 4.48. On 11 March 2025, an extraordinary Board meeting was held, and a summary of RDEL spend for 2024/25 was presented showing a gap of circa £5m at this stage *"between what the Board has currently concluded is required to provide core services in a manner compliant with statutory duties including health and safety and the current RDEL allocation from DfI"*. The minutes also note that this estimation *"remains valid but final outturn depends on variable factors outside NIW control"*. The minutes also include discussion that if further allocation was not received by the Department *"it would then be necessary to issue a Direction to the CEO to overspend against RDEL allocation to continue to deliver core services in a safe manner"*.
- 4.49. On 11 March 2025, the Chair also wrote to the Minister detailing the extraordinary Board meeting that was held that morning and that despite *"detailed consideration to the Company's current RDEL allocation for 24/25"*, the gap between funding and budget was *"unable to be closed"*.

- 4.50. The letter noted that *“faced with these impossible choices, the Board has formed the opinion that it cannot deliver core services in a safe manner (in line with the direction from DfI) within current allocations from DfI. Accordingly, the Board has determined that the CEO should be directed to overspend as against the RDEL budget allocation to ensure that core services continue to be delivered in a safe manner in line with the current RDEL estimate deemed necessary by the Board in the circumstances.”* The letter also stated that it was *“very much hoped by the Board that such a direction would not be necessary”* and, in this context, referenced the Chair’s letter to the Permanent Secretary on the same date requesting further RDEL allocation, or an authorisation to overspend up to £5m, adding that that *“in the event that such confirmation is not provided by the 13 March, the Board will issue the Direction to the CEO.”*
- 4.51. On 13 March 2025, the Minister wrote to Chair in response to her letter on 11 March 2025 regarding the inability of the Board to close the funding gap. The Minister highlighted that the Chair would *“need to carefully consider next steps and understand how NI Water has managed its finances during the course of the year to lead to this unauthorised forecast overspend.”*
- 4.52. On 13 March 2025, the Chair responded to the Minister, clarifying that *“the Board has not, yet, issued a Direction to overspend against the allocated 2024-25 Resource budget.”*
- 4.53. On 14 March 2025, the Chair wrote to the Permanent Secretary outlining that the current RDEL forecast is £157.2m [a gap of **£4.8m**] and sought assistance. The Chair outlined the recent cost reductions, whereby *“prices moved favourably, such as rates, power cost fluctuations, recognising additional income and favourable weather conditions”* and highlighted how the Board has *“robustly challenged and minimised a range of costs, including staff costs, chemical costs, and contractor costs”*.
- 4.54. The Chair then asked if the Department could allocate additional RDEL funding to cover NIW or if the Permanent Secretary will *“please approach DoF in your capacity as Principal Accounting Officer to secure additional RDEL cover from DoF for DfI and onward allocation to NI Water.”*
- 4.55. On 14 March 2025, the CEO wrote to the Chair to notify them of the conflict between her Accounting Officer role and CEO role, as per MPMNI guidelines. On the same date, the CEO wrote a further letter to the Chair, formally notifying the Board of the CEO’s reservations in relation to exceeding the RDEL budget allocation for 2024/2025.

- 4.56. On 21 March 2025, the CEO wrote to the Permanent Secretary highlighting that the RDEL gap is now “*trending [down] towards **£3m***”, noting that the fluctuation in the cost base was caused by factors “*outside of [our] control, such as rainfall levels and energy prices*”, specifically “*initial estimates of the impact of lower than average rainfall levels and favourable power costs in Feb (& forecast for March) on our RDEL forecast*”. The CEO also asked for an “*an update ... in relation to any progress ... to either secure additional RDEL cover or identify activity you would instruct to cease.*”
- 4.57. On 27 March 2025, the Minister sent a letter to the Chair advising that forensic accountants will be appointed to carry out an investigation into the £3m overspend. The Minister also confirmed that an additional allocation of £3m has been awarded to cover the final RDEL funding gap.
- 4.58. Following the end of the financial year, it was reported in the April Opex Board presentation that the final RDEL cost outturn was £153.84m against the funding allocation of £152.36m, resulting in a potential overspend of **£1.48m**. Note however, as £3m of additional funding was provided by the Minister on 27 March 2025 to regularise the funding gap, the final outturn was a **£1.52m** surplus against budget.

## 5. Reductions to NIW’s forecast RDEL requirement

- 5.1. As per the objective to assess and comment on the underlying decisions leading to the overspend, in this section we have highlighted how the forecasted RDEL requirement reduced over the financial year ended 31 March 2025 from a starting position of £178.9m to a final position of £153.84m including the factors driving the decisions.
- 5.2. As discussed at paragraph 4.40, on 30 January 2025, the Chair emailed the Minister in response to the October and January monitoring round outcome, attaching an Annex which detailed the reductions to the RDEL requirement during the year to date [to 29 January 2025] to reduce the RDEL gap from £41.17m to £7.1m. Using this Annex as a basis for our analysis, and the accompanying commentary, we extended the date range to the end of the 2024 / 2025 financial year with reference to the cost reductions reported in NIW’s February, March and April 2025 Opex Board papers, to set out, in full, the movement in RDEL requirement during the year.
- 5.3. Informed by discussions with the Board, we reviewed the cost items which moved during the year to provide an indicative view of whether the cost could be considered more likely to be ‘controllable’, ‘uncontrollable’, or a ‘release of assumptions’ informed by the key cost driver. This exercise is, by design, a subjective one. As some cost items were grouped together by NIW, we have assigned the category based on the category (controllable, uncontrollable or release of assumptions) which, in our view, is most applicable to most costs.

Table 3: Mapping of RDEL budget by NIW and allocation by the Department for year ended 31 March 2025

	<b>RDEL £’m</b>	<b>NIW comments</b> <i>(where available taken from the Annex and / or Opex Board papers)</i>	<b>Majority cost category</b>	<b>Key cost driver</b>
<b>Operating Plan and Budget V1</b>	<b>178.9</b>	<b>Board approved position at February 2024</b>	-	-
RDEL funding allocation from the Department	137.73	Opening ‘indicative’ allocation at May 2024	-	-
<b>RDEL Gap</b>	<b>(41.17m)</b>	<b>RDEL Gap at 21 May 2024</b>	-	-
Rates	(3.0)	<i>Reduction due to freeze on regional rate</i>	Uncontrollable	Government
Power	(5.0)	<i>Refinement of price risk assumption for Winter 2024 period (may not materialise)</i>	Release of assumptions	Power prices
Staff	(4.0)	<i>Revised pension, capitalisation, pay and vacancy recruitment assumptions</i>	Controllable	Staff costs
Rates	(3.5)	<i>Reduction in rates based on current draft bills</i>	Uncontrollable	Government

Income	(1.0)	<i>Increase in billable income of 1%</i>	Uncontrollable	Weather (and application of MTR tariffs)
Other	(1.0)	<i>TBC – assumed mixture of reduction in travel, non-mandatory training, winter advertising campaign, external SME support</i>	Controllable	Management decision
<b>Op Plan &amp; Budv2</b>	<b>161.4</b>	<b>Board approved position at July 2024)</b>	-	-
Staff	(4.0)	<i>Challenge to business on recruitment, release of balance of 2022/23 pay award, reduction in ER pension % (post Triennial valuation calculations)</i>	Controllable	Staff costs
Contractors	(1.0)	<i>Reduced number of contractor jobs and challenge on cost base</i>	Controllable	Management decision
Chemicals	(1.0)	<i>Successful negotiation of supplier price requests and lower volumes utilised at sites</i>	Controllable	Management decision
PPP	1.0	<i>Volumes in Omega due to severe wet weather in Q1</i>	Uncontrollable	Weather (Rainfall)
Kinnegar	1.0	<i>Estimated increase in annual running costs post-handover</i>	Revised assumptions	PPP
<b>Forecasted RDEL Requirement</b>	<b>157.4</b>	<b>Position at August 2024</b>	-	-
Power	3.0	<i>Increased Regulated Charges (set by NIAUR) [the UR]</i>	Uncontrollable	Regulator
<b>Forecasted RDEL Requirement</b>	<b>160.4</b>	<b>Position at September 2024 (October Monitoring Round)</b>	-	-
Cloud Based Solutions	1.5	<i>Increased costs due to ongoing costs in implementation of the Cloud Based Projects<sup>16</sup></i>	Uncontrollable	Contract terms
Chemicals	0.5	<i>Increases, volume &amp; rate e.g. incl of Liquid Oxygen at Castor Bay (replaced use of blowers, to save electricity costs), 4% price increase for ferric, Sulphuric Acid (9% increase) and Coagulants cost increase (c£10 per tonne)</i>	Uncontrollable	Chemical costs
Contractors	(1.5)	<i>Refinement of Kinnegar [PPP] sludge disposal costs, revised assumptions on leakage</i>	Revised assumptions	PPP
Other	(0.6)	<i>To include: PPP (£0.4m) YTD lower spend on PPP Contracts,</i>	Uncontrollable	PPP

<sup>16</sup> Assumed to relate to NIW's contract for the design of the 'Future Corporate System', a cloud based programme of work, which was contracted primarily on a fixed price basis.

		<i>Outsourcing (£0.4m) Echo GSC and IT lower due to delays in implementation of progs [typo in value narrative]</i>		
Other	(0.2)	<i>To include: Adv &amp; Pub (£0.2m) [Advertising &amp; Publicity] reduction in number of Campaigns.</i>	Controllable	Management decision
<b>Forecasted RDEL Requirement</b>	<b>160.1</b>	<b>Position at November 2025 (January Monitoring Round)</b>	-	-
RDEL funding allocation from the Department	149.4	£0.2m additional funding secured through June monitoring round and £11.5m additional funding secured through October monitoring round	-	-
Staff	(0.9)	<i>Est settlement of 2023/24 pay-award and RPDM [staff bonus]</i>	Controllable	Staff costs
Power	(1.7)	<i>Reduction in hedge due to delay in approval and YTD / forecast prices marginally lower than previously forecast</i>	Release of assumptions	Power
PPP	(1.0)	<i>Reduced YTD spend (lower rainfall)</i>	Uncontrollable	Weather (Rainfall)
<b>Forecasted RDEL Requirement</b>	<b>156.5</b>	<b>Latest Position at 29 January 2025</b>		
RDEL Gap	(7.1)	RDEL Gap at 29 January 2025	-	-
Power	1		Uncontrollable	Power costs
Storm Eowyn	3		Uncontrollable	Weather (Storm)
<b>Forecasted RDEL Requirement</b>	<b>160.5</b>	<b>Latest Position at 11 February 2025</b>	-	-
RDEL Gap	(11.1)	RDEL Gap at 11 February 2025	-	-
RDEL funding allocation from the Department	152.4	£2.934m Additional Funding for Storm Eowyn on 26 February	-	-
YTD-wins	(0.5)	<i>Various across account lines/business areas</i>	Controllable	Management decision
Staff	(0.6)	<i>Contractors - c£0.6m - lower spend across Water and WasteWater. WasteWater due to lower Kinnegar spend &amp; Sludge Transportation costs and Reactive maintenance in networks across both WasteWater and Water</i>	Controllable	Management decision

Other	(0.2)	<i>Advertising &amp; Publicity c£0.2m - lower Communications spend as most campaigns ceased/paused</i>	Controllable	Management decision
Staff	(0.7)	<i>Release of 2023/24 pay accruals (post-approval) and lower BAU pay costs</i>	Controllable	Staff costs
PPP	(0.4)	<i>Continued reduction in Omega cost (volumes due to dry weather)</i>	Uncontrollable	Weather (Rainfall)
Power-BAU	(0.3)	<i>Continued reduction in power (rate – due to global markets &amp; volume – due to dry weather)</i>	Uncontrollable	Global markets / Weather
Power-claim	(0.6)	<i>Settlement of claim re historic bills</i>	Controllable	Management decision
<b>Forecasted RDEL Requirement</b>	<b>157.2</b>	<b>Opening Position at 24 March 2025</b>		
Power	(0.9)	Continued reduction in power (rate – due to global markets & volume – due to dry weather)	Uncontrollable	Weather (Rainfall)
Staff	(0.75)	Mix of items/areas to incl VE/VER/Inefficiency forecast no longer required, true-up of accruals based on latest pay assumptions and correction to Storm Eowyn OT costs	Release of assumptions	Staff costs
PPP	(0.45)	Continued reduction in Omega cost (volumes due to dry weather)	Uncontrollable	Weather (Rainfall)
Other	(0.4)	Various across account lines/business areas	Controllable	Management decision
<b>Forecasted RDEL Requirement</b>	<b>154.7</b>	<b>Closing Position at 24 March 2025</b>	-	-
<b>RDEL Gap</b>	<b>(2.3)</b>	<b>RDEL Gap at 24 March 2025</b>	-	-
Income	(0.7)	<i>Increased volume (mainly measured water, including six-monthly billing cycle, increase in agriculture – likely rainfall related)</i>	Uncontrollable	Weather (Rainfall)
PPP	(0.46)	<i>Decreased volume (Omega – rainfall related)</i>	Uncontrollable	Weather (Rainfall)
Other	0.3	<i>Various ups/downs across remainder of expense lines – includes additional change requests and liability claim re FCS</i>	Controllable	Management decision
<b>Final RDEL position</b>	<b>153.84</b>	<b>Final materialised RDEL position for year ended 31 March 2025</b>	-	-
<b>Overspend</b>	<b>(1.44)</b>	<b>RDEL Gap for year ended 31 March 2025 (excluding the final allocation)</b>	-	-

RDEL funding allocation from the Department	155.4	Additional £3m awarded by the Minister to 'regularise' expenditure on 27 March 2025	-	-
<b>Underspend</b>	<b>1.6</b>	<b>Surplus</b>	-	-

5.4. The table below summarises how the total reduction of £25.06 in the forecasted RDEL requirement during the year is split by cost areas and across the three cost categories of release of assumptions and controllable and uncontrollable costs.

Table 4: Breakdown of reductions in forecasted RDEL requirement for year ended 31 March 2025

Area	Release of assumptions (£m)	Uncontrollable (£m)	Controllable (£m)	Total (£m)
Power	(6.7)	(0.2)	(0.6)	<b>(7.50)</b>
Staff	(0.75)		(10.2)	<b>(10.95)</b>
Rates		(6.5)		<b>(6.5)</b>
Other (Travel, Training, Advertising, SME)			(1.5)	<b>(1.5)</b>
Contractors			(1.0)	<b>(1.0)</b>
Chemicals		0.5	(1.0)	<b>(0.5)</b>
PPP (including Kinnegar)	(0.5)	(1.91)		<b>(2.41)</b>
IT & Comms (Cloud based solutions)		1.5		<b>1.5</b>
Regulatory charges		3.0		<b>3.0</b>
Storm Eowyn		3.0		<b>3.0</b>
YTD Wins			(0.5)	<b>(0.5)</b>
Increased Income		(1.7)		<b>(1.7)</b>
<b>Total</b>	<b>(7.95)</b>	<b>(2.31)</b>	<b>(14.8)</b>	<b>(25.06)</b>

- 5.5. Based on this mapping we have attributed £14.8m (59%) to reductions driven by majority controllable factors. This included a reduction of £10.2m in Staff costs, £1.5m in Other (Travel, Training, Advertising and SME's), £1m in Contractors, £1m in Chemicals following successful negotiation on pricing, in addition to smaller reductions across Power (£0.6m), and YTD 'wins' (£0.5m).
- 5.6. We also attributed £7.95m (32%) of the reduction to a release of assumptions that have been built into the Operating Plan and Budget.
- 5.7. The cost area which had the highest reduction was Staff with a reduction of £10.95m, the majority of which (£10.2m) is due to controllable factors (There are, however, also accruals included in this cost category, the release/settlement of which has also contributed to the reduction, rather than a significant reduction in staff numbers during the year ). This was followed by Power with a net reduction of £7.5m; however, this reduction was largely due to the release of assumptions related to weather and power costs.
- 5.8. The net total reduction attributable to majority uncontrollable factors was £2.31m. In keeping with the nature of this cost category however, we note that there was, in fact, £10.31m of reductions that were offset by rising costs, totalling £8m. This demonstrates the environment in which NIW operates and its susceptibility to cost pressures outside of its control.

## 6. Financial Review

### Overview

- 6.1. One of the primary objectives of this review is to provide an independent assessment of NIW profiling and resource expenditure, and to assess whether alternative options were available to avoid breaching the budget which could have been taken earlier in the financial year.
- 6.2. As our work is being conducted over a relatively condensed timeline, the extent of our analysis is, as a result, also limited. Therefore, taking a risk-based approach, we focused our analysis on the areas of most interest to the Department as discussed at the pre-engagement stage, i.e. the makeup of 'Other' costs.
- 6.3. To support this financial assessment, we requested the following documents from NIW:
  - The Trial Balance for the Company for the four financial years from 2021 to 2025 (the current price control years);
  - Nominal ledgers for the financial year ended 31 March 2025 for the following eleven nominal codes;
    - 5360 - Office Services and Equipment
    - 5373 - Other Professional Fees
    - 5381 - Professional Services - Staff Substitution- Specialists
    - 5382 - Professional Services - Other Managed Services
    - 5371 - Professional Services - Legal
    - 5180 - Course/Conference Fees and Exp excluding travel
    - 5182 - Internal Hospitality
    - 5183 - External Hospitality
    - 5570 - Advertising / Publicity
    - 5160 - Travel - Non-Industrial
    - 5210 – Electricity; and

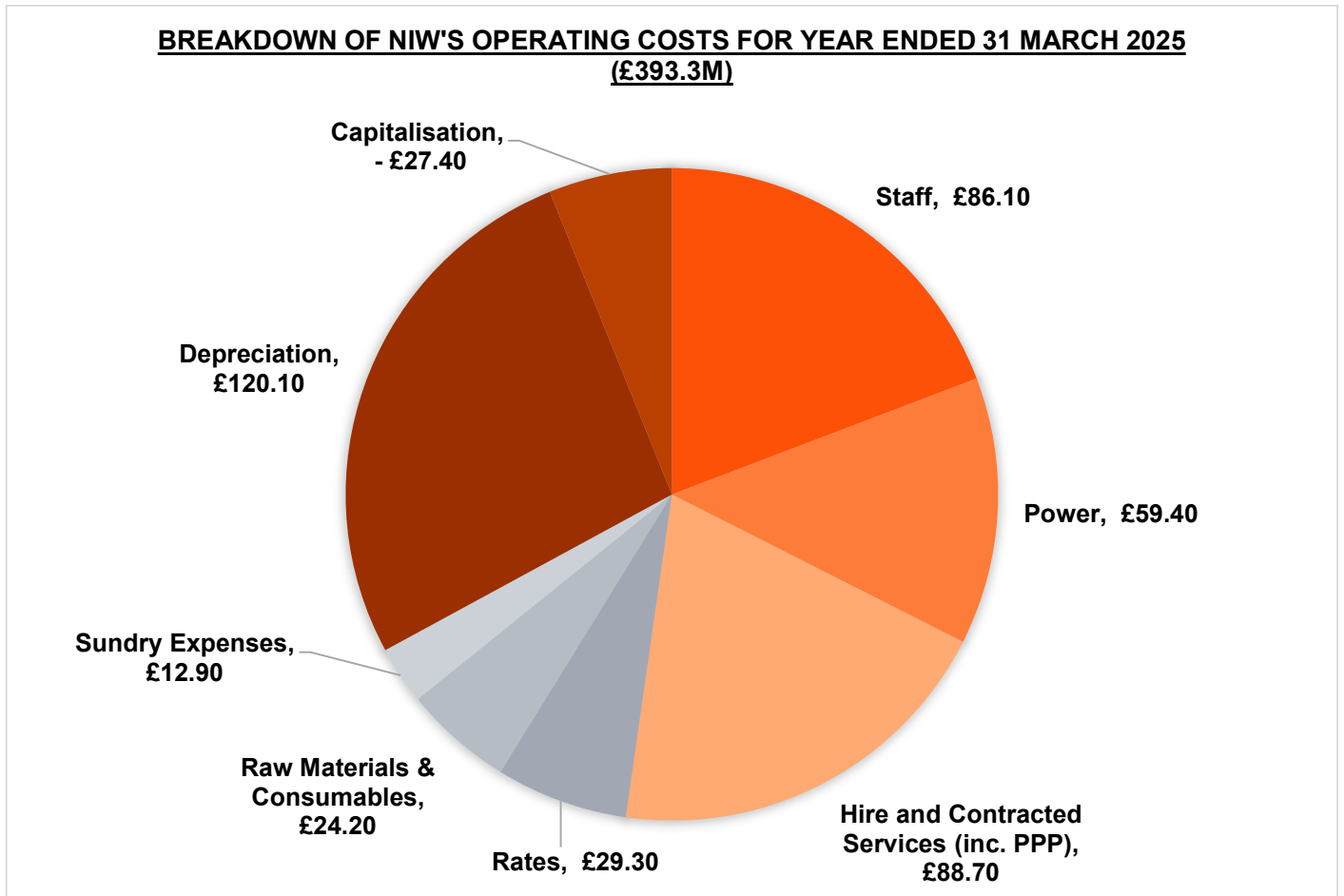
- We requested a sample of relevant contract extracts, based on 1) vendors where had the least amount of information based on the detail contained within the nominal ledger, and 2) vendors identified with the largest expenditure. This resulted in a total request of 21 extracts across five of the ten nominal ledgers.
- 6.4. The first ten of these nominal codes were chosen as they make up most of the ‘Other’ operating cost category which is reported to the Board and to the Department. We did not, however, request the nominal ledgers for the remaining ‘Other’ cost categories (Regulatory Costs or Insurance & Employer Liability / Public Liability) on the basis that there were likely to be limited options to reduce costs in these areas.
- 6.5. Additionally, Electricity (5210) was chosen as it is the highest cost item (from a nominal code perspective) at £58.7m and as such, any fluctuations will have a material impact on the forecasted RDEL requirement.
- 6.6. We sought to analyse the trends in core operating costs during the current price control years and for ‘Other’ costs, identify the top five vendors from the nominal ledger accounts to assess the nature of services being provided and if possible, identify if there was any potential optionality or variability to the costs incurred. We also performed a high-level overview of other vendor spend in each nominal ledger account, to identify average spend with vendors other than with the top five.

## **Overview of Operating Costs**

- 6.7. Within the monthly Board packs, NIW’s operating costs are typically aggregated and reported as high-level categories, often presented in pie chart form. This includes an overview of total operating costs, and an overview of certain ‘Other’ costs. We have used NIW’s annual report for the overall Operating Costs therefore aligning to the statutory financial statements for the Group, but then, for the ‘Other’ costs, we have used the trial balances provided by NIW and mirrored the cost areas seen internally in NIW Board packs. Please note these figures remain draft and are subject to audit finalisation. All costs included under ‘Other’ are already included within the overarching Operating Costs breakdown.

6.8. NIW's operating costs for the 2024-2025 financial year totalled £393.3m and are made up of the following cost categories:

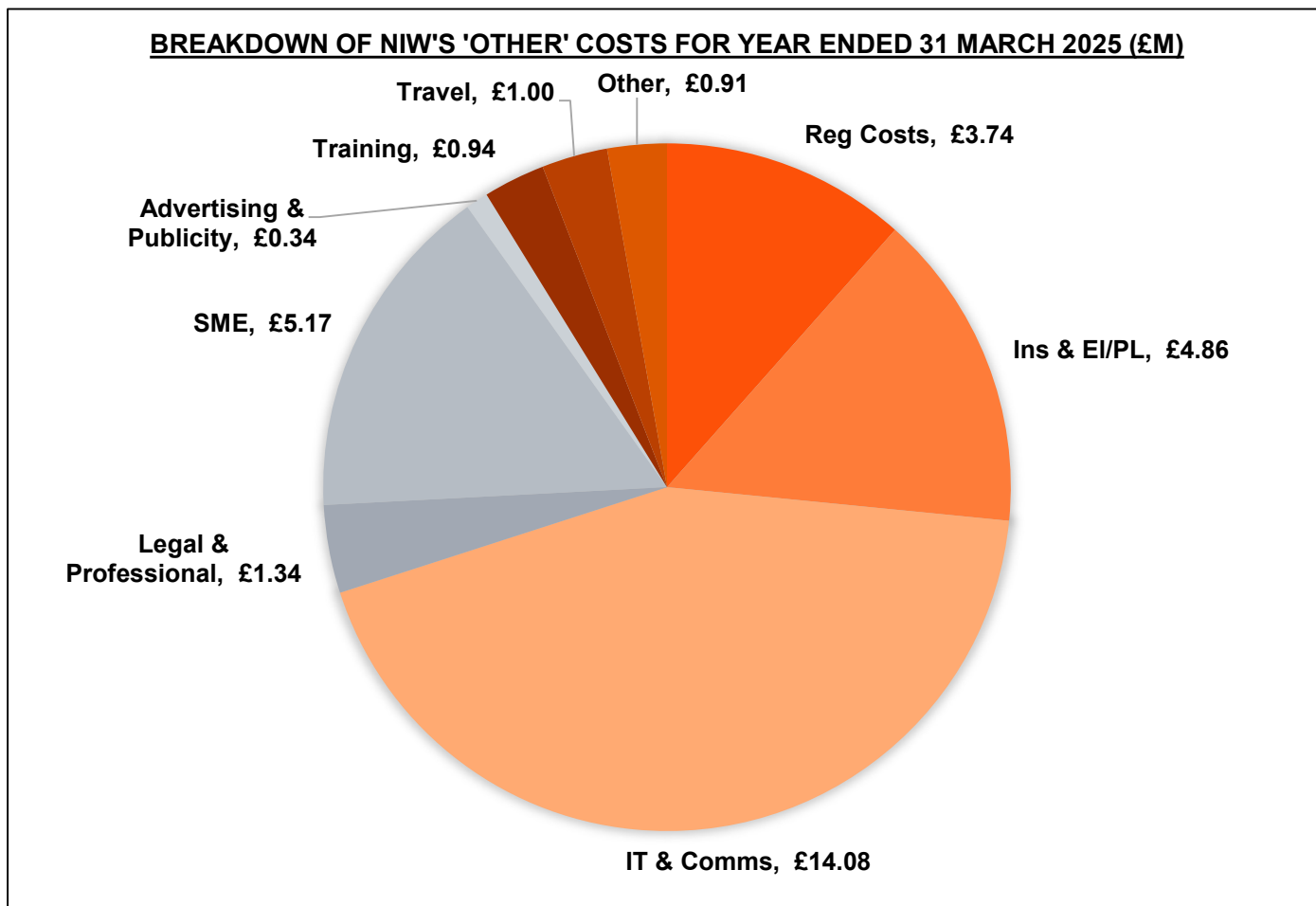
Chart 1: Breakdown of NIW's Operating Costs for year ended 31 March 2025



6.9. As shown in Chart 1 above, after Depreciation, NIW's largest cost is Hired and Contracted Services (inc. PPP), totalling £88.7m, followed by Staff at £86.1m, and Power at £54.4m. Detail on how these costs have fluctuated across the current price control period is shown in the next subsection – **Trend Analysis**.

6.10. NIW's 'Other' costs totalled £32.4m and are made up of the following cost categories:

Chart 2: Breakdown of NIW's 'Other' Costs for year ended 31 March 2025



6.11. As shown in Chart 2 above, the largest cost category under 'Other' is IT & Comms totalling £14.1m, followed by Subject Matter Experts (SME's), which totalled £5.17m.

6.12. The remaining 'Other' category, totalling £0.9m, is comprised of costs which include Bad Debts (and associated provisions), Telephones, Mobile Phones, and both Internal and External Hospitality.

### Trend Analysis

6.13. Using the annual reports, we analysed the trends in operating costs over the current price control years. Additionally, we included a breakdown of the 'Other' costs that NIW reports on internally which includes both the Sundry Expenses reported in the annual reports as a standalone cost item, and a number of other costs that are included within Hired and Contracted Services (inc. PPP) i.e. use of SMEs, regulatory costs, and IT & Comms for example. To populate the table for 'Other' costs we have used the trial balances provided by NIW and mirrored the areas seen internally in NIW Board packs.

6.14. The table below highlights the movement in Operating Costs for the four years from 2021-2022 to 2024-2025:

Table 5: Movement in NIW's Operating Costs for years 2021 - 2025

Operating Costs over PC21	Year 1 2021-2022	Year 2 2022-2023	Year 3 2023-2024	Year 4 2024-2025	Movement from Year 1 to Year 4		Movement from Year 3 to Year 4	
	£m	£m	£m	£m	%	£m	%	£m
<b>Staff</b>	79.2	87.8	97.9	86.1	8.7%	6.9	(12.1%)	(11.8)
<b>Power</b>	62.2	83.0	58.4	59.4	(4.5%)	(2.8)	1.7%	1.0
<b>Hired and Contracted Services (inc. PPP)</b>	66.3	67.1	84.2	88.7	33.8%	22.4	5.3%	4.5
<b>Rates</b>	28.5	28.9	27.8	29.3	2.8%	0.8	5.4%	1.5
<b>Raw Materials and Consumables</b>	16.0	21.4	24.8	24.2	51.3%	8.2	(2.4%)	(0.6)
<b>Sundry Expenses</b>	12.6	1.4	13.0	12.9	2.4%	0.3	(0.8%)	(0.1)
<b>Depreciation</b>	91.6	99.1	109.6	120.1	31.1%	28.5	9.6%	10.5
<b>Capitalisation*</b>	(18.2)	(19.5)	(24.4)	(27.4)	50.5%	(9.2)	12.3%	(3.0)
<b>Goodwill Impairment</b>	-	6.3	1.2	-	-	-	(100%)	(1.2)
<b>Total Operating Costs</b>	<b>338.2</b>	<b>375.5</b>	<b>392.5</b>	<b>393.3</b>	<b>16.3%</b>	<b>55.1</b>	<b>0.2%</b>	<b>0.8</b>

\*Predominantly the capitalisation of staff costs.

6.15. From the start of PC21 (2021-2022), there has been an increase of 16.3% (£55.1m) in NIW's operating costs from £338.2m to £393.3m, including a small increase of 0.2% (£0.8m) from year ended 31 March 2024 to 31 March 2025.

6.16. Despite this increase, there has been a decrease of 12.1% (£11.8m) in Staff Costs from the prior financial year. We understand, however, that a key driver of the total reduction in Staff costs relates to wider public sector decisions impacting on Holiday Pay and the McCloud pension case, the costs for which were incurred and/or accrued in 2023/24, rather than a significant reduction in staff numbers at the Company in 2024/25. There were also small decreases in Raw Materials and Consumables of 2.4% (£0.6m), and Sundry Expenses of 0.8% (£0.1m) with all other core costs increasing during the most recent financial year.

6.17. One driver of increasing power costs has been the impact of the Russia / Ukraine war on the global energy and commodities market from early 2021 with NIW's power costs increasing by 33% from the first to second year of the current price control period (PC21).

6.18. The table below highlights the movement in 'Other' Costs from 2021-2022 to 2024-2025. As referenced above, this was created using the trial balances provided by NIW; all these costs are already included in the overall Operating Costs table above.

Table 6: Breakdown of total 'Other' Operating Costs over PC21

Operating Costs over PC21	Year 1 2021-2022	Year 2 2022-2023	Year 3 2023-2024	Year 4 2024-2025	Movement from Year 1 to Year 4		Movement from Year 3 to Year 4	
	£m	£m	£m	£m	%	£m	%	£m
Regulatory Costs	3.51	3.31	3.31	3.74	7%	0.23	13%	0.43
Ins & EI/PL	3.21	2.66	3.77	4.86	51%	1.65	29%	1.09
IT & Comms	4.23	5.61	13.31	14.08	232%	9.85	6%	0.77
Legal & Professional	1.28	0.45	1.40	1.34	5%	0.06	(4%)	(0.06)
SME	4.41	3.62	5.54	5.17	17%	0.76	(7%)	(0.37)
Advertising & Publicity	0.97	0.52	0.85	0.34	(65%)	(0.63)	(60%)	(0.51)
Training	0.68	0.66	0.86	0.94	38%	0.26	10%	0.08
Travel	0.58	0.85	1.00	1.00	73%	0.42	(0%)	(0.00)
Other	1.49	0.60	1.17	0.91	(39%)	(0.58)	(22%)	(0.26)
<b>Total 'Other' Costs</b>	<b>20.36</b>	<b>18.28</b>	<b>31.20</b>	<b>32.38</b>	<b>59%</b>	<b>12.02</b>	<b>4%</b>	<b>1.17</b>

6.19. From the start of PC21, there has been a 59% increase (£12.02m) in 'Other' costs, including a 4% rise (£1.17m) in 2024/2025 from the prior year to £32.4m. This increase relates, primarily, to significant project costs for the implementation of two cloud-based systems, both of which are due to close out in 2025/26.

6.20. There has been a significant decrease of 60% (£0.51m) in Advertising & Publicity from the prior financial year which aligns with decisions made by the Board highlighted in **Section 5 - Reductions to NIW's forecast RDEL requirement**, above. The use of professional services (SME and Legal & Professional) also decreased by 7% (£0.37m) and 4% (£0.06m) respectively, from the prior financial year.

6.21. The 22% decrease in Other was mainly driven by the 'Movement in Bad Debt Provision' nominal code. There was also a small decrease in both Internal Hospitality from £0.045m to £0.044m, and External Hospitality from £0.02m to £0.015m.

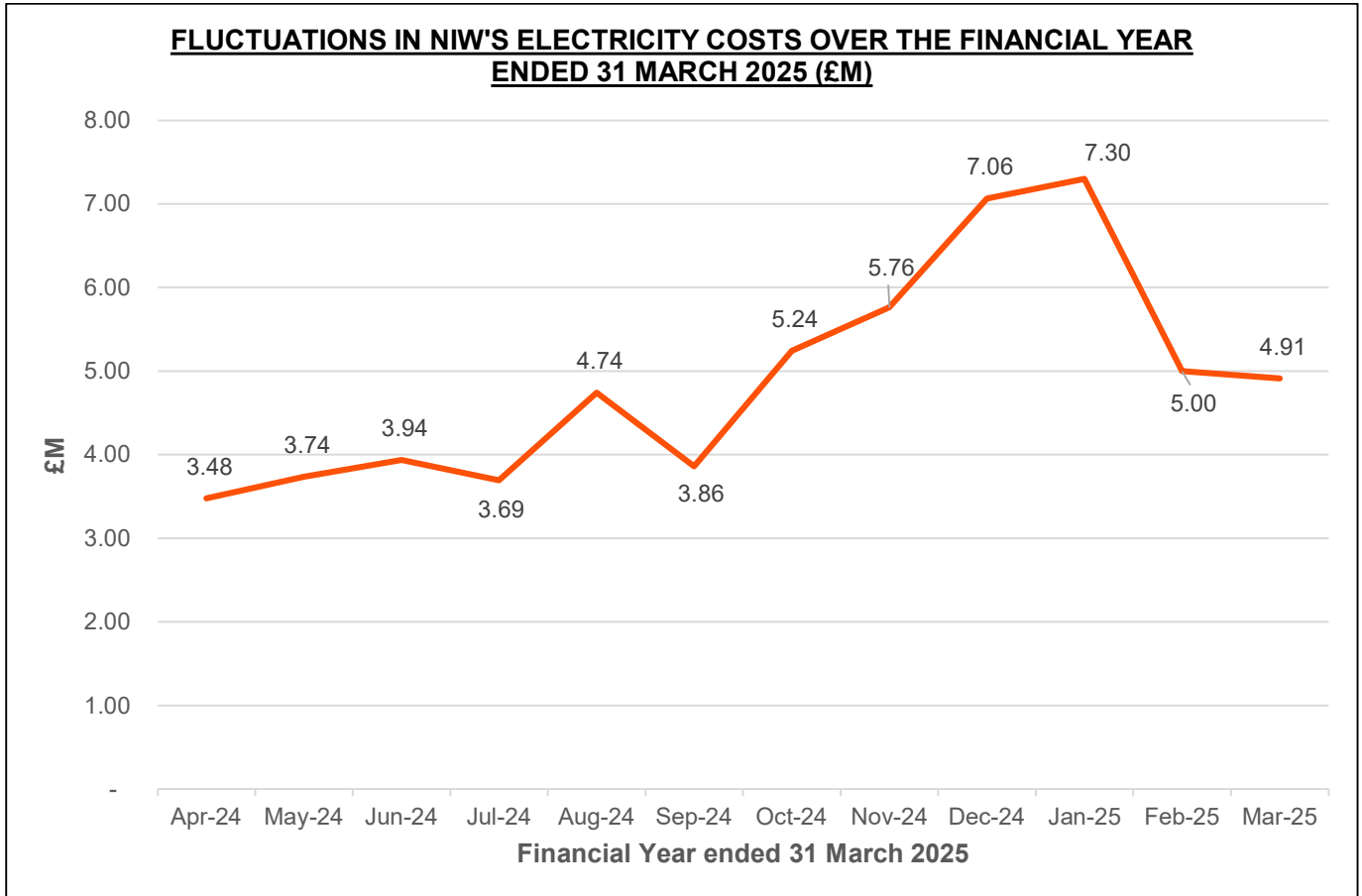
6.22. Offsetting these decreases however is a 13% (£0.43m) increase in Regulatory Costs and an increase of 29% (£1.09m) in Insurance & Employer Liability / Public Liability, both areas arguably outside of NIW's control.

6.23. NIW also saw an increase of 6% (£0.77m) in IT & Comms. While costs for both Telecommunications and Computer Hardware/Software Maintenance & FM decreased, Office Services and Equipment increased by 23% (£1.6m).

## Electricity

6.24. As noted at paragraph 2.19, NIW is Northern Ireland’s largest energy consumer, meaning it is particularly sensitive to the price volatility in the global energy and commodity markets. Using the nominal ledger provided for Electricity (Nominal Code 5210), we have plotted how Electricity costs have fluctuated over the financial year (based on transaction posting dates) in the graph below:

Chart 3: Fluctuations in NIW’s electricity costs for year ended 31 March 2025



6.25. The total Electricity cost for the financial year ended 31 March 2025, is £58.7m. As shown in the graph above costs dropped by 32% (£2.3m) from an in-year high of £7.3m in January 2025 to £5.0m in February 2025. Costs then fell further by 2% (£0.09m) in March 2025. From discussions with NIW, there was an expectation that costs would reduce in February 2025 (as there are only 28 days in the month) and March 2025 (due to the start of the summer cost regime for the regulated charges component of the cost) and this was built into the Operating Plan and Budget. However, the price reductions were still much greater than expected.

6.26. The budget for electricity in the Operating Plan and Budget is created by taking the expected volume multiplied by a rate for each metered site. The rate has three components: 1) wholesale price of electricity; 2) regulated charge; and 3) tax. In addition to the wholesale price of electricity increasing significantly during the current price control years, the regulated electricity charge also saw similar increases.

- 6.27. Electricity is accrued at each month-end based on the budgeted costs included in the Operating Plan and Budget, with invoices being received around the middle of the next month.
- 6.28. NIW provided the following table to highlight the difference between its forecast and average wholesale electricity costs for Quarter 4 of the financial year ended 31 March 2025:

Table 7: NIW's Wholesale Electricity Variances to Forecast for quarter 4 of the financial year ended 31 March 2025.

<b>Electricity Variance to Forecast</b>	<b>Forecast £ per MW</b>	<b>Average of SEM DA* £ per MW</b>	<b>Variance to Forecast £ per MW</b>
January 2025	146.63	140.38	6.25
February 2025	146.82	117.16	29.66
March 2025	145.08	110.24	34.84

*\* The electricity industry operates a single wholesale market across the island of Ireland which is known as the Single Electricity Market (SEM). DA refers to the Day-Ahead market which is a daily auction for trading electricity for the following day.*

- 6.29. As the table above highlights, the average actual price of wholesale electricity was significantly lower than forecast in the final quarter of the year. Recognising the impact of this on the RDEL requirement, NIW then began to adjust the accruals for the final months to account for the reduced market rates to accelerate recognition of the Variance to Forecast and reduce its forecasted RDEL requirement.

## **Review of the 'Other' Nominal Ledgers**

- 6.30. As noted in the Overview section above, for each of the ten nominal ledger codes selected, we profiled the expenditure based on the 'Vendor Name' heading and set out below the details of the top 5 vendors, including total expenditure and nature of spend, for each code. The names of the vendors have been anonymised. Each of the nominal ledgers provided by NIW and reviewed in this subsection are for NIW as a company and therefore excludes any expenditure by the subsidiaries. Please note, however, the majority of 'Other' spend was incurred by the Company rather than by the subsidiaries.
- 6.31. We also note that it would be standard accounting practice to adjust accruals and other estimates, both upward and downward, resulting in positive or negative balances within ledgers. Similarly, corrections and reclassifications are commonly made to ensure that transactions are accurately reflected in the appropriate ledger categories.

## Office Services and Equipment (Nominal Code: 5360)

Table 8: Breakdown of top 5 vendors within Office Services and Equipment nominal code

Vendor Name	Description	£k
Company 1	This relates to the Customer Services Contact Centre, Billing and Debt Management Services Contract ("CBC"), a managed services contract for billing, collections, debt and contact centre services.	5,374
Company 2	Provision of 1) Finance, Procurement, HR and Payroll systems on Oracle eBusiness suite and 2) the Future Corporate System (FCS).	2,410
Company 3	This relates to independent IT testing services.	265
Company 4	This relates to anti-virus / anti-ransomware software for NIW systems, computers and phones.	159
Company 5	This relates to the provision of a high-volume call handling managed service, 24 hours a day, 7 days a week, 365 days a year.	101
<b>Top 5 Vendor Names - Total expenditure</b>		<b>8,310</b>
<b>Total Office Services and Equipment expenditure</b>		<b>8,752</b>
<i>Proportion of top 5 vendors</i>		<i>95%</i>

6.32. As highlighted in the table above, the total expenditure relating to Office Services and Equipment was £8,752,156 of which 95% (£8,309,970) of this spend is attributable to the top 5 vendors.

6.33. There are 82 other vendors outside of the top 5 with expenditure totalling £622,623 (average expenditure of £7,593 per vendor).

6.34. In addition, there is a total of £180,437 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions. Of this, £1,403 can be attributed to 9 different vendors and £179,034 to transactions with no associated vendor name. Based on the journal line descriptions, the majority of the £179,034 is related to 'CBC3 Implementation'. CBC3 is the contract which will replace the current Customer Billing and Collection ("CBC") contract. Both contracts are with Company 1.

6.35. NIW has two contracts in place with Company 1. One is for the current provision of managed services for billing, collections, debt and contact centre services. The contract is primarily for fixed service provision with various implementation milestones. There are volume-based charges in the contract, which introduces an element of variability to the monthly costs. This contract was

awarded in July 2014 and is due to expire in July 2025. The second was awarded in March 2023 to provide an updated managed service covering a similar scope and is currently being implemented. This contract is due to expire in March 2030 with the option for up to 3 years extension.

6.36. NIW has two contracts in place with Company 2. One for the ‘Provision of supported Finance Procurement HR and Payroll systems’ which commenced on 10 December 2013, and the second to design, implement and support the ‘Future Corporate System’, which commenced on 18 January 2023. Both contracts are primarily for fixed service provision, however, there are some options included for additional enhancements if desired. They expire on 9 June 2025 and 17 January 2028, with the option for up to two years extension, respectively.

6.37. Company 3 was contracted on 3 October 2022, to provide independent IT testing services on a call off basis based on business need. It is due to expire on 2 October 2025, with the option for a one-year extension.

6.38. Company 5 was contracted on 1 October 2019, to provide high-volume call handling (HVCH). The purpose of this contract is to “appoint a service based provider of an HVCH managed service intended to enable NI Water customers to register a failure of water supply and sewerage network related problem and to receive current, localised and regularly updated messages throughout any such incidents. It will also enable key groups to receive additional information and contact nominated NI Water personnel/roles during periods of high call activity. The service is to be a wholly hosted supplier service with no dependency on NI Water’s infrastructure. The HVCH managed service will need to be available, 24 hours per day, 7 days per week, 365 days a year”. Expiring on 31 July 2025, this is a fixed service with various implementation milestones and running costs. There are options in the contract however for ‘Future Enhancements’.

### Professional Services – Other Managed Services (Nominal Code: 5382)

Table 9: Breakdown of top 5 vendors within Professional Services – Other Managed Services nominal code

Vendor Name	Description	£k
Company 6	For services as PC21 Transformation Partner.	531
Company 7	Pension Management (including actuarial) and 'Pay & Reward' consultancy. Note, there is also £71,646.04 in expenditure for Company 7 under Other Professional Services (Nominal Code: 5373). See table below.	401
Company 8	Provision of services under 1) the Professional Services Framework (IF0180) which includes project management and feasibility studies, and 2) Lot 3: Feasibility, Design and Climate Change (IF182),	296

	which includes business case development and Net Zero Achievement Strategy.	
Company 9	This relates to the provision of site supervisors.	227
Company 10	Provision of services under 'Management Development Framework Lot 1 & Lot 2'. This includes designing and delivering management training for NIW staff. Note, within the Vendors outside of the top 5, there is a company with a similar name, with total expenditure of £107,631. It is unclear the difference between these vendor names.	178
<b>Top 5 Vendor Names - Total expenditure</b>		<b>1,633</b>
<b>Total Professional Services – Other Managed Services</b>		<b>2,340</b>
<i>Proportion of top 5 vendors</i>		<i>70%</i>

6.39. As highlighted in the table above, the total expenditure relating to **Professional Services – Other Managed Services** was £2,340,077, of which 70% (£1,632,912) was attributable to the top 5 vendors.

6.40. There are 9 other vendors outside of the top 5 with expenditure totalling £708,274 (average expenditure of £78,697 per vendor). Additionally, there is £15,521 in expenditure that can be attributed to transactions with no vendor name. Based on the journal line descriptions, the majority of the £15,521 is related to 'DMB prepayments Oct24' for 'WW Economic Constraints - Solutions Engineering Team ([Company 8])' totalling £34,071, and negative transactions totalling £18,550 for 'ICT Additional Consultant accrual'.

6.41. There are also £16,630 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions. This includes one £11,000 adjustment for 'Company 11'.

6.42. Company 6 was appointed as PC21 Transformation Partner (X185) on 8 April 2020 on a call-off basis based on business need. The scope of this contract includes “bring[ing] subject matter insight, experience, industry best practices to our [NIW’s] team to help carry out the work” and to provide “independent challenge, impartial advice and quality assurance”. It is due to expire on 7 April 2027.

6.43. Company 7 was contracted on 25 March 2019 to provide Pension Management (including actuarial) and 'Pay & Reward' consultancy. Contracted on a call off basis based on business need; it expired on 24 March 2025.

- 6.44. NIW has two contracts in place with the vendor Company 8. The first was contracted on 8 May 2017 under the Professional Services Framework (IF0180) on a call off basis based on business need. It is to provide project management, strategic studies, feasibility (project based), appraisal, procurement, design, surveying, modelling and commissioning services. The contract expired on 20 February 2025.
- 6.45. The second contract with Company 8 commenced on 6 August 2024 under Lot 3: Feasibility, Design and Climate Change (IF182) on a call off basis based on business need. The scope of this contract includes: 1) Appraisal, feasibility and optioneering; 2) Business case development; and 3) Net Zero Achievement Strategy. It is due to expire on 5 May 2028, however there is the option for a 4-year extension.
- 6.46. Company 9 was contracted on 6 August 2024 under Lot 1: NEC Site Supervisors (Civil and MEICA) (IF182) on a call off basis based on business need. The scope of this contract includes carrying out pre-construction checks and supervising works, evaluating contractor design reviews and proposed amendments, and to assess construction quality and workmanship standard. It is due to expire on 5 May 2028, however there is the option for a 4-year extension.
- 6.47. Company 10 was contracted on 23 January 2023 under ‘Management Development Framework Lot 1 & Lot 2’. The framework is for the *“provision of management development interventions for all grades in NI Water, working in partnership with NI Water to design and deliver a bespoke management development framework that develops leadership skills, competencies and behaviours to create a high-performance culture and ensure NIW is fit for the future”*. Contracted on a call off basis based on business need; it is due to expire on 21 January 2026 with the option for a 4-year extension.

### Professional Services - Staff Substitution - Specialists (Nominal Code: 5381)

Table 10: Breakdown of top 5 vendors within Professional Services – Staff Substitution - Specialists nominal code

Vendor Name	Description	£k
Company 6	Provision of contractors for project services including project management, change management, and data architecture and analysis.	1,097
Company 11	This refers to NIW’s Internal Audit Resourcing Contract. The journal line descriptions reference: ‘Specialist day rate’, ‘Innovation Advisory Review’, ‘Manager/Senior Manager IT/Cyber day rate’ and ‘Consultant IT/Cyber day rate’.	217
Company 12	Provision of programme management services for the FCS programme.	101
Company 13	Provision of Treasury and Hedging Advisory Services	100

Company 14	Provision of 'Senior Energy Manager (Strategy)' services including providing strategic direction on all aspects of NIW's energy portfolio.	77
<b>Top 5 Vendor Names - Total expenditure</b>		<b>1,592</b>
<b>Total Professional Services - Staff Substitution - Specialists expenditure</b>		<b>1,555</b>
<i>Proportion of top 5 vendors</i>		<i>102%</i>

6.48. As highlighted in the table above, the total expenditure relating to **Professional Services - Staff Substitution - Specialists** was £1,555,458, of which 102% (£1,591,737) was attributable to the top 5 vendors. Note, the proportion contributed to the overall total expenditure by the top 5 vendors is greater than 100% as there are £111,466 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions.

6.49. There are 10 other vendors outside of the top 5 with expenditure totalling £75,187.01 (average expenditure of £7,519 per vendor). There are also £57,466 of negative transactions that can be attributed to transactions with no vendor name. Based on the journal line descriptions, the majority of the £57,466 is related to 'Staff Substitution Senior Energy Manager (Strategy)' and 'Staff Substitution Senior Energy Manager (Delivery) 21-22'.

6.50. Company 6 was contracted on 21 December 2022 under the Professional Services Framework (C1166) on a call-off basis based on business need. The scope of this framework is to provide contractors for project services across areas including change management, data architecture and analysis, digitisation and automation. It is due to expire on 20 December 2025, however there is the option for a 2-year extension.

6.51. Company 12 was contracted on 1 September 2024 to provide programme management for NIW's 'Future Corporate Systems (FCS) (Finance, Commercial & HR)' programme on a call off basis based on business need. The services include the management of the end-to-end lifecycle of the programme including procurement, design, build, implementation, and support transition. This contract expired on 31 August 2024.

6.52. Company 13 was contracted on 1 October 2023 to provide Treasury and Hedging Advisory Services on a call off basis based on business need. The contract is due to expire on 30 September 2025, however there is the option of a 3-year extension.

6.53. Company 14 was contracted on 1 May 2023 for ‘Senior Energy Manager (Strategy)’ services on a call off basis based on business need. The scope of this contract includes: 1) Providing strategic direction to the Customer Service Delivery (CSD) Director and Head of Energy in relation to all energy matters; and 2) Providing strategic direction on all aspects of NIW’s energy portfolio. The contract is due to expire on 30 April 2027.

**Professional Services – Legal (Nominal Code: 5371)**

Table 11: Breakdown of top 5 vendors within Professional Services – Legal nominal code

Vendor Name	Description	£k
Company 15	Provision of legal services under Lot 1 (see additional narrative below).	523
Company 16	Provision of legal services under Lot 2 (see additional narrative below).	275
Company 17	Provision of legal services under Lot 3 (see additional narrative below).	184
Company 18	This relates to Occupational Health services. Journal line descriptions include references to onsite Doctors, Nurses and Physiotherapists.	83
Company 19	Promotion of mental health through professional wellbeing services.	77
<b>Top 5 Vendor Names - Total expenditure</b>		<b>1,143</b>
<b>Total Professional Services - Legal</b>		<b>1,218</b>
<i>Proportion of top 5 vendors</i>		<i>94%</i>

6.54. As highlighted in the table above, the total expenditure relating to **Professional Services - Legal** was £1,217,501, of which 94% (£1,143,080) was attributable to the top 5 vendors. There are 30 other vendors outside of the top 5 with expenditure totalling £101,029 (average expenditure of £3,368 per vendor). Additionally, £53,423 can be attributed to transactions with no vendor name. Based on the journal line descriptions, the majority of the £53,423 is related to ‘[‘Other Company] Legal Fees - recharge from DWL’ and ‘Omega BREF legal fees’.

6.55. There are also £80,032 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions. This includes one £80,000 adjustment for ‘[Other Company]’.

- 6.56. Company 15 was contracted on 1 April 2021 under ‘Legal Services – Lot 1’ on a call off basis based on business need. Lot 1 services include the provision of “*strategic advice across Regulation & Compliance, Procurement, PPP, Pensions, Environmental and Health & Safety, Corporate & Commercial, Employment and Litigation*”. The contract is due to expire on 31 March 2026.
- 6.57. Company 16 was contracted on 1 April 2021 under ‘Legal Services – Lot 2’ on a call off basis based on business need. Lot 2 services include the provision of “*advice across Procurement, Environmental and Health & Safety, Corporate & Commercial, Employment Litigation, and Property & Planning*”. The contract is due to expire on 31 March 2026.
- 6.58. Company 17 was contracted on 1 April 2021 under ‘Legal Services – Lot 3’ on a call off basis based on business need. Lot 2 services include the provision of “*provision of advice in relation to Public Liability Claims, Employer’s Liability Claims, Environmental Liability Claims, Debt Recovery, Uninsured Loss Recovery, Defence & Prosecution of Criminal Offences, Environmental and Health & Safety and Lands Tribunal*”. The contract is due to expire on 31 March 2026.
- 6.59. The fourth and fifth highest spend under this nominal ledger relates to occupational health and professional wellbeing services, totalling £160,198.

#### **Course / Conference Fees and Exp excluding travel (Nominal Code: 5180)**

Table 12: Breakdown of top 5 vendors within Course / Conference Fees and Exp excluding travel nominal code

<b>Vendor Name</b>	<b>Description</b>	<b>£k</b>
Company 20	This appears to relate to water-specific training courses for apprenticeships. The journal line descriptions cite ‘Trainees/Apprenticeships’.	132
Company 21	The journal line descriptions include ‘CIPS course’, ‘OPT course’, ‘HLA course’ and ‘Level 5 Higher Level Apprenticeship’.	67
Company 22	The journal line descriptions include ‘ORR initial training’. There are also references to ‘Driver Training under contract C1165’ in the nominal ledger.	43
Company 23	This appears to relate to training on Power BI, a Microsoft data visualization tool. The journal line descriptions include ‘Power BI training courses’.	43
Company 24	This relates to tuition fees for various employees.	27
<b>Top 5 Vendor Names - Total expenditure</b>		<b>312</b>
<b>Total Course / Conference Fees and Exp excluding travel</b>		<b>914</b>

Proportion of top 5 vendors	34%
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6.60. As highlighted in the table above, the total expenditure relating to **Course / Conference Fees and Exp excluding travel** was £1,913,501, of which 34% (£312,316) is attributable to the top 5 vendors.

6.61. There are 157 other vendors outside of the top 5 with expenditure totalling £435,416 (average expenditure of £2,773 per vendor). Additionally, there is £194,382 in expenditure that can be attributed to transactions with no vendor name. Based on the journal line descriptions, the majority of the £194,382 is related to ‘Apprentices’ and ‘External training’. Of the 157 vendors in this nominal ledger, there are nearly 50 vendor names that are individuals’ names i.e. Mr, Mrs or Miss [First Name] [Second Name], as opposed to a business name. These are assumed to be NIW employees expensing various training costs as the nominal ledger records expense system references against each of these transactions.

6.62. There are also £28,614 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions.

#### Other Professional Services (Nominal Code: 5373)

Table 13: Breakdown of top 5 vendors within Other Professional Services nominal code

Vendor Name	Description	£k
Company 11	Provision of 1) general tax services and 2) making tax digital for VAT compliance	288
Company 25	Provision of Capital Allowances Advice and Assurance Services	181
Company 7	Pension Management (including actuarial) and 'Pay & Reward' consultancy. Note, there is also £401,480.38 in expenditure for Company 7 under Professional Services – Other Managed Services (Nominal Code: 5382). See table above.	72
Company 9	Provision of Professional Services Framework (IF0180) which includes project management, strategic studies, feasibility (project based), appraisal, procurement, design, surveying, modelling and commissioning services.	43
Company 26	Provision of Facilities Management services including repairs, planned maintenance and minor project work.	42
<b>Top 5 Vendor Names - Total expenditure</b>		<b>627</b>
<b>Total Other Professional Services</b>		<b>829</b>

Proportion of top 5 vendors	76%
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6.63. As highlighted in the table above, the total expenditure relating to **Other Professional Services** was £828,782, of which 76% (£626,725) is attributable to the top 5 vendors.

6.64. There are 357 other vendors outside of the top 5 with expenditure totalling £384,121 (average expenditure of £1,076 per vendor). Additionally, there is £98,102 in expenditure that can be attributed to transactions with no vendor name. Based on the journal line descriptions, this includes £45,070 for 'Month end OH' [assumed to be Occupational Health which aligns to other references in the journal line descriptions] and £38,021 to 'Month end [professional wellbeing services]'.

6.65. Of the 357 vendors in this nominal ledger, there are over 200 vendor names that are individuals' names i.e. Mr, Mrs or Miss [First Name] [Second Name], as opposed to a business name. These are assumed to be NIW employees expensing various professional membership costs e.g. Chartered Accountants Ireland.

6.66. There are also £280,166 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions. The highest adjustments include £122,500 to 'Company 11', £50,000 to 'Company A', and £42,981 to 'Company 8'.

6.67. NIW has two contracts in place with Company 11 for Other Professional Services. The first contract is for making tax digital for VAT compliance solution and commenced on 13 February 2020. The first year of the contract for initial implementation was fixed, with subsequent years on a call-off basis based on business need. This contract expired on 12 February 2025.

6.68. The second contract is for general tax advice commenced on 1 July 2024 replacing a previous contract with Company 11 for the same services that ran for four years. Contracted on a call off basis based on business need; it is due to expire on 30 June 2027 with the option for a 3-year extension.

6.69. Company 25 was contracted on 1 July 2024 to provide Capital Allowances Advice and Assurance Services. This replaced a previous contract with Company 25 for the same services that ran for four years. Contracted on a call-off basis based on business need; it is due to expire on 30 June 2027 with the option for a three-year extension.

6.70. Company 7 was contracted on 25 March 2019 to provide Pension Management (including actuarial) and 'Pay & Reward' consultancy. Contracted on a call off basis based on business need; it expired on 24 March 2025.

6.71. Company 9 was contracted on 8 May 2017 under the Professional Services Framework (IF0180) on a call off basis based on business need. It is to provide project management, strategic studies, feasibility (project based), appraisal, procurement, design, surveying, modelling and commissioning services. The contract expired on 20 February 2025.

6.72. Company 26 was contracted on 1 December 2024 under ‘Lot 2 - Southeast Facilities Management’. Services include “*dealing with re-active repairs, planned maintenance, quotation work, minor project work, and where requested information gathering relating to the Client’s [NIW’s] above ground assets, which will inform the Client’s [NIW’s] future facilities management strategy to fully meet legislation requirements*”. This replaced a previous contract with Company 26 for the same services that ran for four years. Contracted on a call-off basis based on business need; it is due to expire on 30 November 2027, with the option for a 4-year extension.

### Advertising / Publicity (Nominal Code: 5570)

Table 14: Breakdown of top 5 vendors within Advertising / Publicity nominal code

Vendor Name	Description	£k
Company 27	The journal line descriptions include £62,060 for the ‘Freeze Thaw Campaign’, £45,503 for ‘Advertising / Publicity – Engagement’ at Balmoral Show, and £19,168 for ‘Advertising/Publicity External campaigns’.	177
Company 1	This appears to be posted under the wrong nominal code. See Office Services and Equipment (Nominal Code: 5360).	44
Company 28	There is one transaction for £36,185 with the journal line description: ‘50,000 Reusable Water Bottles’	36
Company 29	The journal line description references ‘Perceptions Tracker Survey’.	23
Company 30	The journal line descriptions include £7,500 for a business membership fee invoiced in January 2025, and £8,000 to join a climate change initiative for 3 years at £8k per year invoiced in September 2024.	18
<b>Top 5 Vendor Names - Total expenditure</b>		<b>298</b>
<b>Total Advertising / Publicity</b>		<b>343</b>
<i>Proportion of top 5 vendors</i>		<i>87%</i>

6.73. As highlighted in the table above, the total expenditure relating to **Advertising / Publicity** was £342,958, of which 87% (£297,875) is attributable to the top 5 vendors. There are also 42 other

vendors outside of the top 5 with expenditure totalling £100,582 (average expenditure of £2,395 per vendor).

6.74. There is £55,500 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions. All of this can be attributed to transactions with no vendor name. Based on the journal line descriptions, this includes £30,000 to 'General Comms advertising accrual' for the 'Freeze Thaw Campaign' and £20,000 to 'Recruitment Advertising outstanding invoices'.

### Internal Hospitality (Nominal Code: 5182)

Table 15: Breakdown of top 5 vendors within Internal Hospitality nominal code

Vendor Name	Description	£k
Company 31	This expenditure relates to catering. In the nominal ledger, there are 218 separate transactions for this Vendor Name, with payments averaging £67. The largest payments all relate to catering for NIW's Antrim Learning & Development Centre (LDC). For example, £919 for 'Catering for Antrim LDC W/C 13th May (Including Silent Valley Trip)' and £790 for '[Company 31] <sup>17</sup> for Antrim LDC WC 9th December 2024'.	14.6
Company 32	This expenditure relates to catering. Example transactions include £942 for '[Company 32] for Antrim WC 24th June 2024' and £897 for '[Company 32] for Antrim LDC WC 30th Sept 24'	8.4
Company 31	This Vendor's registered address is the same as Company 31 above and this expenditure relates to catering. Example transactions include £695.50 for '[Company 31] for Antrim LDC WC 17th Feb' and £660 for '[Company 31] for Antrim LDC WC 3rd March'.	4.8
Company 33	This expenditure relates to catering. Journal line descriptions include 'Catering for Antrim LDC for Westland w/c 3rd June', 'Westland Event' and 'Westland Breakfast Engagement'.	4.3
Company 34	This appears to be posted under the wrong nominal code. Journal line descriptions cite '[Company 34] for Professional Development 2025'. See Course / Conference Fees and Exp excluding travel (Nominal Code: 5180) for training related spend.	3.5
<b>Top 5 Vendor Names - Total expenditure</b>		<b>35.6</b>
<b>Total Internal Hospitality</b>		<b>43.4</b>
<i>Proportion of top 5 vendors</i>		82%

<sup>17</sup> Company 31's name varies slightly within ledgers, but refers to same address, so treated as one company

6.75. As highlighted in the table above, the total expenditure relating to **Internal Hospitality** was £43,354.32, of which 82% (£35,674) is attributable to the top 5 vendors.

6.76. There are 23 other vendors outside of the top 5 with expenditure totalling £15,497 (average expenditure of £674 per vendor). Additionally, there is £45 in expenditure that can be attributed to transactions with no vendor name. Based on the journal line description, this relates to ‘VAT Write Off – Hospitality’. There are also £7,861 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions. Based on the vendor name, this includes £111 to ‘Company B’ and £7,750 to ‘Company 10’.

### External Hospitality (Nominal Code: 5183)

Table 16: Breakdown of top 5 vendors within External Hospitality nominal code

Vendor Name	Description	£k
Company 33	This expenditure relates to catering. In the nominal ledger, there are 126 separate transactions for this vendor name, with payments averaging £33. Over 100 of these transactions reference sandwiches.	4.2
Company 31	This expenditure relates to catering. In the nominal ledger, there are 153 separate transactions for this vendor Name, with payments averaging £23. Over 178 of these transactions reference sandwiches.	3.5
Company 35	This expenditure relates to catering. Example transactions include £460 ‘To provide catering for Schools Competition at 11am on 21.06.24 at NIW Heritage Centre’, and £136 ‘To provide catering for BI Planning Workshop 12th September at 12pm Ops Block’.	1.4
Company 36	The journal line description for this item of expenditure is ‘TEA/COFFEE SCONES AND SANDWICHES FOR IF105 SUPPLIER EVENT ON 19TH JUNE 2024 (1 VEGAN & 1 GLUTEN) AT ‘Company C’.	1.4
Company 32	This expenditure relates to catering. Example transactions include £332 to ‘External Hospitality - WwPL Smart Networks Phase 2 - Final Presentations - 23/5/24 - Antrim LDC’ and £259 to ‘Lunch for 50 people 1x Vegan 1x Dairy for Antrim LDC on 10/9/24 @ 12pm’.	1.4
<b>Top 5 Vendor Names - Total expenditure</b>		<b>11.9</b>
<b>Total External Hospitality</b>		<b>15.3</b>
<i>Proportion of top 5 vendors</i>		<i>78%</i>

6.77. As highlighted in the table above, the total expenditure relating to **External Hospitality** was £15,283, of which 78% (£11,869) is attributable to the top 5 vendors.

6.78. There are 15 other vendors outside of the top 5 with expenditure totalling £4,189 (average expenditure of £279 per vendor). There are also £775 of negative transactions in the nominal

ledger, indicating reversals or adjustments to previously posted transactions. Of this, £214 relates to transactions with no vendor name.

### **Travel - Non-Industrial (Nominal Code: 5160)**

6.79. The total expenditure for **Travel – Non-Industrial** was £866,652, of which nearly all appears to relate to employees expensing fuel with vendor names being individual's names i.e. Mr, Mrs or Miss [First Name] [Second Name], rather than a business name. This includes 37,961 separate transactions averaging £23.

6.80. When aggregated by vendor name, there are 900 names with expenditure totalling £870,736 and £4,084 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions.

## **Summary findings**

6.81. Call off contracts provide NIW with flexibility to only order services when there is a business need. We requested a sample of relevant contract extracts, 21 in total, for those vendors identified with the largest expenditure in five of the ten nominal ledgers:

- £1,632,912 was attributable to the top 5 vendors under Professional Services – Other Managed Services. We requested relevant extracts of all these contracts and each of the Top 5 vendors was contracted on a call-off basis;
- £1,591,737 was attributable to the top 5 vendors under Professional Services - Staff Substitution – Specialists. We requested contract extracts for four of these vendors (equating to £1,374,479 in expenditure) and all four were contracted on a call off basis based on business need;
- £1,143,080 was attributable to the top 5 vendors under Professional Services – Legal. We requested contract extracts for three of these vendors (equating to £982,883 in expenditure) and all three were contracted on a call off basis based on business need;
- £626,725 was attributable to the top 5 vendors under Other Professional Services. We requested relevant extracts of all these contracts and each of the top 5 vendors was contracted on a call off basis based on business need indicating an element of potential discretion; and
- £8,309,970 was attributable to the top 5 vendors under Office Services and Equipment. We requested contract extracts for four of these vendors (equating to £8,151,060 in expenditure). The contracts with Company 1, Company 2, and Company 5 (equating to £7,885,728 in expenditure) are primarily for fixed service provision. The contract with

Company 3 however, equating to £265,333, was contracted on a call off basis based on business need.

6.82. In total, based on the 21 contracts reviewed, expenditure totalling £5,259,787, relating to 18 contracts, was incurred under call off contracts. Given the nature of these contracts, there may be an element of potential discretion open to NIW not to spend under each of these contracts, decisions which, in theory, could have taken place at any point in the financial year. We cannot, however, form a conclusion on this matter based on the work carried out to date.

6.83. For eight of the ten nominal ledgers reviewed, over 70% of total expenditure was attributable to the top five vendors, highlighting the limited concentration of spend, including:

- 102% (£1,591,737) of the total expenditure (£1,555,458) on Professional Services - Staff Substitution – Specialists. Note however, the proportion contributed to the overall total expenditure by the top five vendors is greater than 100% as there are £111,466 of negative transactions in the nominal ledger, indicating reversals or adjustments to previously posted transactions;
- 95% (£8,309,970) of the total expenditure (£8,752,156) on Office Services and Equipment; and
- 94% (£1,143,080) of the total expenditure (£1,217,501) on Professional Services – Legal.

6.84. In the absence of any other information, our high-level analysis of spend with the top five vendors does suggest elements of discretionary spend on certain nominal ledgers. For example, under **Advertising & Publicity**, a payment of £36,185 to Company 28 was accrued in March 2025 for '50,000 Reusable Water Bottles'. NIW also paid £8,000 to Company 30 on September 2024, to join a climate change initiative for the next 3 years at £8,000 per annum. This is arguably discretionary in nature given there is no current Northern Ireland Government Climate Strategy, as confirmed by the Department. Both costs, totalling £44,185 make up 12.88% of the total spend under this nominal ledger.

- 6.85. Additionally, under **Course / Conference Fees and Exp excluding travel**, payments totalling £42,750 were made to Company 23, throughout the year, for training on Power BI, a Microsoft data visualisation tool. However, acknowledging that RDEL gap was £11.1m as late in the financial year as February 2025, these savings would not have made a significant difference but do point to areas of discretion, however small. This cost was 4.68% of the total spend under this nominal ledger.
- 6.86. Acknowledging these potential discretionary items of expenditure, it may suggest that there is room for additional cost savings to be made in NIW's 'other' costs, even if the saving is not going to immediately close any RDEL gap that exists. For reference only, if a 5% saving was applied across the nominal ledgers that make up 'other' costs, excluding **Regulatory Costs** and **Insurance & Employer Liability / Public Liability**, a potential further saving of nearly £1.2m could be realised.

## 7. Decision-making by the Board

- 7.1. The primary Objectives of this review include 1) considering the decision-making process on spending decisions; 2) commenting on any actual or potential non-compliance with MPMNI; and 3) examining any associated corporate governance issues within the scope of the work carried out.
- 7.2. This section is set out under the following headings:

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### Operating Plan and Budget

- 7.3. In preparing its annual Operating Plan and Budget, NIW incorporates trend analysis on cost drivers and assumptions from PC21. NIW also considers the current macroeconomic environment, global commodity market and weather forecasts, recognising the influence of rainfall on the Company's cost base.
- 7.4. As highlighted in the table below, other than the first year of PC21 (2021-2022), NIW's opening budget position reduced significantly during each of the later three years, reducing in total by £12.37m, £43.39m, and £25.06m respectively against the final yearly outturn position.

Table 17: Movement in the Operating Plan and Budget over the price control

Movement in the Operating Plan and Budget over the price control	21/22 £m	22/23 £m	2023/24 £m	2024/25 £m
Opening position	132.40	184.00	215.30	178.90
Final outturn	148.47	171.63	171.91	153.84
<b>Movement throughout the year</b>	<b>16.07</b>	<b>(12.37)</b>	<b>(43.39)</b>	<b>(25.06)</b>

- 7.5. These movements are largely driven by a combination of factors including the impact of uncontrollable factors such as weather or global commodity prices, releasing risk built into the budget assumptions which have not materialised and by management decisions to reduce certain costs.

- 7.6. For the year ended 31 March 2025, the release of assumptions contributed £7.95m (32%) to the overall £25.06m RDEL reduction, as highlighted in paragraph 3.19. While the NEDs undoubtedly have an awareness of the assumptions built into the Operating Plan and Budget, they do not consider them to be “*generous*”. It was highlighted to us by one Board member that they typically set a high probability P80 budget i.e. implying an 80% confidence level that the total RDEL cost would not exceed the Operating Plan and Budget however, as “*it worked out this year, the final budget was less than P50*”.
- 7.7. It is important to note that despite the wider Government funding challenges in Northern Ireland, for the first three years of the price control period, the Department fully funded NIW’s RDEL requirement through a combination of initial budget allocations and successful in-year monitoring bids. However, such fluctuations in the forecasted RDEL requirement make it difficult for both the Department and NIW to prepare an accurate budget with any level of certainty.
- 7.8. The Board has expressed its preference for agreeing a budget that effectively shares the risk related to its assumptions with the Department at the start of the funding year. As a NDPB, however, the Department told us this is very unlikely to be approved, with its preference being the creation of a budget aligned to its RDEL allocation with all fluctuations in the forecasted RDEL requirement bid for via the established monitoring rounds, like other NDPBs.
- 7.9. The Department told us that the basis of each year’s RDEL allocation is the prior year’s outturn, with the ongoing expectation that NIW absorbs pay and price pressures and further, that this is the same approach taken across wider Government Departments, specifically in terms of a baseline RDEL allocation, and the basis on which the Department’s own budget allocation is made. There is however a perception at Board level (including both NEDs and Executive Team) that the allocation is “*arbitrary*” and therefore would welcome more transparency on how it is made.
- 7.10. We understand NIW’s ‘approved Board position’, which it monitors, is the Operating Plan and Budget, not the RDEL allocation – the money available - from the Department. Each month, NIW provides a monthly financial performance pack to the Department with actual costs, variances against the Operating Plan and Budget, and a forecast.
- 7.11. The Board and Executive team told us there is no separate budget created that is made up to the Department’s RDEL allocation, representing the total funds available to the Company and against which to track each cost item. To do so, they told us they would require direction on the reduced outputs to be provided by the DEL allocations to allow full alignment of the respective budgets, as they do not consider the current allocation from DfI to be sufficient to deliver its core services safely.

7.12. On this point, however, although cognisant of the budget constraints under which the Company is operating, the Department told us that it is for the Accounting Officer/CEO to determine how to spend their budget allocation, as only general allocation amounts are made to each business area and further, that this would be normal practice across the government system.

## Financial documentation provided to the Board

7.13. The Northern Ireland Audit Office's Board Effectiveness: A Good Practice Guide (2022) highlights in Section 4.11 that *"the board pack is the main briefing tool for board members and directly impacts the board's effectiveness in debate and decision-making. It is the board's collective responsibility to ensure its papers are sufficiently detailed and robust to enable members to fulfil their role and responsibilities"*. As such, to facilitate effective decision making on RDEL spend, the Board should be sent quality financial documentation within each Board pack in advance of each meeting. Additionally, time should be held during the meeting for discussion and challenge of costs.

7.14. We have been provided with the Board packs that were circulated in advance of each monthly meeting during the financial year ended 31 March 2025. The Board pack contains several linked documents, slide decks and letters for discussion. This includes a monthly 'Funding and Regulatory Compliance' paper which provides key financial updates, including on RDEL. It also summarises the key correspondence with the Department relevant to RDEL over the prior month and an overview of NIW's operating costs at that point in time, displayed as pie charts as discussed at paragraphs 6.9 to 6.12 above.

7.15. We also received five versions of an additional financial slide deck, the 'Opex Board Update', which was provided to the Board from October 2024 onwards. The Opex Board Update slides contain more detailed updates on RDEL including 1) summarising the changes in the forecasted RDEL requirement, and the reductions over the previous month (see **Section 5 - Reductions to NIW's forecast RDEL requirement** over the financial year where these have been collated), 2) the current gap against the RDEL allocation from the Department at that point in time, and 3) a summary of key updates regarding RDEL since the last Board meeting.

7.16. Although there was unanimous consensus that the financial information included in the Board packs was *"absolutely sufficient"* to support effective decision-making, the NEDs are ultimately constrained in their ability to adequately monitor operating costs without a budget aligned with the RDEL allocation from the Department. This is undoubtedly a significant limitation to what, in our view, would otherwise appear to be detailed and substantive financial information.

## Monitoring RDEL expenditure

- 7.17. MPMNI Section 4.1.4 includes key decisions for Boards, noting how they should apply “*scrutiny, challenge and control of significant policies, initiatives and projects*”. Additionally, Section 173 of the Companies Act 2006 states that “*a director of a company must exercise independent judgment*”. The NEDs stated how they had no reservations in challenging the Executive Team about cost cutting options and can ask “*deep and meaningful questions about the spending of public money*”.
- 7.18. As part of our review, we conducted interviews with NIW’s Board including the Chair, NEDs and the Executive Team. The Board noted how “*RDEL dominates every Board meeting*” and that they had “*satisfied themselves at a strategic level that the costs are reasonable*”. They also told us, “*during meetings the costs are reviewed and the charts [contained in the Board packs] are scrutinised - often more breakdowns are requested from the Executives. We have spent a lot of time looking at the ‘Other’ category*”. The Board also highlighted the importance of the independently tested price control benchmarks to support them in both assessing and challenging the reasonableness of costs.
- 7.19. An example of the additional breakdowns requested from the Executive Team is the paper titled ‘Board info requested by Chair’, dated 24 June 2024 which included: 1) an analysis of operating costs over the prior six years which highlighted how some costs had exponentially increased; 2) proposed reductions to the forecasted RDEL requirement with support from the Board; and 3) reductions to the forecasted RDEL requirement which do not have support from the Board.
- 7.20. On 22 July 2024, the Permanent Secretary wrote to the Chair stating “*The Department appreciates that if further reductions in spending or forecasts are not identified, or additional funding is not forthcoming, this may require the NI Water Board to take decisions that could impact negatively on environmental and economic outcomes ... Should this situation occur, however, the Department will need to be fully satisfied that you, your Board and the NI Water Accounting Officer have taken all actions within their power to reduce spending*”.
- 7.21. When we raised this with the Board, they concluded that they “*have pushed every cost line to its limit*” and were fully satisfied that they had “*taken all actions within their power to reduce spending*”. As highlighted in **Section 4 - Timeline of Events**, “*a range of more extreme options was considered, including cessation of leakage detection, [and] delaying responses to operational and customer incidents ... however, these would lead to failure to live within the requirement to provide core services and meet health & safety duties and responsibilities*”.
- 7.22. The NEDs commented how “*They [the Executive Team] placed everything on the table, even when it hurt them ... they [the extreme cost reduction options] were not good things to do and there was absolute agreement to reject them as a Board.*”

- 7.23. As part of these interviews, we asked specifically about the £25.06m reduction between the opening position of the Operating Plan and Budget and the final outturn position. There was also a consistent observation that the certainty of cost assumptions, or the realisation of many of the cost reductions, is driven largely *“by the passage of time”* as new information is received or as weather ultimately materialises.
- 7.24. The Board also highlighted how it did consider and implement *“obvious and immediate”* savings, such as reducing recruitment and advertising costs, however it was noted that it is not efficient to *“save now, pay more later”* highlighting the inverse relationship between CDEL and RDEL spend. However, as shown in **Section 5 - Reductions to NIW’s forecast RDEL requirement**, these ‘immediate’ savings were minimal in comparison to the total reduction.
- 7.25. As highlighted in **Section 4 - Timeline of Events**, the Minister wrote to the Board on 18 November 2024 how £149.4m *“now represents NI Water’s final budget allocation for 2024-25 and is made on the clear understanding that no further funding is available this year. NI Water will therefore be required to live within this final budget envelope, including pay costs.”* Similarly, again on 24 January 2025 another letter from the Minister noted *“As set out in my letter to you on 18 November 2024, the budget allocations made at that stage were on the clear understanding that no further funding is available this year, and that position remains.”*
- 7.26. Accordingly, aligning with this messaging and the confirmation of unsuccessful monitoring round outcomes, there does appear to have been an increased focus on trying to reduce the forecasted RDEL requirement in the latter half of the financial year. For example, the inclusion of the more formalised ‘Opex Board Update’ slides from October 2024 onwards.
- 7.27. One of the more significant costs during the year was the 2023/2024 pay award, amounting to approximately £7.4m. Approximately £8.5m had been accrued by the Company in the prior financial year as it was still subject to approval. This award represented a 5% consolidated uplift and a £1,500 non-consolidated payment.
- 7.28. The CEO wrote to the Permanent Secretary on 7 October 2024 stating, *“I am focused on averting the likelihood of industrial unrest before winter and will need to meet again shortly with TU representatives who are considering a formal ballot regarding 2023/24 pay award proposals. I draw to your attention the impact of industrial action short of strike action in 2015 where widespread water disruption was experienced and the cost of managing the resultant major incident was acknowledged as circa £2m-3m. In addition, an enhanced pay offer was required to settle the industrial action. As Sub Accounting Officer, I believe that the pay offer set out in our Pay Remit reflects the minimum settlement, in the current circumstances, and that a lower offer or refusal to approve will result in higher overall costs than the £7.4m outlined in our business case and accrued in our 2023/24 accounts.”*

- 4.59. The pay award was ultimately approved by the Minister on 21 January 2025 on the condition *"that NI Water proves that the pay award is affordable and that it will live within the allocated resource budget of £149.23m, without impacting on operational service delivery"*.
- 7.29. We note that in its 'Business Case Pay Remit 2023/24' submission, NIW states that the *"proposals ... are affordable, within existing [Public Expenditure] budgetary provision ... in the context of the public pay policy for 2023/24, since the staff costs will be funded from a company accrued figure of £8.5m in its latest in year forecasting return for the 2023/24 year to account for the proposed pay settlement and the additional efficiencies generated by NI Water's ACE2 (Achieving Customer Excellence) Programme ..."*
- 7.30. At the time of the pay settlement in 2024/25, however, due to the reduced budgetary provision for NIW from the previous year, the RDEL gap was c.£7m. Even though, NIW told us that c.£1.8m (c.25%) of the pay award was CDEL rather than RDEL funded, there is still a question over its affordability in cash terms.
- 7.31. The Board, however, described the pay award as as a *"complete necessity"* under the threat of industrial action over the winter period and how, in their opinion, the impact and cost of industrial action would far outweigh the cost of the pay award and as such, were in unanimous agreement that it was not, in reality, discretionary. The outstanding provision that was not required was released generating another £0.9m reduction in forecasted RDEL requirement.
- 7.32. The Department is of the view, however, that the non-contractual elements of the award were ultimately a discretionary cost and that the Board could have 1) agreed not to make the pay settlement, releasing the accrual made in the prior year so that funds could be allocated to other costs in the current year, or alternatively 2) further deferred or staggered the award over a longer period of time (although this would not have had an impact on the financial performance of the Company in 2024/25).

## **Derogations from MPMNI**

- 7.33. As noted at paragraph 2.32 above, section 4.5.2 of MPMNI requires each public sector organisation to *"keep its use of public resources within the agreed budgets, take the limits into account when entering into commitments, and generally ensure that its spending profile is sustainable."*
- 7.34. Annex 4 of the Partnership Agreement requires NIW to obtain the Department's prior written approval before, inter alia, *"entering into any undertaking to incur any expenditure that falls outside the delegations or which is not provided for in NI Water's annual budget as approved by the Department"*. In the absence of approval by the Department, all expenditure which falls outside it's delegated authority, and which has not been approved by DoF, is deemed irregular

under MPMNI. If DoF does not give retrospective approval or authorise write-off of irregular expenditure, DoF will inform the Northern Ireland Audit Office.

- 7.35. On 11 March 2025, as part of an extraordinary meeting, the Board agreed that in light of the RDEL gap at that point in time (c.£5m) that it would be *“necessary to issue a Direction to the CEO to overspend against RDEL allocation to continue to deliver core services in a safe manner”*.
- 7.36. On 13 March 2025, the Chair sent a letter to the Minister which highlighted how *“Faced with an impossible choice, the Board determined that the appropriate course was, in order of preference, to make a final request for additional RDEL allocation or budget cover, failing that, if there was to be cessation of service (which would have significant detrimental impact on the public) Ministerial approval for that, and failing either of those two options, and as a last resort, issuing a direction to the Accounting Officer to overspend”*.
- 7.37. On 14 March 2025, the Chair sent another letter to the Minister which highlighted that *“If the direction issues, I can confirm that the Board has considered in detail the requirements of MPMNI, and also the Partnership Agreement between the Department and NI Water, and the terms of our licence and the statutory duties imposed by The Water and Sewerage Services Order (Northern Ireland) 2006”*.
- 7.38. It is clear from our conversations with the Board, and from our review of Board minutes and the letters throughout March 2025 that they were fully aware of the implications of this Direction under MPMNI, particularly Section 4.5.2. One member noted how the *“only remaining option was to seek derogation”* and therefore they initiated the process to *“notify the Department and protect the Accounting Officer [role] under MPMNI”*.
- 7.39. Accordingly, the Board initiated the following steps which are detailed in the 27 March 2025 Board minutes, and include:
- On 14 March 2025, a letter was issued from the CEO to the Permanent Secretary highlighting the *“conflict of interest between my duties as CEO and my responsibilities as Accounting Officer for NI Water. I have formally written to the Chair in these terms and have advised her that she is required to raise the issue with you directly”*.
  - Also on 14 March 2025, the CEO sent a letter to the Chair stating *“As declared at the outset of the extraordinary board meeting on the 11 March, there is a conflict of interest between my duties as CEO and my responsibilities as Accounting Officer for NI Water”*. Additionally, on the same date, the Chair sent a letter to the Permanent Secretary highlighting the same conflict.

- 7.40. The 27 March 2025 Board minutes also reflect the Board’s knowledge that if this Direction is given, the Comptroller and Auditor General must be informed in writing, and such Direction would need to be published in the 2024-2025 Annual Report and Accounts for NIW.
- 7.41. From our interviews with the Board there is unanimous agreement that “*nothing more could have been done*”; it was a “*last resort*” to consider issuing such a Direction.

