water industry commission FOR SCOTLAND

Annual Report 2010-11

Achieving best value for water and sewerage customers

Water Industry Commission for Scotland
Moray House, Forthside Way, Stirling FK8 1QZ

SG/2011/94

Contents

For the period 1 April 2010 to 31 March 2011.

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 2011

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 households and businesses. We do this by incentivising 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:

- This year was the first in the 2010-15 regulatory control period; household customers are experiencing stable prices, with their charges frozen for both 2010-11 and 2011-12.
- It is three years since the retail market was opened to competition for businesses and public sector organisations. Around 42% of the market (some 47,000 customers) are already enjoying the direct benefits. This year we have seen significant savings for the public purse too.
- In addition to the direct benefits to customers, our latest analysis shows that the costs of establishing and running the retail framework are already being covered from savings in administrative costs, and these savings will grow over time. Indeed, our analysis shows that the benefit for customers of the introduction of retail competition in Scotland is £330 million[1].
- Scottish Water continues to respond well to targets and incentives by improving customer service and tackling leakage.
- We achieved substantial reductions in our own operating costs in 2010-11. Our move to new offices will further reduce costs and will also reduce our energy, carbon and water use.
- We have made good progress in our planning to simplify the regulatory system and encourage greater participation by customers in the next price review.

[1] *Based on the net present value of already achieved and potential future cost reductions.*

Chairman's foreword

2010-11 has been a good year for the Scottish water environment and for customers of water services in Scotland:

- The price limits set by the Commission for the five years 2010 to 2015 involve a reduction in tariffs of 5% below inflation. Tariffs have now been frozen for two years running; for the next three years increases will be limited to the rate of inflation.
- Under Scottish legislation, non-household customers (businesses & public authorities) are now gaining from the entry of new suppliers of retail services. The incumbent, Business Stream, has sharpened its pencil; the City of Glasgow is already saving £1 million a year under its new contract.
- The regulatory regime, comprising the Commission, the Scottish Environment Protection Agency and the Drinking Water Quality Regulator, has helped Scottish Water to be an increasingly responsive and efficient company.
- Scottish Water has successfully delivered a large and challenging investment programme to improve environmental and water quality while dramatically improving levels of service to customers. It is now financed to conduct a trial of metering for household customers.

The Commission wants increasingly to focus regulation on the outcomes delivered to customers and to the environment. Customers will be involved more fully in price reviews through a new Customer Forum and by the development of ready reckoners to show the consequences of expenditure by Scottish Water for customers' bills. This will be linked to a reduction in the detail of regulatory information.

I remain, however, concerned about the adverse consequences on the water environment of the squeeze on the public finances now threatening Scotland. In 2009, the Commission set prices on the assumption that borrowing of £140 million a year would be available from the Scottish Government budget. Yet no lending is programmed for the current financial year; unless resources become available in one way or another, Scottish Water will not have sufficient funds fully to carry out its five-year investment programme.

As I leave the Water Commission later this month, I thank my colleagues, in particular Alan Sutherland, and the Office under him. Alan, as Commissioner from 1999 to 2005 and Chief Executive from 2005, has been the architect of a remarkable transformation. He has been indefatigable in serving the interests of customers and incentivising Scottish Water, showing how regulation can be used to deliver results for customers and for the environment.

I hope that over the past six years we have created sustainable arrangements for the future. Things will not stand still and I wish well to my successor, Professor Gordon Hughes, as the water scene matures and develops.

Ian Byatt

Sir Ian Byatt
Chairman
6 June 2011

Chief Executive's review

The past year may have been the first in the new five-year price review period for the Scottish water industry – but has nonetheless been busy. Scottish Water continues to improve and the benefits are now being felt: household customers are currently enjoying a second year of their charges being frozen. This is particularly welcome at a time of increased inflation and many other pressures on household budgets.

There are a number of other highlights: in response to increased debate over the costs and benefits of introducing retail competition in England and Wales we completed an analysis of the costs and savings from the introduction of retail competition in Scotland; we reduced our expenditure from last year by 17%; and we agreed a new approach and timeline for the next price review.

There is good news on how the competitive market is delivering for customers. In March Procurement Scotland announced the results of its tender exercise, saving public sector organisations some £20 million over three years. This benefits all of us as users of public services and as taxpayers.

During the year a number of questions were raised about the costs of extending the Scottish retail framework in England and Wales. Our analysis shows that the net present value (NPV) of the introduction of retail competition in Scotland is £330 million. Taking a relatively modest view of savings that may be available south of the border, the NPV of the savings there may exceed £2.5 billion.

It was very pleasing to recognise the improvements Scottish Water made during the 2006-10 regulatory control period. The company exceeded its regulatory targets in reducing costs, improving service levels and delivering its capital programme. I should particularly like to recognise the effort made to deliver such a large programme given the slow start noted in previous annual reports.

We have reviewed all aspects of our expenditure carefully to make sure that it is no higher than it needs to be (while cutting no corners in our work). As a result we were able to repay £607,000 to Scottish Water and £75,000 to the licensed providers.

Our new offices are located in a regeneration area closer to the centre of Stirling. The savings are substantial, at more than £200,000 over the next five years, with ongoing annual savings of £20,000 after that; our carbon footprint is also estimated to have fallen by around 18%.

This year we took difficult decisions to revise staff terms and conditions to bring them fully into line with the Government's new pay policy.

I should like to commend staff for their willingness to work with us on these changes. I would also like to recognise the leadership my Directors showed in accepting the changes.

Work on our Incentives, Innovation and Involvement project continues to progress. We have agreed a timeline for the next review with Scottish Water, retailers and customer representatives. The timeline allows much more substantial input from business and household customers than in previous reviews. This input will come both before and after Scottish Water submits its business plan to the Commission. We have also agreed to work with Scottish Water to define key inputs to the review ahead of the business plan.

In closing, as they are standing down this June, I should like to accord my thanks to Sir Ian Byatt, Professor John Banyard OBE and Mike Brooker for the support and challenge they have provided over the past six years. In particular, I would like to thank Sir Ian for the mentoring he has provided to me, which has been of real benefit.

Alan D A Sutherland
Chief Executive
6 June 2011

Areas of activity

Chapter 1: Ensuring value for money for customers

One of the main ways in which we promote the interests of customers is by setting limits on the prices they pay for water and sewerage services. This process is called a price review.

At each review, we set price limits that deliver ministerial objectives for the water industry at the lowest reasonable overall cost. The objectives include improvements in water quality, environmental performance and customer service.

Our Performance Report (published in December 2010) highlighted that, as a result of our regulatory challenge at the 2001 and 2005 reviews, bills are around £105 lower than they would otherwise have been.

From autumn 2011 customers will have a greater say on what improvements Scottish Water should make to services. Consumer Focus Scotland will lead the setting up of a Customer Forum, which will be able to engage directly with Scottish Water on areas of the price review.

The 2010-15 price review

This was the first year of the five-year regulatory control period covered by our 2010-15 price review.

The review brought good news for customers, with a freeze on charges for households and businesses in both 2010-11 and 2011-12, and charges kept below inflation until 2015. The default tariffs that are available for all business customers will also remain below inflation through to 2015.

Household bills in Scotland now compare well with those for customers in England and Wales; in 2011-12 they are around £30 lower than the average bill south of the border.

At the same time Scottish Water is improving customer drinking water quality and environmental performance through a £2.5 billion investment programme over the five-year period.

Planning for the next review

We want to make sure that the industry is properly equipped to meet the challenges that lie ahead, including complying with future carbon reduction targets, keeping charges affordable and satisfying higher customer expectations.

We are therefore planning now how we can improve regulation for the next price review, when we will set charges for the period beyond 2015. Our aim is to simplify the regulatory system and encourage greater customer participation in decision-making.

We would like to see much greater dialogue with customers before and after Scottish Water publishes its business plan in 2013 and before the Commission publishes its draft conclusions in 2014. We published an initial consultation on customer engagement, ‘Putting customers at the centre of the price review process’ in July last year, and published a summary of responses to this in January 2011. We are now discussing the issues further with customer representatives and Scottish Water.

Working with stakeholders we have agreed a detailed timeline for the next review; this allows time for effective customer engagement. We also published a ‘ready reckoner’ to help illustrate the impacts of new investment on future bills.

Next steps

We will continue to progress proposals to develop our regulatory approach further. For example, we are currently looking at improving regulatory incentives for Scottish Water to choose the most sustainable and cost-effective solutions.

Areas of activity

Chapter 2: 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.

In 2010-11 Scottish Water made good progress on improving customer service, tackling leakage and delivering its substantial investment programme.

Better customer service

We first drew attention to the level of customer service in our 2001 price review, and in 2005 we set annual milestones for Scottish Water to improve in this area. We use a points-based system, the 'overall performance assessment' (OPA), which encompasses aspects of service that are most important to customers.

Scottish Water has responded very well to its customer service targets and has significantly outperformed in this area. Since it was formed in 2002 its OPA score has more than doubled, increasing from 132 in 2002-03 to 291 in 2009-10.

From April 2010 we have redefined the OPA on a wider basis than before. As outlined in our final determination, we expect Scottish Water to achieve a score in the range 380 to 400 by 2013-14, equivalent to that of the leading water and sewerage companies in England and Wales. Scottish Water is on target to achieve this, and its reported score of 330 is higher than we expected for 2010-11.

We believe that customers are benefitting from the Scottish Government's decision to make the improvement in the level of service provided to customers an important factor in the award of bonuses to management and staff.

Many of the material improvements in Scotland have been delivered at no additional cost to customers.

The reduction in leakage that Scottish Water has achieved since 2006 is enough to supply half of Scotland's households every day.

Tackling leakage

Reducing leakage is not only economically justifiable – reducing operating costs and capital expenditure – but also helps Scottish Water to deliver its obligations on sustainable development and reduce its carbon emissions.

We have set annual targets for Scottish Water to reduce leakage since 2006. The targets are designed to ensure that by 2013-14 Scottish Water 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 will beat its leakage target of 720Ml/d for 2010-11 in spite of the very severe weather at the start of the winter.

As a result, leakage is now over a third lower than its level of five years ago.

Scottish Water is required to reduce leakage to the economic level by the end of 2013-14, and this will have no upward impact on costs for customers.

Delivering investment

The investment programme is designed to bring 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.

Progress in delivering the investment programme is measured against targets that are agreed by Ministers and set out in Scottish Water's delivery plan.

In our Performance Report 2010 we noted that the vast majority of the programme for 2006-10 had been delivered. Scottish Water has also outperformed the ministerial objectives in several areas, delivering more outputs than were financed in areas such as drinking water quality, waste water compliance and tackling leakage.

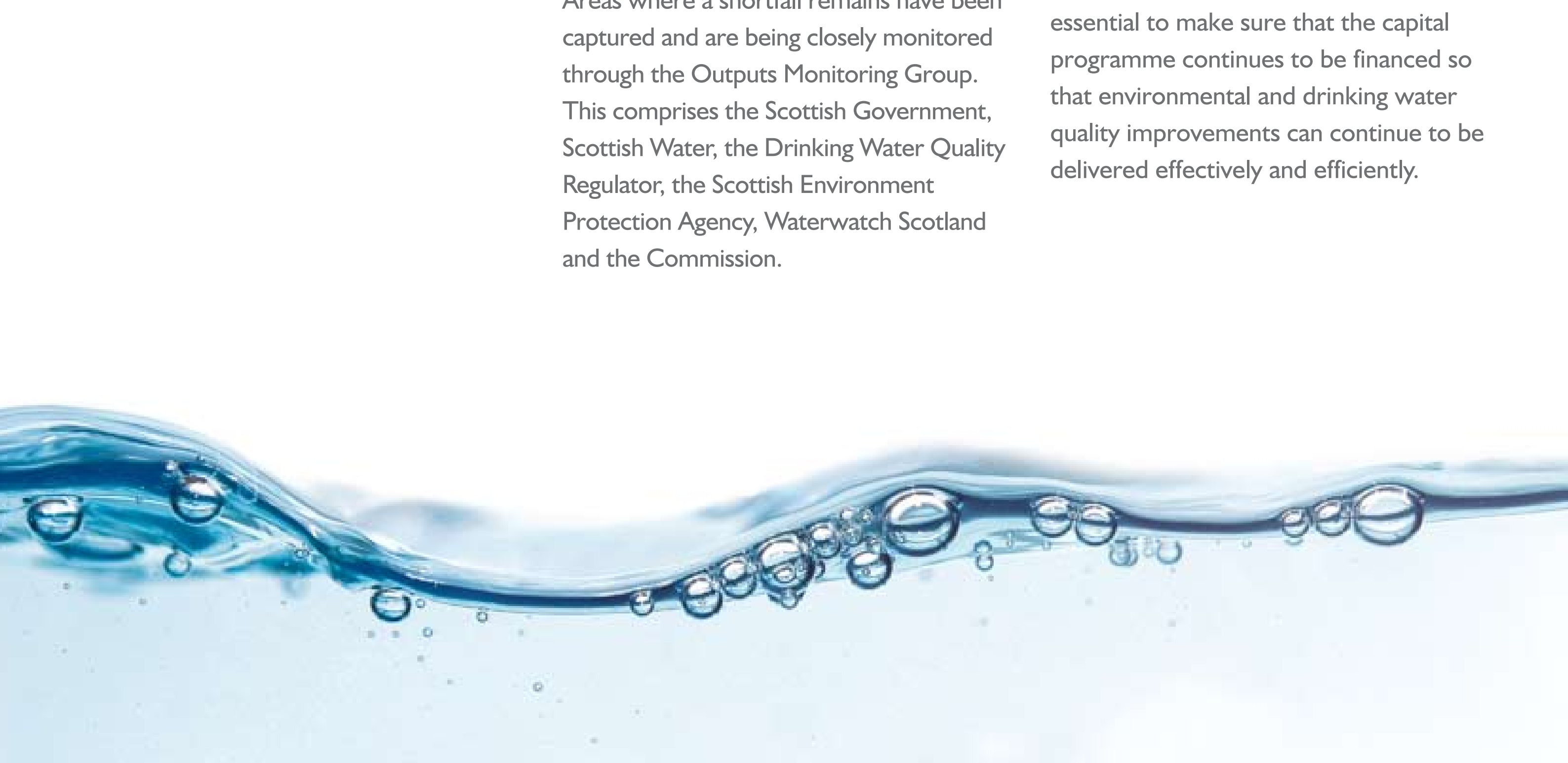
Areas where a shortfall remains have been captured and are being closely monitored through the Outputs Monitoring Group. This comprises the Scottish Government, Scottish Water, the Drinking Water Quality Regulator, the Scottish Environment Protection Agency, Waterwatch Scotland and the Commission.

Next steps

Scottish Water is currently on target to deliver the whole investment programme broadly in line with the finance allowed in our November 2005 final determination. We will continue to monitor its performance against the regulatory contract to ensure that customers receive the benefits they have paid for. We will publish our report on Scottish Water's performance in 2010-11 in the autumn.

In addition we are currently looking at ways to improve the transparency of study reports in order to confirm that the solutions chosen are sustainable and provide value for money.

Finally, we wish to highlight here our concerns about the fact that no borrowing has been allowed for Scottish Water for 2011-12. Despite budgetary constraints in Scotland it is essential to make sure that the capital programme continues to be financed so that environmental and drinking water quality improvements can continue to be delivered effectively and efficiently.



Areas of activity

Chapter 3: Achieving greater value and choice through competition

The retail water and sewerage market for businesses, and for public sector, charitable and not-for-profit organisations has been open to competition for three years.

This year we have seen increasing interest from the public sector in the opportunities the competitive market presents to save money and get better services. We have also completed analysis that shows the very significant savings achieved through the retail market in Scotland.

The substantial savings for the public purse as a result of the Procurement Scotland tender will benefit not only the non-household organisations covered by the contract, but also the people of Scotland and its wider economy.

Benefits for customers

All businesses, public sector and other organisations across the country – from the smallest corner store to the largest international company – can now choose the retailer that best suits their needs.

Around 42% of the market (some 47,000 customers) have already renegotiated the terms of their supplies – receiving either better prices or more tailored levels of service, and in many cases both.

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. Retailers are able to offer fresh incentives to customers, for example lowering bills for those who opt to pay by direct debit or choose e-billing.

There has been significant advancement this year on the public sector front too. We were particularly pleased to welcome the announcement in March of the results of a national tender exercise carried out by Procurement Scotland. The tender represents more than 20% of the total non-household market in Scotland and will bring around £20 million of savings to the public sector.

Under the contract Business Stream will supply water and sewerage services to central and local government organisations across Scotland as part of a new three-year deal. It will also provide a range of additional services such as water audits, and leak detection and repair.

Opening up water supply to competition was a world first, and we are keen to share our experiences. Earlier this year we published a report on the 'Lessons learned', which we hope will be helpful at a time when wider reforms of the GB water and sewerage market are being developed.

Benefits for the environment

One of the key achievements of the introduction of competition is that there is now greater awareness among business customers of the environmental benefits and cost savings to be made from being more water efficient.

Customers are being given advice about how to reduce their water consumption. This is leading to other initiatives to recycle waste and drainage water and is bringing environmental benefits in both lower abstraction and through lower energy use.

Tap water is a precious resource, which takes energy, chemicals and money to produce. While we have a plentiful water supply, climate change could make water scarcer in certain parts of Scotland; increasing water efficiency and promoting a more sustainable approach to water use is a low-cost, low-risk option for dealing with climate change impacts.

Business Stream advises that since the competitive market was established it has delivered more than £13 million of consumption savings, reducing CO_2 emissions by over 8,200 tonnes. This is the same as taking more than 2,200 cars off the road.

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.

The costs and savings from competition

We now have three years experience of the actual costs and savings of the retail framework.

The costs are much lower and the savings rather more wide-ranging than we originally assumed. In April we published an audit trail of the costs incurred and the savings achieved to date and future savings attributable to establishing the competitive retail market in Scotland. This analysis indicates that the NPV of the introduction of retail competition in Scotland is £330 million.

Our analysis takes no account of the savings and efficiency improvements achieved by Scottish Water's core business since 2006, nor does it include the benefits of providing better and more tailored services to customers and the environmental benefits arising from the competitive market.

Other improvements for customers

This year we have made progress in a number of other areas that will improve options and services to non-household customers. In particular, we have:

- introduced new data logging arrangements where customers can choose any of a number of accredited installers;
- introduced metered building water, which was frequently requested by developers;
- agreed new trade effluent sampling arrangements with Scottish Water and the Scottish Environment Protection Agency;
- agreed with Scottish Water to allow third parties to install and repair meters.

Next steps

We will continue to work with Defra, Ofwat and other stakeholders in relation to opportunities south of the border, particularly in relation to the forthcoming water White Paper.

We will also continue to work with Scottish Water to implement proposals from stakeholder workshops in relation to the areas of trade effluent, metering and connections.

Areas of activity

Chapter 4: Managing our office

With a staff of only 19 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. We carry out our role at a cost of around 55 pence per person in Scotland a year.

Making sure that we are transparent and accountable

The Commission is a non-departmental public body with statutory responsibilities, which acts independently of Ministers. Our board structure reflects current regulatory best practice and brings significant relevant professional experience to bear on our work.

As part of our accountability, we must agree a corporate plan with Scottish Ministers as well as submitting an annual report and accounts. The corporate plan sets out our work plans and budget projections for a five-year period.

Early last year we commissioned an independent external review of our operations and methods of working over the previous four years. This was carried out by Christopher Bolt CB, assisted by Grant Thornton UK LLP, who reported to us in July 2010.

We published our response to the review in October, and have since taken forward many of the review's recommendations.

We also published our own 'Mission, governance and strategy' paper in February 2011. The paper explained how we implement our mission, and focussed in particular on:

- our strategic objectives;
- the governance arrangements that are currently in place;
- our approach to consultation and communication; and
- our approach to the regulatory price control.

We circulated copies of the paper widely and welcomed comments on the paper from other stakeholders.

This year we have also further tightened our procurement and other procedures, including processes to lessen reputational risk. For example, we now publish Commission members' expenses as and when these are claimed. We also publish information about expenditure as required by the Public Services Reform (Scotland) Act 2010.

Communicating with our stakeholders

We see it as essential 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 strive to ensure that our written information is clear, easy to read and relevant.
- We publish 'e-postcards', issue press notices, place articles in general and technical journals and give presentations and speeches.
- This year we responded to a number of consultations, including the Scottish Government's consultation on the water industry 'Building a Hydro Nation'.

In 2010-11 we received 75 requests for information under the Freedom of Information (FOI) Act and undertook 14 reviews relating to our FOI responses.

Reducing our own costs

Our budget is around £4 million a year, and we have committed to keep it flat in nominal terms over the remaining four years of the regulatory control period (2011-15). The budget is received as a levy from Scottish Water (around £2.75 million), with the rest provided by the licensed providers of retail water services in Scotland. All competition related costs are paid for by licensed providers not by households or public expenditure.

We managed to reduce our own operating costs substantially during 2010-11, through savings in staff salaries, travel and subsistence, and consultancy costs. As a result, we were able to repay £607,000 to Scottish Water and £75,000 to the licensed providers.

In March we moved into new smaller offices close to Stirling city centre. We are saving energy, carbon and water (around 21 tonnes of CO_2 equivalent and 11,000 litres of water a year). Staff and visitors also have better access to sustainable forms of transport.

The new offices are in a former barracks building; the conversion is in keeping with the building's heritage while at the same time appropriate for our current and future business needs. By moving offices we will save more than £200,000 over the next five years and project further savings of £20,000 a year after that.

Next steps

We have developed a new Communications Strategy, which will be used to develop our engagement with key stakeholders further and will improve our ability to communicate and to listen. We will be implementing the new strategy over the coming months.

We shall also be taking forward some of the recommendations of the Audit Scotland Report 'The role of boards', which was published in September 2010.

Farewell, and welcome

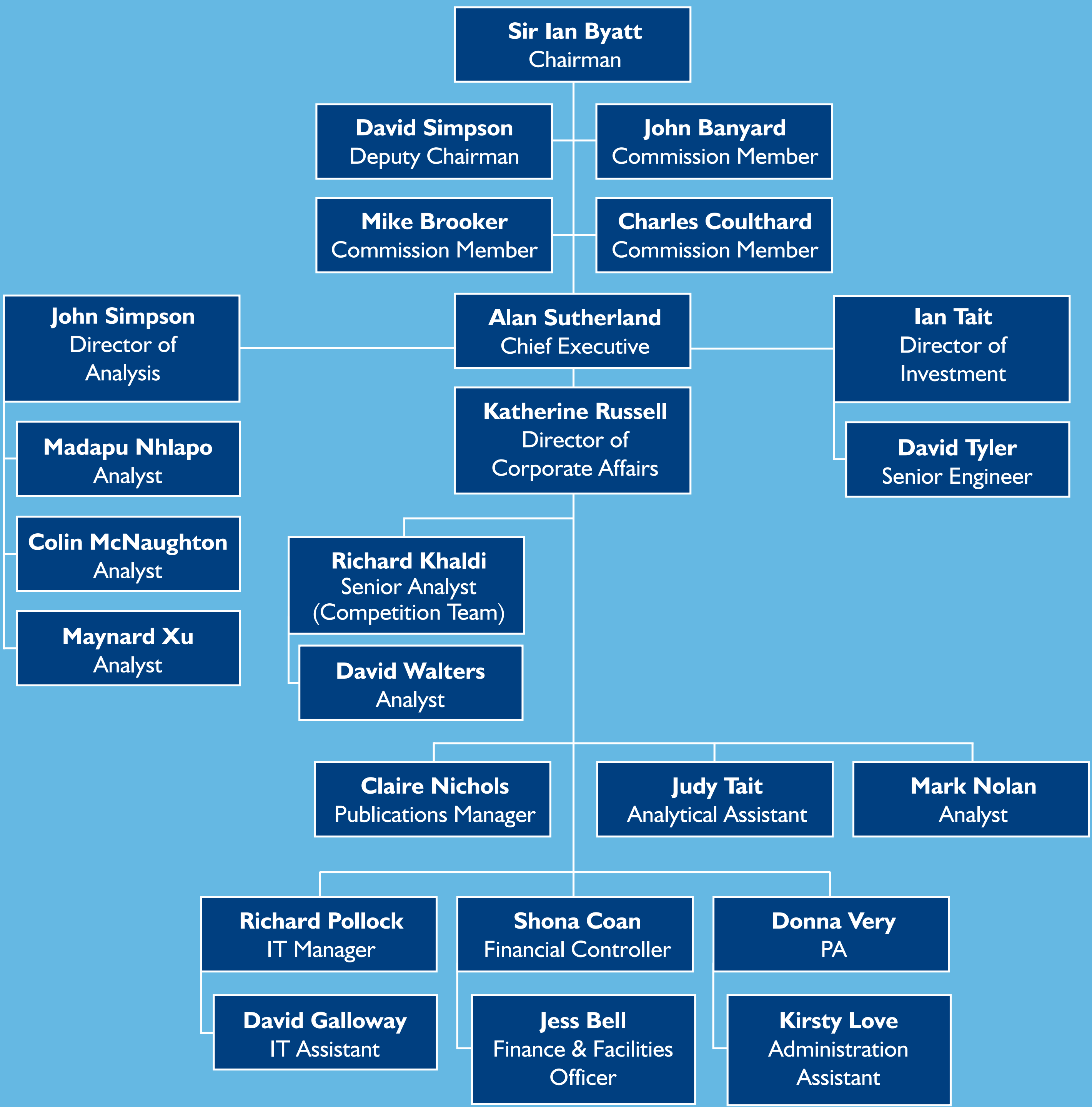
Our Chairman, Sir Ian Byatt, along with two Commission members, Professor John Banyard OBE and Mike Brooker, are standing down this month (June 2011).

We would like to record here our thanks for the outstanding contributions they have made to the work of the Commission and to the running of the office. They have overseen the further development of the regulatory regime here in Scotland, and the successful introduction of retail competition. We wish them well.

We would also like to welcome our new Chairman, Professor Gordon Hughes, who joins us on 1 July. After a distinguished academic career in the UK, Professor Hughes was a Senior Adviser on energy and environmental policy at the World Bank until 2001 and subsequently worked in the private sector.

Currently he is a Commissioner on the Infrastructure Planning Commission and is a part-time Professor of Economics at the University of Edinburgh where he teaches courses in the Economics of Natural Resources and Public Economics.

Who we are


Sir Ian Byatt
Chairman
David Simpson
Deputy Chairman
John Banyard
Commission Member
Mike Brooker
Commission Member
Charles Coulthard
Commission Member
John Simpson
Director of Analysis
Alan Sutherland
Chief Executive
Ian Tait
Director of Investment
Madapu Nhlapo
Analyst
Katherine Russell
Director of Corporate Affairs
David Tyler
Senior Engineer
Colin McNaughton
Analyst
Richard Khaldi
Senior Analyst
(Competition Team)
Maynard Xu
Analyst
David Walters
Analyst
Claire Nichols
Publications Manager
Judy Tait
Analytical Assistant
Mark Nolan
Analyst
Richard Pollock
IT Manager
Shona Coan
Financial Controller
Donna Very
PA
David Galloway
IT Assistant
Jess Bell
Finance & Facilities Officer
Kirsty Love
Administration Assistant

Financial review

The summary financial information provided in this report is unaudited and is subject to external audit by Audit Scotland. The information provided may not contain sufficient information to allow a full understanding of the results and state of affairs of the WICS, and of our policies and arrangements concerning directors' remuneration. Full information will be available in our annual statutory accounts, which will be published in due course and will be available upon request.

Unaudited income statement

For the year ended 31 March 2011

	Note	Year ended 31 March 2011	Year ended 31 March 2010
INCOME		**£**	**£**
Scottish Water statutory contribution		2,132,770	3,033,204
Scottish Water statutory contribution - Waterwatch Scotland		613,192	719,496
Levy on licensed providers		1,145,000	1,204,750
Other income		277	5,422
		3,891,239	**4,962,872**
EXPENDITURE			
Staff costs	1	1,348,958	1,768,713
Staff travel and subsistence		90,145	216,076
Office accommodation		152,906	145,082
General operating costs		461,895	646,268
Regulation and licensing costs		478,883	1,113,356
Recruitment		-	563
Information project and IT support		35,103	51,698
Relocation costs		131,610	-
Finance charges		1,792	14,737
Transfer of levy to Waterwatch Scotland		613,192	719,496
		3,314,484	**4,675,989**
Non-cash costs			
Less: Depreciation		225,590	121,629
		225,590	**121,629**
Operating (deficit)/surplus		351,165	165,254
Add: Interest receivable		1,886	1,678
Operating surplus after interest		**353,051**	**166,932**

Unaudited statement of financial position

As at 31 March 2011

	Note	Year ended 31 March 2011 £	Year ended 31 March 2010 £
NON-CURRENT ASSETS			
Property, plant and equipment	5	265,461	188,967
Intangible assets	6	53,576	108,733
Pension assets		2,466,000	2,081,000
Total non-current assets		**2,785,037**	**2,378,700**
CURRENT ASSETS			
Other receivables	2	201,205	125,541
Cash and cash equivalent		976,890	1,364,942
Total current assets		**1,178,095**	**1,490,483**
TOTAL ASSETS		**3,963,132**	**3,869,183**
CURRENT LIABILITIES			
Trade and other payables	3	(217,032)	(442,134)
Total current liabilities		**(217,032)**	**(442,134)**
NON-CURRENT ASSETS PLUS/LESS NET CURRENT ASSETS/LIABILITIES		**3,746,100**	**3,427,049**
NON-CURRENT LIABILITIES			
Pension liabilities		(2,621,000)	(2,975,000)
Net assets		**1,125,100**	**452,049**
RESERVES			
General reserve	4	**1,125,100**	**452,049**

Notes to the unaudited financial statements

For the year ended 31 March 2011

1. STAFF

Staff costs comprise:

	Year ended 31 March 2011 £	Year ended 31 March 2010 £
Salaries and wages	1,420,749	1,510,062
Social security costs	158,157	156,390
Pension costs	(229,948)	102,261
Amounts included within operating surplus	**1,348,958**	**1,768,713**

The pension increase assumption for the year is in line with the lower Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This is as a result of the Emergency Budget announcement in June 2010. This has given rise to an overall net pension credit in the income statement, as opposed to an expense.

Average number of persons employed:

The average number of whole-time equivalent persons employed during the year was 23 (2010: 26), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2011	Year ended 31 March 2010
Directors, including Chief Executive	4	4
Corporate Affairs	9	9
Analysis	10	13

2. OTHER RECEIVABLES

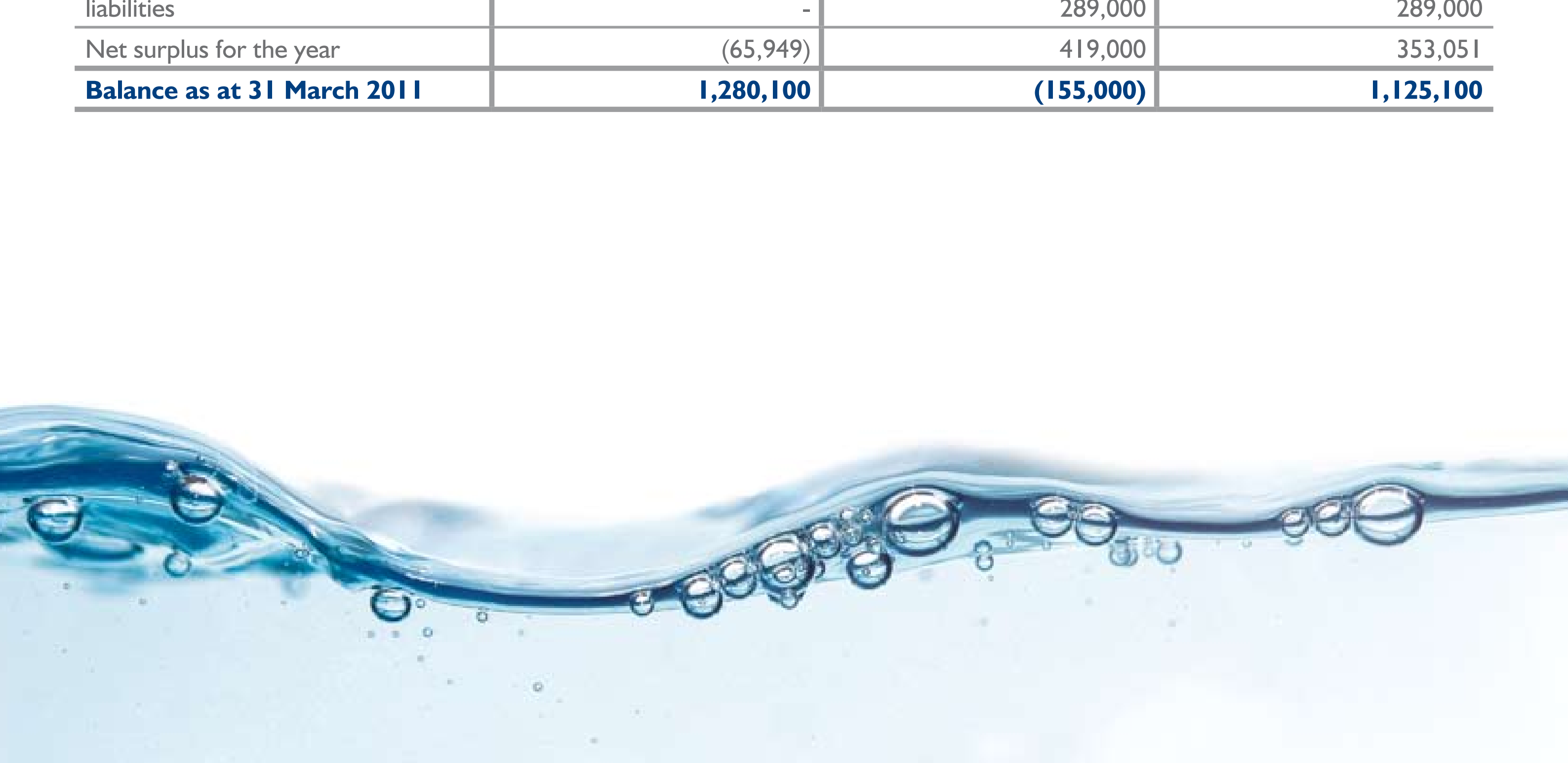
	As at 31 March 2011 £	As at 31 March 2010 £
Prepayments	200,969	122,282
Other receivables	236	3,259
	201,205	**125,541**

3. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	As at 31 March 2011 £	As at 31 March 2010 £
Trade payables	13,623	227,394
Taxation and social security	39,320	47,840
Accruals and other payables	164,089	166,900
	217,032	**442,134**

4. STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 MARCH 2011

	General reserve £	Pension reserve £	Total reserves £
Balance as at 31 March 2009	1,218,117	2,000	1,220,117
Changes in reserves 2009-10	127,932	(896,000)	(768,068)
Balance as at 31 March 2010	1,346,049	(894,000)	452,049
CHANGES IN RESERVES 2010-11			
Actuarial gains	-	31,000	31,000
Change in assumptions underlying the present value of the scheme liabilities	-	289,000	289,000
Net surplus for the year	(65,949)	419,000	353,051
Balance as at 31 March 2011	**1,280,100**	**(155,000)**	**1,125,100**



5. PROPERTY, PLANT AND EQUIPMENT

	Information technology £	Furniture and fittings £	Total £
COST			
At 31 March 2010	155,786	275,846	431,632
Additions	97,348	150,013	247,361
Disposals	(85,875)	(169,696)	(255,571)
At 31 March 2011	**167,259**	**256,163**	**423,422**
DEPRECIATION			
At 31 March 2010	121,340	121,325	242,665
Charge for the year	40,914	25,364	66,278
Eliminated on disposals	(81,875)	(69,107)	(150,982)
At 31 March 2011	**80,379**	**77,582**	**157,961**
Net book value at 31 March 2011	**86,880**	**178,581**	**265,461**
Net book value at 31 March 2010	**34,446**	**154,521**	**188,967**

6. INTANGIBLE ASSETS

	Software licences £	Information technology £	Total £
COST			
At 31 March 2010	38,253	193,429	231,682
Additions	-	-	-
Disposals	-	-	-
At 31 March 2011	**38,253**	**193,429**	**231,682**
AMORTISATION			
At 31 March 2010	30,684	92,264	122,948
Charge for the year	6,800	48,357	55,157
Eliminated on disposals	-	-	-
At 31 March 2011	37,484	140,622	178,106
Net book value at 31 March 2011	769	52,807	53,576
Net book value at 31 March 2010	7,569	101,165	108,734

water industry
commission
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