

ANNUAL REPORT AND ACCOUNTS 2005:06



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**Regional
Development**

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**WATER SERVICE ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2006**

*Laid before the Houses of Parliament
by the Department for Regional Development
in accordance with Paragraph 12(2) and (4) of the Schedule to the Northern Ireland Act 2000 and
Paragraph 36 of the Schedule to the Northern Ireland Act 2000 (prescribed Document) Order 2004*

20 July 2006

*Laid before the Northern Ireland Assembly
under section 11(3) (c) of the Government Resources
and Accounts Act (Northern Ireland) 2001 by the Department for Regional Development*

20 July 2006

*Ordered by The House of Commons to be printed
20 July 2006*

HC 1543
NIA 357/03

LONDON: The Stationery Office

£17.85

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CHIEF EXECUTIVES FOREWORD

I am pleased to present the Water Service's 2005/06 Annual Report and Accounts.

Throughout the last year we have made substantial progress in our aim to deliver water and waste water services to our customers to the highest possible standards.

We met the majority of our challenging Key Performance Targets. Most notably we increased our compliance to 99.73% (taking into account authorised departures) and 81.7% for drinking and waste water respectively. In relation to leakage we managed to reduce the amount lost by almost 25 million litres per day, a reduction of over 12%.

Water Service is engaged in a large programme of capital expenditure which will ensure it meets the demanding EU drinking water and environmental standards as well as the increased number of Wastewater standards.

We have continued to improve on last year's performance in relation to capital investment. This year we invested over £266 million on capital projects, an increase of 15% on 2004/05.

During the year we completed work on the new £18 million Fofanny Water Treatment Works. This modern works, located beside the Fofanny Dam in the Mourne area, will be capable of

producing up to 52 million litres of high quality treated water per day.

On 29th November 2005, Secretary of State Peter Hain MP officially opened the new £20 million Drumaroad Water Treatment Works in County Down. The state-of-the-art Water Service facility is the largest water treatment works in Northern Ireland, capable of treating an enormous 155 million litres of water every day – it will serve around one-fifth of the population of Northern Ireland and will provide our customers with high quality drinking water.

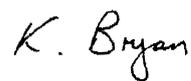
Our performance has been achieved in the context of the major change programme which will take Water Service towards becoming Northern Ireland Water Limited (NIWL). The timetable for transition was confirmed by the Minister as 1st April 2007 when NIWL will be created and charges for domestic customers phased in.

I wish to pay tribute to the hard work and dedication of staff for their determination to succeed in these challenging times.

The non-executive Chairman and three non-executive Directors of NIWL were appointed in early 2006. The shadow board, which comprises the non-executives plus three executive directors, was appointed in April 2006. Many

challenges lie ahead, and the board will provide strategic direction and guidance during this period of change and transition. We are reviewing new efficiency targets which will ensure that our customers obtain value for money when domestic charges are introduced in April 2007, and which will allow us to build a sustainable water and wastewater organisation to serve Northern Ireland.

These are challenging times as we continue the radical redesign of our strategy, structures, processes, culture and funding. The framework that we develop in 2006/07 will be the foundation for an efficient, modern organisation that is customer focused and offers value for money.



Katharine Bryan
Chief Executive



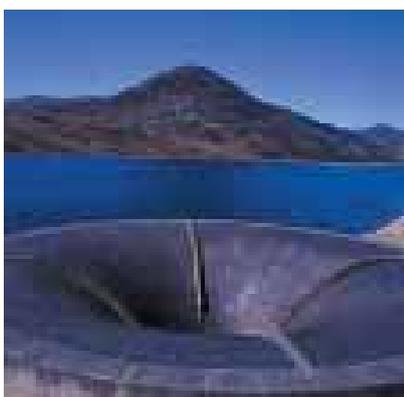
Katharine Bryan and Secretary of State Peter Hain MP Officially open the new £20m Drumaroad Water Treatment Works in County Down

Highlights of the year

- Drinking water standard increased to 99.73%¹ from 99.6% in 2004/05
- Waste Water compliance increased to 81.4% from 80% in 2004/05
- New £20m Drumaroad Water Works opened by Peter Hain
- New £18m Fofanny Water Treatment Works opened
- 180 jobs created by new customer billing and contract service
- Watermains Rehabilitation Programme reaches 200km as part of £300m investment over the next 15 years
- £23m invested in improvements to water treatment
- £49m invested in water trunk and distribution system
- £158m invested in Waste Water treatment and Sewerage infrastructure
- Preferred bidders appointed for both the Alpha and Omega PPP projects for upgrading/constructing, operating and maintaining water and wastewater treatment facilities, both due to commence in October 2008
- Total efficiency saving of £18m achieved (£6m in 2005/06)
- Leakage reduced by over 12%

¹Taking into account authorised departures

DIRECTORS' REPORT



Water Service is an Executive Agency within the Department for Regional Development (the Department). The Department has statutory responsibility for the provision of water and sewerage services under the Water and Sewerage Services (Northern Ireland) Order 1973. The Water Service on behalf of the Department exercises these responsibilities.

Water Service is the sole public water undertaker in Northern Ireland and provides water and sewerage services to domestic, agricultural commercial and business customers throughout Northern Ireland. The value of its fixed assets is currently £6.05 billion

Water Service is a multi disciplinary organisation with over 1,900 professional, technical, scientific, administrative and industrial staff. Our head office is located in Belfast with subsidiary offices in Ballymena, Belfast, Craigavon, and Londonderry.

Under direct rule, the Minister with responsibility for Regional Development determines the policy framework within which we operate, our level of resources and the scope of activities. The Minister approves our corporate plan and monitors our performance. The Chief Executive is responsible to the Minister for our performance and operations. In 2005/06, an Executive Team of eight Directors supported the Chief Executive.

DIRECTORS

Directors who served in the year were:

Katharine Bryan (Chief Executive)

Pauline Shepherd appointed 12/05/05

Ronan Larkin appointed 19/09/05

William Duddy

Peter May

Phil Barker appointed 05/09/05

George Butler appointed 28/04/05

Sue Holmes

David Carson Resigned 25/09/05

John Kelly Retired 31/12/05



STATEMENT OF RESPONSIBILITIES

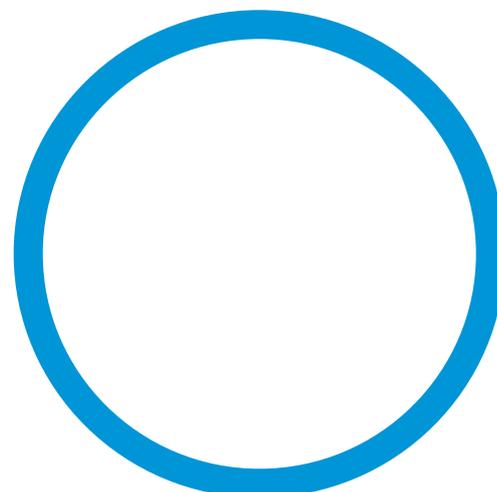
Under section 11 of the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance and Personnel has directed the Water Service to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

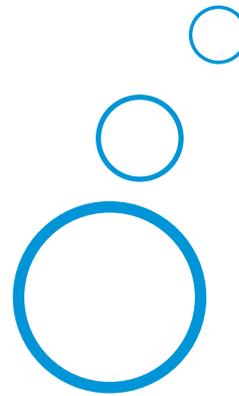
In preparing accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting manual and in particular to:

- observe the Accounts Direction issued by the Department of Finance and Personnel, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis.

The Accounting Officer for the Department for Regional Development has designated the Chief Executive of the Water Service as the Accounting Officer for the Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Accounting Officer's Memorandum issued by the Department of Finance and Personnel and published in Government Accounting in Northern Ireland.





Katharine Bryan
CHIEF EXECUTIVE

The Chief Executive is responsible for all aspects of the Agency's planning and performance together with policy formulation and liaison with the DRD Permanent Secretary and Minister.



Phil Barker
OPERATIONS

Procurement, treatment and distribution of water to customers. Recovery, treatment and disposal of wastewater to the environment in a sustainable manner. Mechanical and Electrical engineering policy and activity.



Pauline Shepherd
HUMAN RESOURCES

HR Strategy and delivery of all Personnel Services



George Butler
ASSET MANAGEMENT

Environmental regulatory compliance, Water quality management. Standards and technology development, Telecommunications, Information systems and Asset Management Planning.



Trevor Haslett
ENGINEERING & PROCUREMENT

Procurement of Capital investment programme. Supplies and services.



Peter May
BUSINESS TRANSFORMATION

Transformation programme, efficiency, Strategy 2010, impact of reform legislation, preparation for standalone status, legislative matters and Secretariat.



Ronan Larkin
FINANCE & REGULATION

All Financial matters, Financial Systems and Agency Performance Reporting. Direction of Strategic and Business Planning Process and the establishment of Economic Regulatory Capability.



Sue Holmes
PPP PROGRAMME

PPP Programme, Alpha and Omega Projects. Kinnegar contract Management.



William Duddy
CUSTOMER SERVICES

Revenue & Billing, Customer Relations Management, Internal and External Communications Strategies.



Directors' Interests

Details of company directorships and other significant interests held by the Executive Team are maintained in the form of a Register of Interests. This can be accessed by contacting the Financial Accountant at Water Service, Mark Royal House, Belfast.

These interests do not conflict with the Directors' management responsibilities in Water Service.

Disclosure to the Auditor

The financial statements are audited by the Comptroller and Auditor General for Northern Ireland (C&AG) in accordance with the Government Resource and Accounts Act (Northern Ireland) 2001. He is head of the Northern Ireland Audit Office and he and his staff are wholly independent of the Agency and he reports his findings to Parliament.

The audit of the financial statements for 2005/06 resulted in a notional audit fee of £25,248, which is included in the administration costs in the Income and Expenditure Account.

So far as the Accounting Officer is aware, there is no relevant audit information of which the Water Service's auditors are aware and the Accounting Officer has taken all the steps that she ought to have taken to make herself

aware of any relevant audit information and to establish that the Water Service's auditors are aware of that information.

Employees

Employee numbers in 2005/06 are shown in Note 5 to the accounts.

Water Service gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees where appropriate.

Payments to Suppliers

The Water Service is committed to the prompt payment of bills for goods and services received in accordance with the Better Payment Practice Code. Unless otherwise stated in the contract, payment is due within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later. During the year 95% of bills were paid within this standard.

Pension Liabilities

Staff Pension Liabilities are borne by the Principal Civil Service Pension Scheme (NI) and are therefore not reflected in these Accounts (see Notes 1 and 5 to the accounts).

Charitable Donations

Water Service made no charitable donations during the year.

Fixed Assets

Details of the movements of fixed assets are set out in note 8 to the accounts

Transfer of assets to NIWL

As noted in note 24 to the accounts, when Water Service becomes Northern Ireland Water Service (NIWL) in April 2007, the value of assets will be written down and is estimated to reduce them to a value of approximately £1 billion.

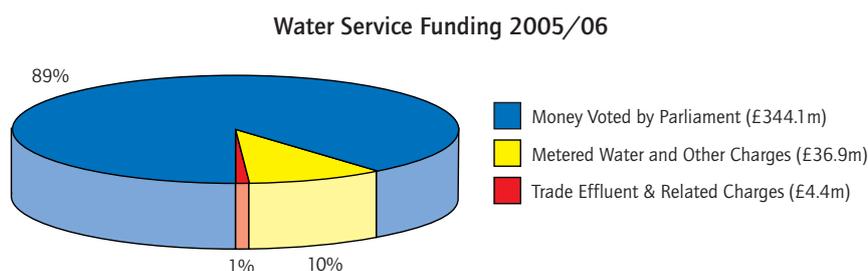
FINANCIAL PERFORMANCE

FUNDING

We receive funding from two main sources:

- direct charges to customers; and
- money voted for from Parliament.

The chart below shows our funding for the last financial year.



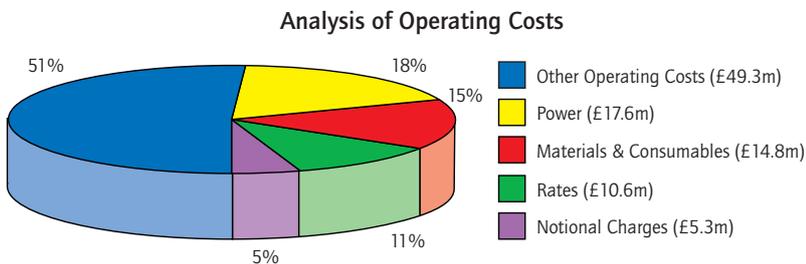
FINANCIAL RESULTS - Year ended 31 March 2006

As the Income and Expenditure Account (below) reflects income from charges only, it shows a substantial deficit representing the amount by which expenditure and capital charges exceed income. This deficit is met by monies voted by Parliament which are credited to reserves when received. The cost of capital charge on the Water Service asset base is also credited to reserves. The level at which the Parliamentary Vote is set takes into account Water Service's approved capital expenditure requirements.

	2005/06 (£m)	2004/05 (£m)
Income	41.3	40.1
Staff costs	55.0	51.2
Operating costs	97.6	86.4
Depreciation	124.3	112.0
Net deficit before interest and capital charges	(235.6)	(209.5)
Capital charges and Interest	198.1	186.4
Net deficit	(433.7)	(395.9)

Features arising from this year's performance are:

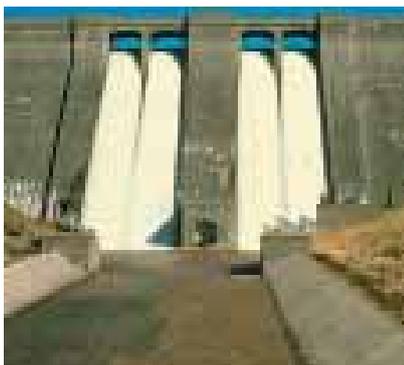
- staff costs have increased on prior year due to the increased provision in respect of the voluntary early retirement scheme;
- operating costs have increased due to additional costs associated with new treatment processes;
- increased depreciation charges largely due to the impact of a number of high value installations being decommissioned; and
- increased capital charges reflecting the increase in the net assets as result of the investment in the capital programme.



Other notable financial performance measures were:

- Water Service achieved 95% of payments made within 30 days of receipt of invoice in line with the Government prompt payment policy;
- we spent £266 million on fixed assets in the year largely to meet our compliance targets increasing the value of our fixed asset base to £6 billion valued on a current cost basis; and
- creditors increased by £16 million largely due to capital creditors outstanding on the enlarged capital programme.

MANAGEMENT COMMENTARY



FACTS AND FIGURES ABOUT WATER SERVICE

- Approximately 786,000 domestic, agricultural, commercial and business properties in Northern Ireland have a public water supply
- 625 million litres of water are supplied every day
- 46 impounding reservoirs
- 44 major water treatment works
- 490 service reservoirs
- 270 water pumping stations
- 26,500 kilometres of watermains
- Approximately 660,000 domestic, agricultural, commercial and business properties in Northern Ireland are served by the public sewerage system
- 134 million m³ of wastewater treated each year
- 1,060 wastewater treatment works
- 760 wastewater pumping stations
- 14,500 kilometres of sewers

KEY PERFORMANCE MEASURES

The key performance measures are derived from the Public Service Agreement (PSA) targets. PSA targets are high level targets agreed with the Department as part of the business planning cycle. Guidance on performance measurement was first issued by the Department for the 2002/03 key targets to ensure performance data was comprehensive, consistent and capable of withstanding audit scrutiny. For 2005/06 the Water Service Executive Team monitors performance against the 10 Key Performance Indicators (KPIs) on a monthly basis, as shown in the Table opposite. Further Information on the calculation of KPIs is included in Annex A to the Annual Report. The Department's Internal Auditor carried out an exercise to independently validate performance against the targets. He was unable to validate target 5b, and places reasonable assurance on the information contained in targets 9 and 10.

Year to 31 March 2006	Achieved 2005/06	Target 2005/06	Previous outturn 2004/05	At or ahead of target	At or better than previous year	Target for 2006/07
1a % compliance with drinking water standards – taking into account Authorised Departures	99.73%	99.60%	99.63%	✓	✓	99.70%
1b % compliance with drinking water standards – not taking into account Authorised Departures	99.19%	98.50%	98.63%	✓	✓	99.45%
2a % of works complying with WWTW's discharge standards.	81.70%	81.00%	79.60%	✓	✓	84.00%
2b % of population equivalent basis served by compliant WWTW	66.80%	63.00%	56.50%	✓	✓	76.00%
3 Commence x% of schemes costing over £250k, scheduled to start in the Capital Works Programme	93.00%	90.00%	n/a	✓	n/a	90.00%
4 Reduce overall leakage to x million litres per day by 31 March 2006	177.77	179.00	202.60	✓	✓	169.00
5a % of properties experiencing unplanned supply interruptions > 12 hrs	0.87%	0.40%	0.20%	✗	✗	0.30%
5b % of customer written correspondence answered within 15 working days	90.34%	90.00%	96.30%	✓	✗	90.00% (in 10 days)
5c % of substantive replies to written customer complaints issued within 15 working days	92.03%	95.00%	91.20%	✗	✓	90.00% (in 10 days)
5d % of customer calls to Waterline and Metered Water answered within 15 working days	89.0%	93.0%	92.0%	✗	✗	93.0%
5e % of FOI and EIR requests responded to within 20 days	100.0%	100.0%	n/a	✓	n/a	100.0%
6 Unit cost of water delivered (pence per m3)	87.0p	89.0p	80.4p	✓	✓	94.0p
7 Unit cost of wastewater treated (pence per m3)	85.0p	86.0p	80.5p	✓	✓	87.0p
8 Maintain expenditure within cash limits and to approved budget plans	Achieved	100%	Achieved	✓	✓	100%
9. Industrial Absenteeism target	4.90%	5.90%	6.09%	✓	✓	n/a
10. Non Industrial Absenteeism target	3.90%	3.90%	4.30%	✓	✓	n/a

WATER

WATER RESOURCES

Approximately 786,000 domestic, agricultural, commercial and business properties in Northern Ireland are connected to the public water supply and each day during the year we supplied some 625 million litres of high quality drinking water to customers. Water Service operates approximately 57 sources which comprise upland impounding reservoirs, boreholes, rivers and loughs.

Water Service, through its Water Resource Strategy, plans to ensure that demand for drinking water is met for the period up to 2030. The strategy emphasises the need to rationalise existing uneconomic water sources and concentrate on the sources that can meet our needs cost-effectively and reliably.

LEAKAGE

We currently have a Water Efficiency Plan with an associated Leakline number. The plan aims to implement and promote a range of water conservation measures that can be employed by both Water Service and its customers.

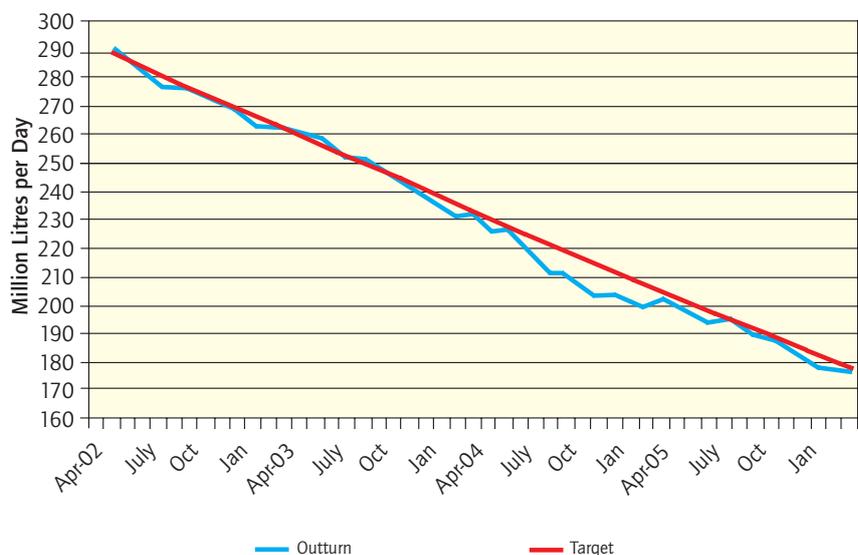
**Report leaks on Roads and Footpaths to LEAKLINE
(Freephone) 08000 282 011**

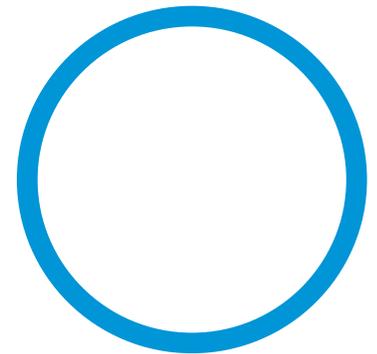
The Leakline number allows customers to report leaks on roads and footpaths at no cost to themselves and we are committed to the prompt investigation and repair of any leaks.

Leakage is a major element in the Water Efficiency Plan and for the fourth

consecutive year, leakage reduction targets have been achieved – on a cumulative basis leakage has reduced during that period by almost 113 million litres per day (ml/d). Water Service remains on course to achieve the economic leakage level of 165 ml/d by March 2008.

Leakage Reduction 2003-06





WATER QUALITY

In 2004 the Water Supply (Water Quality) Regulations (NI) 2002 came into force. These regulations implement the EC Drinking Water Directive (Council Directive 98/83/EC on the quality of water intended for human consumption). They fully incorporate, and go beyond, the requirement of the Directive and introduce tighter quality standards, particularly for lead and other health related parameters. They allow a time limited, authorised departure from the regulatory limit for certain parameters, provided that there

is a planned programme of work at the water treatment works to improve the water quality, and provided that there are no adverse health implications arising from the departure.

Compliance against these standards is monitored during the year through an extensive water sampling and testing programme. During 2005 this involved over 114,000 tests. Levels of compliance for Schedule 1 parameters (including Zonal Total Coliforms) are shown below.

Overall Water Quality

	Number of Analytical Tests	Percentage Compliance with Regulatory standards including Authorised Departures
Water leaving treatment works	20,636	99.89%
Water in service reservoirs	36,464	99.71%
Water at customer taps including authorised supply points	57,758	99.73%
Overall Water Quality	114,858	99.75%

This shows an ongoing and significant improvement in the quality of drinking water supplied at customer tap compared to 2004, when the compliance was 99.64% (including Authorised Departures).

Water Service continues to meet the obligations placed upon it to comply with regulatory standards and heightened demands due to increased customer expectation. Investing in the extension and upgrading of water treatment works remains a top priority and this is reflected in 2005/06, where the completion of several major capital works projects has improved the quality of water delivered to our customers.

Further details about the quality of drinking water are available in our Drinking Water Quality Report, which is published annually. This can be viewed or obtained on our website at www.waterni.gov.uk or from our Customer Service Unit by calling the **WATERLINE 08457 440088**.

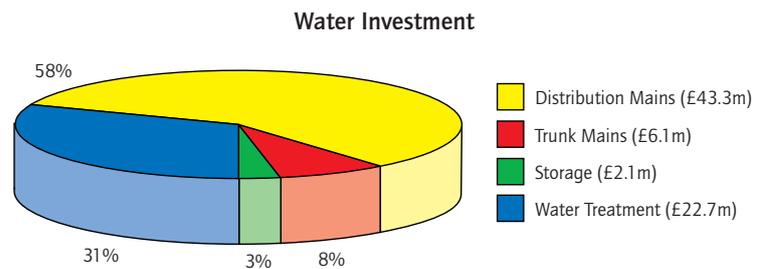
District Councils are also provided with details of the quality of drinking water supplied in their local areas. A Drinking Water Quality Register, which provides results for each water supply zone, is available for inspection at any one of our four main offices at Belfast, Ballymena, Craigavon and Londonderry, during normal office hours.

WATER INVESTMENT

The provision of safe and wholesome drinking water is vital to the maintenance of public health, and requires substantial investment in the water infrastructure and assets to assist in meeting our statutory drinking water quality obligations. During the year we invested over £74 million to maintain

and improve our high quality water supplies. This represents some 28% of our total £266 million capital works budget.

Our expenditure during the year can be broken down as shown in the chart below:



Major projects

During the year we completed work on the new £18 million Fofanny Water Treatment Works. This modern works, located beside the Fofanny Dam in the Mourne area, will be capable of producing up to 52 million litres of high quality treated water per day. This will be sufficient to meet anticipated future demand. We also carried out improvements to Castor Bay Water Treatment Works.

On 29th November, Secretary of State Peter Hain MP officially opened the new £20 million Drumaroad Water Treatment

Works in County Down. The state-of-the-art Water Service facility is the largest water treatment works in Northern Ireland, capable of treating an enormous 155 million litres of water every day – it will serve around one-fifth of the population of Northern Ireland and will provide our customers with high quality drinking water for years to come.

Work continued on the upgrade of the treatment process at Carran Hill Water Treatment Works, near Crossmaglen, and at Clay Lake Water Treatment Works serving Keady and the surrounding area. In total, almost £23 million was

invested on improvements to our water treatment facilities during the year.

As part of our continued commitment towards improving the watermain network we invested some £49 million on the trunk and distribution system throughout Northern Ireland. Expenditure included the provision of new or replacement watermains in areas such as North Down, Belfast, Armagh and Ballymena. We also continued with our detailed studies of the watermain network system. As a result, we commenced improvements to the watermain network system in the Londonderry, Portadown, Stewartstown and Newry areas.

DIRECT SERVICE TO CUSTOMERS

During the year we continued to provide services to meet customer demand and to ensure a reliable and secure service:

- made 13,200 new connections to existing watermains;
- dealt with 2,609 unplanned interruptions to water supply;
- dealt with 3,472 water distribution network repairs; and
- treated and distributed 625 megalitres of drinking water per day.

WASTEWATER

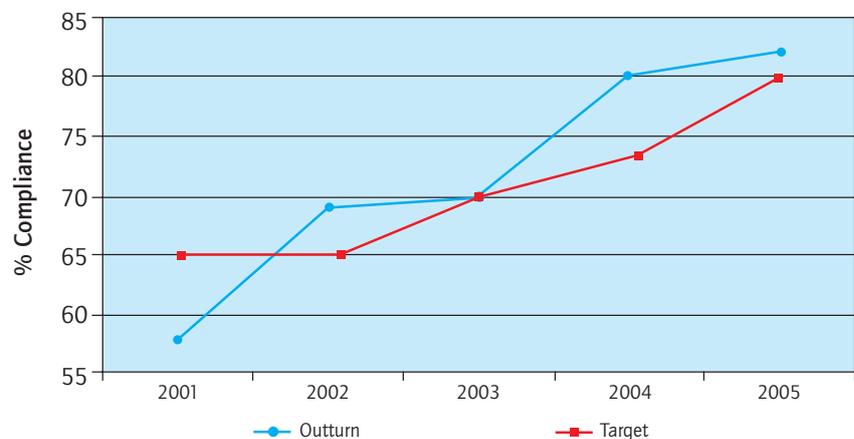
WASTEWATER TREATMENT & COLLECTION

Investment levels in wastewater treatment in Northern Ireland have lagged far behind those in the rest of the United Kingdom for many years and this has resulted in compliance with European Union Directives also being significantly lower. We have recently embarked on a major capital investment programme to improve wastewater treatment facilities and increase levels of compliance. Although this will take a number of years to implement, we are already seeing improvement in compliance with the wastewater treatment works Registered Discharge Standards as set by the Environment and Heritage Service (EHS). The chart below illustrates the improvement in compliance levels over the course of the past 5 years.

The ongoing improvement in compliance levels last year is due not only to the commissioning of new and upgraded treatment facilities at sites such as Strabane, Portglenone and Glenavy but also to the implementation of interim solutions at a number of other wastewater treatment works.

The public register containing the standards and the results of tests is available for inspection at the office of the Environment and Heritage Service.

Waste Water Compliance 2001-2006

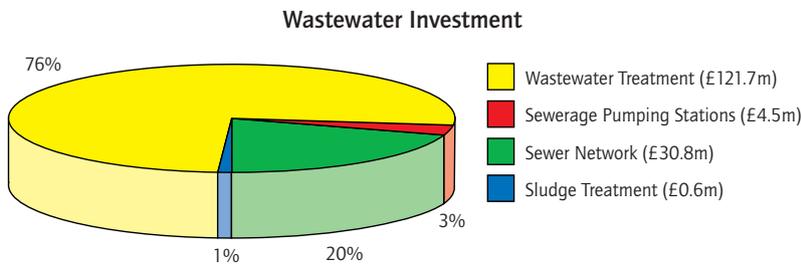


WASTEWATER INVESTMENT

During the year we invested almost £158 million to improve the treatment and sewerage infrastructure. This represents some 68% of our total capital works budget and an increase

of almost 25% from the 2004/05 investment.

Expenditure during the year is broken down as shown in the chart below.



DIRECT SERVICE TO CUSTOMERS

During the year we continued to provide services to meet customer demand and to ensure a reliable and secure service:

- dealt with 1,005 sewerage network repairs;
- cleared 14,874 sewer blockages; and
- collected 133 million m³ of wastewater.

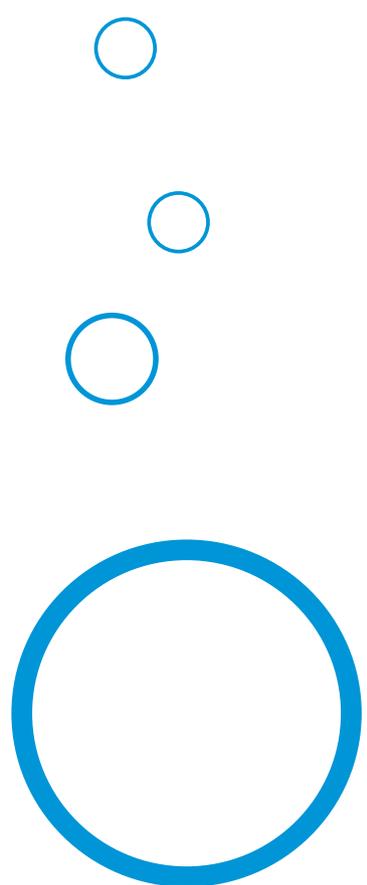
Major projects

During the year we completed major improvements to a number of wastewater treatment works including those located at Ballyclare, Cookstown and Culmore, which serves Londonderry, as well as a number of smaller works such as Castlederg and Killinchy.

Work continued on major improvements to the existing treatment facilities at Ballymoney, Carrickfergus and Newtownabbey plus the major North Coast Waste Water Treatment Works, a £42 million project which will serve the Coleraine, Portrush and Portstewart areas. When completed, these works will provide the necessary treatment to ensure compliance with the standards set out in the Urban WasteWater

Treatment Works Regulations. In total, almost £122 million was spent on improvements to our wastewater treatment facilities during the year.

In addition approximately £36 million was invested on improvements to the sewerage network in areas such as Drumahoe, Newry and Ballymoney. We also continued with our drainage area studies, which has led to the commencement of an extensive sewerage network rehabilitation programme. As a result of such studies, work continued on the upgrade of sewers as part of the Belfast Sewers Project. The Project is estimated to cost in excess of £100 million and aims to provide Belfast with a modern sewerage system to meet its existing and future development needs.



Public Private Partnership (PPP)

Water Service requires capital investment of more than £3 billion over the next 20 years to upgrade both water and wastewater assets and infrastructure in Northern Ireland.

This investment will enable Water Service to meet the required drinking water and wastewater quality standards, and improve levels of service to meet the current and future demands of its customers.

Given the extent of the water assets and infrastructure upgrades required to improve standards, ensure environmental compliance and increase capacity in the timeframe needed, it was recognised that the necessary resources cannot be met from traditional public sector funding alone.

The major Public Private Partnership (PPP) Programme was launched in 2004. Water Service is using the PPP approach to upgrade water and wastewater facilities, and sludge disposal, through Design, Build, Finance and Operate (DBFO) contracts, where value for money can be obtained.

The Programme is split into Water and Wastewater PPP Projects known as the Alpha and Omega Projects.

Alpha Project

The Water Treatment facilities included in the Alpha Project are: Ballinrees WTW;

Castor Bay WTW; Dunore Point WTW; Forked Bridge WTW; Moyola WTW, as well as associated link mains. These five major works will be consolidated to four sites as part of the improvement process.

Progress to Date

- the Dalriada Water consortium was appointed as the Preferred Bidder in August 2005. It is estimated that this appointment will provide savings in excess of 25% from the preliminary Water Service estimate;
- Dalriada Water comprises a number of organisations, namely: Kelda Group Plc; Farrans Ltd; Tyco International Ltd; McAdam Design; and Babbie Group Ltd; and
- if awarded the Contract, Dalriada Water will be responsible for operating and maintaining the water treatment facilities for 25 years (including upgrading/construction). The PPP Concessionaire will recover its investment in the Alpha Project through a monthly unitary charge over the period of the contract.

The project is on track for service commencement in October 2008.

Omega Project

The Wastewater Works/Projects included in the Omega Project are: Craigavon Area Rationalisation (including WWTW at Ballynacor, Bullays Hill and Seagoe); Armagh WWTW; Richhill WWTW;

Ballyrickard WWTW; North Down / Ards WWTW and the Sludge Disposal Solution.

The treatment capacity for these Omega Works is between 300,000 P.E. (Population Equivalents) to 303,000 P.E. (excluding sludge disposal). The Omega Project represents approximately 20% of Northern Ireland's current wastewater treatment capacity, and 100% of its sludge disposal capacity.

Progress to Date

- the Glen Water consortium was appointed as the Preferred Bidder in January 2006. It is estimated that this appointment will provide savings in excess of 15% from the preliminary Water Service estimates;
- Glen Water comprises a number of organisations, namely: Thames Water; Laing O'Rourke; Dawson WAM; BSG Civil Engineering; Williams Industrial Services Ltd; and Hyder Consulting Ltd; and
- if awarded the contract, Glen Water will be responsible for operating and maintaining the wastewater treatment facilities for 25 years (including upgrading/construction). The PPP Concessionaire will recover its investment in the Omega Project through a monthly unitary charge over the period of the contract.

The project is on track for service commencement no later than October 2008.

THE ENVIRONMENT

The activities in which we are engaged have a strong influence on the quality of the natural environment and the quality of life of our customers. We aim to maintain the diversity and quality of the natural environment while enhancing the service that we give to our customers.

Environmental Management

The Water Service maintains operational activities at over 2,300 sites, some in environmentally sensitive locations. Our impacts on the environment are assessed and controlled through an Environmental Management System which encompasses all our activities, including the core businesses of water supply and distribution, and the collection and treatment of waste water. Our staff have been trained in the use of our Environmental Management System, which promotes continuous environmental improvement and pollution prevention. The system is externally certified as compliant to the international standard ISO 14001.

Environmentally Sensitive Construction

We have significantly increased the scale of our programme of capital investment in line with our strategies to meet growth in demand, compliance with higher standards and to renew ageing

infrastructure. In 2005/06 capital investment rose to £266 million and was focused mainly on compliance with European Directives relating to the quality of drinking water and wastewater.

Such an investment programme could have a major impact on the natural environment, and could cause disruption to local communities. At an early stage in major projects an environmental impact assessment is made to determine the effect the work is likely to have on the environment and on the local community. Measures to mitigate the significant impacts are established in project plans and a dialogue maintained with local representatives during the construction phase.

Greening the Supply Chain

We continue to consider the environmental performance of contractors when assessing tenders for the supply of goods and services. Contractors are required to operate environmental management systems which comply with the international standard ISO 14001, and carry out construction in a sustainable manner on major construction projects.

Sustainability

We participate with Water UK in the ongoing development of sustainability indicators, for the UK Water Industry. The indicators measure performance on the social, environmental and economic aspects of the Water Industry and show the breadth of its sustainable development agenda. Our progress towards sustainability is included in the composite Water UK annual report. We will continue to introduce further sustainability targets to our contracts.

Biodiversity

Water Service will strive to maintain and where possible enhance the biodiversity of its landholdings. Through an ongoing programme, Tests of Likely Significance will be carried out on all water abstraction points, and all Waste Water Treatments Works Discharges within Natura 2000 sites.

Use of Resources

Water Service has set targets within the environmental management system to conserve its use of natural resources, minimise the generation of waste and to promote recycling. We have sought to reduce the amount of spoil generated and aggregate used through the increased application of trenchless technology. The 2005/06 target of 65% for laying watermains using

trenchless technologies was achieved, with a corresponding reduction in construction spoil to landfill and in aggregate required for trench backfill/reinstatement.

Water Conservation

In January 2004 the Minister for Regional Development launched the updated Water Efficiency Plan. This includes objectives for leakage reduction, the promotion of water conservation to our customers and the promotion of water efficient appliances.

In 2005 additional resources were allocated to leakage activities and we were successful in reducing overall leakage by a further 25 ml/d this year.

Energy Use

The attainment of higher standards in the quality of the water we deliver and the treated waste water we return to the environment has inevitably increased our use of energy. We strive to minimise our energy use and to ensure that, as the energy market allows, an increasing proportion is supplied from renewable sources. In 2005/06, 8% of energy consumed was generated from renewable sources.

EC Bathing Waters

During the year the DOE Environment and Heritage Service (EHS) monitored 16 identified bathing waters (under the EC Bathing Water Directive) throughout the bathing season. The sites were those at which bathing is traditionally practised by large numbers of bathers and each site was sampled on 20 occasions during the season, which runs from June to early September.

The Directive contains two standards on the quality of bathing water: a mandatory standard; and a more stringent guideline standard. In 2005, 15 of the 16 identified bathing waters in Northern Ireland met the mandatory standard, and 11 met the higher guideline standards. One bathing water area (Newcastle) failed the bathing water directive. At a further 11 less well used bathing locations, all passed the Directive's mandatory standard and 7 passed the guideline standard.

CUSTOMER SERVICES

We are committed to continuously developing the quality of our service and in our response to meet the increasing expectations and changing demands of our customers.

Following on from major internal restructuring in 2004/05, we have concentrated on the development of Customer Services Directorate through increasing the focus on:

- efficient handling of customer contacts;
- development of more challenging customer service targets in line with industry standards;
- preparation for formal customer representation and consumer regulation to be introduced in the Water Reform process; and
- communications with customers and stakeholders.

During the year, activity in this area included:

- successful procurement of an outsourced partnership to provide "next generation" customer billing/contacts and operational work management services;
- establishment of a Corporate Communications Unit with full responsibility for managing all internal and external communication programmes, to ensure broad

awareness in the community, business world and the media of the complex challenges facing Water Service and our significant programme of infrastructure investment; and

- development of the initial relationship with the Consumer Council for Northern Ireland as we prepare the formal customer representative framework to accompany NIWL.

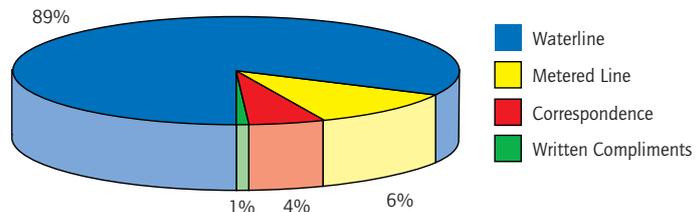
CUSTOMER CONTACT

We are contacted by customers by letter, telephone, email and in person, about a range of water, sewerage and billing enquiries or complaints. In all cases we aim to give a prompt, courteous and professional response.

During 2005/06:

- we handled over 227,000 telephone contacts on our dedicated customer lines (Waterline/Leakline), answering over 89% within 30 seconds;
- over 18,000 calls were received on the Metered Water line (028 90321500) relating to various revenue and billing enquiries; and
- we processed 8,600 items of correspondence and 890 written complaints, replying to 90.3% and 92% respectively within the 15 day target response time.

Type of Customer Contact



METER READING, BILLING AND CASH COLLECTION

There are over 75,000 meters installed on non-domestic premises and we issued over 137,000 bills during 2005/06 to metered water and trade effluent customers, (i.e. 99% of customers were billed based on actual meter readings). We provide a range of payment options to these customers including:

- direct debit via the budget payment plan;
- in person at our main Revenue Branch office in Belfast or any of the local offices across Northern Ireland;
- bank or Post Office Giro; and
- BACS.

CORPORATE COMMUNICATIONS UNIT

In Water Service we are committed to managing our relationships with our customers and stakeholders as well as promoting the services we provide and work we do. To maximise the effectiveness and professionalism of Water Service communications, a Corporate Communications Unit was established to manage all internal and external communications.

External Communications

During 2006/07 we will be promoting key themes on Health, Water Efficiency, The Water Cycle and Environmental Responsibility. To do this we will raise public awareness through newspaper

articles, exhibitions, visitor centres, sponsorships and the education of future generations. We will use all available methods of communication to reach our current and future customers and stakeholders facilitating fast and efficient handling of information requests.

PLANNING FOR IMPROVEMENT

Water Service is planning for improvements across a range of customer service activity to meet the challenges of the future. We have continued to promote the wise use of water at public exhibitions across Northern Ireland and through our mobile "Waterbus". The new Waterbus continues to provide an interactive educational experience into the activities of Water Service to approximately 150 schools each year.

In addition to continuing development of our systems for customer relations management, metering and billing we are planning to:

- upgrade and expand our Internet web-site facilities;
- continuously review our standards of customer service and performance targets to aim for UK Water Industry benchmarks; and
- provide all of our staff with the training, systems and equipment to support them in continuous improvement of customer services.

For all **Emergencies**,
Services and General
Enquiries telephone
the **WATERLINE**
08457 440088

Text phone for people
with hearing difficulties:
08457 023206
All Calls charged at
local rates

Or e-mail your query to
waterline@waterni.gov.uk

PEOPLE

2005/06 was another challenging year for Water Service as we progress to NIWL in April 2007. Further restructuring saw the recruitment of all Directors and the vast majority of Heads of Departments/Units completed with Voluntary Early Retirement for some of our former Directors and Heads of Departments. The non executive Chair was appointed to the Water Service Board in February 2006 and three non-executive board directors were appointed in April 2006. The Shadow Board will strategically support the Executive Team in progressing Water Service transition to NIWL.

In June 2005, following on from transitional training and development workshops in the previous year, the Executive Team approved the Transitional Training and Development (TTD) Strategy, now renamed the Organisational Development Strategy. The Strategy will help to prepare our managers to lead and support their teams in moving towards NIWL. In early 2006, a Management Development partner was appointed to support the service in delivering this very important piece of work in 2006/07.

In November 2005, a number of Human Resources Strategy workshops were organised to which over 200 staff were invited. Attendees were asked to consult their colleagues on what they would like

to see in a Human Resource Strategy.

In January 2006, post completion of the workshops, the Executive Team agreed a three year HR Strategy that will take Water Service through the transition into NIWL. The focus for the strategy is on improving the performance, resourcing, reward approach and development strategies to support the delivery of the business' outcomes.

Building upon the HR Strategy, an independent staff survey was carried out between January 2006 and February 2006. The findings of the Staff Survey will be used to set targets which will address areas where improvement is required. Actions necessary to meet these targets will be identified. Actual improvements will be assessed, measured against the targets and reported on in 2008.

The reduction of staff absence due to sickness was also identified as a key target. The sickness absence rates at 31st March 2006 were:

- Industrial Staff – 5.2%;
Non Industrial Staff – 3.8%

This reflects a reduction of 15% for industrial and 12% for Non Industrial. Work will continue in this important area.

Internal Communications

Corporate Communications have implemented an internal communications strategy to deliver new and effective communications channels with Water Service employees. Delivery of the strategy will be in the context of business change and will ensure that staff in Water Service understand what that means for them and the organisation. Delivery to date has included a new weekly briefing document InBrief, reintroduction of Waterline and Reform News, and standardisation of the monthly team meetings 'Team Talk'. Notwithstanding these efforts, the Executive Team recognise that there remains more to be done to explain the full effects of the transformation programme.



WATER REFORM

Water Reform will require major changes to Water Service as it transforms into NIWL, a fully regulated and self-financing organisation outside the Northern Ireland Civil Service.

In September 2005 the Minister announced that, following detailed consultation, the date when NIWL will be established, and charges to domestic customers will begin to be phased in is 1st April 2007.

Following this, in December 2005, the Minister announced a package of protections which guarantees that eligible low-income households will spend no more than 3% of their income on water and sewerage charges. This new income-based **Affordability Tariff** is a clear indication of how Government has listened to concerns that charges have to be fair and affordable, particularly for the least well-off in society, such as pensioners and lone-parents. The Minister also indicated that the Government's long term goal is the introduction of widespread **domestic metering**, with the priority on pensioners, a group where consumption levels are generally lower than other groups. Additionally, meters will be installed in all new properties and first time connections, potentially over 10,000 properties every year, with the possibility of extending the metering option to further groups.

Over the past year, good progress has been made towards delivery of Water Service led critical elements required to enable NIWL to be created on 1 April 2007. In addition, the need for efficiency, to ensure that customers' bills

are kept as low as possible, is a vital element of the Water Reform Programme. Evidence from the water industry in Great Britain has demonstrated that there is considerable scope for cost reductions in Water Service.

Very significant progress has been made towards the longer term aim of ensuring that prices remain as low as possible for Water Service customers, by the achievement of £18 million of efficiency savings in operating costs to 2005/06. DRD has now indicated that it is preparing higher efficiency targets for delivery by 2009/10. These targets will be finalised in June 2006. Water Service is committed to maximising the level of efficiency in the timeframe available.

A key part of the approach to gaining efficiency savings is the development, during 2006/07, of a strategy defining where we believe the organisation needs to be by March 2010, together with the major projects and benefits defined to that point. This will form the Corporate and Business Plan for 2007-2010.

This work has commenced, and involves large parts of the organisation.

On 7 December 2005, the Management Board and the Senior Management team spent a day together at Galgorm



Manor near Ballymena. The team got together to work on the future direction for Water Service and for NIWL.

The ability to define the future performance requirements of the business, its consequent working structure, and cost base will help to provide greater clarity for the workforce, who understandably continue to be apprehensive about the anticipated changes that will be brought about by the move to NIWL.

All areas of major expenditure in Water Service are currently being reviewed with the aim of reducing unnecessary overheads, utilising the latest technology to reduce the costs of service delivery, and improving performance through expenditure under the 'Invest to Save' initiative. In addition, these efficiencies have also resulted in a reduction in the size of the organisation with around 240 (12%) fewer posts at 31 March 2006 compared to 1 April 2003.

K. Bryan

Katharine Bryan
Chief Executive
21st June 2006

REMUNERATION REPORT

The Chief Executive of Water Service was appointed to lead Water Service through the transition from an Executive Agency to Northern Ireland Water Limited (NIWL). The salary level and bonus terms for the post were set at the minimum considered necessary to attract and retain a person of the necessary calibre and will be uplifted annually in line with the revalorisation of Senior Civil Service pay-bands until NIWL is established in April 2007. All members of the Executive Team, with the exception of Sue Holmes, are members of the Northern Ireland Senior Civil Service.

Sue Holmes is employed via an agreement with the Strategic Investment Board (SIB), and the contract of employment was issued by SIB. The PPP Director is a member of the Water Service Executive Team at the request of the Chief Executive.

It is envisaged that all Directors in post on creation of NIWL will transfer to the new organisation.

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

The remuneration of all senior civil servants is entirely performance based. Permanent Secretaries pay awards are determined by the Northern Ireland Civil Service (NICS) Permanent Secretary Remuneration Committee.

Further information about the work of the Review Body can be found at www.ome.uk.com.

The remuneration for the post of PPP Director is paid by SIB, but recouped from Water Service by SIB.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners for Northern Ireland's Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Policy relating to notice periods and termination payments is contained in the Northern Ireland Civil Service (NICS) Staff Handbook.

Further information about the work of the Civil Service Commissioners can be found at www.nicscommissioners.org.

The Chief Executive was appointed on the basis that she would transfer to Northern Ireland Water Limited on its formation.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Directors of Water Service.

	2005-06		2004-05	
	Salary & Allowances including performance pay £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Katharine Bryan Chief Executive	160 - 165	Nil	205 - 210 ¹	10,500
Pauline Shepherd Director (from 12/05/05)	55 - 60 (60 - 65 Full Year Equivalent)	Nil	N/A	N/A
Ronan Larkin Director (from 19/09/05)	50 - 55 (100 - 105 Full Year Equivalent)	Nil	N/A	N/A
William Duddy Director	60 - 65	Nil	55 - 60	Nil
Peter May Director	65 - 70	Nil	65 - 70	Nil
Trevor Haslett Director	65 - 70	Nil	65 - 70	Nil
Phil Barker Director (from 05/09/05)	60 - 65 (110 - 115 Full Year Equivalent)	69,000 ²	N/A	N/A
George Butler Director (from 28/04/05)	90 - 95 (95 - 100 Full Year Equivalent)	Nil	N/A	N/A
David Carson Director (Resigned 25/09/05)	35 - 40 (65 - 70 Full Year Equivalent)	Nil	65 - 70	Nil
John Kelly Director (Retired 31/12/05)	Not disclosed ³			

Further detail on Directors' remuneration is shown in Note 5 to the accounts.

¹ Salary and allowances for Katharine Bryan in 2004/05 included costs of relocation including professional fees and removal costs

² This includes costs of relocation including professional fees and removal costs

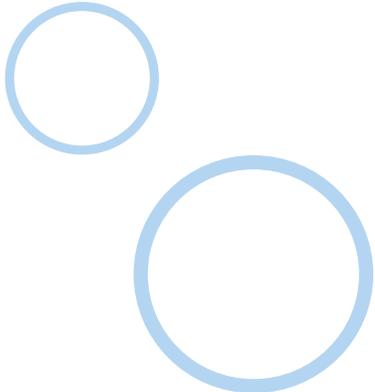
³ John Kelly retired during the year and could not be contacted to obtain authorisation to disclose the above information

'Salary' includes gross salary; performance pay or bonuses any allowance, such as London Weighting Allowances, to the extent that it is subject to UK taxation. This report is based on payments made by the Department and thus recorded in these accounts.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

	Accrued pension at age 60 as at 31/3/06 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/06	CETV at 31/3/05	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Katharine Bryan Chief Executive	5.0 – 7.5	0.0 - 2.5	87	58	22	Nil
Pauline Shepard Director	0.0 – 2.5 plus 0.0 – 2.5	0.0 – 2.5 plus 2.5 – 5.0	8	N/A	8	Nil
Ronan Larkin Director	0.0 – 2.5	0.0 – 2.5	8	N/A	8	Nil
William Duddy Director	22.5 – 25.0 plus 72.5 – 75.0	0.0 – 2.5 plus 2.5 – 5.0	426	383	20	Nil
Peter May Director	15.0 – 17.5 plus 32.5 – 35.0	0.0 – 2.5 plus 0.0 – 2.5	169	145	13	Nil
Trevor Haslett Director	5.0 – 7.5 plus 17.5 – 20.0	0.0 – 2.5 plus 5.0 – 7.5	110	75	32	Nil
Phil Barker Director	0.0 – 2.5	0.0 – 2.5	9	N/A	9	Nil
George Butler Director	0.0 – 2.5	0.0 – 2.5	17	N/A	17	Nil
David Carson Director (Resigned 25/09/05)	25.0 – 27.5 plus 45.0 – 47.5	0.0 – 2.5 plus 0.0 – 2.5	227	213	14	Nil
John Kelly Director (Retired 31/12/05)		Not disclosed as above				



Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensions-ni.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Payments in Respect of Early Retirement

The following Directors received Early Retirement payments in respect of early retirement in the year. There were no provisions made in respect of early retirement for current Directors.

Director	Lump Sum Payment (£)	Early Retirement Payments (£)	Total Paid (£)
Robin Mussen Director (Retired 02/04/05)		Not disclosed ¹	
John Kelly Director (Retired 31/12/05)		Not disclosed ¹	

K. Bryan

Katharine Bryan
21st June 2006

¹ Robin Mussen & John Kelly retired during the year and could not be contacted to obtain authorisation to disclose the above information



STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Regional Development's policies, aims and objectives, whilst safeguarding the public funds and Agency's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting Northern Ireland.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with DFP guidance.

3. Capacity to handle risk

We have developed appropriate procedures to ensure that we have identified the Agency's key business performance themes and risks and determined a control strategy for each of the significant risks. The procedures

include the allocation of responsibilities to the appropriate staff.

The risk management cycle takes a "top-down" and "bottom-up" approach. This approach allows risks to be identified and managed at all levels and to be escalated as appropriate.

In addition, the Agency has its own policy on risk management to provide clarity and direction on risk management.

4. The risk and control framework

The system of internal control within the Agency is based on an ongoing risk management process. This identifies the key risks associated with the achievement of the Agency's strategic aims and business performance themes, along with the controls in place to manage those risks at three key levels:

- Corporate – Key risks for the Agency managed by the Executive Team;
- Directorate – key risks identified and managed by Directors and their management teams; and
- Business Unit - key risks at this level are managed by the Head of Branch and feed into the Directorate/ Corporate level risks as appropriate

The Agency manages risks by the:

- consistent and methodical identification, assessment and prioritisation of risk, with clear assignment of accountability for management;

- identification and evaluation of existing risk control measures and determination of additional control measures; and
- continual assessment of risks to ensure that existing risks are being managed as intended and that emerging risks are identified and managed.

The Corporate Risk Register identifies the key risks that may impact upon the achievement of the Agency's objectives. It evaluates the likelihood and impact of occurrence and also assesses the controls in place to manage those risks. The "Risk Appetite" has been considered and further action to improve control has been agreed where appropriate. The ownership of each risk has been allocated to appropriate staff.

In 2005/06 the Executive Team, supported by the Internal Controls Committee regularly reviewed the Corporate Risk Register. The key Agency risks requiring management at corporate level included:

- failure to meet compliance targets and statutory requirements through inadequate investment in, and operation of, capital assets;
- failure to minimise the impact of a major incident and thereby fail to protect human health and the environment;
- failure to meet customer standards;

- failure to develop and deliver effective strategic plans to keep Water Service Transformation on time and within budget;
- failure to make Water Service fully self-financing by not delivering Charging/Billing on time and within budget;
- failure to stay within budget by non-delivery of business efficiencies and quality improvements;
- failure to comply with financial management processes;
- inadequate information leading to the undermining of credibility and decision-making;
- staffing – loss of skilled / key staff; low morale; unable to recruit and retain skilled staff;
- public opposition to water charges;
- failure to develop and implement adequate corporate governance arrangements; and
- efficiency targets set at a level which makes the organisation unsustainable.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers

within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Executive Team and the Internal Controls Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Agency Audit Committee, which meets bi-annually and is attended by representatives of Internal Audit and the NIAO as well as the Executive Team, provides support and guidance on corporate governance issues.

6. Significant internal control problems

For 2005-06 Internal Audit has provided me with reasonable assurance, in overall terms, regarding the adequacy and effectiveness of the risk management, control and governance processes for the Agency. Eight of the nine reports conducted during 2005/06 provided a reasonable assurance rating which is a welcome sign of progress against the context of major change.

Internal Audit has highlighted significant control issues during the review of Unipay where an overall limited assurance has been provided and an Action Plan has been developed and is being implemented to address the problems identified. Work is still ongoing to implement recommendations

made during the 2004/05 review of New Connections where an overall limited assurance was provided. A follow-up review will be carried out during 2006/07 to determine if recommendations have been implemented satisfactorily and to reassess the audit opinion.

K. Bryan

KATHARINE BRYAN
Chief Executive
21st June 2006

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS AND THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the Water Service Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act (Northern Ireland) 2001. These comprise the Income and Expenditure Account and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Responsibilities on Page 7.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in

accordance with Department of Finance and Personnel's directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 31 to 32 reflects the Agency's compliance with the Department of Finance and Personnel's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chief Executive's Foreword, the Directors' Report, the Management Commentary,

the unaudited part of the Remuneration report and Annex A. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the

financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel, of the state of the Agency's affairs as at 31 March 2006 and of the net deficit on operations, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



JM Dowdall CB
Comptroller and Auditor General
NORTHERN IRELAND AUDIT OFFICE
106 University Street
BELFAST
BT7 1EU

30th June 2006

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 £'000	2005 Restated £'000
Income from activities	3	<u>41,298</u>	<u>40,100</u>
Expenditure			
Staff Costs	5	54,971	51,219
Operating Costs	6	97,620	86,372
Depreciation	8	124,267	111,987
Total Expenditure		<u>276,858</u>	<u>249,578</u>
Net deficit on operations before interest and cost of capital charges	23(i)	<u>(235,560)</u>	<u>(209,478)</u>
Interest payable on Loans		46	114
Cost of Capital Charge	7	<u>198,118</u>	<u>186,311</u>
Net deficit on operations after cost of capital and interest charges		<u>(433,724)</u>	<u>(395,903)</u>

All amounts derive from continuing operations.
The notes on pages 38 to 58 form part of these accounts.

Statement of Recognised Gains and Losses

	2006 £'000	2005 Restated £'000
Net gain on revaluation of Fixed Assets (note 16)	290,362	213,698
Net (loss)/gain on the revaluation of fixed asset investments	3	(26)
Receipt of adopted assets	<u>15,739</u>	<u>15,646</u>
Recognised gains and losses relating to the year	<u>306,104</u>	<u>229,318</u>

BALANCE SHEET AT 31 MARCH 2006

	Notes	2006 £'000	2005 Restated £'000
Fixed Assets			
Tangible Assets	8	6,046,100	5,600,374
Investments	10	62	59
		<u>6,046,162</u>	<u>5,600,433</u>
Current Assets			
Stocks and work in progress	11	1,685	2,236
Debtors due within one year	12	32,093	39,940
Cash at bank and in hand		23	19
		<u>33,801</u>	<u>42,195</u>
Creditors: amounts falling due within one year	13	88,113	72,520
Net Current (Liabilities)		<u>(54,312)</u>	<u>(30,325)</u>
Total Assets less Current Liabilities		<u>5,991,850</u>	<u>5,570,108</u>
Creditors: amounts falling due after one year	14	4,781	4,171
Provisions for Liabilities and charges	15	4,251	2,246
Net Assets		<u>5,982,818</u>	<u>5,563,691</u>
Taxpayer's Equity			
General Fund	16	3,784,317	3,594,395
Revaluation Reserve	16	2,089,227	1,859,757
Government Grant Reserve	16	109,274	109,539
		<u>5,982,818</u>	<u>5,563,691</u>

The notes on pages 38 to 58 form part of these accounts.

K. Bryan

Katharine Bryan
Chief Executive

21st June 2006

Date

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006		2005
		£'000	£'000	Restated £'000
Net cash outflow from continuing operating activities	23(i)		(66,305)	(85,060)
Servicing of finance				
Interest paid on Government Loans			(56)	(125)
Capital Expenditure				
Purchase of tangible fixed assets		(265,655)		(232,009)
Proceeds from disposal of assets		<u>476</u>		<u>233</u>
			<u>(265,179)</u>	<u>(231,776)</u>
Cash outflow before financing			<u>(331,540)</u>	<u>(316,961)</u>
Financing				
Payments of amounts due to consolidated fund		(49)		(82)
Repayment of loans		(1,412)		(1,540)
Amount received from DRD	16	<u>344,050</u>		<u>305,500</u>
			<u>342,589</u>	<u>303,878</u>
Increase/(Decrease) in cash in the period	23(ii)		<u><u>11,049</u></u>	<u><u>(13,083)</u></u>

The notes on pages 38 to 58 form part of these accounts

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

Note 1 Principal Accounting Policies Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs.

1.2 Tangible Fixed Assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £3,000 is capitalised except for land for which there is no threshold. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition.

All tangible fixed assets are restated to current value each year except for assets in the course of construction, computers and IT equipment. Land and buildings with an open market value are restated to current value using professional valuations which were provided by the Valuation and Lands Agency at 1st April 2002 in accordance with FRS15 and in the intervening years by the use of published indices appropriate to the type of land or building. Other operational assets, where an open market value is not obtainable, are valued on the basis of depreciated replacement cost using information from the last Asset Management Plan which reported at 1st September 2001. Published indices appropriate to the category of asset are normally used to estimate value. The value is restated to reflect subsequent expenditure.

The value of Infrastructure assets, (being mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines) is based on the last Asset Management Plan and updated to include subsequent expenditure. Expenditure on infrastructure assets relating to increases in capacity, enhancement or upgrading of the network in accordance with defined standards of service is treated as an addition, thus increasing the value of the asset.

Properties managed and controlled by the Water Service for its specific purposes (specialised buildings) are incorporated in the accounts as if owned by the Water Service. The remaining buildings used by the Water Service (some of which have shared occupancy) are part of the Government Estate. As rents are not paid for these properties an assessment of the rent that would be payable on an open market basis has been charged in order to reflect the full economic cost.

Residual interests in off-balance sheet PFI properties are included in the tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual to the balance sheet date plus an adjustment based on the net present value of the change in the fair value of the residual as estimated at the start of the contract and its estimated fair value at the balance sheet date.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the Agency respectively. No depreciation is provided on freehold land as it has an infinite useful life.

Asset lives are normally in the following ranges:

- Buildings
 - Operational structures
40-80 years
 - Other buildings
30-60 years
- Fixed and mobile plant
3-40 years
- Vehicles, fixtures and fittings
4-10 years
- Office Equipment
3-10 years

- Infrastructure assets represent a network of systems, which are required to be maintained in perpetuity and therefore have no finite economic life. The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network. This charge is based on the yearly average of the 20 year forecast renewals expenditure as identified by the Asset Management Plan to maintain the assets to defined standards of service and indexed each year to reflect inflation.
- IT equipment and computers are depreciated using the accelerated depreciation method to write off assets over three years.

1.4 Adopted Assets

Adopted assets are capitalized at their current value on receipt, and this value is credited to the general fund. They are

subject to cost of capital charges at the standard rate of 3.5%.

Previously these assets were capitalized at their current value on receipt, and this value was credited to the donated asset reserve. Subsequent gains and losses on the revaluations were also taken to this reserve. Each year an amount equal to the depreciation charge on the asset was released from the Donated Asset Reserve to the Income and Expenditure Account. No cost of capital was charged on these assets. A prior year adjustment has been made and the impact of this change is provided at note 2.

1.5 Government Grants

Government grants received in respect of capital assets are treated as deferred credits and are transferred to the Income and Expenditure Account in accordance with the asset lives of those assets.

1.6 Investments

Fixed asset investments (all of which are unlisted) consist of loan stock and ordinary shares. The loan stock is valued at cost, which is considered to be a close approximation to market value. The shares are stated at market value which has been determined by an independent stockbroker.

1.7 Stocks and Work in Progress

Stocks and work in progress are valued as follows:

- a. finished goods and goods for resale are valued at cost or, where materially different current replacement cost, and at net realisable value only when they either cannot or will not be used; and

- b. work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

1.8 Administrative and Programmed Expenditure

Note 9 analyses costs between Administration and Programme. Administration costs reflect the costs of running the Water Service. These include both administrative costs and associated operating income. Programme costs reflect non-administration costs.

1.9 Capital Charge

A charge, reflecting the cost of capital utilised by the Water Service, is included in the Income and Expenditure Account. The charge is calculated at the real rate set by government (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

- a. fixed assets where the cost of capital charge is based on the opening values, adjusted pro rata for in-year:
 - additions at cost
 - disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal)
 - impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure)
 - depreciation of tangible fixed assets;
- b. amounts to be surrendered to the Consolidated Fund;
- c. cash balances;
- d. assets that have been funded through supply monies which have been made available through the

Strategic Investment Programme (part of the Reinvestment and Reform Initiative). In this case, the interest which would have been charged had the supply monies been made available by loan rather than through supply is added to the cost of capital charge on the assets.

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (NI) (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. The Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS (NI) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS (NI).

Employees of the Water Service are Northern Ireland Civil Servants to whom the conditions of the Superannuation (NI) Order 1972 and subsequent amendments apply. Most Water Service staff are members of the Principal Civil Servant Pension Scheme (NI), which is a non-contributory scheme.

1.11 Leases

Operating leases and the rentals are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease.

1.12 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note

No.1 (Revised) entitled **How to account for PFI Transactions** as required by FReM. Where the balance and the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Water Service has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the Water Service, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risk and rewards of ownership of the PFI property is borne by the Water Service the property is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.13 Provisions

The Agency provides for the legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation.

1.14 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS12, the Agency discloses certain contingent liabilities where the likelihood of a transfer of economic benefit is remote.

These comprise:

- items over £100,000 that do not arise in the normal course of business and which are reported to Parliament/the Northern Ireland Assembly by Minute prior to the Agency entering into the arrangement; and
- all items (whether or not they arise in the normal course of business) over £100,000 which are required by FReM to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament/the Northern Ireland Assembly separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament/the Northern Ireland Assembly.

1.15 Value Added Tax

VAT is recovered centrally by the Department for Regional Development. Both trade debtors and trade creditors are stated gross of VAT and the VAT account balance is adjusted accordingly. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.16 Notional Costs

Some of the costs directly related to the running of the Water Service are borne by other Government bodies. These have been included on the basis of the estimated cost incurred by the providing Department.

Note 2 Prior Year Adjustment

During the year clarification was sought on the interpretation of the definition of donated assets contained in the Financial Reporting Manual (FRM) paragraph 5.2.13. It is now accepted that assets adopted from developers do not meet this definition and do not qualify for the treatment set out in the FRM for donated assets. Consequently, these assets are now treated as normal tangible fixed assets in accordance with Financial Reporting Standard (FRS) 15. They are capitalised at their current value on receipt, and this value is credited to the General Fund. They are subject to cost of capital charges at the standard rate of 3.5%.

Previously these assets were capitalised at their current value on receipt, and this value was credited to the Donated Asset Reserve. Subsequent gains and losses on revaluations were also taken to this reserve. Each year an amount equal to the depreciation charge on the asset was released from the Donated Asset Reserve to the Income and Expenditure Account. No cost of capital was charged on the assets.

The effect of this change in accounting policy has been reflected in the accounts by restating the previous year's results to remove £132,223k from the Donated Asset Reserve to the General Fund. Any gains and losses on revaluation of the assets in question have been transferred from the Donated Asset Reserve to the Revaluation Reserve, with the remainder of the Donated Asset Reserve being transferred to the General Fund.

The effect of this change in accounting policy on the prior year income and expenditure account is to increase the depreciation charge by £970k and to increase the cost of capital charge by £4,190k.

Note 3 Income

	2006	2005
	£'000	Restated £'000
Direct Charges	38,840	37,628
Other Operating Income	<u>2,458</u>	<u>2,472</u>
Income from Activities	<u><u>41,298</u></u>	<u><u>40,100</u></u>

CFER income has been included within Other Operating Income (2006:£53k, 2005:£35k).

Note 4 Business Activities Attracting Fees and Charges

	2006			2005		
	Income	Cost	Surplus (Deficit)	Income	Cost	Surplus (Deficit)
	£000	£000	£000	£000	£000	£000
Water	36,914	282,696	(245,782)	36,198	251,494	(215,296)
Sewerage	4,384	192,326	(187,942)	3,902	184,509	(180,607)
Total	<u><u>41,298</u></u>	<u><u>475,022</u></u>	<u><u>(433,724)</u></u>	<u><u>40,100</u></u>	<u><u>436,003</u></u>	<u><u>(395,903)</u></u>

Income consists of that directly billed to customers plus miscellaneous income.

The above information relates to Fees & Charges Requirements and is not disclosed for the purposes of SSAP 25.

CFER income has been included within Other Operating Income. See note 3 above.

Note 5 Staff Costs

(i) Analysis of Staff Costs

	2006	2005
	£'000	Restated £'000
Salaries and Wages	46,007	46,864
Social Security Costs	3,491	3,567
Superannuation	7,101	5,223
Total direct employee staff costs	<u>56,599</u>	<u>55,654</u>
Amounts payable in respect of agency/temporary staff and contract staff	<u>1,715</u>	<u>1,325</u>
Subtotal	<u>58,314</u>	<u>56,979</u>
Other staff costs	2,145	-
Less Staff costs capitalised	(5,488)	(5,760)
Total	<u><u>54,971</u></u>	<u><u>51,219</u></u>

In line with revised disclosure requirements, amounts payable in respect of agency/temporary staff and contract staff is now reported together, and these had previously been included as other operating costs (note 6). The 2004/05 figures have been restated by £1,325k. Other staff costs in 2005/06 relate to costs incurred to fund the early retirement scheme, lump sum compensations, equal opportunity funds and ex gratia payments to employees.

(ii) Average Numbers of persons employed

The average number of persons employed during the year was:

	2006	2005
Senior Management	9	8
Industrials	913	963
Non industrials	1,067	1,068
Agency temporary and contract	122	102
	<u>2,111</u>	<u>2,141</u>

The Principal Civil Service Pension Scheme (PCSPS) (NI) of which most of the Agency's employees are members is an unfunded multi-employer defined benefit scheme which produces its own resource accounts but the Water Service is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2003 and details of this valuation are available in the PCSPS (NI) Resource Accounts.

For 2005/06, normal employer's contributions of £7,097,068 were payable to the PCSPS (NI) (2004/05 £5,356,525) at one of four rates in the range 16.5% to 23.5% of pensionable pay, (2004/05 12% to 18%) based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005/06 and will remain unchanged until 2008/09. The contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership account, or a stakeholder pension with an employer contribution. Employer's contributions of £4,427 (2004/05 £3,857) were payable to one or more of a panel of four appointed stake holder pension providers. Employer contributions are age related and range from 3% to 12.5% (2004/05 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition employer contributions of £646, 0.8% (2004/05 £401, 0.8%) of pensionable pay, were payable to the PCSPS (NI) to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £nil (2004/05 £nil). Contributions prepaid at that date were £nil (2004/05 £nil).

25 people (2004/05 62 people) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £24,548 (2004/05 £59,721).

(iii) Senior Managers

See Remuneration Report for details of Senior Managers salaries and pension disclosures.

Note 6 Operating Costs

Analysis of operating costs by type of expense:

	2006	2005
	£'000	Restated £'000
Power	17,615	16,377
Rates	10,583	10,252
Materials and Consumables	14,813	12,583
Other Operating Costs	49,889	42,958
Notional Charges	5,330	4,249
Loss/(Profit) on Disposal of Assets	(129)	235
Other Costs of Employment	1,537	1,511
Release from Government Grant Reserve	(2,018)	(1,793)
	<u>97,620</u>	<u>86,372</u>
*Analysis of Notional Charges	2006	2005
	£'000	£'000
Construction Service	2,987	1,724
DRD Personnel Costs	566	549
NIAO (Audit fee)	25	27
Other	1,752	1,949
	<u>5,330</u>	<u>4,249</u>

The prior year figures are restated due to the reallocation of other staff costs from operating expenses to staff costs, see note 5 for details.

The prior year figures have also been restated to move consumables from other operating costs into materials, resulting in a decrease of £484k in prior year other operating costs, with a corresponding increase within materials and consumables.

See note 20 detailing the losses incurred and special payments made during the year.

Note 7 Cost of Capital

The Income and Expenditure Account bears a non cash charge for interest relating to the use of capital by the Agency.

	Notes	2006	2005 Restated £'000
Capital employed 1 April 2005		<u>5,511,417</u>	<u>5,223,619</u>
Total assets less liabilities		5,982,818	5,563,691
Less: Indexed Fixed Assets		(6,046,100)	(5,600,374)
Plus: Unindexed Fixed Assets		5,755,737	5,386,676
Less: RRI Funded Assets		(142,421)	(77,033)
EU grant creditor		3,592	11,867
Assets funded by EU grants			
Amounts to be surrendered to the Consolidated Fund	13	4	-
Bank Balances		1,847	12,873
Capital employed 31 March 2006		<u>5,555,477</u>	<u>5,297,700</u>
Average Capital Employed for capital charging		5,533,447	5,260,660
Capital charge @ 3.5%		<u>193,671</u>	<u>184,123</u>
Add interest on Reinvestment & Reform Initiative loan	16	4,447	2,188
Total Capital Charge		<u><u>198,118</u></u>	<u><u>186,311</u></u>

The prior year figures have been restated to reflect the change in accounting policy as per note 2.

Note 8 Tangible Fixed Assets

	Assets in the course of construction	Freehold Land	Freehold Buildings	Civil Structures	Fixed Plant	Infra- structure Assets	Mobile Plant & Vehicles	Information Technology	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost/Valuation									
At 1 April 2005	364,340	103,365	178,298	1,226,656	592,541	5,366,497	20,345	7,597	7,859,639
Indexation	-	5,799	21,491	68,738	17,608	302,479	483	7	416,605
Additions	247,121	379	599	1,692	3,564	11,077	377	846	265,655
Adopted assets	-	64	5	206	140	15,324	-	-	15,739
Transfers	(23,461)	173	40	3,340	4,609	13,911	907	481	-
Impairment	(1,417)	-	-	-	-	-	-	-	(1,417)
Disposals	-	(322)	(296)	(3,193)	(307)	-	(1,185)	-	(5,303)
At 31 March 2006	586,583	109,458	200,137	1,297,439	618,155	5,709,288	20,927	8,931	8,550,918
Accumulated Depreciation									
At 1 April 2005	-	-	(56,955)	(553,685)	(348,298)	(1,280,437)	(13,821)	(6,069)	(2,259,265)
Indexation	-	-	(7,412)	(33,714)	(10,952)	(73,816)	(343)	(5)	(126,242)
Disposals	-	-	296	3,193	307	-	1,160	-	4,956
Charge	-	-	(4,950)	(52,142)	(25,114)	(39,031)	(1,857)	(1,173)	(124,267)
At 31 March 2006	-	-	(69,021)	(636,348)	(384,057)	(1,393,284)	(14,861)	(7,247)	(2,504,818)
Net Replacement Value									
At 31 March 2006	586,583	109,458	131,116	661,091	234,098	4,316,004	6,066	1,684	6,046,100
At 31 March 2005	364,340	103,365	121,343	672,971	244,243	4,086,060	6,524	1,528	5,600,374

Note: During the year fixed asset additions totalling £65,388k were financed through the Reinvestment and Reform Initiative.

Note: See note 20 for further details on impairments.

Note 9 Analysis of Administration and Programme Costs

	2006		2005	
	£'000	£'000	Restated £'000	£'000
Administration costs				
Staff costs	56,599		55,654	
Other administration costs	16,561		14,025	
Notionals	5,330		4,249	
Movement in provisions	1,269		250	
Cost of capital charge	2,703		3,343	
Own work capitalised	(5,488)		(5,760)	
Net Administration Costs		76,974		71,761
Programme Costs				
Request for Resources B				
Expenditure	204,651		183,067	
Cost of capital charge	195,415		182,968	
Less EU income - department	(2,018)		(1,793)	
Consolidated Fund Extra Receipts	(53)		(35)	
Other	(41,245)		(40,065)	
Net Programme Costs		356,750		324,142
Operating Deficit per Income & Expenditure Account		<u>433,724</u>		<u>395,903</u>

Depreciation

Depreciation in respect of Administration and Programme costs has been included as follows:

	2006	2005
	£'000	£'000
Administration costs (included within 'Other administration costs')	1,695	2,056
Programme costs (included within 'Expenditure')	122,572	109,931
Total depreciation	<u>124,267</u>	<u>111,987</u>

Note 10 Investments

	2006	2005
	£'000	Restated £'000
Investments	<u>62</u>	<u>59</u>

Shares have been revalued to market value at 31 March 2006.

Note 11 Stocks and work in progress

	2006	2005
	£'000	Restated £'000
Raw materials and consumables	1,614	2,058
Work in progress	71	178
	<u>1,685</u>	<u>2,236</u>

Note 12 Debtors due within one year

	2006	2005
	£'000	Restated £'000
Trade debtors	4,196	3,694
Prepayments and accrued income	8,384	10,362
EU grant receivable-capital	3,592	11,867
VAT	15,921	14,017
	<u>32,093</u>	<u>39,940</u>

The EU grants receivable are to be surrendered to the Consolidated Fund when received.

Details of EU grants receivable

	£'000	£'000
At 1 April 2005	11,867	8,734
Amounts claimable 2005/06	3,771	3,133
Received in year	(5,853)	-
Amounts unrecoverable	(6,193)	-
At 31 March 2006	<u>3,592</u>	<u>11,867</u>

EU grant income is recognised by the Agency in the income and expenditure account but as it is CFER income, it is repayable to the Consolidated Fund through the Department. The Agency has reviewed the level of debtors in respect of EU grant income receivable for the period 1994 to 2006. This has resulted in a reduction in debtors of £6,193k, which is reflected in the 2005/06 debtor balance.

Note 13 Creditors: Amounts falling due within one year

	2006	2005 Restated
	£'000	£'000
Bank overdraft	1,847	12,892
Trade creditors	69,407	41,183
Taxation and social security	182	187
Other creditors and accruals	13,085	5,640
Government loans repayable within one year	-	751
EU grants payable to Consolidated Fund on receipt	<u>3,592</u>	<u>11,867</u>
	<u>88,113</u>	<u>72,520</u>

Other creditors and accruals include £4k payable to the Consolidated Fund, (2005: £nil).

Note 14 Creditors: Amounts falling due after more than one year

	2006	2005 Restated
	£'000	£'000
Government loans	-	661
Capital Retentions	<u>4,781</u>	<u>3,510</u>
	<u>4,781</u>	<u>4,171</u>

Repayments falling due in the following periods

	Government Loans	
	2006	2005 Restated
	£'000	£'000
Between one and two years	<u>-</u>	<u>661</u>
	<u>-</u>	<u>661</u>

Government loans repayable by instalment

	2006	2005 Restated
	£'000	£'000
Wholly repayable within 5 years	<u>-</u>	<u>1,412</u>
Total All Loans	<u>-</u>	<u>1,412</u>
Less: amounts due within 1 year	<u>-</u>	<u>(751)</u>
	<u>-</u>	<u>661</u>

The government loan was fully repaid during the year. The annual interest rate on the loan was 4.6%.

Note 15 Provisions for liabilities and charges

	2006	2005
	£'000	Restated £'000
Balance at 1 April 2005	2,246	2,102
Payments made	(1,699)	(2,110)
Increase in provision	3,704	2,254
Balance at 31 March 2006	<u><u>4,251</u></u>	<u><u>2,246</u></u>

The provision relates primarily to unsettled public/employer liability claims at the year end, as indicated by DRD Central Claims Unit.

Note 16 Movements on Reserves

	General Fund	Donated Assets Reserve	Revaluation Reserve	Government Grant Reserve	Total
	2006 £'000	2006 £'000	2006 £'000	2006 £'000	2006 £'000
Balance as at 1 April 2005	3,501,077	132,223	1,820,852	109,539	5,563,691
Prior year adjustment	93,318	(132,223)	38,905	-	-
Restated balance as at 1 April 2005	<u>3,594,395</u>	<u>-</u>	<u>1,859,757</u>	<u>109,539</u>	<u>5,563,691</u>
Adopted assets	15,739	-	-	-	15,739
Net deficit	(433,724)	-	-	-	(433,724)
Net Vote Funding in Year	344,050	-	-	-	344,050
Notional Charges	5,330	-	-	-	5,330
Cost of capital charge	198,118	-	-	-	198,118
Real'd element transfer	57,598	-	(57,598)	-	-
EU grant claimed	(3,771)	-	-	3,771	-
CFERs	(53)	-	-	-	(53)
Release to Income and Expenditure	-	-	-	(2,018)	(2,018)
Revaluation of investments	-	-	3	-	3
Surplus on indexation	-	-	284,985	5,377	290,362
Exchange difference	142	-	-	-	142
EU grants unrecoverable	6,193	-	2,380	(7,395)	1,178
Real'd element disposals	300	-	(300)	-	-
At 31 March 2006	<u>3,784,317</u>	<u>-</u>	<u>2,089,227</u>	<u>109,274</u>	<u>5,982,818</u>

Note: Under the Reinvestment and Reform Initiative, loans were made available to the Northern Ireland Block. These loans were paid to Departments and their agencies as increased supply via the NI Consolidated Fund. In order to make interest repayments on these loans the NI Consolidated Fund must annually retain an amount of supply that would otherwise be issued to Departments. For 2005-06 a further £4,446,697 was due to the Water Service but was not actually issued in order to pay for the interest on loans applicable to Water Service. The interest charge has been included in the cost of capital.

During the year, government grants included as a debtor and creditor were identified as being unrecoverable. The impact has been to reduce the Government Grant Reserve by £7,395k (£6,193k original grant claimed after indexation and associated releases) and this has been transferred out to the Revaluation Reserve (£2,380k), and General Fund (£6,193k), resulting in a net loss of £1,178k.

Note 17 Private Finance Initiative

Off-Balance Sheet

On the 30 April 1999 the Water Service signed its first PFI contract with Coastal Clearwater Ltd (the concessionaire) for the provision of sewerage treatment which covered the upgrading of the Kinnegar Waste Treatment Works with a capital cost in the region of £11 million. Construction works commenced in August 1999, with the concessionaire taking over the operation of the works in June 2000. Commissioning of the works commenced in early 2001 and acceptance of the works occurred in late May 2001. The life of the contract is 25 years giving an end date of 30 April 2024.

The PFI Property is not an asset of the Water Service

A smaller PFI contract was signed on 29 June 1999 with Highland, Light and Power Northern Ireland Limited to facilitate the generation of hydro electricity at Silent Valley/Ben Crom Reservoirs.

Work commenced in the latter part of 2000 and was completed in summer 2001.

The contract period is for nine years and the estimated capital value is £840,000. There are no annual payments under this contract.

There are two new PPP projects; Alpha and Omega and it is intended that these will be signed in the 2006/07 financial year. Details of these projects are noted on page 19.

Charge to the Income and Expenditure Account and future commitments

The total amount charged to the Income and Expenditure Account in respect of off-balance sheet PFI transactions in 2005/06 was £2,378,000 (2004/05 £2,427,000).

The future estimated annual amount payable under existing PFI agreements is £2,400,000. These payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable.

Payments to which Water Service is committed during 2006/07, analysed by the period during which the commitment expires is as follows

	2005/06	2004/05
	£'000	Restated £'000
Expiry within 1 year	-	-
Expiry within 2 to 5 years	-	-
Expiry within 6 to 10 years	-	-
Expiry within 11 to 15 years	-	-
Expiry within 16 to 20 years	2,400	2,400
Expiry within 21 to 25 years	-	-

Note 18 Capital Commitments and Contingent Liabilities

Capital commitments at 31 March 2006 for which no provision has been made in the accounts were as follows:

	2006	2005
	£'000	Restated £'000
Contracted	205,607	192,331
Authorised but not contracted	882,616	1,069,441

The Department is disputing liability in 370 Public liability and 17 Employer's liability cases amounting to £2,952k. It has been estimated that there is a less than 50% chance of these cases leading to a loss.

Note 19 Commitments under leases

Operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2006	2005
	£'000	Restated £'000
Obligations under operating leases comprise:		
Office Equipment		
Expiry within 1 year	55	17
Expiry within 2 to 5 years	115	3
	<u>170</u>	<u>20</u>

Note 20 Losses and Special Payments

	2006	2006	2005	2005
	No of cases	£'000	No of cases	Restated £'000
Losses:				
Stores and plant losses	7	7	13	10
Other Cash Losses	377	434	381	429
Foreign exchange loss	1	142	-	-
Constructive loss	1	1,417	-	-
Total Losses	386	2,000	394	439
Special Payments	-	-	-	-

The impairment loss (constructive loss) noted above relates to the Data Modelling Asset Referencing Geographical Information System (DMARGIS). The project was originally set up to provide Water Service with a fully integrated corporate data model and a comprehensive asset records system that will support a suite of applications to and efficient asset management through a corporate Geographical Information System database.

Technical difficulties arose during the project and as a result the project ran behind schedule. In addition, the business environment has moved on significantly since the design was completed. Although the DMARGIS concept of integrated asset system is urgently required within Water Service, the application has failed and the associated software has no intrinsic value. As such, an impairment has been made to this asset in the current year, resulting in a constructive loss of £1,417k. (See note 8)

Note 21 Related Party Transactions

Water Service is an Executive Agency within the Department for Regional Development ('the Department').

The Department is regarded as a related party. During the year the Water Service has had various transactions with the Department and with other entities for which the Department is regarded as the parent, primarily Roads Service.

In addition the Water Service has had a small number of transactions with other Government Departments and other central government bodies.

None of the board members, members of the key management staff or other related parties has undertaken any material transactions with the Water Service during the year.

Note 22 Inter Government Balances

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after more than one year £000
Balances with other central government bodies	10,757	-	4,611	-
Balances with local authorities	92	-	17	-
Balances with NHS Trusts	71	-	-	-
Balances with public corporations and trading funds	7	-	-	-
Balances with bodies external to government	21,166	-	83,485	4,781
At 31 March 2006	32,093	-	88,113	4,781
Balances with other central government bodies	15,393	-	13,374	661
Balances with local authorities	3	-	20	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	24,544	-	59,126	3,510
At 31 March 2005	39,940	-	72,520	4,171

Note 23 Notes to the cash flow statement

(i) Reconciliation of Net Deficit to Operating Cash Flows

	Note	2006 £'000	2005 Restated £'000
Operating deficit before interest and capital charge		(235,560)	(209,478)
Adjustments for non-cash transactions			
EU Grant income released from reserves		(2,018)	(1,793)
Impairment	20	1,417	-
Exchange loss	20	142	-
Unrecoverable government grant	16	1,178	-
Loss/(Profit) on disposal of assets		(129)	235
		<u>(234,970)</u>	<u>(211,036)</u>
Depreciation on tangible fixed assets		124,267	111,987
Notional charges	6	5,330	4,249
Adjustments for movements in working capital			
Decrease/(Increase) in stocks	11	551	113
Decrease/(Increase) in debtors	12	(428)	(4,736)
Increase/(Decrease) in creditors	13 & 14	36,940	14,219
Increase/(Decrease) in provisions	15	2,005	144
Net cash outflow from operating activities		<u>(66,305)</u>	<u>(85,060)</u>

The movement in debtors & creditors excludes EU grants receivable & payable. In addition the movement in creditors excludes loans repayable & associated interest (£nil 2006: £11k 2005) and the bank overdraft.

(ii) Reconciliation of Net Cash Flow to Movement in Net Debt

	2006 £'000	2005 Restated £'000
(Decrease)/Increase in cash in the period	11,049	(13,083)
Cash used to repay debt	1,412	1,540
Change in net debt	<u>12,461</u>	<u>(11,543)</u>
Net debt at 1 April 2005	<u>(14,285)</u>	<u>(2,742)</u>
Net debt at 31 March 2006	<u>(1,824)</u>	<u>(14,285)</u>

(iii) Analysis of Changes in Net Debt

	At 1 April 2005 £'000	Cash flows £'000	Other changes £'000	At 31 March 2006 £'000
Cash at hand, at bank	19	4	-	23
Overdraft	(12,892)	11,045	-	(1,847)
Debt due within one year	(751)	751	-	-
Debt due after one year	(661)	661	-	-
TOTAL	<u>(14,285)</u>	<u>12,461</u>	<u>-</u>	<u>(1,824)</u>

Note 24 Proposed Revaluation of assets on transfer to a Government Owned Company

The Department for Regional Development intends to transform Water Service into a self financing Government Owned Company (GoCo). It is anticipated that the new company, which is planned to become operational from 1st April 2007, will be owned by the Department, and will raise finance through income from customers and loan finance. It will also be subject to economic regulation. The financial accounts will no longer be subject to the Financial Reporting Manual (FReM) but will be required to fully comply with company legislation and UK GAAP. The statutory accounts are therefore likely to be prepared on a historic cost basis.

The value of the assets of Water Service will be written down as part of the process of establishing the GoCo, and it is estimated that the write down will reduce them to a value of approximately £1 billion. This write down is required to reflect the value placed on the assets of the GoCo which will operate outside central government, but will be subject to a new economic regulatory regime and will be required to be self-financing. The establishment of the GoCo is subject to the enactment of the appropriate legislation which is likely to be laid before Parliament in the latter half of 2006/07. An appropriate valuation for the GoCo is being determined in accordance with relevant valuation methodologies applicable in this context.

In 2005/06 the assets have been valued in accordance with the requirements of FReM and there is no inherent impairment in the value of the assets requiring a write down for operational reasons.

ANNEX A EXPLANATION OF KEY PERFORMANCE TARGETS

TARGETS 1A & 1B

Parameters of target

- Target relates to quality of water supplied at the customers' taps.
- Performance is assessed on a calendar year basis.

How Target is Measured

- Water Supply (Water Quality) Regulations (NI) 2002 specify the number of parameters to be analysed from samples taken at: Customer Tap; Water Treatment Works; and Service Reservoirs; based on either the population supplied, or the volume of potable water produced.
- Water Service assesses its percentage compliance against Mandatory determinations taken either at the customer tap, or else an authorised supply point during the calendar year reported on.
- There is a provision to have time banded authorised departures of results above the regulatory Prescribed Concentration or Value (PCV) limit for certain parameters where existing water treatment is ineffective. These time banded authorised departures are granted by the DWI, provided a planned programme of work is in place to address the water treatment effectiveness.

TARGETS 2A & 2B

Parameters of target

- Target 2A relates to % of 276 WWTW's whose quality of discharges comply with the registered discharge standards set by EHS.
- Target 2B relates to performance of the same WWTW's but measurement is against the population equivalent served by a compliant works.
- Performance is assessed on a calendar year basis.

How Target is Measured

- Water Service Manual specifies number of samples taken at each wastewater treatment works relating to the population equivalent served by the works. Laboratories analyse samples for those parameters included in the Registered Discharge Standard.
- Compliance for each wastewater treatment works is assessed on a parameter basis using the Urban Waste Water Treatment Regulations (NI) 1995. This statistically derived methodology permits a certain number of exceedances, based on the number of samples taken, for each parameter included in the Registered Discharge Standard. When this number of exceedances is surpassed a works is deemed to fail.
- For 2A, at the end of the calendar year the number of works which have passed is calculated as a percentage of the total number of works to determine if target met.

- For target 2B, the population equivalent served by compliant works as a percentage of the total population equivalent served is calculated. The population equivalent is based on AMP figures.

TARGET 3

Parameters of Target

- Target relates to the achievement of start dates for KPI projects (each costing more than £250K) included in the Capital Works Programme.
- The KPI is met if a Contract Award letter is signed during 2005/06.

How Target is Measured

- The KPI target, as reported externally, relates to schemes commencing at anytime during 2005/06.
- Engineering and Procurement Directorate also monitor progress against benchmarked CWP start dates for all schemes.

TARGET 4

Parameters of target

- This target relates to the reduction in the level of leakage from the water distribution system. The overall leakage level at 31 March 2004 was 232 million litres per day, and a reduction of at least 27 million litres per day is required to achieve the target.

How target is Measured

- The monthly estimate is based on the 2002/03 Water Balance, changes in metered consumption and water produced into distribution.

TARGET 5A

Parameters of target

- The percentage of overall properties connected to the water distribution system that are affected by unplanned interruptions in water supply lasting greater than 12 hours duration.
- Does not differentiate between interruptions caused by third parties and those for which Water Service is solely responsible.

How Target is Measured

- Networks' PTOs, based on their knowledge of the infrastructure and the area affected, estimate the number of properties affected by interruptions. Where practicable property counts are carried out.

TARGET 5B

Parameters of target

- Date of receipt is counted as zero and the next working day as day one.
- The target relates to the percentage of written correspondence for which substantive responses have issued within 15 working days.
- For the purposes of the target written correspondence covers letters, e-mails and faxes from members of the public. It excludes complaints.
- Responses may be by letter, e-mail, telephone or any other appropriate means and should aim to reply in full.
- Where it is not possible to issue a substantive reply within the 15 working days, a full holding reply should issue. A full holding reply will advise that the Water Service needs to undertake additional research and should include details of when a substantive response will issue.

How Target is Measured

- Performance is monitored across Water Service.
- Each directorate has established procedures for recording the date of receipt of incoming written correspondence (excluding complaints which are dealt with separately) and the date of response.

TARGET 5C

Parameters of target

- Date of receipt is counted as zero and the next working day as day one.
- Target relates to the percentage of written complaints for which substantive responses have issued within 15 working days.
- Responses can be made by letter, e-mail, telephone or any other appropriate means and should aim to reply in full. Where it is not possible to issue a substantive reply within the 15 working days limit then a full holding reply should issue.

How Target is Measured

- Performance against this target is monitored across Water Service.
- Each directorate has established procedures for recording the date of receipt of all incoming written complaints and the date of response.

TARGET 5D

Parameters of target

- Target relates to the percentage of telephone calls on the Waterline customer service number (08457 440088) and to the Metered Water Branch number (9032 1500) that are answered within 30 seconds.

How Target is Measured

- The target is measured by a call monitoring system which automatically records the number of calls to the Water Service's four Customer Service Units and Metered Water Branch, and the number answered within 30 seconds.
- The % of calls answered in 30 seconds is established by using the following formula:
 - $\text{Total calls answered in 30 seconds} / [\text{Total calls received} - \text{total calls abandoned within 30 seconds}]$.

TARGET 5E

Parameters of Target

- Target relates to the number of Freedom of Information (FOI) and Environmental Information Regulations (EIR) requests which are responded to within 20 days of receipt.

How Target is Measured

- Performance monitored across Water Service.
- Each directorate has established procedures for recording the date of receipt of all incoming requests and the date of response.

TARGET 6

Parameters of Target

- This target relates to the unit cost of water delivered.

How target is Measured

- Calculated by dividing the water proportion of 'total operating costs':- which is made up of:
 - relevant staff costs;
 - other costs of operations e.g. power, plant, chemicals;
 - the cost of depreciating assets; and
 - a proportion of the total cost of capital.
- by the total volume of water delivered.

TARGET 7

Parameters of Target

- Target relates to the unit cost of wastewater treated.

How Target is Measured

- Calculated by dividing the waste water proportion of 'total operating costs':- which is made up of:
 - relevant staff costs;
 - other costs of operations e.g. power, plant, chemicals;
 - the cost of depreciating assets; and
 - a proportion of the total cost of capital.
- by the total volume of waste water treated.

TARGET 8

Parameters of Target

- This is a milestone target that will be achieved if expenditure during 2005/06 is maintained within resource limits and to approved budget plans.

How Target is Measured

- At the beginning of each financial year the approved profiled budget is input onto the ORACLE financial system. Each quarter, the budget will be amended to include amounts received as a result of a successful in-year monitoring round bids.
- Once the ledger has been closed at each month end, a 'Resource Budget vs Actual by FIS Line' report is run. The report details, for the year-to-date, actual expenditure/income versus budgeted (and calculates any variance as an amount and percentage).
- From this spreadsheet, it is immediately apparent whether expenditure is within resource limits and to approved budget plans.

TARGET 9

Parameters of target

- Calculations carried out by NISRA (NI Statistics and Research Agency).
- NISRA has a monthly interface with the HRMS system and attendance report is produced, one month in arrears.

How target is Measured

- Water Service Personnel set a target for the Agency, based on a reasonable calculation against last year's outturn.

TARGET 10

Parameters of Target

- Calculations carried out by NISRA (NI Statistics and Research Agency).
- NISRA has a monthly interface with the HRMS system and attendance report is produced, one month in arrears.

How Target is Measured

- Water Service Personnel set a target for the Agency, based on a reasonable calculation against last year's outturn.

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ISBN 0-102-94062-2



9 780102 940626