Annual Report 2009-10

ACHIEVING BEST VALUE FOR WATER AND SEWERAGE CUSTOMERS

SG/2010/97

Contents

For the period 1 April 2009 to 31 March 2010
Laid before the Scottish Parliament by the Scottish Ministers under Part 1, section 5(4) of the Water Industry (Scotland) Act 2002 (as amended).

June 2010

Our work for customers

We are the economic regulator of the Scottish water and sewerage industry, with a statutory duty to promote the interests of consumers and business customers. We do this by challenging Scottish Water to reduce prices, by insisting on better service and by facilitating greater value and choice through the competitive retail framework.

HIGHLIGHTS OF THE YEAR

- In November 2009 we completed our major review of prices for the period 2010-15. At a time of continued economic uncertainty our review brought good news for customers, with charges being kept substantially below inflation for the next five years.

- Household bills compare well with those for customers in England and Wales; in 2010-11 they are around £20 lower than the average south of the border.

- Our review allowed for a sustainable future for the Scottish water industry. It finances an investment programme of £2.5 billion to maintain the assets, improve environmental and public health performance, and promote a greener water industry.

- Scottish Water continues to respond well to targets and incentives by improving its customer service and tackling leakage.

- It is two years since the non-household market was opened up to retail competition. Around 45,000 business and public sector organisations (approximately 40% of the market) are benefiting through lower charges, and even more customers are enjoying better levels of service.

- We are also seeing developing interest in the new competitive opportunities from both businesses and public sector organisations. During 2009-10 around £43 million of annualised income (approximately 12% of the market) was put out to competitive tender. Business Stream also recently secured a £45 million contract with Scotland's education sector and there are further tenders in the pipeline.

- Building on the successes of regulation to date, we have started early planning to ensure that the industry can respond to the challenges of the future, including carbon reduction targets, affordability and customer expectations. This is likely to involve simplifying the regulatory system and encouraging greater customer participation.

Chairman's foreword

Regulation of the water industry in Scotland began in 1999 with the appointment of a Commissioner to give independent advice to Ministers. In 2005, a Commission was established independently to set charges for customers on the basis of lowest reasonable costs and to supervise the access of new retailers to serve all non-household customers.

Regulation has now come of age and is operating in – and contributing to – a stable environment. Bills have been rising by less than inflation, and will continue to do so. This year household bills are frozen, with the prospect of a freeze next year, while costs to businesses and public authorities should fall following the entry of new retail suppliers.

This has been combined with rapidly improving standards of service for customers, households and non-households alike, and a substantial programme of environmental improvement – the latter involving investment of £1.8 billion (or £744 per household) in Scotland over the first 15 years of the new century. To deliver this, Scottish Water has kept its costs under control and substantially increased its efficiency.

Nothing stands still. Scottish Water has more to do to improve the efficiency of its investment programme. The Commission must respond to the challenges of the future. Some of these are clear. Plans substantially to increase customer and citizen participation are being put in place.

The Commission does not, and should not, operate in isolation. We have continued to work with the Scottish Parliament and with public authorities and businesses in Scotland. We work closely with the quality regulators – the Drinking Water Quality Regulator and the Scottish Environment Protection Agency – and with the Scottish Government and Waterwatch Scotland, to monitor Scottish Water's investment programme. This is a collaborative effort to secure the outcomes that are being paid for by the Scottish people.

The work of the Commission has been commended as an example of how public sector efficiency in Scotland can be enhanced. Much of the credit for this should go to our staff. We are lucky in being supported by an excellent office. I want to take this opportunity to thank all of our hard working staff for what they have done, particularly to deliver a good deal for customers in the review of charges completed during the year.

Ian Byatt

Sir Ian Byatt
Chairman
30 June 2010

Chief Executive's review

In Scotland there has been a remarkable transformation of the water industry over the past ten years. The Scottish water industry has been transformed from the unfortunate position where the industry's value was less than its outstanding debt. Now Scottish Water is one of the financially strongest companies in the UK's water industry.

As regulator we set tough efficiency targets and the company rose to the challenge. The fourth largest water and waste services provider in the UK and in the top 20 businesses in Scotland by turnover, this is a company – operating successfully in the public sector – of which Scotland can be proud.

Customer service levels have improved markedly, leakage has been cut by more than a third, and more than £5.5 billion has been invested in maintaining current assets, and improving drinking water quality and environmental performance. At the same time Scottish Water has made dramatic improvements in its efficiency, the cumulative effect of which is to have driven down average household bills by around £105 a year lower than they would otherwise have been.

Our final determination of charges for the period up to 2015, published in November last year, demonstrated the benefits of the sheer graft and determination that has gone into improving Scotland's water industry. Charges will be held at levels below inflation over the next five years. At the same time, customers will see marked improvements in service levels and in public health and environmental performance.

To tighten up aspects of monitoring and reporting we have developed a new mechanism, the regulatory and monitoring contract, which we published as part of our determination. This provides Scottish Water's Board and the Commission with common information designed to assess performance.

There is good news too on the competitive market front. It is now just over two years since Scotland became the first country in the world to open up water supply to competition to all public sector and business organisations. The framework is working well, and it is gratifying to see that a number of public sector organisations in Scotland – who comprise about 30% of eligible customers – are now coming forward to enjoy the benefits.

It looks increasingly likely that a similar competitive framework will be adopted south of the border. Ofwat has indicated that it believes legal separation of incumbent water companies' retail functions is necessary in order to achieve a level playing field and effective competition. Should these changes be effected, there will clearly be opportunities for water companies both north and south of the border. We are committed to ensuring that where possible the Scottish market is aligned with any market in England and Wales, so that customers either side of the border can access the same opportunities.

Although regulation is delivering significant benefits to customers and the environment we are fully cognisant of the industry's challenges ahead. Encouraging innovation and participation by customers will be key both to continuing to deliver good outcomes for customers and the environment, and to ensuring that charges remain affordable. We are embarking on a review of a number of aspects of the current framework which will put customer participation at the heart of the process. This may well involve simplifying the regulatory framework and a thorough review of the incentives available to Scottish Water. This is innovative work and we will continue to consult on it as our thinking develops. Equally important, it is about evolution not revolution.

In closing I would like to take this opportunity to thank the staff of this office, who worked extremely hard in delivering the draft and final determinations. Their commitment helped ensure that Scottish Water continues to be a beacon of what can be achieved in the public sector.

Alan D A Sutherland

Alan D A Sutherland
Chief Executive
30 June 2010

Encouraging innovation and participation by customers will be key both to continuing to deliver good outcomes for customers and the environment, and to ensuring that charges remain affordable.

Delivering value for money

In November 2009 we announced our final determination of the prices that Scottish Water can charge its customers over the period 2010-15. We made sure that customers will get value for money. Charges are set at five per cent below inflation between 2010 and 2015. We included a price freeze from April 2010 that is likely to continue into 2011. The determination also brings improvements in service, public health and environmental performance.

THE 2010-15 PRICE REVIEW

The final determination set out our view of the lowest reasonable overall cost of delivering Ministers' objectives for the water industry. We set prices that allowed Scottish Water sufficient resources to deliver these objectives provided it meets our expectations of improved efficiency. Scottish Water formally accepted the final determination in January.

The charge caps enable Scottish Water to deliver more than £2.5 billion in investment to:

- improve our environment,
- contribute to sustainable development,
- reduce its carbon emissions,
- achieve its economic level of leakage,
- increase compliance with public health standards, and
- provide higher levels of service to customers.

These improvements will benefit Scotland for many years to come. We also allowed for a series of initiatives, which could facilitate the development of more environmentally friendly communities where households are more aware of their water use and so can influence the extent of their carbon emissions.

Our final determination took account of the representations we received from a wide range of stakeholders in response to the draft determination (published for consultation in June 2009). We carefully reviewed the representations, along with new information that became available after we had published our proposals.

In the draft determination we suggested that it could be beneficial to extend the regulatory control period by an additional year, to five years. There was widespread support from stakeholders, and after agreement from Scottish Government Ministers our final determination covered the period 2010-15.

In the course of preparing the final determination we agreed with Scottish Water that there was merit in setting out the main points of the determination in a regulatory and monitoring contract. This contract includes the principal performance indicators that we will monitor and the processes by which interim milestones would be agreed and, if necessary, revised over the next five years.

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Water industry regulation has wider lessons for Scotland because its achievements have been brought about within the public sector.

KEY MESSAGES FROM THE PRICE REVIEW

- Household charges are frozen in 2010-11 and, subject to inflation, in 2011-12.
- Over the five years 2010-15, household charges will remain at 5% below inflation.
- Charges for businesses and public sector organisations (except for some users of trade effluent services) are also frozen in 2010-11 and will follow the same profile as households after that. Many of these customers may also be able to negotiate an even better deal with their supplier or reduce their bills by helping Scottish Water to lower its costs.
- Increased margins for retailers should yield better prices and services to businesses and public service customers.
- The company's financial position should remain robust, which bodes well for future charges.

EXPLAINING OUR DECISIONS

Throughout the price review we placed particular emphasis on making sure that our decisions were open and transparent. Over a three-year period, for example, we held 16 stakeholder workshops. We made sure that our draft and final determination documents would be accessible to all stakeholders – from members of the public with an interest in their future bills to water industry specialists with more technical requirements.

We published short documents containing succinct, clear information, supported by more detailed 'staff papers'. Copies of the final determination were made available on CD and on our website, along with Gaelic language and large print versions.

NEXT STEPS

When we published our final determination we signalled our intention to simplify the regulatory system and to increase further the engagement of customers in future price reviews. We will shortly publish our initial thinking on this.

Improving Scottish Water's performance

Customers must have confidence that the service they receive meets their needs and expectations. We monitor Scottish Water's performance in providing service to customers and publish information about its achievements against the targets we set. We continue to challenge Scottish Water to become more efficient.

In 2009-10 Scottish Water made good progress on improving customer service, tackling leakage and delivering its substantial investment programme.

DEVELOPING APPROACHES TO MONITORING

Each year customers finance around £500 million of investment through their water bills. This is required to deliver cleaner beaches and rivers, improve drinking water quality and deliver a better service to customers. With the Drinking Water Quality Regulator, the Scottish Environment Protection Agency, Waterwatch Scotland and the Scottish Government we carry out detailed monitoring of progress in delivering the thousands of projects across Scotland that make up the investment programme.

This year we developed further the monitoring mechanisms we use by introducing the 'overall measure of delivery' (OMD). This new measure uses information on the progress of each project and its associated expenditure to provide stakeholders with a high level score for delivery progress. It is then possible to compare the score for each quarter against Scottish Water's forecast position at that point in time.

The OMD sits alongside the 'overall performance assessment' (OPA) which we use to measure performance on customer service, and our monitoring of operating cost expenditure.

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This year we developed a new measure of investment progress which customers can use to check that progress in delivering the outputs they have paid for, is on track.

We welcome the marked improvements in service delivered to date and, as outlined in our final determination, now have every expectation that Scottish Water's performance will at least match that of the leading companies in England and Wales by 2013-14.

BETTER CUSTOMER SERVICE

We set annual milestones for Scottish Water to improve its customer service. We use a points-based system, the overall performance assessment, which encompasses the aspects of service that are most important to customers. This includes aspects such as the speed with which customer enquiries are dealt with and the risk of sewer flooding.

We are pleased to report that for the fourth year running Scottish Water's OPA score improved and that its OPA score in 2009-10 was 291 points – an increase on the previous year of 39 points. The score is 50 points higher than the target that we set for 2009-10.

This impressive improvement has in part been achieved because Scottish Water was able to secure compliance by its Public Private Partnership partners at Dalmuir waste water treatment works. This was something we had pressed Scottish Water to pursue.

IMPROVING EFFICIENCY AND TACKLING LEAKAGE

We reported in November 2009 that Scottish Water's running costs, including one-off costs that it incurred, increased from £267 million in 2007-08 to £290 million in 2008-09. On a like-for-like basis this was an underlying increase of around 6%. We explained that although Scottish Water had reduced its running costs by almost 40% between 2002-03 and 2007-08, there was now much less scope for such reductions in operating costs in future. Although Scottish Water's operating costs increased in 2008-09, they were still within the levels that we assumed when setting prices for that time.

The increase relates mainly to additional expenditure on leakage detection and control activity, an important issue for customers and the environment. Since 2006, we have set Scottish Water pragmatic annual targets to reduce leakage continually so that it achieves the point where the cost saving of reducing leakage is equal to the economic cost of the water lost. This is known as the economic level of leakage.

We are pleased to report that Scottish Water has beaten the leakage targets that we set in both 2008-09 and 2009-10, the latter despite the severe winter weather experienced. Leakage is now around 36% below its level of five years ago. In our final determination we said that we expected Scottish Water to reduce its leakage by over a third again, but for this to have no upward impact on costs.

The introduction of the Climate Change (Scotland) Act in 2009 brings to the fore the ways in which carbon emissions can be reduced within Scottish Water. We believe that continuing to target leakage could have a great impact here.

This year we have also worked closely with Scottish Water on a project to identify properties that had previously been unbilled. Addressing this issue will bring in additional revenue and will provide greater fairness and transparency for all customers.

DELIVERING INVESTMENT

After a slow start, Scottish Water made a good recovery in delivering its investment programme. By the end of the 2006-10 regulatory control period it had successfully delivered most of the objectives set by Ministers, including outperforming in some areas. Those outputs from the 2006-10 programme that remain to be delivered will be completed in the current control period (ie 2010-15).

Detailed scrutiny of output delivery is carried out by the Outputs Monitoring Group (which comprises the Scottish Government, Scottish Water, the Drinking Water Quality Regulator, the Scottish Environment Protection Agency, Waterwatch Scotland and the Commission).

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We will continue to build on the success of the Outputs Monitoring Group by improving the information that is available to stakeholders on Scottish Water's performance in delivering the investment programme.

Scottish Water has exceeded its leakage target for the second year in a row. Leakage is now more than a third lower than at the start of the 2006-10 regulatory control period.

NEXT STEPS

For the reporting year 2010-11 we plan to combine our three existing performance reports (on Investment, Customer Service and Costs) into a single document. This consolidated report will provide customers and other stakeholders with a complete overview of Scottish Water's performance.

We will continue to work closely with Scottish Water to further develop understanding of its economic level of leakage, and of the environmental benefits and operating costs of reducing leakage.

Looking further ahead we are currently working with Government and other stakeholders to assess the investment requirements to meet legal obligations in the next regulatory control periods.

Facilitating greater value and choice through competition

The retail water and sewerage market for business and public sector organisations has now been open to competition for two years. In that time there have been steady improvements in the market, with more options and better services.

BENEFITS TO CUSTOMERS

The retail competition framework in Scotland is working well, and there has been steady progress in developing greater choice. Around 40% of the market is benefiting through lower charges, and even more customers are now enjoying better or more tailored levels of service. The arrangements that we put in place are also working well, with customers finding it easy to switch and to deal directly with their chosen suppliers.

New retail suppliers have entered the market this year. There are currently five active licensed providers in the market, including two major English water companies: Aimera, Business Stream (the retail subsidiary of Scottish Water), Osprey Water Services (a subsidiary of Anglian Water), Satec, and Wessex Water Utility Solutions (part of the Wessex Water group).

Since April 2010 the margins between the regulated 'default' retail tariffs and the wholesale charges levied by Scottish Water have increased and will continue to do so until 2015. As a result, we expect retailers will compete by offering fresh incentives to their business and public sector customers, such as those who pay by direct debit.

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The additional scrutiny placed by the retailers on services, and the keener focus on operating processes and procedures required by the retail framework, has identified savings that will benefit both household and non-household customers.

Public sector organisations in Scotland – who comprise around 30% of eligible customers – are waking up to the potential benefits for them of the new market. Recently, Advanced Procurement for Universities and Colleges Scotland tendered a £45 million contract to supply Scotland's university and college sectors. This contract – which was tendered under the OGC rules – also includes 56 other central government organisations, including the Scottish Parliament and Historic Scotland.

We expect there to be further tenders going forward. In January, Procurement Scotland – the body tasked with developing and implementing procurement strategies on behalf of all Scottish public sector organisations – issued a Request for Supplier Information. This is the first step towards developing national public sector contract arrangements for water and sewerage in Scotland that will sit alongside the contracts already in place for gas and electricity. Procurement Scotland estimates the value of the public sector portfolio for water in Scotland to be around £73 million.

BENEFITS TO THE ENVIRONMENT

One of the key achievements of the introduction of competition is that there is now greater awareness amongst business customers of the environmental benefits and cost savings to be made from being more water efficient. Retailers are now competing to offer services that allow consumers to monitor how much water they use, when they use it, what for, and how they dispose of it. Such initiatives are not limited to large businesses or multi-site businesses, but include small and medium businesses looking to save money. The result is not only lower costs but also a significant reduction in Scotland's carbon footprint.

Bespoke environmental advice and solutions are being offered by suppliers, along with an increased commitment to water saving measures (such as toilets that are flushed with rainwater and taps that turn themselves off) and to leakage reduction at the customer's property. Separating retail activities also makes it more likely that customers will receive a more tailored service in waste management and surface drainage.

- Improved data management allowed an NHS hospital to benchmark its water consumption against similar sites and identify inefficiencies.
- A supermarket chain worked with Business Stream in installing smart metering and in their Scottish stores reduced water consumption by 7.6%.
- A large producer of farmed salmon installed new systems that led to savings of £160,000 per year and a significant reduction in the company's carbon footprint.

NEXT STEPS

Although customers have already begun to feel the benefits of the competitive market we are not resting on our laurels. We have recently begun to examine the ways in which the current framework might work more efficiently and bring further benefits for customers. This includes launching a recent consultation process looking at how three further areas may best be organised in the new retail framework; these are customer advice relating to trade effluent, connections activities and metering.

In relation to possible changes to the market in England and Wales, we are committed to working with our colleagues at Ofwat to ensure that all customers in the UK are able to benefit from the opportunities available from competition both now and in the future.

Business Stream advises that it has so far helped customers make over £7 million worth of efficiency savings overall – in terms of water that's a saving of more than 2 billion litres. And in terms of carbon, that is the equivalent of taking 1,000 cars off the road.

Managing our office

From our small office in Stirling we are responsible for regulating an industry with an annual turnover of more than £1 billion that provides a vital service to the Scottish people.

One of the key tasks this year was to communicate to stakeholders the impacts of the draft and final determinations. We see it as mandatory to explain what we do and why we are doing it, and to involve all interested parties in the regulation of an industry that concerns everyone.

We carry out our role at a cost of around 60 pence per customer a year.

ENGAGING STAKEHOLDERS

To communicate with our numerous stakeholders we use a number of different approaches including:

- issuing news releases, undertaking media interviews, and placing articles in general and technical journals;
- giving regular presentations and speeches, and taking part in round-table discussions about the regulatory framework;
- responding to consultations on water industry issues – including, this year, on the Cave and Walker Reviews;
- keeping our corporate website (www.watercommission.co.uk) and our competition micro-site (www.scotlandontap.gov.uk) relevant and up to date for users;
- distributing e-postcards to alert stakeholders about announcements or new publications;
- welcoming visitors from international governments as diverse as China and Jordan, who come to find out about our ground-breaking regulatory model.

Our Chairman continued his ongoing programme of visits to stakeholders including MSPs, local authorities, trade associations and businesses in Scotland to identify their concerns and to explain the work of the Commission. During the year he visited Campbeltown and Argyll and Bute Council, Orkney Island Council and Orkney Housing Association, and Shetland Council.

Our Chairman Sir Ian Byatt provided evidence in September 2009 to the Scottish Parliament's Transport, Infrastructure and Climate Change Committee in relation to our draft determination.

In the run up to the draft and final determinations we made sure that the process and our decision-making was as transparent as possible. When we launched the determinations we held a number of different events to explain our decisions and received extensive media coverage. Based on published readership figures, this coverage represented some 22.5 million 'opportunities to see' for the final determination.

REDUCING OUR OWN COSTS

Our funding comes from two sources – just over 70% comes from a levy from Scottish Water, while the remaining 30% comes from the licensed retail providers. The contribution from the licensed providers covers the costs we incur in exercising our functions relating to the new retail framework, including promoting the new opportunities available to eligible customers through exhibitions and, where cost-effective, by advertising on radio, on-line and in print.

Along with all other public bodies we are conscious of the need to maintain tight control of our own running costs and to look for opportunities to reduce these where possible. We have achieved significant savings this year. Our success in recruiting skilled analysts has reduced the need for us to rely on external consultants. We have also identified that moving to new offices will reduce our rent, rates and service charges. The new accommodation is located in the centre of Stirling so offers amenities nearby and good public transport links; these benefits should help us attract and retain staff. We expect to move to the new offices at the turn of the year.

FINANCIAL REPORTING AND CONTROL

During the course of the year our Audit and Remuneration Committees have continued to provide independent advice to the Commission on the financial management and governance of the office.

The Audit Committee is the central means by which the Commission ensures that effective control arrangements are in place. The Committee reviews, monitors and reports on the attainment of effective control systems and financial reporting processes. External audit is provided by Audit Scotland, who attend all meetings of the Audit Committee, as does PricewaterhouseCoopers, our appointed internal auditors.

ENQUIRIES AND FREEDOM OF INFORMATION REQUESTS

This year we responded to over 100 email enquiries, including a number from business customers who were interested in the opportunities provided by the competitive retail market.

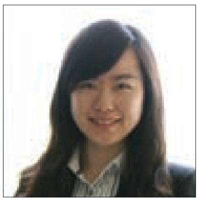
We also received 57 requests for information under the Freedom of Information (Scotland) Act 2002.

STAFF PROFILES

XINYUE LI

Armed with an MSc in Statistics from the London School of Economics, Xinyue Li was drawn to the role of analyst at WICS for a number of reasons. She was looking for a job where her skills in mathematics and statistics could be put to practical use and was keen to work here in Scotland, a country that has long fascinated her. Perhaps more surprisingly, she would be following in her father's footsteps – he works for the government in setting charges for various services, including water, in her home province of Jiangsu in China!

Since she joined in summer 2008 Xinyue has worked in the Analysis Team on a number of different projects, including developing the model for the overall performance assessment, which WICS uses to monitor Scottish Water's customer service performance. Her work was an important part of the analysis that went in to developing the numbers in the draft and final determinations of charges last year. More recently Xinyue reviewed Scottish Water's Scheme of Charges and has undertaken analysis of charging cross-subsidies.



Xinyue particularly likes the fact that her work combines pure numbers and statistics with more practical issues and matters of judgement. In her spare time Xinyue is studying to be a Chartered Financial Analyst, which she expects to complete next year.

Xinyue has found her colleagues and local people to be very welcoming: "People have the time to talk – they say hello as you pass on the street – which is very different from my experience when doing my MSc in London. It is a very friendly office and my colleagues helped me out a lot when I was first finding my feet." Xinyue also enjoys working in Stirling because the surrounding countryside is so beautiful, and because Scotland is "the cleanest place you have ever seen"!

HERNANDO MONCALEANO

Arriving at WICS in August 2009, Hernando Moncaleano is one of our most recent recruits. Hernando gained his first degree in economics at home in Venezuela then achieved an MBA from the London Business School. Like his colleague Xinyue, Hernando was drawn by the idea of coming to Scotland. He lives in Edinburgh, which he thinks is a great place to live, and undertakes the short commute to the office in Stirling each day.

Hernando is involved with some of the office's most cutting-edge projects, including our current review of the regulatory framework and increasing consumers' involvement in the industry.

Having previously worked in much larger organisations including PepsiCo and PricewaterhouseCoopers, Hernando especially enjoys the fact that in this small office the part he plays has a large impact and he is more directly involved in decision-making. He also enjoys representing WICS outside the office as he attends meetings with Scottish Water, the Scottish Government, other regulators and stakeholders.

Hernando likes the fact that although the office employs only a few people, they are so diverse. He says: "It is amazing that employees in this fairly remote location in Scotland should come from all over the world and represent so many different cultures. I even have a colleague here who also speaks Spanish!"

Who we are

- **Sir Ian Byatt** – Chairman
  - **David Simpson** – Deputy Chairman
  - **John Banyard** – Commission Member
  - **Mike Brooker** – Commission Member
  - **Charles Coulthard** – Commission Member
  - **Alan Sutherland** – Chief Executive
    - **John Simpson** – Director of Analysis
      - **Paul Howbold** – Senior Analyst
      - **Hernando Moncaleano** – Senior Analyst
      - **Peter Bilitsch** – Senior Analyst
      - **Madapu Nhlapo** – Analyst
      - **Konstantinos Sparis** – Analyst
      - **Colin McNaughton** – Analyst
      - **Maynard Xu** – Analyst
      - **Xinyue Li** – Analyst
    - **Katherine Russell** – Director of Corporate Affairs
      - **Richard Khaldi** – Senior Analyst
        - **David Walters** – Analyst
      - **Claire Nichols** – Publications Manager
      - **Judy Tait** – Analytical Assistant
      - **Mark Nolan** – Analyst
      - **Richard Pollock** – IT Manager
        - **David Galloway** – IT Assistant
      - **Shona Coan** – Financial Controller
        - **Jess Bell** – Finance & Facilities Officer
      - **Donna Very** – PA
        - **Kirsty Love** – Administration Assistant
    - **Ian Tait** – Director of Investment
      - **David Tyler** – Senior Engineer
      - **David Satti** – Analyst
      - **Alexander Rodriguez** – Analyst

Financial review:
UNAUDITED FINANCIAL INFORMATION

The financial information provided in this report is unaudited and is subject to external audit by Audit Scotland.

UNAUDITED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	Note	Year ended 31 March 2010 £	Year ended 31 March 2009 £
INCOME			
Scottish Water statutory contribution		3,033,204	3,230,115
Scottish Water statutory contribution - Waterwatch Scotland		719,496	719,496
Levy on licensed providers		1,204,750	1,203,250
Finance income		-	11,000
Other income		5,422	4,990
		4,962,872	5,168,851
EXPENDITURE			
Staff costs	1	1,768,713	1,482,346
Staff travel and subsistence		216,076	156,136
Office accommodation		145,082	154,034
General operating costs		646,268	387,075
Regulation and licensing costs		1,113,356	995,451
Recruitment		563	134,340
Information project and IT support		51,698	90,465
Finance charges		14,737	2,608
Transfer of levy to Waterwatch Scotland		719,496	719,496
Loss on disposal of fixed assets		7,335	9,128
Depreciation		114,294	107,051
		4,797,618	4,238,130
Operating surplus		165,254	930,721
Interest receivable		1,678	24,629
Net income after interest		**166,932**	**955,350**
Taxation		-	(5,048)
Operating surplus after taxation		**166,932**	**950,302**

UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Note	Year ended 31 March 2010 £	Year ended 31 March 2009 £
NON-CURRENT ASSETS			
Property, plant and equipment	5	188,967	209,065
Intangible assets	6	108,733	147,314
Pension assets	1	2,081,000	1,464,000
Total non-current assets		**2,378,700**	**1,820,379**
CURRENT ASSETS			
Other receivables	2	125,541	90,575
Cash		1,364,942	1,277,019
Total current assets		**1,490,483**	**1,367,594**
TOTAL ASSETS		**3,869,183**	**3,187,973**
CURRENT LIABILITIES			
Trade and other payables	3	(442,134)	(505,856)
Total current liabilities		**(442,134)**	**(505,856)**
NON-CURRENT ASSETS PLUS/LESS NET CURRENT ASSETS/LIABILITIES		**3,427,049**	**2,682,117**
NON-CURRENT LIABILITIES			
Pension liabilities	1	(2,975,000)	(1,462,000)
Net Assets		**452,049**	**1,220,117**
RESERVES			
General Reserve	4	**452,049**	**1,220,117**

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

1. STAFF

Staff costs comprise:

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Salaries and wages	1,510,062	1,260,872
Social security costs	156,390	122,474
Pension costs*	102,261	99,000
Amounts included within operating surplus	1,768,713	1,482,346

Average number of persons employed:

The average number of whole-time equivalent persons employed during the year was 26 (2009:23), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2010	Year ended 31 March 2009
Directors, including Chief Executive	4	4
Corporate Affairs	9	12
Analysis	13	7

* Some employees and former employees of the Commission's office are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme. In accordance with International Accounting Standard 19 (IAS19) – Employee Benefits, the Commission commissioned the Fund's actuaries to undertake a valuation as at 31 March 2010. This calculation was based on rolling forward valuation data at 31 March 2009 to 31 March 2010 on the basis of a number of financial assumptions. The previous 12 months have been generally excellent for investment markets, resulting in higher than expected investment returns that had a positive impact on the IAS19 position. However this has been significantly outweighed largely by the less favourable financial assumptions at 31 March 2010 and by changes to reflect improvements in life expectancy. All else being equal, these factors serve to increase the value of the liabilities and thus have a negative impact on the IAS19 position.

2. OTHER RECEIVABLES

	As at 31 March 2010 £	As at 31 March 2009 £
Prepayments	122,282	89,947
Other receivables	3,259	628
	125,541	90,575

3. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	As at 31 March 2010 £	As at 31 March 2009 £
Trade payables	227,394	319,487
Taxation and social security	47,840	56,087
Accruals and other payables	166,900	130,282
	442,134	505,856

4. STATEMENT OF CHANGES FOR RESERVES FOR THE YEAR ENDED 31 MARCH 2010

	General Reserve £	Pension Reserve £	Total Reserves £
Balance as at 31 March 2008	293,582	117,000	410,582
Prior period adjustment	(6,089)	-	(6,089)
Restated balance at 1 April 2008	287,493	117,000	404,493
Changes in reserves 2008-09	930,624	(115,000)	815,624
Balance as at 31 March 2009	1,218,117	2,000	1,220,117
CHANGES IN RESERVES 2009-10			
Actuarial gains/(losses)	-	320,000	320,000
Change in assumptions underlying the present value of the scheme liabilities	-	(1,255,000)	(1,255,000)
Net surplus for the year	127,932	39,000	166,932
Balance as at 31 March 2010	**1,346,049**	**(894,000)**	**452,049**

5. PROPERTY, PLANT AND EQUIPMENT

	Information technology £	Furniture and fittings £	Total £
COST			
At 31 March 2009	176,736	271,270	448,006
Additions	24,424	19,186	43,610
Disposals	(45,374)	(14,610)	(59,984)
At 31 March 2010	155,786	275,846	431,632
DEPRECIATION			
At 31 March 2009	137,926	101,015	238,941
Charge for the year	28,788	27,585	56,373
Eliminated on disposals	(45,374)	(7,275)	(52,649)
At 31 March 2010	121,340	121,325	242,665
Net book value at 31 March 2010	34,446	154,522	188,967
Net book value at 31 March 2009	38,810	170,255	209,065

6. INTANGIBLE ASSETS

	Software licences £	Information technology £	Total £
COST			
At 31 March 2009	36,715	175,627	212,342
Additions	1,538	17,802	19,340
Disposals	-	-	-
At 31 March 2010	38,253	193,429	231,682
AMORTISATION			
At 31 March 2009	21,121	43,907	65,028
Charge for the year	9,563	48,358	57,921
Eliminated on disposals	-	-	-
At 31 March 2010	30,684	92,264	122,949
Net book value at 31 March 2010	7,569	101,165	108,733
Net book value at 31 March 2009	15,594	131,720	147,314

water industry commission FOR SCOTLAND

www.watercommission.co.uk

E: enquiries@watercommission.co.uk • T: +44 (0)1786 430200
Water Industry Commission for Scotland, Ochil House, Springkerse Business Park, Stirling FK7 7XE

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