

## Response to Queries by Irish Water from Public Accounts Committee Meeting held on 15<sup>th</sup> January 2014

**Q. 1. What is the cost of the services of Deloitte per year? Four years ago, Deloitte might have been getting a lot more for its services. Has Irish Water maintained that level of payment to the company or did it ask Deloitte to reduce its costs within the contract?**

A. Following a tender process in 2010, Deloitte was appointed as Auditor to Bord Gais Eireann (BGE) for 2010 with an option to extend the term of appointment for up to two years, namely 2011 and 2012 and this option to extend was exercised. In 2013, Bord Gais sought, and received, Ministerial approval to extend the tenure of Deloitte as group auditor for a further year. This extension made sense from both a financial and auditing perspective as, given the degree of change that the Bord Gais group would be undergoing in 2013 with the Energy division sale and the establishment of Irish Water it ensured continuity of audit service in a critical audit period. Bord Gais will be re-tendering its group audit in 2014.

The fee payable to Deloitte for the completion of the 2013 audit of Irish Water is €17,500, this fee having been negotiated under the terms of the existing group audit arrangements already referred to, again fully complying with all procurement requirements. The audit covering the period to 31 December 2013 is the first audit of Irish Waters financial statements and the €17,500 fee represents an extremely competitive rate for the period concerned.

**Q. 2. Copy of the Project Initiation Document (PID) produced for the set-up of Irish Water**

A. A copy of the PID Document has being provided separately.

**Q.3 A breakdown of the amount that was spent on customer engagement and brand development and the budget under this heading**

**A. Customer Engagement & Brand Development Budget**

There has never been a national public awareness campaign about water. Unlike other environmental change programmes such as for waste (Race Against Waste), climate change (The Change Campaign) energy efficiency (The Power of One) and biodiversity (Notice Nature). The challenge of changing attitudes and awareness to water and water services is a significant one and in order to achieve this, there was a commitment to having a sustained communications programme.

The set up costs for Irish Water had a budget for customer engagement and brand development of €4.020m which was based on a set of assumptions some of which changed over the period (e.g. domestic billing date changing from January 2014). Of that budget, €1.814m has been spent and a

further €1.450m is committed for 2014. There are a number of major elements; Staff (direct & contracted), Awareness campaign, and Customer Validation including postage. The customer validation campaign will focus on preparing individuals to become customers of Irish Water.

**Spend to date**

Staff (direct & contracted)	€0.545m
Awareness Campaign	
Brand Development	€0.134m
Advertisement Campaign	€1.002m
Design of all printed items and materials	€0.133m
<b>Total</b>	<b>€1.814m</b>
<b>Further Estimated Spending</b>	
Customer Validation	€1.450m
<b>Total Estimated Spend under this heading</b>	<b>€3.264m</b>

**Q. 4. The tender process used for external contracts associated with the set-up of Irish Water**

In accordance with EU procurement rules, Bord Gais tendered at EU level for service providers to support the delivery of the Irish Water implementation programme. The contracts were advertised in the EU Official Journal (which is a Europe-wide publication) and on the Irish e-tenders website. The service providers were divided into nine contracts (lots). Bord Gais used a 'negotiated procedure' under EU rules which allows Bord Gais to negotiate on all aspects of tenders.

The tender process involved a two stage process – a pre-qualification stage and an invitation to tender stage. Bord Gais received 96 pre-qualification submissions in total for the nine lots advertised. Candidates were shortlisted on the basis of their pre-qualification submissions and between three and six bidders were invited to tender for each of the lots. Contracts were awarded to the most economically advantageous tenders. Various sub-criteria were included in the evaluation including technical capability of solution, proposed team and resources, approach and methodology and price. Price was weighted at 35% for lots 1-5 and at 40% for lots 6-8. The tender process was conducted in an open and transparent manner and a robust and competitive tender process was conducted. Bord Gais engaged in discussions with tenderers as part of the tender process on the contract terms and conditions. All tenderers were required to accept Bord Gais's terms and conditions of part of their final tenders.

**Q. 5. The amount of the €50 million that was spent on consultancy which will be reflected as capital item on the balance sheet of Irish Water**

A. It is important to note that the amount capitalised on the Irish Water balance sheet will differ from the amount included in the Regulated Asset Base. A very strong argument is being made for establishment costs to be fully incorporated in the Regulated Asset Base as Irish Water is of the view that the Irish Water Programme expenditure will deliver value for money for the customer and is absolutely necessary to establish the utility. On that basis, Irish Water believes that when the CER review these costs it will find that the Programme budget has been appropriately spent, represents good value for money from a consumer perspective, and will be allowed in the Regulated Asset Base.

As part of Irish Water's 2013 year end accounts finalisation, an exercise is in progress to establish how much of the Irish Water Programme spend will be capitalised in the Irish Water financial statements. The amount capitalised will be in line with International Financial Reporting Standards (IFRS) which set out the accounting rules under which Irish Water will report. At present, it is estimated that c50%-60% of the Irish Water programme spend to date will meet IFRS criteria for capitalisation. The amount to be capitalised in Irish Water's financial statements is subject to review by Irish Water auditors and by the Commission for Energy Regulation (CER). Regarding that element of the Irish Water Programme spend incurred to 2013 year end on specialist service providers, namely the €50m referred to, it's estimated that approximately 52% of this will be capitalised on Irish Water's Balance Sheet.

**Q.6. The valuation of €11 billion that local authorities placed on the assets that were transferred to Irish Water and the due diligence undertaken to date by Irish Water**

A. Note 1 of the Local Authority Annual Financial Outturn 2011, as published by the Department of the Environment, Community and Local Government and available on its website, records a net book value of €11.2 billion for water and sewerage network fixed assets. This represents the accounting book value being carried by local authorities for water services assets on their books at the end of 2013. Once all relevant water services assets are fully identified and transferred to Irish Water in 2014, Irish Water will carry out its own "Fair Value" assessment of asset values and it will be this fair value assessment that will determine the value to be capitalised on Irish Water's Balance Sheet in accordance with International Financial Reporting Standards. Until the assets in question transfer to Irish Water, the company will not be in a position to carry out due diligence on them, including determining the appropriate fair value.

**Q.7. A note giving a breakdown of the payment of €6,286,639 for due diligence costs under company establishment**

The original budget to carry out the due diligence exercise was €6.2m. The actual cost incurred by the Irish Water Programme to date is €2m.

The original due diligence was planned to be carried out over a number of phases. The first phase was for a pilot due diligence to be carried on a small number of local authorities. The second phase was for the comprehensive gathering of information through quantitative Fact Finding Questionnaires (FFQ) to allow Irish Water build a picture of the water operations of the local authorities and identify key risk areas. This was to be followed by a third phase which would be qualitative in nature and focus on the key areas identified in the second phase to allow Irish Water gain a much clearer understanding of the information received. All phases were to have been progressed mainly with Irish Water programme resources (minimum over 50 resources originally envisaged to progress the Due diligence).

The FFQs were broken out into nine areas as below:

1. Financial
2. Legal & Contracts
3. Assets & Capital Plan
4. Operating Model / Customer & Billing
5. Governance / policy & Procedures
6. Health, Safety, Quality & Environment
7. Facilities
8. IT & Systems
9. HR & People

In practice however, a revised approach to the fact finding was proposed by the local authorities whereby they, in agreement with the DECLG, appointed a joint body, the Water Services Transition Office (WSTO) who acted to co-ordinate the flow of information from all local authorities back into the Irish Water Programme.

The original programme was for all fact finding and initial due diligence to be completed by end May 2013. Given the processes and the enormity of the work involved and the scale of data required this has taken much longer than originally envisaged. However the level of information received by August of last year was critical in allowing Irish Water and all 34 local authorities to complete and agree the Service Level Agreements in time for the 1<sup>st</sup> January handover date.

Further information is being collected as we set up our systems directly with local authorities. This is important from system set up, in procurement, capital set up and Operations workflow set up. Data collection programmes for these areas are being undertaken in the relevant business capability projects with the costs for this collection of data and verification of same being charged to those projects within the programme.