

ANNUAL REPORT 2008-09

Achieving best value for water and
sewerage customers





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FOR THE PERIOD 1 APRIL 2008 TO 31 MARCH 2009

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 2009

OUR WORK FOR CUSTOMERS

We are the economic regulator of the Scottish water and sewerage industry. We protect consumer and business interests by challenging Scottish Water to reduce prices, by insisting on better service and by opening up parts of the monopoly business to competition.

HIGHLIGHTS OF THE YEAR

- We completed the final stages of our price review and will announce draft charge caps for the four-year period 2010-14 on 30 June. In conducting our review we have been mindful of the desirability of keeping increases in bills below the rate of inflation – for today’s customers and for future generations.
- Around a third of business and public sector customers in Scotland renegotiated their existing retail package or switched supplier. There is also clear evidence that opportunities to use water more efficiently are being exploited.
- Scottish Water has continued to respond well to targets and incentives, by improving its customer service and tackling leakage.
- It also maintained tight control of its running costs across the business, leading to lower bills for customers. Household bills now compare well with those for customers in England in Wales; in 2009-10 they are £28 lower than the average south of the border.
- Following a recruitment drive we are employing eight more analysts to bring new expertise and approaches in the areas of market frameworks, business strategy and financing. The office continues to work well, and within budget.





Ian Byatt

CHAIRMAN'S FOREWORD

In three weeks' time, on 30 June, we will announce our draft determination of Scottish Water's charges for 2010-14. We hope that all stakeholders, particularly customers, will take the opportunity to express their views on these draft price limits. We will consider all representations before publishing our final decisions on 30 November 2009.

I am pleased to say that Scottish Water has continued to respond well to regulatory and other challenges. It is a public sector success story that may have lessons for other parts of the Scottish public sector. To continue to improve its efficiency – in the interests of customers, the environment and the Government – Scottish Water must, of course, have sufficient flexibility to deliver the outcomes required within the 2010-14/15 regulatory control period.

It will need to borrow substantially to finance the investment necessary to fulfill its social and environmental obligations. The public expenditure outlook in the years ahead is very tight and the Scottish Government is no longer able to offer Scottish Water full flexibility in the timing of its borrowing. The Government should consider using the Scottish Futures Trust as a vehicle for providing finance to Scottish Water, or allowing Scottish Water to borrow commercially (along the lines agreed for Network Rail).

The Commission has met regularly during the year with Scottish Water, the Scottish Government, the Drinking Water Quality Regulator and the Scottish Environment Protection Agency to monitor progress in delivering the current investment programme – both at board level and at a more detailed working level. We are concerned about Scottish Water's ability to ensure regulatory sign-off on what is an extremely large investment programme on time and to a point where customers and the environment are benefiting from the results of the expenditure. In the next regulatory period we must ensure that its scale is tailored to secure efficient delivery.

It is just over a year since the retail market was opened up to competition for business and public sector customers. Experience since then has shown that competition and environmental benefits are mutually reinforcing. Suppliers are offering bespoke environmental advice and solutions, along with an increased commitment to water saving measures and leakage reduction. Other benefits could come from developing markets in water resources, discharge consents or in the treatment of water and sewage.

The current financial climate may have damaged confidence in the 'market'. But recent events have not shown that trade, economic pricing and competition have become any less important in meeting the wishes and priorities of Scottish Water's customers.

During the year I have continued to visit MSPs, local authorities, trade associations and businesses in Scotland to identify their concerns and to explain the work of the Commission. I have also presented the work of the Commission to audiences in London.

The Commission owes a great debt to our Chief Executive and to the dedicated staff in the office. We thank them hugely for their imaginative approaches and hard work; it is a great pleasure to work closely with them. The office is becoming increasingly international. Including new recruits, our staff now come from Scotland, England, Colombia, Venezuela, South Africa, China, Greece, Germany, USA and Canada.

Sir Ian Byatt
Chairman

10 June 2009





Alan P. Siskel

CHIEF EXECUTIVE'S REVIEW

When we first put forward our proposals for competition many could not imagine them coming to fruition. Developments in Scotland – and now proposed for south of the border – have brought those seemingly pioneering ideas into the mainstream, and Scottish businesses are the first to enjoy the results.

In the year since the water and sewerage market in Scotland was opened up to competition, over a third of businesses and public sector organisations are getting a better deal on their water bills or enjoying other advantages such as bespoke water saving advice, easier billing and new tariffs. This is only the beginning. We anticipate that more suppliers will enter the market. As the market flourishes, further cost savings, more tailored services and environmental benefits should become available.

The successful introduction of retail competition was a first step in introducing competition to the wider industry. We are now concentrating our efforts on how the market might be developed further. We are, for example, considering who might be best placed to deliver activities such as metering, new connections and trade effluent.

And there are more exciting times ahead, as new industry structures will inevitably impact on our regulation. Scottish Water is no longer a vertically integrated company, so the straightforward comparisons with companies in England and Wales that we have relied upon may no longer apply at the next price review. Now, we must think of the kind of regulatory model that will fit the new circumstances. We must also make sure that we regulate the remaining monopoly elements so that the right incentives for efficiency and innovation continue to hold good.

Our work on competition has revealed to us that traditional, backward-looking cost allocations have little in common with the actual economics of the water industry. As such, they may well no longer be fit for purpose. The true cost of potentially contestable activities is consistently higher than we expected. This could leave Scottish Water open to accusations that it is seeking to reserve parts of the market for itself (ie margin squeeze).

Scottish Water must be able to demonstrate clearly that it is compliant with competition law and not abusing its dominant position within the wholesale market. As a first step in ensuring compliance we have been working with Scottish Water to develop ways to allocate the full economic costs to activities that may be contestable, including water and sewage treatment.

We have followed the progress of the Cave and Walker Reviews of the water industry in England and Wales very closely. The Cave Review has confirmed our initial thoughts that the Scottish regulatory framework might be developed further.

The Walker review is likely to highlight some of the environmental and customer benefits that result from more extensive metering of households. We believe that these benefits may also apply in Scotland. We will discuss with the Scottish Government and Scottish Water how best to proceed.

While developing competition has been a significant part of our work this year, we have maintained as our prime focus preparing the draft determination, which we will publish on 30 June. As part of this we have scrutinised and challenged Scottish Water's business plans to make sure that the costs of achieving ministerial objectives for the industry really do represent best value for customers.

A basic principle of our approach to regulation is to discuss our policies, explain our thinking and listen to stakeholders. We hope that as many individuals and organisations as possible will comment at the next crucial stage – the consultation period between our draft price limits and our final decisions in November.

I am delighted that during the year the Chairman Sir Ian Byatt and valued Commission members Professor John Banyard OBE and Dr Mike Brooker agreed to be reappointed for a further three years. I would like to thank them, the other Commission members and all of the team in the office for their unstinting support.

Alan D A Sutherland
Chief Executive

10 June 2009

1. ACHIEVING VALUE FOR MONEY

To achieve best value for customers of the water and sewerage industry we set prices that deliver environmental, drinking water quality and service improvements at the lowest cost. At the end of this month, we will announce new draft charge limits for the four-year regulatory control period 2010-14. We particularly want to hear customers' thoughts on our draft decisions.

THE 2010-14 PRICE REVIEW

On 30 June we will publish our draft determination of Scottish Water's charges for 2010-14. The determination will set out our view of the lowest reasonable overall cost of delivering Ministers' objectives for the water industry. We set prices that allow Scottish Water sufficient resources to deliver these objectives provided it meets our expectations of improved efficiency.

This draft determination represents the culmination of a three-year process. Of key importance have been the draft business plans submitted to us by Scottish Water. The plans set out how Scottish Water proposed to meet the ministerial objectives, the resources it would need and the prices customers would pay as a result.

Scottish Water submitted its first draft plan to us in May 2008. We provided detailed feedback on the plan in July 2008. This process helped improve the quality of the second draft business plan, and ensured that it formed a reliable basis for the analysis we have undertaken. Scottish Water submitted its second draft plan to us in March this year.

In reaching our conclusions for the draft determination we have considered carefully not only Scottish Water's business plan submissions, but also feedback from the independent industry Reporter and the views of other stakeholders. Our task has been to apply rigour to Scottish Water's cost assessments, not to challenge the benefits themselves.

Following publication of the draft determination there will be a 12-week consultation period for responses on the initial decisions. We will publish the final determination on 30 November 2009.

INVOLVING STAKEHOLDERS

We have operated a transparent price review process. We have conducted detailed consultations on our methodology, arranged workshops and held stakeholder information days. These events provided useful opportunities for people to air their views and discuss with us issues as diverse as governance, incentives, customer service and investment. We published discussion papers beforehand, and included a summary of what was said on our website.

We will hold two further stakeholder events on 30 June and 30 November to explain our draft and final determinations. We would like to thank all those who have contributed to the debate so far, and hope that they will comment at this last stage.

THE FINAL DETERMINATION

We will consider all representations on the draft determination before publishing our final decisions on 30 November 2009. The final determination will effectively be a binding contract on Scottish Water, setting out what it must achieve and the budget that it must not exceed over the 2010-14 regulatory control period.

Our determination will allow Scottish Water a level of revenue that covers its operating, capital and financing costs, and takes account of the level of borrowing that is made available by the Scottish Government.

We understand that the Scottish Government may now no longer be able to offer Scottish Water the full flexibility in the timing of its borrowing that was available in the last regulatory control period. Consequently, it is particularly important that the gilts reserve account be maintained and managed as previously agreed. Any surplus in this account should not be regarded as outperformance until we have completed our assessment of Scottish Water's performance. This will only happen in the late summer of the year in which this regulatory contract ends.

“ The Scottish water industry has undergone a transformation in the ten years since economic regulation began. We expect that the draft and final determinations will build on the progress to date, and that customers will continue to enjoy stable charges and improvements in service. ”





2. IMPROVING PERFORMANCE

Customers must be confident that the service they receive meets their needs and expectations. We monitor Scottish Water's performance in providing service to customers and set targets so that we can measure and report on improvements. We also challenge Scottish Water to become more efficient.

BETTER CUSTOMER SERVICE

At the 2006-10 price review we set annual milestones for Scottish Water to improve its customer service. It has responded well to these by making demonstrable improvements and is now providing much better levels of service.

To measure performance we use a points-based system, the overall performance assessment (OPA), 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.

At the review we set a target for Scottish Water to achieve an OPA of 250 by 2010 – an improvement of 40%. This target was subsequently amended to 241 to take account of the fact that Scottish Water was no longer responsible for retail non-household services following the introduction of competition in April 2008. It appears that Scottish Water will have exceeded the level of service performance that it was challenged with by the end of next year.

Although we have been pleased by the performance improvements there is no room for complacency. We have therefore proposed that Scottish Water should match the performance of the leading companies in England and Wales by 2013-14. This proposal was widely accepted by stakeholders and by Scottish Water in its business plans. We expect these improvements to be achieved without any increases in charges to customers.

“ We believe that the decision of Scottish Water’s board to make the level of service to customers an important factor in the award of bonuses to management and staff has had a material impact on performance. We have now challenged Scottish Water to match the top performing companies south of the border by 2013-14. ”

It is important that when measuring performance against that of the companies in England and Wales we are comparing like with like. This year we have worked with Waterwatch Scotland, the Scottish Environment Protection Agency (SEPA) and the Drinking Water Quality Regulator (DWQR) to bring our assessment of the OPA fully into line with that which is used by Ofwat, the economic regulator south of the border.

IMPROVING EFFICIENCY

Scottish Water’s day-to-day running costs account for around a quarter of the money it spends, and customers pay these costs directly through their bills. We therefore monitor performance in this area very closely. We were pleased to report in November 2008 that Scottish Water had reduced its operating costs for the fifth year in a row. In 2007-08 these costs were some 40% lower than they were, and customers are saving more than £3 million a week as a result.

Ministerial objectives are for the four-year regulatory control period. We cannot therefore undertake definitive analysis of Scottish Water’s performance in delivering its capital expenditure programme efficiently (that is, spending to maintain and improve its assets) until the end of the regulatory control period. We will publish a report on Scottish Water’s performance in this area next autumn.

We have been able to keep bills below the rate of inflation, without compromising Scottish Water’s financial position, because of its lower running costs. In 2007-08 these costs were around 5% lower than our expectations. This is a clear indication that the incentive framework that we have put in place is serving the interests of customers well.



TACKLING LEAKAGE

In 2006 we set Scottish Water pragmatic targets to make annual reductions in its leakage, and allowed financing to achieve these. The targets were designed to be a first step towards Scottish Water reaching its economic level of leakage – the point at which the cost of reducing leakage is the same as the cost of the water lost. In our view reducing leakage is not only economically justifiable but will also help Scottish Water deliver its obligations on sustainable development.

We have encouraged Scottish Water to gain a better understanding of the extent of its leakage through our Regulatory Leakage Group, which includes the independent Reporter. During the year the group developed an improved management information system for reporting leakage.

In November 2008 we reported that Scottish Water had missed its leakage reduction target for 2007-08 by 69 Ml/day. More recently, however, Scottish Water has understood the requirement to incorporate leakage into its operational and asset strategy and has begun in earnest to take the practical actions necessary to address the issue. These actions appear to be improving Scottish Water's leakage performance and we hope to report in the autumn that the 2008-09 target has been met. Further work is still needed in determining an accurate estimate of the economic level of leakage and we will continue our detailed monitoring in this area.

DELIVERING INVESTMENT

The investment programme is designed to deliver significant environmental, drinking water quality and customer service improvements. It also ensures that Scotland's network of pipes and treatment works has sufficient capacity to respond to growth. The specific outputs that Scottish Water is charged with delivering by 2010 include:

- improving drinking water quality for 1.5 million customers,
- improving water disinfection control for 4 million customers,
- removing a large number of unsatisfactory discharges from the sewer network, and
- upgrading waste water treatment works to meet compliance requirements.

The programme is the largest in Great Britain (on a per connected property basis). For much of the investment programme that Scottish Water is expected to deliver, SEPA or the DWQR are asked to confirm that required outputs have been delivered. Achieving this 'sign-off' is critical. It is only at this point that customers can be assured that they will receive the benefits they have paid for. We monitor investment delivery through a multi-stakeholder Output Monitoring Group (OMG).

During the year we expressed our concerns about progress in delivering outputs to the sign-off stage. At the end of February 2009, Scottish Water was behind target, with shortfalls at the 'project acceptance' and output 'sign-off' delivery stages. Scottish Water's recent reports have indicated an improvement in performance at the 'project acceptance' milestone. However, we remain concerned about delays in projects at earlier delivery milestones and in ensuring that projects that have been completed receive 'sign-off' by SEPA and the DWQR. Our investment report, which we will publish in the autumn, will give a full outline of Scottish Water's output delivery performance for 2008-09.

This year we have worked with the OMG to develop further ways to measure delivery so that it is easier for customers to know that outputs have been delivered satisfactorily. We have developed a single measure for output delivery which is similar to the OPA (ie the measure we use to report on customer service performance). This new measure, termed the Overall Measure of Delivery, will be used in the next regulatory control period as part of the mechanisms to monitor delivery performance.

“ Investment in maintaining and improving the assets to provide water and sewerage services accounts for around half of the money that Scottish Water spends each year. We monitor progress in delivering outputs to the 'sign-off' stage very closely, to make sure that customers receive value for money. ”



3. USING COMPETITION TO SECURE BENEFITS

In April 2008, Scotland became the first country in the world successfully to open up water services to competition for all non-household customers. One year on, the industry's costs are lower than they would otherwise have been and levels of customer service and responsiveness have improved. This year, in addition to promoting the new opportunities for customers we have concentrated on how competition might be further developed to the benefit of customers and the environment.

BENEFITS TO CUSTOMERS

In the first year since the retail water and sewerage market was opened up to competition more than a third of businesses and public sector organisations in Scotland have either switched supplier or renegotiated their existing deal. Introducing competition has also resulted in overall savings of £4 million, which have been passed on to water and sewerage suppliers and their customers.

The market operates in much the same way as in other utility services, where suppliers compete for customers by offering them better products, more choice and lower prices. The new suppliers buy wholesale services – the physical supply of water and removal of sewage – from Scottish Water at prices we regulate.

The introduction of retail competition offers greater incentives and freedom to innovate. Suppliers are able to reduce prices for their customers by finding ways to cut the costs of the wholesaler, Scottish Water. So, for example, discounts may be available to a customer who is able to restrict their water use or waste disposal to certain times of day – thereby reducing Scottish Water’s pumping costs and increasing the network’s capacity by reducing peak flow. The potential for savings is limited only by the scope for the customer to reduce Scottish Water’s current or future costs.

“ The benefits to consumers include bespoke water advice and tariff structures that will help users to reduce bills by using water and sewerage services more wisely. Levels of customer service and responsiveness have also improved with, for example, consolidated and electronic billing, and faster enquiry response times. ”

BENEFITS TO THE ENVIRONMENT

The benefits of competition are not only financial; separating retail and wholesale activities changes the balance of incentives in favour of providing water efficiency advice where this is in the interests of the customer. Bespoke environmental advice and solutions are already 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. Options open to customers include water harvesting (if the customer has a need for non-potable water); the construction of a sustainable drainage system (such as a small pond on an industrial or business development); or pre-treatment of waste before it is discharged to the sewerage system. In each case, the customer may save money as well as enjoying environmental benefits.

“ Many businesses in Scotland have already found a better deal or improved service. One of the UK’s leading bookmakers, for example, came to an agreement with Osprey for a new water supply package to meet the company’s needs.

And Tesco estimates that it achieved savings of £1 million more quickly in the past year across its stores in Scotland – because of the improved service it received from its supplier Business Stream. ”



OVERSEEING THE MARKET

Customers can currently choose between a number of different suppliers. We expect more new entrants into the market, both larger and smaller, and anticipate that these entrants will identify further savings and improvements in service for their customers.

We see the introduction of competition as a continuing process and have given thought to new aspects of the market during the course of the year. As part of this work we undertook nine consultations on a wide range of topics, including unmetered supply points, our licence enforcement policy and revisions to the licensing framework. Information about all of our current and completed consultations is available on the publications section of our website (www.watercommission.co.uk). We are also currently reviewing market data to make sure that information asymmetries do not become a barrier to entry for potential licensed providers.

Both in the run up to the market opening, and in the time since then, we have undertaken a wide range of communications activities to alert customers to the benefits that may be available to them. These activities have included publishing an annual report on competition, issuing press notices, undertaking interviews, and advertising on radio, on line and in the print media (including Real Radio, Utility Week and 100 Scotland).

DEVELOPING COMPETITION MORE WIDELY

From April 2010 we plan to increase the range of services that suppliers can offer to customers to include metering, trade effluent consent management and new connections. This should allow suppliers to meet the needs of their customers more effectively and to continue to promote environmental benefits.

Allowing for trade in abstraction and discharge rights would ensure that these rights are used as effectively as possible and that alternative options may be available to those who would otherwise seek permission to abstract from more stressed water resources or discharge into receiving waters with less capacity for dilution.

We are also giving further thought to the industry's costs. Our initial work in this area suggests that treatment activities represent a much greater proportion of costs than most water companies claim. Our analysis focuses on the activities on which companies actually spend their money. Reallocating costs in this way will help to reduce the economic level of leakage and would reduce the need to develop new water resources as a result. It would also reduce the amount of water that is pumped through the network and, as such, reduce the industry's carbon footprint.

THE CAVE REVIEW

We were delighted to welcome Professor Martin Cave as the guest speaker at our annual Comiston lecture, held in Edinburgh on 7 May 2009.



We believe that the Cave Review's findings will encourage much needed innovation and bring wide-ranging environmental and cost-saving benefits in England and Wales. A competitive water industry south of the border could also have a positive impact for customers north of the border as new suppliers in England and Wales may enter the Scottish market. It would also provide a larger market for Business Stream and so support the Scottish economy.



4. STRENGTHENING THE TEAM

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. It is absolutely essential that we have the right analytical resources in place to meet our business demands. We must also be accountable. We therefore undertake wide-ranging activity to communicate with stakeholders and explain what we do.

RECRUITING NEW STAFF

In the past we have had difficulty recruiting high calibre staff with the relevant skills to fill our analytical vacancies. This year we stepped up our recruitment in order to attract a much wider pool of suitably qualified candidates.

- We have changed where we advertise opportunities, and now invite CVs from university careers websites, 'Milkround' (a graduate research website), our own website, and – for some posts – City, London and Oxford Business Schools.
- We became an 'Employment Sponsor' with the Borders Agency. This ensures that we are in a better position to employ non-EU graduates who require visas to live and work in the UK.
- We undertake more regular assessment centres for both entry level and senior analysts.

TRAINING AND DEVELOPMENT

Staff training needs are identified through our staff appraisal system. This process ensures that all staff develop their potential and gain the skills and knowledge required for a competent performer. All new entrants receive a comprehensive induction programme. This year all staff participated in diversity training and stress management training. Many individuals also attended seminars and conferences of relevance to their areas of work.



STAFF PROFILE: DAVID SATTI

Armed with a first class degree in Mathematics from the University of Strathclyde, David took up a graduate analyst role with WICS just under a year ago. As one of the Asset and Investment team, David works within a small specialist group while supporting colleagues at large.

As soon as he joined, David began contributing to a number of the organisation's key projects. He has used his skills to qualify investment performance and to analyse variables impacting on timings and budgets. David is continuing to develop as an industry specialist, meeting regularly with stakeholders such as Scottish Water, SEPA and the OMB. Training in the Scottish parliamentary system has ensured a clear overview of public sector operations from the early stages of his career.

David says: "I had an open mind about the career I would choose after leaving university, and was keen to try something different. I knew that I didn't want to be wrapped in cotton wool, and was on the look out for a graduate role that would allow me to get my hands dirty early on.

"I was assured by WICS that my work would make an impact from the outset and that has certainly been the case – I've been given every opportunity to contribute to major projects, and have a high level of responsibility for an analyst of my age. The work here is challenging and intense. I work alongside highly qualified people, with specialisms across mathematics, law and engineering. It can be daunting at times, but I'm learning so much."



STAFF PROFILE: CRAIG MACKENZIE

With more than five years at WICS under his belt, Craig has worked across most areas within the organisation. Arriving as an Economics and Finance graduate, Craig was reluctant to follow his peers into financial services or accountancy. There was strong appeal for him in a role that would allow him to use his knowledge to make a positive impact on public services.

Craig's first project was working on business tariffs. He went on to work in a number of different areas, notably during the 2006-10 price review. He has also had the opportunity to contribute to a world-first business model – the introduction of retail competition in the Scottish water industry, advising on the appropriate wholesale tariffs to be charged to new licensees. Craig also contributes to the cost analysis of Scottish Water, ensuring that costs are not increased unnecessarily for customers and that they receive the best value for money possible. Craig is currently being supported by WICS in taking an MBA qualification.

Craig says: "There is a great working environment here, offering interesting roles and a cosmopolitan team. We have a relatively flat structure, which means both a substantial amount of time with directors and members of the Commission, and also the chance to work closely with graduate analysts as they develop – an aspect of the job I enjoy.

"Of all the projects with which I've been involved, working on the introduction of retail competition has been the most satisfying. It's a great thing to see a completely innovative approach to a public service, and how much improvement can be made through a difference in thinking. That's the biggest challenge for WICS – always being one step ahead in our thinking. Everything we do here is based on quality analysis, and it is vital that we have total confidence in our work."

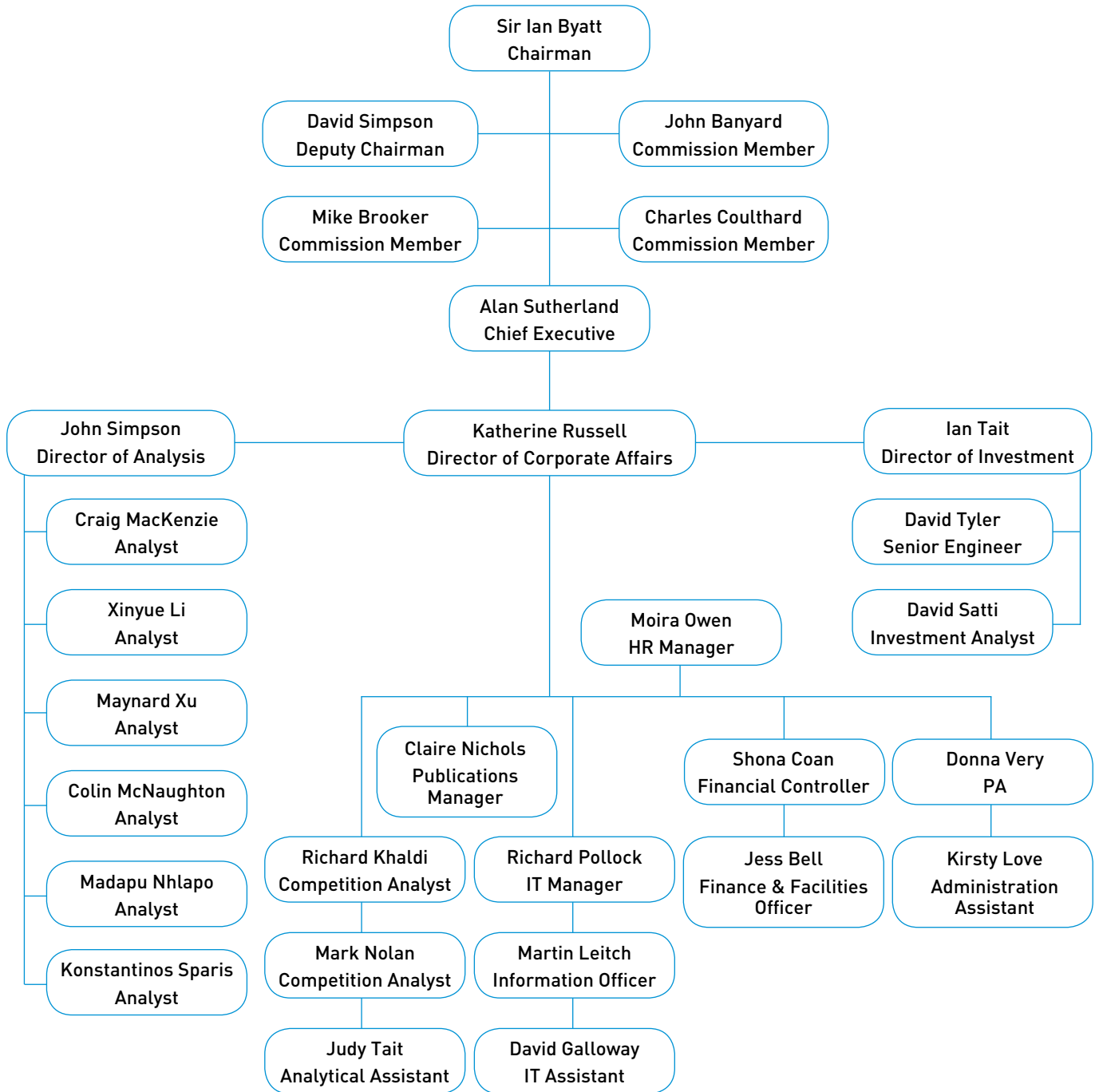


BUILDING AN UNDERSTANDING OF OUR WORK

Two-way communication between regulators and stakeholders is an important part of effective regulation. This year we undertook wide-ranging activities to explain our work in a clear, concise way and to take account of the feedback we receive.

- We instigated a series of regular e-newsletters and e-postcards to alert stakeholders about announcements or new publications.
- We welcomed visitors from international governments as diverse as Egypt and South Korea, who came to the office to talk about how our ground-breaking model is working.
- Our Chairman Sir Ian Byatt and Analyst Craig MacKenzie provided evidence in November 2008 to the Scottish Parliament's Transport, Infrastructure and Climate Change Committee in relation to Scottish Water's Annual Report and Accounts 2007-08.
- Our Chairman and Chief Executive spoke at a number of high-profile events including Water 2008 and at the Adam Smith Institute.
- The Chairman continued his practice of visiting local authorities and business organisations to keep them updated of the Commission's work and the progress of competition in the non-household market for water services. During the year he visited Aberdeen City Council, Aberdeenshire Council, Highlands Council, Highlands and Islands Enterprise, the Scottish Futures Trust and Western Isles Council.
- Our two websites, www.watercommission.co.uk and www.scotlandontap.gov.uk together received more than 47,000 hits.
- We developed a new section on the www.watercommission.co.uk site 'Future prices' which explains the price review process and latest developments.
- We received more than 700 telephone and email enquiries, including a large number from business customers who were interested in the opportunities provided by the competitive retail market.

WHO WE ARE*



* AS AT 31 MARCH

FINANCIAL REVIEW

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

UNAUDITED SUMMARY INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

	Notes	£
Scottish Water statutory contribution		3,949,611
Levy on licensed providers		1,203,250
Other income		4,990
Total income		5,157,851
Expenditure		
Staff remuneration	1	1,593,296
Staff travel and subsistence		54,989
Accommodation		154,034
General operating costs		131,998
Consultancy project		1,347,725
Recruitment		134,340
IT support		54,454
Finance charges		2,608
Depreciation		116,054
Loss on disposals		9,128
Waterwatch Scotland levy		719,496
Total expenditure		4,318,122
Operating surplus		839,729
Add: interest receivable		24,629
Less: Taxation		5,048
Net surplus		859,310

In line with changes to the Financial Reporting Manual in 2006-07, grant-in-aid received from the Scottish Government has now been shown as a financing flow and no longer as income. Grant income of £98,322 in 2008-09 has instead been credited to the general reserve. From 1 April 2008, grant-in-aid has been replaced by a levy on the licensed providers.





UNAUDITED BALANCE SHEET AS AT 31 MARCH 2009

	Notes	£
Fixed assets		
Tangible assets	2	209,064
Intangible assets	2	174,323
Current assets		
Debtors & prepayments		90,575
Cash at bank and in hand		1,277,019
Current liabilities		
Creditors: Amounts falling due within one year	3	(505,856)
Net current liabilities		861,738
Net assets excluding pension assets and liabilities		1,245,125
Pension assets		1,374,000
Pension liabilities		(1,462,000)
Net assets including pension assets and liabilities		1,157,125
Capital and reserves		
General reserve	4	1,157,125

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

The accounting policies of the Water Industry Commission for Scotland will be defined in the full audited accounts.

1. STAFF

The aggregate cost of remuneration comprises:

Year ended 31 March 2009	£
Employees' remuneration	1,260,872
Employer's National Insurance contributions	122,474
Contribution service costs and amounts payable to defined contribution scheme	209,950
Amounts included within operating surplus	1,593,296

The average number of staff employed in the period by the organisation was 23 (including the Chief Executive).

These were employed in the following areas:

Directors, including Chief Executive	4
Corporate Affairs	12
Analysis	7



2. FIXED ASSETS

	Intangible assets £	Equipment £	Furniture & fittings £	Total £
Cost				
At 31 March 2008	174,836	170,120	276,168	621,124
Additions	73,517	6,616	15,771	95,904
Disposals	-	-	(20,669)	(20,669)
At 31 March 2009	248,353	176,736	271,270	696,359
Depreciation				
At 31 March 2008	11,942	111,089	85,428	208,459
Charge for the year	62,088	26,838	27,128	116,054
Eliminated on disposals	-	-	(11,541)	(11,541)
At 31 March 2009	74,030	137,927	101,015	312,972
Net book value at 31 March 2009	174,323	38,809	170,255	383,387
Net book value at 31 March 2008	162,894	59,031	190,740	412,665

3. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

As at 31 March 2009	£
Trade creditors	319,487
Accruals and other creditors	186,369
Total	505,856

4. CAPITAL AND RESERVES

As at 31 March 2009	General reserve excluding pension reserve £	Pension reserve £	General reserve including pension reserve £
Balance as at 1 April 2008	287,493	117,000	404,493
Surplus for the year	859,310	28,000	887,310
Grant income from Scottish Government	98,322	-	98,322
Recognition of other recognised gains and losses	-	(233,000)	(233,000)
Balance at 31 March 2009	1,245,125	(88,000)	1,157,125

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