

Consumer Council for Water

Annual Report and Accounts 2005-06

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2005-06

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Annual Report

Introduction

The Consumer Council for Water (CCWater) is a non-departmental public body established on 1 October 2005 under the Water Act 2003 to represent consumers of water and sewerage services in England and Wales. It replaced the WaterVoice committees, which were part of the industry economic regulator, the Office of Water Services (Ofwat), to become an independent statutory consumer body.

This annual report and accounts covers the period 1 April 2005 to 30 September 2005 when the organisation was operating as WaterVoice committees as part of Ofwat, and the period 1 October 2005 to 31 March 2006 when it operated as CCWater, an independent statutory consumer body.

Under the Water Act 2003, the Secretary of State for the Environment, Food and Rural Affairs with the consent of HM Treasury has directed CCWater 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 state of affairs of CCWater and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

CCWater is a national body with an English regional and Welsh structure to reflect the significant geographic variations in water and sewerage provision and to keep in touch with consumers in their local communities. It has offices in Cardiff, Cambridge, Birmingham, Darlington, Manchester, London, Bristol and Exeter. The headquarters of the organisation are in Birmingham and it operates through nine regional committees in England and one in Wales.

The joint sponsors of the organisation are the Department for Environment, Food and Rural Affairs (Defra) and the Welsh Assembly Government (WAG). The Council is funded by water consumers through a charge to water and sewerage companies in England and Wales.

The Water Act 2003 gives the Council the following functions and duties:

- to have regard to the interests of consumers of water and sewerage services in England and Wales, including certain vulnerable customers and customers that are not able to switch suppliers under the Act's competition measures;
- to handle and investigate consumer complaints in respect of water and sewerage companies;
- to obtain and keep under review information about consumer matters and the views of consumers on such matters;
- to make proposals, provide advice and information and represent the views of consumers to public authorities, water and sewerage companies and others whose activities may affect the interests of consumers;
- to provide advice and information to consumers;
- to publish statistical information about complaints to and about water companies;
- to investigate any matter of interest to consumers that are not necessarily the subject of a complaint.

The Council also has supercomplainant status under the Enterprise Act 2002.

The English Regional Committees and the Welsh Committee of the Council have the following functions:

- to provide advice and information to the Council on consumer matters affecting the areas of the water and sewerage undertakers allocated to it;

- to handle and investigate consumer complaints in respect of water and sewerage undertakers allocated to it;
- to audit the customer complaint systems of water and sewerage undertakers allocated to it; and
- any other functions delegated to it by the Board of the Council.

Roles and Responsibilities

From 1 April to 30 September 2005 responsibility for the organisation lay with the Director General of Water Services. On 1 October 2005 CCWater became a fully independent organisation with a Chief Executive and a Board.

The membership of the Board as at 31 March 2006 was:

		Appointed:	Term:
Council Chair:	Dame Yve Buckland	1 April 2005	4 yrs
Chief Executive:	Tony Smith	1 December 2005	4 yrs
English Regional Committees:			
Eastern	Catherine Harvey	1 October 2005	1 yr 9 mths
Midlands	Sir James Perowne	1 October 2005	3 yrs 9 mths
Northern	Andrea Cook OBE	1 October 2005	3 yrs 9 mths
Southern	Dr Richard Sturt	1 October 2005	1 yr 9 mths
Thames	David Bland OBE	1 October 2005	3 yrs 9 mths
Western	Charles Howeson	1 October 2005	3 yrs 9 mths
Wales Committee Chair:	Diane McCrea	1 October 2005	4 yrs
Independent members:			
	Michael Barnes	1 November 2005	4 yrs
	Timothy Hornsby	1 October 2005	3 yrs 9 mths
	Narendra Makanji	1 November 2005	4 yrs
	Janet Paraskeva	1 October 2005	3 yrs 9 mths

Board Appointments

The English Regional Committee Chairs and Independent members were appointed by the Secretary of State. The Welsh Assembly Government appointed the Welsh Committee Chair. All appointments were made for a period of up to four years, with differing periods to allow for continuity. All appointments were made in line with the Code of Practice issued by the Commissioner for Public Appointments.

Executive Appointments

The Chief Executive was appointed by the Secretary of State as a member of the Board. Tony Smith took up his appointment on 1 December 2006. The Chief Executive, on his appointment, was designated as the Council's Accounting Officer by the Accounting Officer of the Department for Environment, Food and Rural Affairs. For the period 1 October 2005 to 30 November 2005, the Chair, Dame Yve Buckland acted as Accounting Officer with Teresa Evans as Chief Operating Officer.

Company Directorships

CCWater maintains a Register of Interests, which is freely available to be viewed by the public on request to the Board Secretary of the Council.

Authority Committees

The Council had three committees reporting directly to the Board:

1. Audit and Risk Management Committee
2. Finance and Resources Committee
3. Remuneration Committee

The membership of the Committees as at 31 March 2006 was:

Audit and Risk Management Committee

Independent members:

Michael Barnes – Chair
Narendra Makanji

Regional Chairs:

Sir James Perowne
Richard Sturt

In attendance:

Chief Executive (Accounting Officer)
Finance and Resources Manager
Board Secretary
External Audit representatives
Internal Audit representatives

The members of the committee were appointed at the Board meeting held on 1st November 2005. Membership is reviewed and confirmed by the Board annually at the end of the financial year. The committee met twice in the period to 31 March 2006.

The role of the committee is to:

- Promote the highest standards of propriety in the use of public funds by the Council and its regional committees and encourage proper accountability for the use of those funds.
- Advise the Council on anything that affects the financial health, probity or external reputation of the organisation.
- Ensure the system of internal controls of the Council complies with HM Treasury requirements.
- Ensure the internal systems within the organisation at national and regional levels promote a climate of financial discipline and internal control which will help to reduce the opportunity for financial mismanagement, will satisfy the Council that it will achieve its key objectives and targets and is operating in a manner which will make most economic and effective use of resources available.

Finance and Resources Committee

Independent members:

Timothy Hornsby – Chair
Janet Paraskeva

Regional / Wales Chairs:

David Bland
Diane McCrea

In attendance:

Chief Executive (Accounting Officer)
Finance and Resource Manager
Head of Corporate Services
Board Secretary

The members of the committee were appointed at the Board meeting held on 1st November 2005. Membership is reviewed and confirmed by the Board annually at the end of each financial year.

The role of the committee is to:

- Oversee the use of the Council's resources via the corporate planning process.
- Oversee arrangements for staffing and the Human Resources strategy of the Council.

Remuneration Committee

Independent members:	Janet Paraskeva – Chair Narendra Makanji
Regional Chairs:	Catherine Harvey David Bland
In attendance:	Board Secretary

The members of the committee were appointed at the Board meeting held on 1st November 2005. Membership is reviewed and confirmed by the Board annually at the end of each financial year.

The role of the committee is to:

- Advise the Council on the appointment, remuneration terms and performance objectives of the Chief Executive.
- Receive from the Chair, who is responsible for the monitoring and evaluation of the Chief Executive, recommendations with regard to any changes to the salary and performance bonus of the Chief Executive and then to determine whether the Chief Executive should receive any increases in salary or performance bonus.
- Receive and review at suitable intervals, not less than once a year, a report by the Chief Executive on the performance of senior executives reporting directly to him/her in order to give appropriate advice.
- Advise, upon request from the Chief Executive, on all matters relating to the Council's Human Resources policies and practice.

Pension Liabilities

The main pension scheme for CCWater is the Principal Civil Service Pension Scheme (PCSPS). This is a defined benefit, unfunded scheme. The payment of benefits from the scheme are borne by the Civil Service Superannuation Vote. The pension liabilities arising from CCWater's employees' membership of the PCSPS are not provided for in these accounts in accordance with HM Treasury's instructions and as described in note 2 to the accounts.

Internal Audit

Internal audit services during 2005-06 were provided by KPMG. The service provided an independent appraisal service for management by measuring and auditing the adequacy, reliability and effectiveness of management and financial control systems. KPMG made recommendations based on the appraisal of each system reviewed.

External Audit

The accounts have been audited by the Comptroller and Auditor General in accordance with the Water Act 2003. The audit certificate is on pages 20 to 21. The cost of the audit for 2005-06 was £29,000. There was no auditor remuneration for non-audit work.

In so far as the Accounting Officer is aware, there is no relevant audit information of which CCWater's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that CCWater's auditors are aware of that information.

Management Commentary

The objective of this Management Commentary within the Annual Report and Accounts is to give a balanced and comprehensive analysis of:

- the development and performance of the business of CCWater during the financial year;
- the position of CCWater at the end of the year;
- the main trends and factors underlying the development, performance and position of the business of CCWater during the financial year; and
- the main trends and factors that are likely to affect CCWater's future development, performance and position.

Development and Performance

During 2005-06 considerable effort went into the transition of WaterVoice to CCWater. It had been decided by Defra in August 2004 that the new Council would retain the former WaterVoice structure of nine English regional committees and one committee for Wales with a network of eight offices. It would be the task of the new CCWater, in due course, to decide what changes, if any, would be made to the regional structure.

In March 2005 Defra announced that Dame Yve Buckland had been appointed as Chair of the new CCWater. She started work as Chair-designate from 1 April 2005. A first task was to take part in the process to appoint the regional Chairs and independent Board members.

During the first six months of 2005-06 an Implementation Steering Group, chaired by Defra, met regularly to discuss and review progress by Defra, the Welsh Assembly Government, Ofwat and WaterVoice in setting up the new CCWater. The emphasis of the Implementation Steering Group was on detailed planning and preparations for achieving the 1 October 2005 set-up date without compromising the Chair's ability to shape CCWater's strategy and the organisational structure to deliver it.

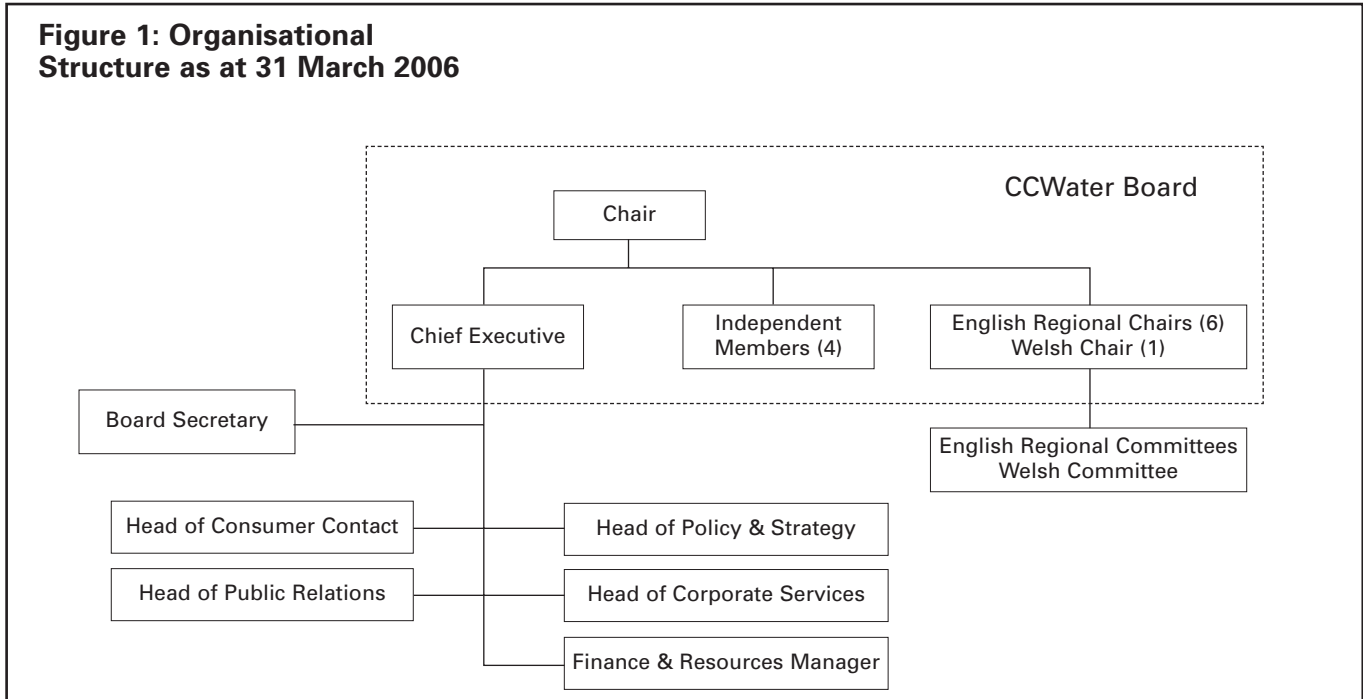
On 1 October 2005 all WaterVoice regional offices staff transferred to the new CCWater in their then current posts while WaterVoice Head Office staff were matched to the same or similar posts in CCWater's Head Office.

On 1 December 2005 a new Chief Executive, Tony Smith, took up post. A first task for the Chief Executive was to review the organisational structure of CCWater to ensure fitness for purpose. This review was dealing purely with regional offices structure and not the structure of regional committees. This issue will be dealt with as a separate matter in the future.

The ICT infrastructure agreement with Northgate Information Systems was signed on 25 April 2006, this has been disclosed as a post balance sheet event. All of CCWater's IT hardware, software and related support will be provided under this agreement, which is for three years at an estimated cost of £872k (in contract).

In April 2006 the Board had accepted the outline proposals of a new structure for regional offices proposed by the Chief Executive. Implementation will take place during 2006-07. The Chief Executive also proposed, and had accepted by the Board, a revised organisational structure for CCWater's functions. (Illustrated in figure 1 below.)

Figure 1: Organisational Structure as at 31 March 2006



In parallel with the transition from WaterVoice to CCWater work proceeded with the programme of activities that had been outlined in the *WaterVoice Forward Work Programme*. Activities centred around:

- Participation in the consultative process initiated by the Government consultation document *Extending Competitive markets; Empowered Consumers, Successful Business* published in July 2004 setting out a long-term vision for consumer representation in the water industry and other regulated industries. The process continued with a DTI consultation document setting out further details of possible plans and timetable published in January 2006. The year ended with the Council finalising its response to the consultation for submission to the DTI.
- Water bills and the outcome of the 2004 price review
- Water and sewerage bills 2004-05 to 2009-10
- Customer service
- Understanding customers
- Competition
- Industry structure
- European issues
- Communications
- Customer complaints and enquiries: both WaterVoice and the new organisation, CCWater, had during 2005-06 a statutory duty to investigate customers' complaints about water and sewerage companies. This complaint handling formed a significant overall part of the organisation's work during the year. The number of customer complaints and enquiries increased in the first six months of 2005-06 over the number received in the equivalent period in the previous year. This growth in number increased even more in the second half of 2005-06 when the new organisation received a heightened public exposure.

A statutory requirement for the new organisation was the preparation of a Forward Work Programme and a supporting Operational Business Plan by 31 March 2006. By the year-end both documents had been published and were available to the public. The documents took into account the feedback from CCWater's consultation process (November 2005 – February 2006) and three stakeholder workshops.

The Forward Work Programme shows what the organisation will do and what it hopes to achieve for consumers over the next three years, 2006-07 to 2008-09.

The Operational Business Plan illustrates in more detail how CCWater will work to achieve the first year (2006-07) of the programme. The document is primarily intended for CCWater's sponsors: Defra and the Welsh Assembly Government, together with more specialist stakeholders. Both the Operational Business Plan and the Forward Work Programme include measurable performance targets and timings.

Trends and factors, 2005-06

Several factors impinged upon the development, performance and position of the organisation now known as CCWater during 2005-06. The most significant of these factors was the actual transition from WaterVoice to CCWater. The changes taking place over the course of the year, and particularly towards the end of 2005, after the initiation of the new entity, caused some project work to slow and delivery of certain products, particularly those which were research based, to be delayed. This slowing and delay is reflected partly in CCWater's underspend where resource identified for research consultancy was not fully used.

During the period between the start of the new entity on 1 October 2005 and the commencement of work by the Chief Executive on 1 December 2005, the organisation paused on reorganisation and recruitment – dealing with some vacant posts through acting-up of existing staff or the use of temporary staff. The resources identified for staffing were not fully used – again contributing to an underspend.

Significant effort was spent during the course of 2005-06 responding to the Department of Trade and Industry's proposals for the reform of consumer representation and redress. In the consultation document published on 25 January 2005 '*Proposals to strengthen and streamline consumer advocacy: a consultation on consumer representation and redress*', the proposal was that CCWater should not be part of the initial group of sectoral consumer bodies to be incorporated in the new arrangements. However it was further suggested that a further review should take place in 2010 rather than 2008 – giving CCWater a fair chance to prove its worth and to demonstrate the distinctive elements of a monopoly sector that must be captured if effective representation of consumers is to be achieved. Work continues on this subject.

Over the period of the year 2005-06 customer complaints and enquiries increased, so putting greater pressure on staff working in the area. This pressure was a factor taken into account in the re-organisation of regional offices due to take place in 2006-07.

The organisation, particularly in the second six months of the year in its new identity as CCWater undertook work in benchmarking itself against other appropriate consumer representative organisations. This was to ensure CCWater delivers the highest possible level of value for money.

Environmental matters

CCWater has a statutory requirement to address sustainable development. The organisation fulfils its duty by showing consumers how it balances the economic, environmental and social aspects in all that it does. CCWater seeks to ensure it adheres to the Government's guiding principles and key priorities in doing this.

Social and Community Issues

CCWater engages with all water consumers, including those who are disabled or chronically sick, of pensionable age, on low incomes, living in rural areas and those unable to switch water suppliers in the limited competitive market, so that it can develop a real understanding of their needs and work in line with their specific interests. CCWater also acts on behalf of businesses as well as domestic households.

Future development, performance and position

In 2006-07 CCWater will be undertaking work as outlined in its, now published, Operational Business Plan. It will be essential that the organisation delivers what has been promised to stakeholders. To ensure performance and delivery is as efficient and effective as possible a new work reporting system is being introduced early in the year – together with revised financial reporting mechanisms.

The DTI consultation on consumer representation will progress during 2006-07 and CCWater will be involved with this process.

Benchmarking of the organisation will continue to ensure the best possible value for money. It was recognised during 2005-06 that the new organisation costs more than the old organisation did and every effort should be made to make CCWater as an efficient an organisation as possible.

Future risks and uncertainties that might affect CCWater's long-term position include:

- The organisation does not fully deliver its Forward Work Programme
- The organisation over commits itself to work
- CCWater fails to convince water customers of its validity as an organisation.

CCWater has established a risk management strategy and a risk log for the management and mitigation of risk. The risk log is a live document managed by the executive team of the organisation and considers strategic, operational, financial and external risks.

Support services

Several support services used within CCWater were provided during 2005-06 by Ofwat: financial services, information and communications technology services, facilities management services, library and information services and human resources services from Ofwat. These services were managed using service level agreements (SLAs) between the two organisations.

Financial Commentary

The main financial highlights are summarised below:

Operating costs summary

	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Income		
Deferred income prior year	–	–
Funding income	5,971	3,346
Other income (eg rental income)	50	60
	<u>6,021</u>	<u>3,406</u>
Expenditure		
Administration costs	(5,152)	(3,406)
Income deferred to following period	869	–
Net operating surplus	<u>–</u>	<u>–</u>

In accordance with CCWater's Accounts Direction, merger accounting treatment has been applied, and the accounts have been prepared for the full financial year. The income, expenditure, assets and liabilities of WaterVoice for the six months ended 30 September 2005 have been transferred to CCWater from Ofwat.

The budget for 2005-06 was set at £5.6m. The underspend against budget is principally related to slippage in consultancy spends, staff vacancies and planned expenditure for IT infrastructure being deferred until 2006-07.

We are required by HM Treasury to achieve a cost of capital return of 3.5 per cent. This is assessed on the average value of the assets (as defined in note 1.7 to the accounts) over the financial year.

Authority for us to incur expenditure is provided by Parliament through the public expenditure process.

Equal opportunities policy

We recruit staff on merit through fair and open competition. This ensures equal opportunity for employment, regardless of race, colour, nationality or ethnic or national origin, sex, sexual orientation, age, marital status, disability, religion or working pattern. All recruitment activity is subject to audit by the Civil Service Commissioners to ensure that we comply with the guidance set out in its recruitment code.

Employee involvement

We attach great importance to managing, developing and training our staff in accordance with best practice.

Payment of suppliers

We achieved 100 per cent against the Government target for paying agreed invoices within 30 days of receipt during 2005-06. The corresponding figure for 2004-05 was 99.5 per cent.

Tony Smith

Chief Executive and Accounting Officer

CCWater

4 July 2006

Remuneration Report

Senior management team

The composition of the senior management team in the reporting period was as follows:

Philip Fletcher	From 01.04.05 to 30.09.05	Director General for Office of Water Services
Roy Wardle	From 01.04.05 to 6.12.05	Formerly Head of Consumer Representation
Yve Buckland	Appointed 01.04.05	Chair
Tony Smith	Appointed 01.12.05	Chief Executive
Teresa Evans	Appointed 01.10.05	Head of Policy & Strategy
Jane Morris	Appointed 01.03.06	Acting Head of Corporate Services

Philip Fletcher's remuneration is disclosed in Ofwat's Resource Accounts as he is the Director General for Office of Water Services.

The Chief Executive was appointed by the Secretary of State as a member of the Board. Tony Smith took up his appointment on 1 December 2005. His contract runs for four years and has a six months notice period. The Chief Executive, on his appointment, was designated as CCWater's Accounting Officer by the Department for Environment, Food and Rural Affairs. The Remuneration Committee based on performance assessment decides annual increases.

Teresa Evans and Jane Morris contracts are standard open-ended contracts.

Senior managers and board members have declared that they held no company directorships or other significant interests that might have caused a conflict with their CCWater responsibilities.

Remuneration Committee

Independent members: Janet Paraskeva – Chair
Narendra Makanji

Regional Chairs: Catherine Harvey
David Bland

The role of this committee is described above in the Annual report.

Staff remuneration

A performance related pay (PRP) system applies to all staff. Independent members provide independent scrutiny covering the overall performance of the organisation and the consistency and fairness of the PRP process.

A committee, chaired by the Chief Executive, decides on the percentage of the paybill that is available for performance awards each year together with the percentage increase award for each representative box mark. Members of the committee are the Chief Executive and the senior management team.

The total amount available is the agreed percentage of the sum of the salaries of staff in post at 31 July. Performance related pay is determined by the appraisal box mark system and is a proportionate share of the total sum. It is awarded as a percentage increase in basic salary. Performance rated as "unsatisfactory" or "unacceptable" does not receive a performance related pay award.

New pay awards take effect from 1 August and staff receive written notification of performance pay awards that should be retained with their Statement of Particulars.

Pension liabilities

The main pension scheme for CCWater staff is the Principal Civil Service Pension Scheme (PCSPS). This is a defined benefit, unfunded scheme. The payment of benefits from the scheme are borne by the Civil

Service Superannuation Vote. The pension liabilities arising from CCWater's employees' membership of the PCSPS are not provided for in these accounts in accordance with the Treasury's instructions and as described below.

Compensation Payment

Roy Wardle, Head of Consumer Representation did not transfer to CCWater and his post became redundant with effect from 6 December 2005. Early Retirement Scheme benefits became payable from this date by CCWater and will be funded until he is 60. Benefits after that will be paid by the PCSPS.

Remuneration of Senior Managers

Disclosure of Salary and Pension Information 12 months ended 31 March 2006:

Name	1 Salary including performance pay	2 Real increase in pension at 60	3 Real increase in lump sum	4 Total accrued Pension at End Date	5 Lump sum at End Date	6 CETV at Start Date	7 CETV at End Date	8 Real increase in CETV funded by employer
	£000	£000	£000	£000	£000	£000	£000	£000
Tony Smith Chief Executive Appointed 1 December 2005	25-30 (full year equivalent 85-90)	0-2.5	N/A	0-5	N/A	58	68	5
Roy Wardle* Formerly Head of Consumer Representation Retired 6 December 2005	60-65 (full year equivalent 80-85)	0-2.5	0-5	35-40	110-115	533	560	12
Teresa Evans** Head of Policy & Strategy Appointed 1 October 2005	50-55	2.5-5.0	10-15	20-25	60-65	258	348	62
Jane Morris** Acting Head of Corporate Services Appointed 1 March 2006	35-40	0-2.5	0-5	0-5	5-10	28	40	8

*Roy Wardle carried out work for Watervoice in the period 1 April 2005 to 30 September 2005 but was not part of CCWater. The early retirement provision is disclosed in Note 10.

** Salaries include work for WaterVoice in the period 1 April 2005 to 30 September 2005.

Salary

"Salary" covers both pensionable and non-pensionable amounts and includes gross salary; performance pay or bonuses; overtime; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

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. There were no benefits in kind during the year.

The Chief Executive is a member of the Classic Pension Scheme.

Remuneration of other Board Members

	<u>2005-06</u> Salary £000	<u>2005-06</u> Salary £000 Full year equivalent
Dame Yve Buckland (Chair)	45-50	45-50
David Bland	10-15	20-25
Andrea Cook	25-30	30-35
Catherine Harvey	20-25	20-25
Charles Howeson	20-25	30-35
Diane McCrea	10-15	20-25
Sir James Perowne	20-25	20-25
Richard Sturt	20-25	20-25
Mike Barnes	0-5	5-10
Timothy Hornsby	0-5	5-10
Narendra Makanji	0-5	5-10
Janet Paraskeva	0-5	5-10

Board members were appointed by the Secretary of State on 1 October 2005, for periods of from two up to four years. The Chair's appointment is for four years. The level of salary depends on the amount of committee work each committee chair is involved in. The appointments and functions of the Council Members are disclosed in the Annual Report.

Board member posts are non-pensionable.

Civil Service Pensions

Pension benefits are provided through the CSP 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 per cent of pensionable earnings for classic and 3.5 per cent 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 as per classic.

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

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values (CETV)

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 CSP arrangements and for which the CS Vote has received a transfer payment commensurate to 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.

The factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for the start date (31 March 2005) has been restated using the factors so that it is calculated on the same basis as the CETV figure for end date (31 March 2006).

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.

Tony Smith
Chief Executive and Accounting Officer
CCWater
4 July 2006

Statement of the Consumer Council for Water and Chief Executive's Responsibilities

Under the Water Act 2003, the Secretary of State for Environment, Food and Rural Affairs with the consent of HM Treasury has directed CCWater 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 state of affairs of CCWater and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

The accounting officers for the period were:

Philip Fletcher from 1 April 2005 to 30 September 2005
Yve Buckland from 1 October 2005 to 30 November 2005
Tony Smith from 1 December 2005 to 31 March 2006

In preparing the 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 Secretary of State for Environment, Food and Rural Affairs with the consent of HM Treasury, 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 accounts; and
- prepare the accounts on a going concern basis.

The Accounting Officer of the Department for Environment, Food and Rural Affairs has designated the Chief Executive as Accounting Officer of CCWater. 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 CCWater's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

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 CCWater's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control, which has been developed during the course of the year, has been subject to regular review by responsible officers and executive managers within CCWater. This has been corroborated by rigorous oversight and scrutiny from CCWater Board and its sub-committees who were informed by the findings of both internal and external audit together with the elements of the overall system of internal control.

CCWater is jointly sponsored by the Department for Environment, Food and Rural Affairs (Defra) and the Welsh Assembly Government. The relationships between the Secretary of State for Defra, the Welsh Assembly Government, exercising powers delegated by the National Assembly of Wales, and CCWater are set out in the Management Statement for CCWater, which is based on models prepared by HM Treasury and the National Assembly of Wales.

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 organisational 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 was developed during the first six months of the organisation's existence and is now in place in CCWater at 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. The system of internal control is based on an ongoing process, which is designed to:

- (a) identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives; and
- (b) evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. The capacity to handle risk

CCWater Risk Management Strategy (February, 2006) sets out four key objectives for the organisation:

"to foster a risk management culture that involves all the people and functions within the organisation"

"to facilitate the development and application of self-assessment techniques so that objectives are achieved through the proper control of risks"

"to ensure that CCWater complies with the requirements of the law and public sector policy"

"to safeguard the reputation of CCWater"

The Executive Team reviews the strategic risks facing CCWater on a monthly basis and each individual member of the Executive Team and the Chairman of each Board sub-committee has signed their own annual Statement on Internal Control relating to their specific responsibilities.

In order to ensure that risk management was embedded within the day-to-day activity, CCWater is implementing a monthly and quarterly reporting cycle across all projects and work areas, including internally facing 'corporate' provision. The ongoing monitoring of performance and risk exposure ensures that decisions are made at the most appropriate level within the organisation, or that they are

escalated to an appropriate higher authority for resolution. Alongside this, a training programme for staff has been designed which will be implemented in the coming financial year to ensure that staff are equipped to manage risk in a way appropriate to their authority and duties.

4. The Risk and Control Framework

The Risk and Assurance Framework was designed to provide assurance to the Board and CCWater stakeholders through the implementation of continuous review throughout the operating cycle. The system contained four main elements:

Accountability – ensuring that this was established at the correct level of authority and took into account the operational process within CCWater.

Processes – designed to ensure that continuous monitoring and assurance was conducted in a consistent and rigorous manner, taking account of CCWater's capacity and capability to achieve its objectives. All projects submit structured monthly ("traffic light") reports to the Executive Team which tracks a number of delivery parameters including an overall risk score. The Risk and Performance Management Team monitors individual project risks, and identifies those which required management outside the individual project, at corporate level.

Capability – that achieved objectives and maintained financial control were established through rigorous budget setting and resource management processes as well as the implementation of a work prioritisation process, embedded within the operational business plan, that was used to agree resource limits and specifications at the outset of work.

Outcomes – are agreed at an operational and corporate level and then regularly monitored to ensure that they are achieved.

The risk appetites, that is the amount of risk that the organisation is prepared to accept, tolerate, or be exposed to at any point in time, are determined by the organisation's executive team, having both used appropriate escalation processes and being prepared to use further escalation processes upwards and by analysis under a framework of:

- corporate risk appetite
- delegated risk appetite
- project risk appetite

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 organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter 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 board, the Audit and Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Within the organisation that is now known as CCWater, both the former Director General of Water Services, Mr Philip Fletcher, until 30 September 2005 and the Chair of CCWater, Dame Yve Buckland, from 1 October 2005 until 30 November 2005, as Accounting Officers, had responsibility for reviewing the effectiveness of the system of internal control on an ongoing basis during the course of the year. Their reviews were informed in a number of ways.

For Mr Fletcher, using Ofwat's System of Internal Control, evidence was gathered from responsible officers and process owners to indicate the status associated with each of the major control processes.

For Dame Yve Buckland, Chair of CCWater, from 1 October to 30 November as Accounting Officer, she was informed on the effectiveness of the system of internal control by executive managers within CCWater who had responsibility for the development and maintenance of the system of internal control.

As a result of the comprehensive review of the system of internal control that the former Accounting Officers, their managers and I have conducted, I feel no significant controls issues have been identified.

In conclusion, I would identify further improvements to the system of internal control CCWater has in place. These improvements have been identified during the review of aspects of the system and steps will be taken to implement them during 2006-07:

- To complete outstanding actions highlighted on the governance checklist constructed by internal audit. E.g. ensuring the organisation sets targets for retention, achievement and other people related issues and the performance reporting pack is embedded within the processes of the organisation.
- To put in place arrangements to assess whether there is compliance with key policies and procedures including the Financial Memorandum.
- To develop a plan to promote the “risk management culture” further by prompting a suitable degree of staff awareness at all local/operational levels in respect of risk management issues, so that the risk identification process is further consolidated organisation-wide.

Tony Smith
Chief Executive and Accounting Officer
CCWater
4 July 2006

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Consumer Council for Water for the year ended 31 March 2006 under the Water Act 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Council, Chief Executive and Auditor

The Council and Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Water Act 2003 and Secretary of State for the Environment, Food and Rural Affairs directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Consumer Council for Water and Chief Executive's Responsibilities.

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 the Water Act 2003 and Secretary of State for the Environment, Food and Rural Affairs directions made thereunder. 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 Consumer Council for Water 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 page 17 to 19 reflects the Consumer Council for Water's compliance with HM Treasury'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 form an opinion on the effectiveness of the Consumer Council for Water'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 the Annual Report, the unaudited part of the Remuneration Report and the Management Commentary. 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 opinions

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 judgements made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Consumer Council for Water'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.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Water Act 2003 and directions made thereunder by the Secretary of State for the Environment, Food and Rural Affairs, of the state of the Consumer Council for Water's affairs as at 31 March 2006 and of its results 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 the Water Act 2003 and the Secretary of State for the Environment, Food and Rural Affairs directions made thereunder; 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.

John Bourn
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

7 July 2006

Income and Expenditure Account
for the year ended 31 March 2006

	Note	<u>2005-06</u> £000s	<u>2004-05</u> £000s
Income			
Funding income	3.1	5,102	3,346
Other income	3.2	50	60
		<u>5,152</u>	<u>3,406</u>
Expenditure			
Staff costs	2.1	2,600	1,976
Other operating costs	4	2,552	1,430
		<u>5,152</u>	<u>3,406</u>
Operating result for the financial year before interest			
Notional cost of Capital		(13)	3
Deficit for the financial year after notional cost of capital			
Add back notional cost of Capital		13	(3)
Results for the year			
		<u>-</u>	<u>-</u>

All income and expenditure are derived from continuing activities.

Statement of Recognised Gains and Losses
for the year ended 31 March 2006

	<u>2005-06</u> £000s	<u>2004-05</u> £000s
Surplus/Deficit transferred to General Reserve	7	-
Total recognised gains and losses for the financial year	<u>7</u>	<u>-</u>

Balance Sheet as at 31 March 2006

	Note	31 March 2006		31 March 2005	
		£000s	£000s	£000s	£000s
Fixed assets:					
Intangible assets	5		9		10
Tangible assets	6		243		26
			<u>252</u>		<u>36</u>
Current assets:					
Debtors	7	331		89	
Cash at bank and in hand	8	877		–	
		<u>1,208</u>		<u>89</u>	
Creditors (amounts falling due within one year)	9	<u>(1,220)</u>		<u>(89)</u>	
Net current liabilities			(12)		–
Provision for liabilities and charges	10		<u>(197)</u>		<u>–</u>
Total net assets			<u>43</u>		<u>36</u>
Capital and Reserves					
Income and Expenditure Reserve	11		36		36
Revaluation reserve	12		7		–
			<u>43</u>		<u>36</u>

Tony Smith
 Chief Executive and Accounting Officer
 CCWater
 4 July 2006

Cash Flow Statement*for year ended 31 March 2006*

	Note	2005-06	2004-05
		<u>£000s</u>	<u>£000s</u>
Net cash inflow/(outflow) from Operating activities	(Note i)	1,154	(24)
Capital expenditure	(Note ii)	(235)	(18)
Increase/(Decrease) in cash		<u>919</u>	<u>(42)</u>
	Note	2005-06	2004-05
		<u>£000s</u>	<u>£000s</u>
Note i			
Net cash inflow/(outflow) from Operating activities			
Operating surplus (deficit)		–	–
Adjustments for non-cash transactions	4	223	27
(Increase)/decrease in debtors	7	(242)	–
Increase/(decrease) in creditors	9	1,173	(51)
Net cash inflow/(outflow) from Operating activities		<u>1,154</u>	<u>(24)</u>
Note ii			
Capital expenditure			
Intangible fixed assets additions	5	(5)	(11)
Tangible fixed assets additions	6	(230)	(7)
Proceeds of disposal of fixed assets		–	–
Total Capital Expenditure		<u>(235)</u>	<u>(18)</u>

Notes to the accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the Financial Reporting Manual (FRM), and financial reporting standards issued or adopted by the Accounting Standards Board, and are in accordance with the Accounts Direction issued by the Secretary of State for DEFRA. The accounting policies adopted by CCWater are described below they have been applied consistently in dealing with items considered material in relation to the financial statements.

1.1 Accounting convention

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

1.2 Fixed assets

Tangible and intangible assets have been stated at current cost using indices provided by the Valuation Office.

Tangible fixed assets consist of furniture and fittings, office machinery, IT and telecommunications equipment. Intangible fixed assets comprises of purchased software licences.

With the exception of PCs and office furniture, individual assets must exceed a capitalisation threshold of £1,000 for inclusion as fixed assets. PCs and office furniture items falling below the threshold are capitalised as groups. A threshold of £250 exists for individual items to be classified as grouped fixed assets.

1.3 Depreciation and amortisation

Depreciation is provided at rates calculated to write-off the value of tangible fixed assets by equal instalments over their estimated useful lives, to their estimated residual values. Asset lives are within the following ranges:

Asset classification	Asset life
Furniture, fixtures and fittings	10 years
IT equipment	5 years
Office machinery	5 years
Telecommunications	5 years

Software licences and bespoke software are amortised over the shorter of the term of the licence or the useful economic life from the date the asset is brought into service.

1.4 Leases

CCWater had no finance leases as at 31 March 2006 (31 March 2005: nil). Rentals due under operating leases are charged over the lease term on a straight-line basis or on the basis of actual rental payable where this fairly reflects usage.

1.5 Funding Income

CCWater is financed from Ofwat's licence fees raised on behalf of CCWater for this financial year. Next year CCWater will be financed by grant-in-aid from DEFRA and WAG which will receive monies from Ofwat's Licence fees.

Since all costs are recovered via the licence fees, and are invoiced in advance based on estimated costs, any income from licence fees that exceeds the level of operating costs is treated as deferred income. This is taken into account when calculating the future level of licence fees charged to the water and sewerage companies under the Water Industry Act 1991.

1.7 Capital charge

A charge, reflecting the cost of capital utilised by the department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for cash balance with the Office of the Paymaster General (OPG), where the charge is nil.

1.8 Value Added Tax

CCWater is not registered for VAT. VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

1.9 Comparative amounts

CCWater came into being on 1 October 2005 and took on the functions and activities of WaterVoice, which was part of the Office of Water Services (Ofwat). The income, expenditure, assets and liabilities of WaterVoice for the year ended 31 March 2005 have been transferred from Ofwat to CCWater to provide comparative figures. Comparative figures have been restated where necessary to conform to the presentation of CCWater's accounts.

1.10 Treatment of first six months

In accordance with CCWater's Accounts Direction, merger accounting treatment has been applied, and the accounts have been prepared for the full financial year. The income, expenditure, assets and liabilities of WaterVoice for the six months ended 30 September 2005 have been transferred from Ofwat to CCWater. Figures have been restated where necessary to conform to the presentation of CCWater's accounts.

1.11 Provisions

CCWater provides for 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. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate (currently 2.2 per cent).

On the 1 April 2005, the discount rate changed from 3.5 per cent to 2.2 per cent for other provisions.

1.12 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, CCWater discloses for parliamentary reporting and accountability purposes statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have reported to Parliament in accordance with the requirements of Government Accounting.

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 separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

2. Staff numbers and related costs

2.1 Staff costs consist of:

	2005-06			2004-05
	Permanent Staff £000s	Other Staff £000s	Total £000s	Total £000s
Total staff costs including the Chief Executive's were:				
Wages and salaries	1,931	109	2,040	1,675
Social security costs	145	–	145	130
Pension costs	415	–	415	171
Total net costs*	2,491	109	2,600	1,976

*Of the total no charge has been made to capital

Salary

"Salary" includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pension

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, and we are unable to identify our share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk

For 2005-06, normal employer contributions of £264,764 were payable to the PCSPS (2004-05: £171,386) at one of four rates in the range 16.2 to 24.6 per cent (2004-05: 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in range between 17.1 per cent and 25.5 per cent. The contribution rates reflect 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 pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay, were payable to the PCSPS 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.

Contributions prepaid at that date were nil.

2.2 Average numbers of people employed

The average number of whole-time equivalent persons employed during the year was as follows. These figures exclude CCWater members.

Average number of staff

	2005-06	2004-05
Staff permanently employed by CCWater	64	62
*Others engaged on the objectives of CCWater	10	2
Total	74	64

*This includes temporary staff.

3. Income**3.1 Funding Income**

	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Licence fees collected by and paid over by Ofwat	5,971	3,346
Licence fees received in advance – current year	(869)	–
Total	<u>5,102</u>	<u>3,346</u>

3.2 Other Income

Other Income	50	60
Total	<u>50</u>	<u>60</u>

Other income is income from sub-letting Eastern and Wessex regional office.

4. Administration costs and other expenditure

	<u>2005-06</u>		<u>2004-05</u>	
	£000s	£000s	£000s	£000s
Rentals under operating leases:				
Accommodation	525		357	
Office equipment	13		7	
		538		364
Non cash items:				
Depreciation of tangible fixed assets	19		10	
Amortisation of intangible fixed assets	3		3	
(Profit)/Loss on disposal of fixed asset	–		–	
Early retirement	197		–	
Cost of capital credit	–		3	
Auditors' remuneration*	–		10	
Permanent diminution of fixed assets	4		1	
		223		27
Other expenditure:				
Consultancy services	385		74	
Training	37		10	
Travel and subsistence	203		249	
Rates	90		67	
Support Service costs	273		300	
Hire and maintenance	16		9	
Seminars, meetings and conferences	74		55	
Publications & Books & Periodicals	131		65	
Postal services and couriers	27		28	
Telecommunications	50		39	
Auditors' remuneration*	29		–	
Other accommodation costs	101		49	
Recruitment costs	232		1	
Other	143		93	
		1,791		1,039
		<u>2,552</u>		<u>1,430</u>

* During the year there was no remuneration for non-audit work. In 2004-05 the audit fee from the National Audit Office was a notional cost, in 2005-06 the audit fee is a cash audit fee.

5. Intangible fixed assets

	Software Licences £000s
Cost or valuation	
At 1 April 2005	21
Additions	5
Disposals	–
Revaluation	(3)
At 31 March 2006	23
Amortisation	
At 1 April 2005	11
Charged in year	3
Disposals	–
Revaluation	–
At 31 March 2006	14
Net book value at 31 March 2006	9
Net book value at 31 March 2005	10

6. Tangible fixed assets

	Furniture fixtures and fittings	Office machinery	Telecomm- unications	IT equipment	Total
	£000s	£000s	£000s	£000s	£000s
Cost or valuation					
At 1 April 2005	75	38	8	93	214
Additions	220	1	–	9	230
Disposals	(5)	–	–	(1)	(6)
Revaluation	9	–	–	(3)	6
At 31 March 2006	299	39	8	98	444
Depreciation					
At 1 April 2005	62	31	7	88	188
Charged in year	14	2	1	2	19
Disposals	(5)	–	–	(1)	(6)
Revaluation	2	–	–	(2)	–
At 31 March 2006	73	33	8	87	201
Net book value at 31 March 2006	226	6	–	11	243
Net book value at 31 March 2005	13	7	1	5	26

7. Debtors**7.1 Analysis by type**

	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Amounts falling due within one year:		
Other debtors	14	6
Advances	9	7
Prepayments	111	76
Funding debtor	197	–
	<u>331</u>	<u>89</u>

Advances comprise of 16 season tickets.

7.2 Intra-Government Balances

	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Amounts falling due within one year:		
Balance with other central government bodies – OFWAT	197	–
Subtotal: intra-government balances	197	–
Balances with bodies external to government	134	89
Total debtors at 31 March 2006	<u>331</u>	<u>89</u>

8. Cash at bank and in hand

	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Balance at 1 April	–	–
Net change in cash balance:	877	–
Balance at 31 March	<u>877</u>	<u>–</u>
The following balances are held at:		
Office of HM Paymaster General (OPG)	877	–
Commercial banks and cash in hand	–	–
	<u>877</u>	<u>–</u>

9. Creditors**9.1 Analysis by type**

	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Amounts falling due within one year:		
Trade creditors	43	20
Accruals	91	14
Deferred income	993	13
Overdraft	–	42
Tax and Social security creditors	93	–
	<u>1,220</u>	<u>89</u>

The overdraft shown above was a derived figure from the 2004/05 OFWAT accounts.

9.2 Intra-Government Balances

	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Amounts falling due within one year:		
Balance with other central government bodies	107	–
Subtotal: intra-government balances	107	–
Balances with bodies external to government	1,113	89
Total creditors at 31 March 2006	<u>1,220</u>	<u>89</u>

10. Provision for liabilities and charges

Early departure costs	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Balance at 1 April	–	–
Increase in provision	197	–
Provision utilised in year	–	–
Unwinding of discount	–	–
Balance at 31 March	<u>197</u>	<u>–</u>

The Early Retirement provision relates to the costs of pensions for individuals who have retired early. We meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. We provide for this in full when the early retirement programme becomes binding on us by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

11. Income and Expenditure Reserve

	<u>2005-06</u>		<u>2004-05</u>	
	£000s	£000s	£000s	£000s
Income and Expenditure Reserve at 1 April		36		23
Net operating income for the year				
Non-cash charges:				
Cost of capital credit	–		3	
Audit fees	–	–	10	13
Income and Expenditure Reserve Balance at 31 March		<u>36</u>		<u>36</u>

12. Revaluation reserve

	<u>2005-06</u>	<u>2004-05</u>
	£000s	£000s
Balance at 1 April	–	–
Arising on revaluation during the year	7	–
Transferred to Income and Expenditure Reserve of realised element of Revaluation reserve	–	–
Balance at 31 March	<u>7</u>	<u>–</u>

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustment of tangible and intangible fixed assets.

13. Capital and other commitments

	2005-06	2004-05
	£000s	£000s
Contracted capital commitments for which no provision has been made	-	-

14. Commitments under operating leases

At 31 March 2006 we were committed to making the following annual payments in respect of operating leases. The building costs include a service charge and insurance. This is based on the current information available and these estimates may be revised under the lease. The payments to which CCWater is committed during 2006-07, analysed by the period during which the commitment expires are as follows:

	Buildings	2005-06 Other	Total	2004-05 Total
	£000s	£000s	£000s	£000s
Expiry within 1 year	34	2	36	195
Expiry within 2 to 5 years	238	-	238	67
Expiry thereafter	372	-	372	80
Total	644	2	646	342

15. Contingent liabilities

There are no contingent liabilities for the year ending 31 March 2006.

16. Losses and special payments

There were no losses reportable during the year.

17. Post-balance sheet events

Two non-adjusting post balance sheet events have occurred since the year end.

Firstly the final decision on the restructuring of the regions was taken and publicised on 4 April 2006. The Board had accepted the outline proposals of a new structure for regional offices proposed by the Chief Executive. Implementation will take place during 2006-07.

Secondly the ICT infrastructure agreement with Northgate Information Systems was signed on 25 April 2006. All of CCWater's IT hardware, software and related support will be provided under this agreement, which is for three years at an estimated cost of £872k (in contract).

18. Financial instruments

FRS 13, derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which CCWater is financed, it is not exposed to the degree of financial risk faced by businesses. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. CCWater has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the office in undertaking its activities.

Short term debtors and creditors have been excluded from the disclosures.

Liquidity risk

CCWater has no borrowings and relies primarily on funding from other government bodies for its cash requirements, and is therefore not exposed to liquidity risks.

Interest rates and foreign currency risks

All material deposits are held at the Office of the Paymaster General and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

Fair Values

There is no material difference between the book values and the fair values of CCWater's financial assets and liabilities as at 31 March 2006.

19. Related Party Transactions

CCWater received £5.97m licence fees from Ofwat.

CCWater sublets part of the premises to energywatch and Royal Bank of Scotland. CCWater receives financial services, information and communications technology services, facilities management services, library and information services and human resources services from Ofwat; the cost for 2005/06 was £273k including VAT.

CCWater has a debtor of £197k due from Ofwat in respect of the costs associated with the Early Retirement Scheme benefits due to Roy Wardle, former Head of Consumer Representation Division which supported WaterVoice. This post did not transfer to CCWater and became redundant with effect from 6 December 2005. CCWater will meet the liability of the early retirement.

CCWater has also had a small number of transactions with other government departments and central government bodies.

None of the Council members, key managerial staff or other related parties has undertaken any material transactions with CCWater during the year.

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