Accounting and cost control proposals 700 Mhz migration project

Draft proposal for DCCAE and ComReg
2RN Accounting and cost control proposals 700 Mhz migration program.

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APPENDIX 1  Project Budget
Summary

RTÉ Transmission Network DAC T/A 2RN (2RN) is required, on the basis of a request from RTÉ and on foot of a decision of Government, to clear the 700Mhz band of DTT broadcast transmission services.

This will incur significant expenditure and will create no benefit for 2RN or RTÉ.

As a result of this, on the basis of the polluter pays principle, compensation will be paid for certain elements of project spend. The elements eligible for compensation and the level of compensation attaching to each element have been determined by The Department of Communications Climate Action and Environment (DCCAE) in conjunction with The Commission for Communications Regulation (ComReg) and Frontier Economics (FE).

This will therefore mean that 2RN are charged with implementing the project which will, to a material extent be funded from public funds. 2RN is conscious of the responsibility that comes with the receipt of public funding.

2RN therefore proposes implementing enhanced controls in the areas of procurement accounting and cost allocation.

The controls will ensure that spend arising directly from the 700 Mhz project will be,

- Efficiently incurred
- Accurately accounted for and
- Correctly allocated.

The controls will be established implemented and monitored by senior 2RN management. They will ensure compliance with best practice and will allow early oversight and subsequent auditing by ComReg. The calculation and control of costs to be compensated will be determined by ComReg and DCCAE. This document should be read in conjunction with, inter alia proposed FE report on 700Mhz repurposing cost compensation and any agreements between RTÉ and DCCAE.

2RN is confident that the responsibility to control and protect spend placed on the company through the provision of public funding will be met through the implementation of the controls detailed in this document.
1. General Ledger

1.1 2RN General Ledger structure

The 2RN General Ledger is arranged into a series of costpools.
A costpool is a section in the GL which will hold related costs or income covering for example a single department, or project.
Costs within a costpool can be posted to appropriate individual account codes within the general ledger. The account codes can include standard operating cost or income heads, payroll/maintenance/ rent and rates/sales, or capital costs, capital work in progress.
The account codes which are available for use within a costpool will be governed by the nature of the costpool and the specific rules attached.
Costpools are designated by an alpha numeric code. This allows us to group related costpools for analysis and reporting.
Currently all 2RN costpools begin with the prefix “AX” operating costpool “UX” income costpools or “CX” for capital costpools.

1.2 700 Mhz Migration accounting

At the inception of the project we will establish a series of costpools to be used exclusively for 700 Mhz costs and income. Expenditure through these costpools will be subject to approval governed by specific rules which will be based on existing 2RN approval rules.
In order to ensure the integrity of 700 Mhz spend the approval rules will be strengthened for these costpools.
All costs, of whatever nature or origin, directly arising from the 700 Mhz migration will be posted to the designated costpools.
Only costs arising from the 700 Mhz migration will be posted to the designated costpools.
1.3 700 Mhz costpool detail

In order to facilitate active management of the 700 Mhz budget and flexible ongoing reporting, the 700 Mhz costpools will have a set structure. The project budget will be agreed, in structure and value, at the outset by 2RN and ComReg. The proposed budget headings and sub-headings are as set out in appendix 1. All spend will be managed and controlled against this budget and against these headings. It will be necessary therefore, to be in a position to account for costs and to analyse and report spend under those headings. To facilitate this we will set up appropriate costpools for all agreed major budget heads, We propose all 700 Mhz costpools will have an alpha code in the form;

CXMZ where,
CX will denote a 2RN costpool which will be accounted for in the balance sheet only
M will denote a 700 Mhz migration project costpool
and
Z will be variable and will define the 700 Mhz sub-project heading, (transmission/antenna/distribution etc).
2. **Expenditure approval**

2.1 **2RN Expenditure approval**

All expenditure incurred by 2RN is subject to public procurement rules. In particular spend which exceeds predetermined limits, set down in legislation from time to time, must go through the EU tendering process.

All expenditure under the 700 Mhz project will follow standard 2RN rules. Due to the scale of the project, and specifically the scale of major elements of the project, much of the spend will be subject to EU procurement.

2RN will issue requests for tenders from relevant suppliers for equipment and services in accordance with the agreed project plan and budget.

At appointment of preferred suppliers by 2RN details will be submitted to ComReg. ComReg will then review for relevance and reasonableness for inclusion within the compensation mechanism.

2.2 **Requisition of Goods and Services**

Once a preferred supplier has been identified in respect of goods or services drawdown will be on the basis of purchase orders (PO’s) raised through the 2RN procurement system.

The procurement system includes a hierarchical approval process which ensures control over all PO’s raised. Any spend on to be charged to a specific costpool will, in the first instance, be approved by the costpool manager. This ensures appropriate management input to all spend.

Further for any spend exceeding predetermined levels additional approval is required by senior management, Financial Controller (spend in excess of €__) or Executive Director (spend in excess of €__).

2.3 **700 Mhz Approval controls**

Spend on the 700 Mhz project will be funded to a large extent from public resources. It is incumbent on 2RN therefore to ensure an enhanced level of control in relation to this spend.

An additional layer of approval will be established as mandatory for all PO’s raised against 700 Mhz costpools.

For ALL 700 Mhz PO’s, in addition to approval by the appropriate costpool manager, approval by either the company Financial Controller or Executive Director.
2.4 **700 Mhz Allocation controls**

The only costs which will be charged to 700 Mhz costpools will be directly arising from the 700 Mhz project.

However, following the outcome of the ComReg/Frontier Economics consultation, compensation will be paid only for some legitimate project spend.

The level of analysis required to ensure adequate compensation is paid and no overcompensation is paid will therefore be much more granular than either project or costpool level.

In particular in the area of transmission equipment compensation levels will depend on the specific asset being purchased and the site to which it relates.

In order to provide the level of granularity required controls will be put in place at the beginning of the procurement process to ensure accurate and detailed information is available for all spend, all PO’s.

Expenditure to 700 Mhz costpools will be allowed only to predetermined account codes.

Valid 700 Mhz account codes will be set up with pre-set sub analyses. These sub analyses will cover,

- List of Transmission/Transposer sites
- List of Asset types

In order to process a PO on a 700 Mhz costpool it will be mandatory to select appropriate sub analyses.

2.5 **Post project cost recovery**

Under the proposed mechanism compensation will be paid to 2RN in respect of an agreed portion of investment in transmission assets which has been brought forward as a result of the 700 Mhz project.

After the point where stranded assets have been fully recovered through the tariff, as proposed by FE in their report, it will be appropriate to recover that element of brought forward investment for which compensation has not been received.

2RN will work with ComReg to ensure that only that cost recovery in the post project period does not result in any over-recovery.
3. **Payment Systems**

3.1 **Payment systems**

All supplier payments are made using best practice online controls through the 2RN Barclays bank account.

Payment can only be made in respect of valid supplier invoices matched against approved PO’s which have been processed through the procurement system described in section 2 above.

The payment process requires duplicate, online, password protected approval.

Much of the 700 Mhz spend will be publically funded. This funding will be specifically in relation to 2RN regulated markets and will be identifiable for inclusion in the separated accounting process. In order to support Regulation and Accounting Separation 2RN will establish a separate bank account for the project. Public funding received will be lodged to the account. When payments for 700 Mhz are to be made they will be clearly identified so that compensation funds will be used only for approved costs.
4. **Ongoing Monitoring and Control**

4.1 **2RN Budgetary control procedures**

2RN prepares monthly management accounts as part of the best practice business management and control processes.

Each costpool manager receives a report on performance of his/her costpool measured against prior year and/or budget as appropriate. This is the case for all significant operational and capital costpools.

All material variances from either budget or expectations are investigated and explained. This review is completed at department level and at individual costpool level.

As a major project the 700 Mhz migration project will be included in this process as a standalone unit.

4.2 **Regulatory Oversight**

Pursuant to the proposed Cost Recovery Mechanism currently under discussion between 2RN and ComReg, 2RN expect to agree a provision for;

- in the case of capital equipment, undertaking milestone reviews at each juncture which will involve assessing confirmed supplier prices and actual costs incurred at network sites (where early intervention is occurring), and
- in the case of operational expenditure, undertaking regular reviews of detailed accounts of costs incurred to be supplied by RTÉ/2rn as and when requested with supporting documentation to ensure they reasonable and appropriate (or not) for payment.

4.3 **External Audit**

The 700 Mhz migration project will be a multi year project. Spend on this project will have a direct bearing on the form and content of the 2RN Market A Separated Accounts. These accounts are subject to annual regulatory audit. Currently the regulatory auditors, appointed to report to both 2RN and ComReg, are KPMG. The level of audit assurance provided by the audit states that the accounts are fairly presented in accordance with accounting documentation and legislation.

The allocation of costs to the 700 Mhz migration project will form part of the input to the Regulated Accounts during the course of the project and as such will be subject to external audit.
APPENDIX 1

Project Budget