

ANNUAL  
REPORT  
AND  
ACCOUNTS  
2004/2005



*Water*  
Service



INVESTOR IN PEOPLE



An Agency within the Department for

**Regional  
Development**

[www.drdni.gov.uk](http://www.drdni.gov.uk)

# **Water Service Annual Report and Accounts For the year ended 31 March 2005**

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 2005

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## INTRODUCTION

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 £5.6 billion

Water Service is a multi disciplinary organisation with around 2100 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. A Management Board of eight Executive Directors supports the Chief Executive.



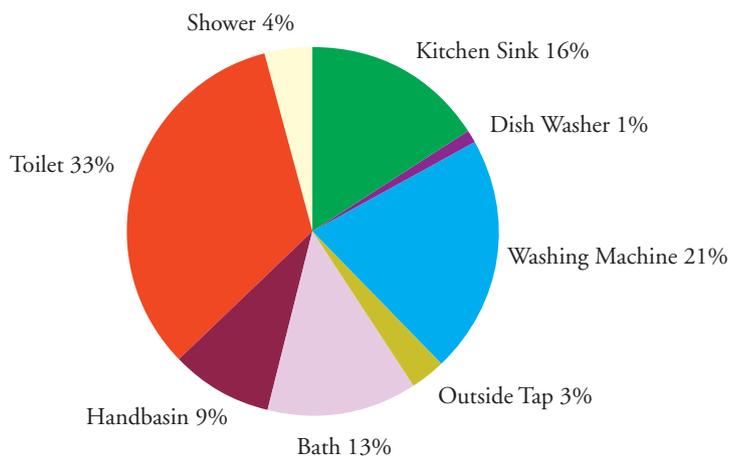
### Facts & Figures about Water Service

- Approximately 780,000 domestic, agricultural, commercial and business properties in Northern Ireland have a public water supply
- 660 million litres of water are supplied every day
- 48 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
- 130 million m<sup>3</sup> of wastewater treated each year
- 1030 wastewater treatment works
- 760 wastewater pumping stations
- 14,500 kilometres of sewers

## INTRODUCTION

### Daily Water use in the Home

The average person in Northern Ireland uses 145 litres of clean treated water **Each Day**. The chart shows how, on average, we use it on a daily basis.



**Water is precious - Use it Wisley**



## CHIEF EXECUTIVE'S FOREWORD

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I am pleased to present the Water Service's 2004-05 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. A number of these achievements are worthy of note.

We met the majority of our challenging Key Performance Targets. Most notably we increased our compliance to 99.6% and 79.6% for drinking and waste water respectively. In relation to leakage we managed to reduce the amount lost by 28 million litres per day, a reduction of over 12%

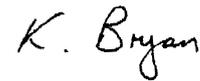
We have continued to improve on last year's performance in relation to capital investment. This year we spent over £200m on capital projects. This included completing work on both the Mourne Water Treatment Works, located at Drumaroad in County Down and serving Belfast and North Down, and at Lough Macrory Water Treatment Works, which serves Omagh and the surrounding rural areas. Over 60% of the capital budget

was spent on waste water schemes. Improvements were made to a number of wastewater treatment works including those located at Tullaghgarley, Greyabbey, Kircubbin, Glenavy and Portglenone. In addition we announced during the year the £100m Belfast Sewer Project which will see over 1700km of old Victorian pipes either repaired or replaced. These investments will help us in our aim of achieving compliance with EU Water Quality and Environmental Standards and contribute to the protection of the natural environment.

Our performance has been achieved in the context of the major change programme which will take Water Service towards becoming a Government Owned Company (GoCo) and I wish to pay tribute to the hard work and dedication of staff for their determination to succeed in these challenging times.

A lot of work still needs to be done. We are determined that, in addition to implementing the arrangements for self financing, the drive to deliver improvements in quality and customer service will be sustained. I am confident that, as we move towards the creation of

the GoCo, we will continue to develop a cost-effective high performance organisation which both staff and customers can be proud of.



**Katharine Bryan**  
Chief Executive



## CHIEF EXECUTIVE'S FOREWORD

### Highlights of the year

- Drinking water standard increased to 99.6%
- Waste Water compliance increased to almost 80%
- £98m invested in water supplies infrastructure including schemes at Fofanny and Drumaroad in Co Down, Lisburn, Omagh, Newcastle and Downpatrick.
- £131m invested in Waste Water treatment and Sewerage infrastructure. This included new or improved works at Larne, Ballyclare, Cookstown, Culmore, Ballymena, Greyabbey, Kircubbin, Glenavy and Portglenone.
- Further efficiency saving of £6m achieved
- £100m Belfast Sewer Project announced
- Leakage reduced by over 12%



Katharine Bryan and Sean Clarke, Chairman of Omagh District Council, officially open the new £12 million Lough Macrory Water Treatment Works near Omagh in March 2005.

## CHIEF EXECUTIVE AND DIRECTORS

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**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.



**William Duddy**  
**CUSTOMER SERVICES**

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



**John Kelly CBE**  
**OPERATIONS**

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



**Pauline Shepherd**  
**HUMAN RESOURCES**

HR Strategy and delivery of all Personnel Services



**Peter May**  
**BUSINESS TRANSFORMATION**

Transformation programme, efficiency, HR reform issues, impact of reform legislation, preparation for standalone status. Secretariat. Legislative matters.



**George Butler**  
**ASSET MANAGEMENT**

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



**David Carson**  
**FINANCE & REGULATION**

Development and maintenance of financial systems and provision of financial information. Co-ordination of strategic and business planning.



**Trevor Haslett**  
**ENGINEERING & PROCUREMENT**

Procurement of Capital investment programme. Supplies and services.



**Sue Holmes**  
**PPP PROGRAMME**

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

## YEAR IN REVIEW

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### April

Construction started on a new £12.5m Waste Water Treatment Works (WWTW) for Larne.

Katharine Bryan launched the new Waterbus, a new mobile educational unit for primary school children. The bus, complete with an internal lift, is fitted with various learning techniques that are used to explain the Water Cycle.

Minister of State, John Spellar, MP, announced to Parliament the publication of Water Service's Water Resource Strategy 2002 – 2030, which identifies the necessary improvements to the water supply system, to meet the increasing demand for water.

### May

New £1.8m upgrade for Drumaness WWTW started. This scheme will improve the water quality of the Drumaness River ensuring compliance with EU standards.

The new £6.3 million Water Treatment Works was officially opened at Lough

Fea, serving the Cookstown area and part of Magherafelt.

Work commenced on a major £6.6m renovation scheme on forty Service Reservoirs throughout N.I. Trevor Haslett said: "The work is being undertaken as part of a significantly increased capital investment programme to deliver improvements through modernising Water Service infrastructure.

### June

Minister of State, John Spellar, MP, officially opened the new award winning Wastewater Treatment Works at Kircubbin, which employs sophisticated membrane technology. This facility and a similar Works at Greyabbey were completed under the same £3.5 million contract.

Minister of State, John Spellar, MP, opened a PPP industry conference highlighting the investment programme of £270 million for water and wastewater treatment facilities across Northern Ireland.

### July

Trevor Haslett announced that the start of a £4 million water infrastructure scheme for the Kilkeel and Annalong area. This scheme will involve the construction of a new 6 million litre capacity service reservoir at Crocknafeola and the installation of 22 km of pipelines on the Moyad, Head and Quarter Roads.

The £80 million Water Mains Project, to upgrade water mains throughout Northern Ireland, started in Ballymena, Cookstown and Craigavon this month. This significant investment on ageing water mains, many of which are over 40 years old, will ensure that the current high level of drinking water quality will be further improved.

### August

Minister of State, John Spellar, MP, announced that Water Service is to become a Government Owned Company, or GoCo, on or as soon as practicable after, 1 April 2006. Commenting on his choice of a GoCo as the future public

## YEAR IN REVIEW

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sector business model for the Northern Ireland water industry, he said:

“It is vital that the new organisation tasked with the delivery of Northern Ireland’s water and sewerage services is given the freedoms and flexibilities it needs to deliver the best possible and most efficient service to customers at affordable prices. I believe the GoCo model offers the greatest potential to achieve this goal.

### September

The new £12 million Lough Macrory Treatment Works, which will supply the Omagh and surrounding area, became fully operational. Minister of State, John Spellar, MP, announced changes to the current arrangements for charging non-domestic customers for the water and sewerage services they receive. The Minister said: “Self-financing arrangements for water and sewerage services will require all customers, domestic and non-domestic, to contribute directly toward the cost of the services received. These new arrangements will be phased in at the

same time as the introduction of new household water and sewerage charges.

### October

Work commenced on improving the treatment process at Castor Bay Water Treatment Works (WTW) at a total cost of £3.2m.

The £4.8m contract for the upgrade of the Limavady WWTW was awarded.

Work on the new Portglenone WWTW was completed at a total cost of £2.3m.

Flood relief scheme started in Warrenpoint.

### November

Trevor Haslett launched construction work on a new £8.5 million Wastewater Treatment Works for Omagh.

This month saw the official announcement of the commencement of the Integrated Wastewater Framework, which will allow Water Service to initiate the construction of projects more quickly and efficiently, assisting in the delivery

of the major programme of infrastructure upgrading work, over the next few years. The framework, consisting of Engineering Consortia and Consulting Engineer Project Managers, will deliver the investment programme to upgrade wastewater treatment works and sewers for projects valued under £5 million capital cost.

### December

Minister of State, John Spellar, MP, welcomed the improvement in compliance on discharges from Water Service waste water facilities, through increased investment in the water and sewerage infrastructure, highlighted in the recently published report by the Environment and Heritage Service (EHS).

Work started on projects worth £13.5 million, in the Strabane area, over the next two years.

### January 05

Plans were announced this month to start projects worth £16.4 million in the Banbridge area, over the next three years. Local projects include

## YEAR IN REVIEW

improvements to wastewater treatment at Dromore, Gilford, Loughbrickland, Rathfriland, Blackskull, Kinallen and Ballyroney.

Sewer network improvements will also commence in Banbridge and drainage area studies of Gilford, Dromore and Rathfriland will lead to a planned programme of sewer network improvements.

### February 05

Plans were announced to start projects worth £88 million in the Belfast area, over the next three years.

The Public Private Partnerships (PPP) Wastewater Industry Day took place as part of the £270 million PPP capital investment programme for water and wastewater treatment facilities across N.I.

### March 05

Katharine Bryan announced the start of a £42 million scheme to construct the new North Coast Waste Water Treatment Works at Craigtown More, between Portrush and Portstewart.



**Work starts on the Omagh WWTW.**

Katharine said: “The scheme will significantly improve the coastal water quality, protecting the local environment and will accommodate future residential, commercial, tourism and industrial growth in the area, for the next 25 years.

Construction work started on a new £900k WWTW to serve the village of Glassdrumman in Co. Armagh.

## KEY PERFORMANCE MEASURES

The following table outlines the position on Key Performance Targets that are reported on an annual basis to the Minister. Last year Water Service delivered an improved performance overall and met the majority of its targets.

Year to		Achieved	Target	Outturn	At or	At or
31 March 2005		2004/05	2004/05	2003/04	ahead	Better than
					of target	previous year
1a	Compliance with drinking water standards – taking into account Authorised Departures <sup>1</sup> .	99.6%	99%	98.7%	✓	✓
1b	Compliance with drinking water standards – Not taking into account Authorised Departures.	98.6%	98%	N/A	✓	N/A
2a	Percentage Of Waste Water Treatment Works compliant.	79.6%	73%	70.0%	✓	✓
2b	Population equivalent basis compliant with the wastewater treatment works.	56.5%	60%	59.5%	✗	✗
3a	Percentage of major Drinking Water scheme milestones achieved by 31st March 2005.	100%	85%	N/A	✓	N/A
3b	Percentage of major Waste Water scheme milestones achieved by 31st March 2005	90%	85%	N/A	✓	N/A
4	Reduce leakage from water distribution system by x million litres per day.	202.6	205	230.6	✓	✓

<sup>1</sup> Authorised departures from standards in Northern Ireland are authorised and administrated by the Department of Environment's Drinking Water Inspectorate with the agreement of the Health Authorities

## KEY PERFORMANCE MEASURES

Year to		Achieved	Target	Outturn	At or	At or
31 March 2005		2004/05	2004/05	2003/04	ahead	Better than
					of target	previous year
5a	Percentage of Written correspondence answered within 15 working days of receipt.	96.3% <sup>2</sup>	90%	91.9%	✓	✓
5b	Percentage of Written complaints answered within 15 working days of receipt.	91.2% <sup>2</sup>	90%	94.2%	✓	✗
6	Unit Cost of water delivered – pence per cubic metre.	80.4p	84p	81.2p	✓	✓
7	Unit cost of wastewater treated – pence per litre.	80.5p	83p	81.1p	✓	✓
8	Maintain expenditure within cash limits and to approved budgets. (Now Ministerial target)	Achieved	100%	Achieved	✓	✓
9	To reduce industrial absenteeism	6.09% <sup>2</sup>	6.38%	7.25%	✓	✓
10	To reduce non-industrial absenteeism	4.34% <sup>2</sup>	4.35%	4.8%	✓	✓

<sup>2</sup> Outcomes uncertified

The Department's Internal Auditor has carried out an exercise to independently validate our performance against targets. He was unable to validate the reported performance against targets 5, 9 and 10 due to weaknesses in reporting systems.

Water Service has implemented measures to remedy the weaknesses in reporting as identified by the Internal Auditor.

## WATER

### WATER RESOURCES

Approximately 780,000 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 660 million litres of high quality drinking water to customers. Water Service operates approximately 62 sources which comprise upland Impounding Reservoirs, Boreholes and Rivers and Loughs. The chart shows the

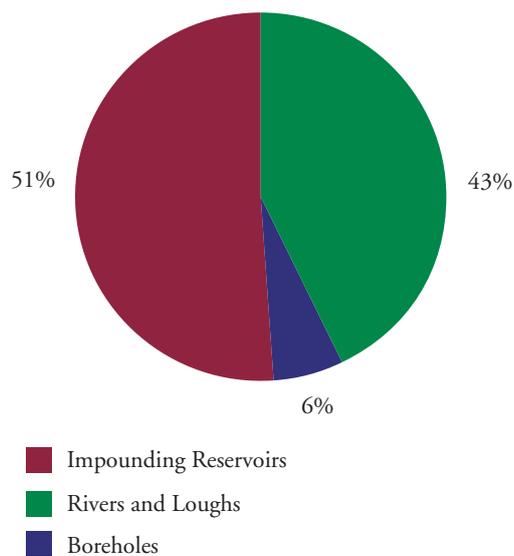
percentage distribution input derived from each source type

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.

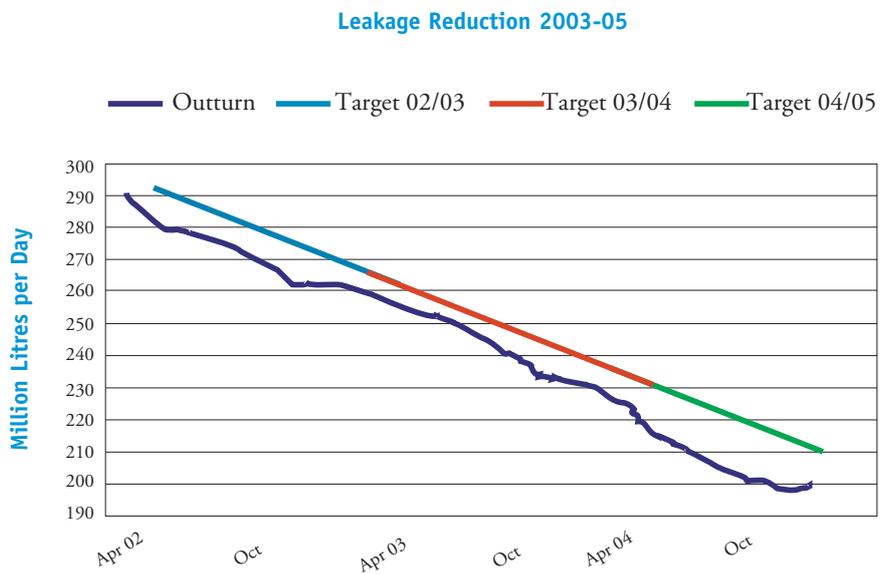
### Water Supplies



## WATER

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 third consecutive year, leakage reduction targets have been achieved – on a cumulative basis leakage has reduced during that period by almost 88 million litres per day (ml/d). Water Service remains on course to achieve the economic leakage level of 165 ml/d by March 2008.



**Report leaks on Roads and Footpaths  
to LEAKLINE (Freephone) 0800 282 011**

## WATER

### 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 there are no adverse health implications.

Compliance against these standards is monitored during the year through an extensive water sampling and testing programme and during 2004 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	20,039	99.8%
Water in service reservoirs	36,516	99.8%
Water at customers' taps or authorised supply point	58,264	99.6%



## WATER

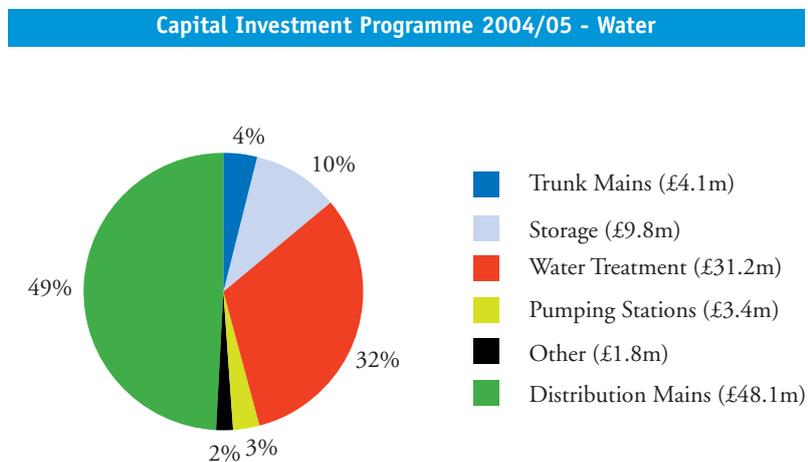
Water Service continues to meet the obligations placed upon it to comply with regulatory standards and heightened demands from customer's expectations. Investing in the extension and upgrading of water treatment works remains a top priority and this is reflected in 2004/05, in the investment of £98 million to maintain and improve our high quality water supplies.

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](http://www.waterni.gov.uk) or from our Customer Service Units by calling the WATERLINE 08457 440088.

District Councils are also provided with details of the quality of drinking water supplied in their local areas and 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 some £98 million to maintain and improve our high quality water supplies. This represents some 42% of our total £204 million capital budget. Our expenditure during the year can be broken down as shown in the chart below:



## WATER

During the year we completed work on both the Mourne Treatment Works, located near the village of Drumaroad in County Down serving Belfast and North Down, and at Lough Macrory Water Treatment Works, which serves Omagh and the surrounding rural areas.

Work also continued on the construction of 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 a day of high quality treated water per day, and will help to meet foreseeable future demand. Construction also continued on the upgrade of the treatment process at Carran Hill Water Treatment Works, near Crossmaglen, and at Castor Bay Water Treatment Works. A £3.7 million contract was awarded for the upgrade of Clay Lake Water Treatment Works serving Keady and the surrounding area. In total some £27 million was spent on improvements to our water treatment facilities during the year.

As part of our continued commitment towards improving the watermain network we invested some £52 million on the trunk and distribution system. Expenditure included the provision of new or replacement watermains in parts of Lisburn, Omagh, Newcastle and Downpatrick. We also continued with our detailed studies of the watermain network system throughout Northern Ireland. As a result of these studies we commenced improvements to the watermain network system in the Ballymena, Craigavon, Portadown, Belfast and Glarryford 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;

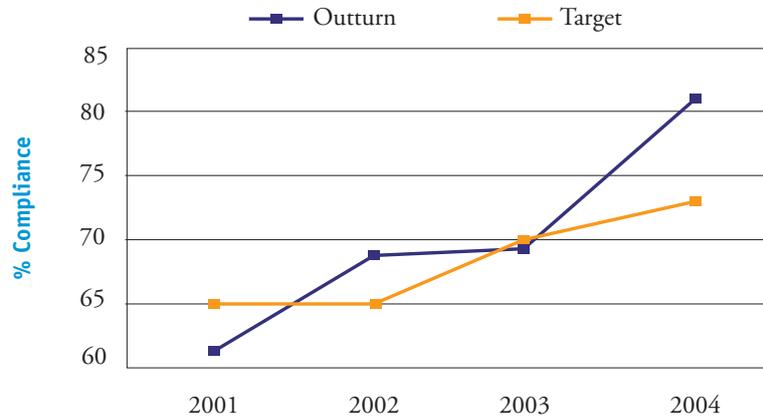
- Made 11,071 new connections to existing watermains.
- Dealt with 3,188 unplanned interruptions to water supply.
- Dealt with 5,707 water distribution network repairs.
- Treated and distributed 660 megalitres of drinking water per day.

# 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 4 years.

Waste Water Compliance 2001 - 2004



## WASTEWATER

The marked improvement in compliance levels last year is due not only to the commissioning of new and upgraded treatment facilities at sites such as Greyabbey, Kircubbin, Lisnaskea, Kesh, Kilkeel and Banbridge, 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.

### WASTEWATER INVESTMENT

#### **Capital Investment Programme:**

During the year we invested £131 million to improve the treatment and sewerage infrastructure. This represents some 56% of our total capital works budget and an increase of 75% from the 2003/04 investment. Expenditure during the year and is broken down as shown in attached chart.

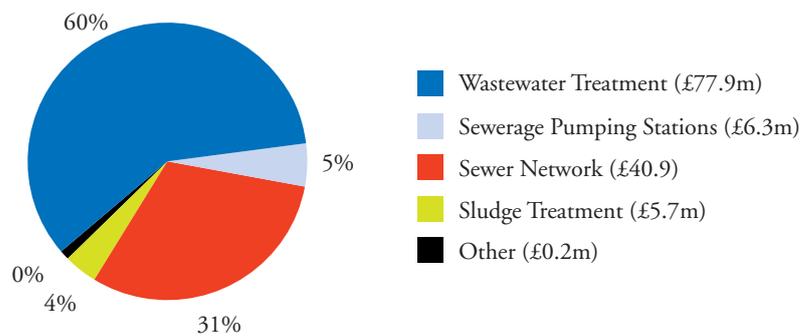
We completed major improvements to a number of wastewater treatment works including those located at Tullaghgarley in Ballymena, Greyabbey, Kircubbin, Glenavy and Portglenone.

Work continued on major improvements to the existing facilities at Larne, Ballyclare, Cookstown and Culmore which serves Londonderry and a number of smaller rural works.

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 nearly £78 million was spent on improvements to our wastewater treatment facilities during the year.

In addition almost £41 million was spent on improvements to the sewerage network in areas such as Banbridge, Enniskillen, Lisburn and Warrenpoint.

### Capital Investment programme 2004/05 - Wasterwater



## WASTEWATER

We also continued our drainage area studies which will lead to an extensive sewerage network rehabilitation programme. As a result of such studies we have now commenced the Belfast Sewers Project, a £100 million project to provide Belfast with a modern sewerage system to meet its existing and future development needs.

### Belfast Sewers Project – Investing in Belfast’s Future

The Belfast Sewers Project is a vital scheme which will provide Belfast with a modern sewage system to meet existing and future developments

The project will employ the very best innovation, technologically efficient and environmental practises to deliver Belfast’s new sewerage system for the new millennium.

The scheme covers

- a 42 Sq Km catchment area
- A population of 250,000 and
- A Sewer length of 1,775 Km

### N.I. Asset Management Plan (NIAMP) 2

Water Service’s Second Asset Management Plan, NIAMP2, certified by an independent Technical Auditor, assessed the investment need over the next twenty years as £3billion. The findings justified the urgent need for additional funding to address compliance issues, which in turn, has enabled critical projects to be advanced on the Capital Works Programme. Internal restructuring in advance of the establishment of a Government Owned Company will see the creation of an Asset Management Directorate, focused on developing asset management as a business tool for the organisation as well as meeting future requirements of the new Economic Regulator.



**Katharine Bryan, Chief Executive of Water Service and Tom Ekin, Lord Mayor of Belfast with a model of the tunnelling machine, which will be used to construct a 9.5km tunnel, as part of the £100m Belfast Sewers Project.**

### DIRECT SERVICES TO CUSTOMERS

During 2004/05, services provided to customers included the following

- Collected 160 million m<sup>3</sup> of wastewater.
- Dealt with 1,866 sewerage network repairs.
- Cleared 25,013 sewer blockages.
- Desludged 24,743 private septic tanks.
- Made 738 new connections to the sewerage network.

## THE ENVIRONMENT

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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 2300 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. The system has been independently audited by a UKAS accredited auditor on two occasions in the past year and certified as compliant with 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 2004/05 capital investment rose to £232m 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 on 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 continued to consider the environmental performance of contractors when assessing tenders for the supply of goods and services. For the first time our contractors were required to operate environmental management systems which comply with the international standard ISO 14001 on new major construction projects.

### Sustainability

We participated with Water UK in the development of new sustainability indicators, helping to establish a comprehensive set of agreed 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.

## THE ENVIRONMENT

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### 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 2004 target of 60% for laying watermains using trenchless technologies was achieved, with a corresponding reduction in construction spoil and in aggregate required for trench reinstatement

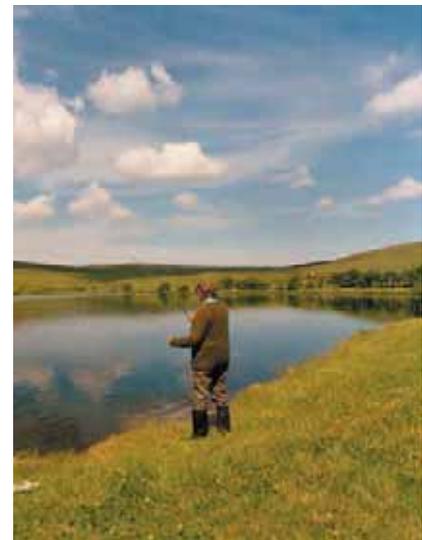
### Water Conservation

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 2004 additional resources were allocated to leakage activities and we were successful in reducing overall leakage by a further 28 ML/d. We have continued to promote the wise use of water at public exhibitions across Northern Ireland and through our mobile "Waterbus". In May 2004 a new bus was brought into service, providing an interactive educational experience in the activities of Water Service to approximately 150 schools each 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 2004/05, 7% of energy consumed was generated from renewable sources.



## THE ENVIRONMENT

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### 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 2004, 14 of the 16 identified bathing waters in Northern Ireland met the mandatory standard and 9 met the higher guideline standards. Castlerock and Ballyholme failed to achieve the mandatory standard. At a further 11 less well used bathing locations, 8 passed the Directive's mandatory standard and 7 passed the guideline standard.



## PEOPLE

2004/5 was a significant year for Water Service in which staff faced a number of substantial challenges. In April 2004 Water Service underwent a restructuring exercise that saw a large number of staff take on new areas of work as the organisation moved from a divisional to a functional structure. Whilst this had the potential to impact adversely on the delivery of water and sewerage services to the public, staff rose to the challenge and continued to provide the same high standard of service.

In August 2004 the Chief Executive announced radical changes to the Senior Management structure resulting in a significant reduction in posts and the requirement for existing staff to apply for those posts that remained. However, in spite of this challenge, our senior managers continued to lead their respective business areas enabling Water Service to meet the majority of its business objectives during the remainder of the year.

In addition to these challenges Water Service set targets to reduce sick absence thereby increasing the number of staff available to work each day. The sick absence rates at 31 March 2004 were:

- Industrial staff – 7.1% of available working days lost per annum; and
- Non-Industrial staff – 4.8% of available working days lost per annum

Water Service has been greatly encouraged by the determination of both staff and managers to work together to reduce levels of absenteeism, and by 31 March 2005 absence levels had reduced to

- 6.09% for industrial staff, a reduction of 14%
- with the non-industrial rate falling to 4.34%, a reduction of 10%.

Unfortunately weaknesses in our reporting systems meant that this performance could not be validated by the Department's External Auditor. We have now addressed these

weaknesses to ensure reporting information is sufficiently robust in future. A continued effort will be made during 2005/6 to reduce absence levels across the organisation as part of a longer term aim to reduce absence levels by 30%.



## CUSTOMER SERVICES

We recognise that we need to continuously develop our quality of service and response to meet the increasing expectations and changing demands of our customers.

The major internal restructuring implemented in April 2004 redefined the interface between operational and customer services activity. By developing the Customer Services Directorate we are 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.

During the year, activity in this area included:

- Implementation of new, improved customer enquiries management system;

- Progress towards procurement of an outsourced partnership which will provide “next generation” customer billing/contacts and operational work management services;
- Completion of the 2004 Customer Survey of domestic and non domestic customers, via Northern Ireland Statistics and Research Agency;
- Development of our External Communications Strategy 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.
- Development of the initial relationship with the General Consumer Council for Northern Ireland as we prepare the formal customer representative framework to accompany GoCo;
- The introduction of an upgraded billing system for non-domestic customers accompanied by computerised meter reading systems.



## CUSTOMER SERVICES

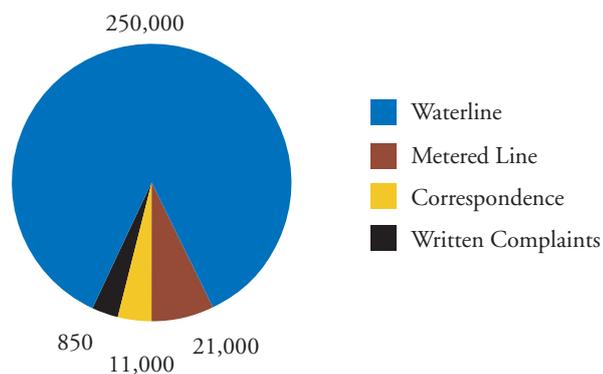
### CUSTOMER CONTACTS

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 2004/05

- We handled over 250,000 telephone contacts on our dedicated customer lines (Waterline/Leakline), answering over 80% within 20 seconds (exceeding the target of 75%);
- Over 21,000 calls were received on the Metered Water line (028 9032 1500), of which 17,300 were billing enquiries;
- Processed 11,000 items of correspondence and 850 written complaints, replying to 96.3% and 91.2% respectively within the 15 day target response time.

### Customer Contacts



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

Text phone for deaf customers: 08457 023206 All Calls charged at local rates

Or e-mail your query to: [waterline@waterni.gov.uk](mailto:waterline@waterni.gov.uk)

## CUSTOMER SERVICES

### METER READING, BILLING AND CASH COLLECTION

There are over 75,000 meters installed on non-domestic premises and we issued over 129,000 bills during 2004/05 to metered water and trade effluent customers, based on actual meter readings. We provide a range of payment options to these customers including:

- budget payment plan by direct debit;
- in person at our main Revenue Branch office in Belfast or 19 local offices across Northern Ireland;
- by bank or Post Office Giro and;
- by BACS.

### CUSTOMER SATISFACTION

Water Service has been conducting independent research into customers' perceptions of our services since 1994. During 2004/05 we carried out a joint survey of household and non-household (bill paying) customers. The main findings of the survey are shown below.

Household Customers	Bill Paying Customers
<ul style="list-style-type: none"> <li>• 86% of customers were satisfied with the overall service they had received;</li> <li>• 84% were satisfied with their water pressure and three quarters were satisfied with water quality;</li> <li>• 93% of customers were satisfied with their sewerage service;</li> <li>• Only 5% of customers had to contact Water Service to complain.</li> <li>• over 94% consider bills are accurate and issued on time;</li> </ul>	<ul style="list-style-type: none"> <li>• 96% of customers said that their bill was easy to understand;</li> <li>• 84% were satisfied with the system operated in the past year;</li> <li>• Most customers rated overall performance of Revenue Branch as good.</li> </ul>

## CUSTOMER SERVICES

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### PLANNING FOR IMPROVEMENT

Although many of the customer survey findings are positive and key customer service targets have been achieved, Water Service is planning for improvements across a range of customer service activity to meet the challenges of the future.

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

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

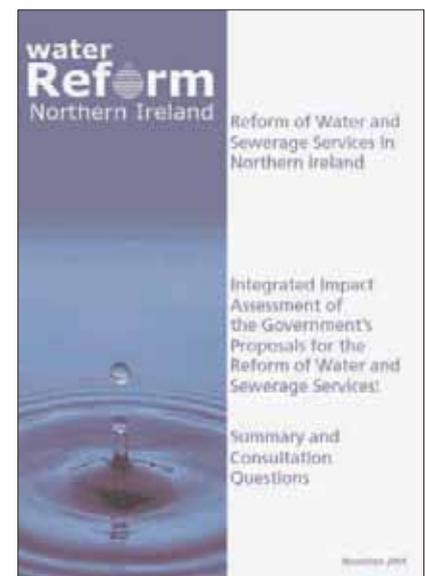


## WATER REFORM

Water Reform will bring about major changes both for customers with the introduction of domestic charging, and for the organisation itself as it undergoes a major transformation to become a fully regulated self-financing organisation outside the Northern Ireland Civil Service. The changes are necessary if we are to make the investment needed to improve the quality of our services and meet the compliance targets set. Over the past year the shape of Water Reform has become much clearer. On 10 August 2004, following consideration of various issues associated with the reform of water and sewerage services in Northern Ireland, the Minister with responsibility for DRD, John Spellar MP, announced a number of proposals. These included:

- The establishment of a Government Owned Company (GoCo) to replace Water Service;
- The extension of the role of the Northern Ireland Authority for Energy Regulation to include economic and consumer regulation of the water industry;
- The appointment of the General Consumer Council for Northern Ireland as the statutory consumer representative for water and sewerage issues in Northern Ireland.

A further announcement was made on 13 September 2004 to the effect that all households would pay a new direct charge for water and sewerage services, comprising a standing charge and a variable element for each service, determined by the capital value of the property.



## WATER REFORM

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An Integrated Impact Assessment (IIA) on the reform proposals was subjected to public consultation between November 2004 and March 2005 and the report is scheduled for publication later in 2005. Work is also progressing on the development of the new legal framework required to implement the Water Reform proposals.

Good progress has been made towards the longer term aim of ensuring that prices remain as low as possible for Water Service customers by achieving the £12M of efficiency savings in operating costs by March 2005. Budgets were established for 2005/06 which will increase these savings to almost £18m by March 2006. A strategy for reaching the £43M target by March 2009 was also developed although there remains more to do to identify the full amount of savings. In pursuit of the delivery of a more effective and efficient organisation, a decision was taken in August 2004 to restructure Water Service's senior management. Work to determine the role and responsibilities associated with the

posts in the new structure was substantially completed, with the appointment of new directors from May 2005.

Change on the scale envisaged is never easy to manage. We recognise the fears and concerns that staff have over future job security, terms and conditions and pension provision. As part of the efficiency programme, the organisation is becoming smaller. To date this has been achieved as a result of retirements and those seeking to leave the organisation to work elsewhere. We are committed to taking all possible steps to avoid compulsory redundancy in future. We are already confident of achieving this for 2005/6. In relation to pensions and terms and conditions, we have made it clear that on leaving the Civil Service, terms and conditions will remain the same under the TUPE legislation (Transfer of Undertakings (Protection of Employment) Regulations). We have also committed to creating a "mirror image" pension scheme for the new organisation.

The opportunities in the Government owned Company are significant. They include the potential for greater job satisfaction, improving the way we deliver our services and more flexibility in relation to reward and recognition issues.

It is recognised that the scale of change being undertaken by Water Service is significant and the organisation will continue to consult and communicate with both staff and customers as the process evolves.

## PUBLIC PRIVATE PARTNERSHIP (PPP)

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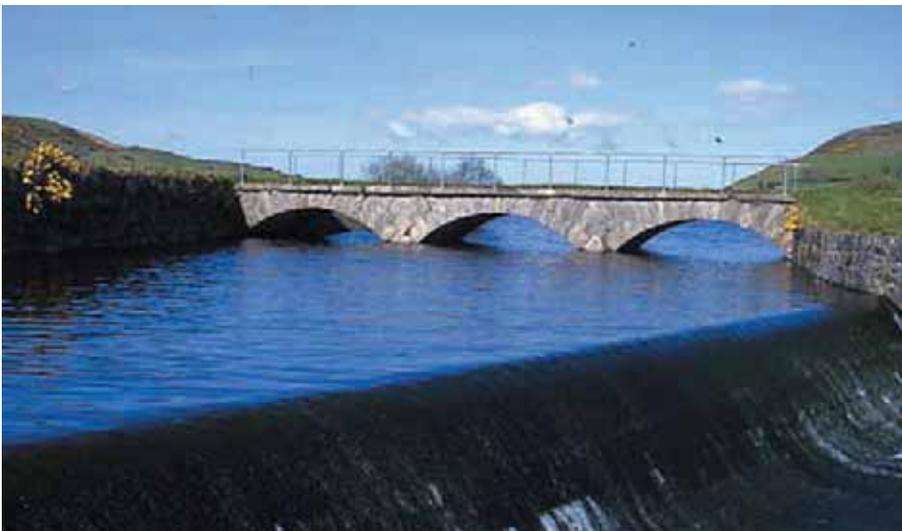
Water Service requires capital investment of more than £3 billion over the next 20 years to upgrade both water and wastewater infrastructure and assets in Northern Ireland. Given the extent of the water assets and infrastructure upgrades required to improve standards, ensure environmental compliance and increase capacity in the timeframe, the necessary resources cannot be met from traditional public sector funding alone. For this reason, a major Public Private Partnership (PPP) Programme was launched. The PPP Programme comprises the Alpha (water treatment facilities) and Omega (wastewater works) 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 and two associated link mains. The treatment capacity for the Alpha sites represents approximately 50% of Northern Ireland's current water production capacity and will, in capital terms, cost an estimated £154m when it is completed in October 2008.

### Omega Project

The Wastewater Works/Projects included in 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 Sludge Disposal Management Solution. These schemes will all be completed by October 2008 at an estimated capital cost of £122m. The treatment capacity for these Omega Works represents approximately 30% of Northern Ireland's current wastewater treatment capacity.



## FINANCIAL PERFORMANCE

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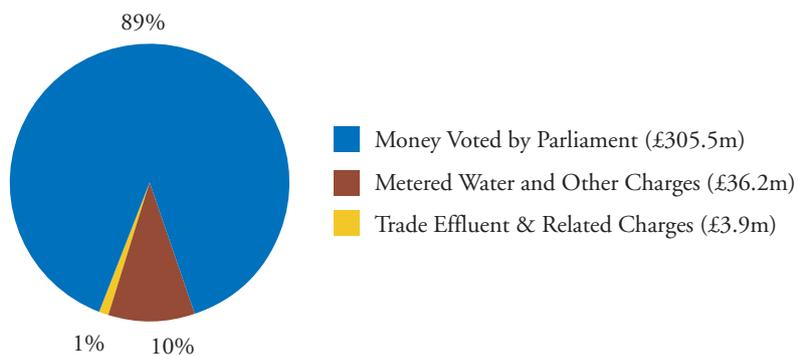
### FUNDING

We receive funding from two main sources:

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

The chart shows our funding for the last financial year.

### Water Service Funding 2004/05



## FINANCIAL PERFORMANCE

### FINANCIAL RESULTS –

#### Year ended 31 March 2005

As the Income and Expenditure Account 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.

	2004/05 - £M	2003/04 - £m
Income	40.1	40.9
Staff & Operating Costs	137.6	139.0
Depreciation	111.0	80.9
Net deficit before interest & capital charges	(208.5)	(179.0)
Capital charges & interest	182.2	168.2
Net Deficit	(390.7)	(347.2)

## FINANCIAL PERFORMANCE

Features arising from this year's performance are:

- Staff and operating costs maintained broadly at 2004 levels reflecting the impact of our efficiency programme. Allowing for inflation and taking into account some of the necessary additional costs associated with new treatment processes this equates to a reduction of some £6m through efficiency gains during 2004/05;
- increased depreciation charges largely due to the impact of a number of high value installations being decommissioned;
- Increased capital charges reflecting the increase in the net assets as result of the investment in the capital programme.

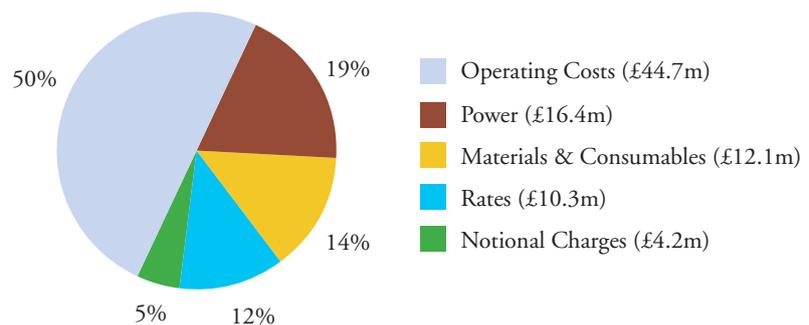
Other notable financial performance measures were:

- Water Service achieved 97% of payments made within 30 days of receipt of invoice in line with the Government prompt payment policy;
- We spent £232m on fixed assets in the year largely to meet our compliance

targets increasing the value of our fixed asset base to £5.6 billion valued on a current cost basis;

- Creditors increased by £29m largely due to capital creditors outstanding on the enlarged capital programme.

### Analysis of Operating Costs



## ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

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## FOREWORD TO THE ACCOUNTS

### **History and Statutory Background.**

The Water Service was established as a Next Steps Executive Agency within the Department of the Environment for Northern Ireland on 1 April 1996. On 2 December 1999, following a restructuring of Government Departments in Northern Ireland, the Water Service came under the control of 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 Service (Northern Ireland) Order 1973. These responsibilities are exercised by the Water Service on behalf of the Department.

These accounts have been prepared in accordance with a Direction given by the Department of Finance and Personnel in accordance with Section 11 (2) of the Government Resources and Accounts Act (Northern Ireland) 2001.

### **Principal Activities**

The Water Service's main activities, as set out in the Framework Document, are:-

- (i) to supply and distribute water which, when supplied for domestic or food production purposes, is wholesome at the time of supply;
- (ii) to provide and maintain sewers for draining domestic sewerage, surface water and trade effluent; and
- (iii) to make provision for effectually dealing with the contents of its sewers.

### **Funding**

The Water Service is funded from two sources:

- (a) Income from directly billed customers; and
- (b) Money voted by Parliament.

### **Results For The Year**

The deficit for the year as shown on page 46 was £390,743k. (2004: £347,232k)

### **Important Events Since The Year End**

There have been no significant events since the year-end which affect these accounts.

### **Business Review**

A full review of the Water Service's activities is given on pages 1-35 of the annual report.

### **Fixed Assets**

Details of the movements of fixed assets are set out in note 7 to the Accounts.

### **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 4 to the Accounts.)

### **Senior Management Team**

Management of the Water Service is the responsibility of the Chief Executive, who is supported by eight Directors.

Chief Executive  
*Katharine Bryan*

Human Resources  
*Pauline Shepherd*

Customer Services  
*William Duddy*

## FOREWORD TO THE ACCOUNTS

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### Engineering & Procurement

*Trevor Haslett*

### Finance & Regulation

*David Carson*

### Operations

*John Kelly CBE*

### PPP Programme

*Sue Holmes*

### Asset Management

*George Butler*

### Business Transformation

*Peter May*

During the year a full-time Director of Standards & Regulation was not appointed. John Leslie acted as Standards & Regulation Director from 1 April 2004 to 20 August 2004 followed by the temporary engagement of Jim Graham until 29 October 2004 and Peter Briens until the year-end. The post has since been permanently filled by George Butler. Robin Mussen retired on 31 March 2005 and has since been replaced by Pauline Shepherd.

Sue Holmes was appointed to the temporary post of Director of Public Private Partnerships on 10th May 2004 as a secondee from the Strategic Investment Board.

Appointments to the Board of the Water Service are made in accordance with the Civil Service Commission's General Regulations.

As Civil Servants, the remuneration of the members of the Board is determined by the normal Civil Service Pay arrangements.

Further details of Directors' remuneration are included in note 4 to the Accounts.

### **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 97% of bills were paid within this standard.

### **Charitable Donations**

The Water Service made no charitable donations during the year.

### **Disabled Persons**

The Water Service follows the Northern Ireland Civil Service Code of Practice on the Employment of Disabled People. The Water Service aims to ensure that disablement is not a bar to recruitment or advancement.

### **Equality of Opportunity**

The Agency follows the NI Civil Service policy that all eligible persons shall have equal opportunity for employment and advancement on the basis of their ability, qualifications and aptitude for the work.

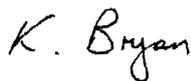
## FOREWORD TO THE ACCOUNTS

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### *Employee Involvement*

The Management Board encourages widespread consultation and exchange of information at all levels within the Water Service. This is effected through staff briefings, circulars and in-house magazines. There are also well established arrangements for formal consultation with recognised Trade Union representatives on all significant developments affecting staff.

The audit of the financial statements for 2004-2005 resulted in a notional audit fee of £27,382 which is included in the administration costs in the operating cost statement.



**Katharine Bryan**  
**Chief Executive**  
**DATE 7th July 2005**

### *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.

## STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

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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 a statement of accounts for each financial year 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 Agency is required 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 have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Water Service will continue in operation.

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. Her relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officer's Memorandum in 'Government Accounting in Northern Ireland' issued by the Department of Finance and Personnel.

## 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 2005 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 objectives 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 further embedded risk management by the completion of full risk assessments down to each business unit. Relevant staff have attended risk management awareness seminars to provide them with the knowledge and skills required to lead

the risk management process in their business unit. The Agency is finalising its own policy on risk management to provide clarity and direction on risk management and it is expected to be endorsed shortly.

### 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 objectives, along with the controls in place to manage those risks at three key levels:

- Corporate – Key risks for the Agency managed by the Water Service Board;
- 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.

## STATEMENT ON INTERNAL CONTROL

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 2004-05 the Management Board, supported by the Internal Controls Committee, reviewed the Corporate Risk Register both at the start of the financial year and again following a 'mid-year' review. 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; and
- Inadequate information leading to the undermining of credibility and decision-making.

### 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 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 Committee and the Internal

## STATEMENT ON INTERNAL CONTROL

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Controls Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

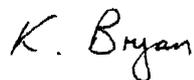
In maintaining and reviewing the effectiveness of the system of internal control, Assurance Statements from Directors who have responsibility for the development and maintenance of the internal control framework, provide me with the evidence that the controls in place to manage risks have been reviewed and are operating effectively.

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

### 6. Significant internal control problems

For 2004-05 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.

Internal Audit has also highlighted significant control issues during reviews of the Administration of EU Structural Funds and New Connections where overall limited assurances have been provided. Action plans have been developed to address the problems identified and related issues and work is also ongoing to address issues relating to the non-implementation of recommendations raised during the follow-up review of Water Charges. Other important control issues have also been identified during Internal Audit's review of Human Resource Management which is currently at draft report stage and where the assurance has also been limited. Management are currently considering the report and associated recommendations made by Internal Audit.



**KATHARINE BRYAN**  
Chief Executive

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

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I certify that I have audited the financial statements on pages 46 to 76 under the Government Resources and Accounts Act (Northern Ireland) 2001. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 49 to 53.

### **Respective responsibilities of the Agency, the Chief Executive and Auditor**

As described on page 40, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made there under and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made there

under, and 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 if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 41 to 43 reflects the Agency's compliance with the Department of Finance and Personnel's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Department of Finance

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

and Personnel, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Water Service Agency at 31 March 2005 and of the net deficit, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and

Accounts Act (Northern Ireland) 2001 and directions made there under by the Department of Finance and Personnel; 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.



**J M Dowdall CB**  
**Comptroller and Auditor General**  
**8th July 2005**

**Northern Ireland Audit Office**  
**106 University Street**  
**Belfast BT7 1EU**

## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 £'000	2004 £'000
<b>Income from activities</b>	2	40,100	40,870
<b>Expenditure</b>			
Staff Costs	4	49,894	52,376
Operating Costs	5	87,697	86,616
Depreciation	7	111,017	80,893
<b>Total Expenditure</b>		248,608	219,885
<b>Net deficit on operations before interest and cost of capital charges</b>	21(i)	(208,508)	(179,015)
Interest payable on Loans		114	184
Cost of Capital Charge	6	182,121	168,033
<b>Net deficit on operations after cost of capital and interest charges</b>		(390,743)	(347,232)

All amounts derive from continuing operations.

The notes on pages 49 to 76 form part of these accounts.

### Statement of Recognised Gains and Losses

	2005 £'000	2004 £'000
Net gain on revaluation of Fixed Assets (note 15)	213,698	307,986
Net (loss)/gain on the revaluation of fixed asset investments	(26)	11
Unrealised gain/ loss on the revaluation of fixed assets	-	72
Receipt of donated assets	15,646	14,262
<b>Recognised gains and losses relating to the year</b>	229,318	322,331

## BALANCE SHEET AT 31 MARCH 2005

	Notes	2005 £'000	2004 £'000
<b>Fixed Assets</b>			
Tangible Assets	7	5,600,374	5,251,476
Investments	9	59	85
		<u>5,600,433</u>	<u>5,251,561</u>
<b>Current Assets</b>			
Stocks and work in progress	10	2,236	2,349
Debtors due within one year	11	39,940	32,071
Cash at bank and in hand		19	210
		<u>42,195</u>	<u>34,630</u>
<b>Creditors: amounts falling due within one year</b>	12	72,520	43,275
<b>Net Current (Liabilities) Assets</b>		<u>(30,325)</u>	<u>(8,645)</u>
<b>Total Assets less Current Liabilities</b>		<u>5,570,108</u>	<u>5,242,916</u>
<b>Creditors: amounts falling due after one year</b>	13	4,171	4,770
<b>Provisions for Liabilities and charges</b>	14	2,246	2,102
<b>Net Assets</b>		<u><u>5,563,691</u></u>	<u><u>5,236,044</u></u>
<b>Taxpayer's Equity</b>			
General Fund	15	3,501,077	3,380,943
Donated Asset Reserve	15	132,223	112,378
Revaluation Reserve	15	1,820,852	1,638,485
Government Grant Reserve	15	109,539	104,238
		<u>5,563,691</u>	<u>5,236,044</u>

The notes on pages 49 to 76 form part of these accounts

*K. Bryan*  
 \_\_\_\_\_  
 Chief Executive

7th July 2005  
 \_\_\_\_\_  
 Date

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005		2004	
		£'000	£'000	£'000	£'000
<b>Net cash outflow from continuing operating activities</b>	21(i)		(85,060)		(100,088)
<b>Servicing of finance</b>					
Interest paid on Government Loans			(125)		(195)
<b>Capital Expenditure</b>					
Purchase of tangible fixed assets		(232,009)		(156,573)	
Proceeds from disposal of assets		<u>233</u>		<u>353</u>	
			(231,776)		(156,220)
<b>Cash outflow before financing</b>			<u>(316,961)</u>		<u>(256,503)</u>
<b>Financing</b>					
Payments of amounts due to consolidated fund		(82)		(59)	
Repayment of loans		(1,540)		(1,540)	
Amount received from DRD	15	<u>305,500</u>		<u>266,350</u>	
			<u>303,878</u>		<u>264,751</u>
<b>Increase/(Decrease) in cash in the period</b>	21(ii)		<u>(13,083)</u>		<u>8,248</u>

The notes on pages 49 to 76 form part of these accounts

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 1 Principal Accounting Policies Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2004-05 Northern Ireland Resource Accounting Manual (NIRAM) issued by the Department of Finance and Personnel. The accounting policies contained in the NIRAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where NIRAM 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 and computers & 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 or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition, thus increasing the value of the asset. Infrastructure assets completed by third parties are disclosed in the Donated Asset Reserve.

Properties managed and controlled by the Water Service for its specific purposes (specialised buildings) are

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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 Donated Assets

Donated tangible fixed assets are capitalised at their current valuation on receipt and this value is credited to the Donated Asset Reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the Donated Asset Reserve to the Income and Expenditure Account.

### 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.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### 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;
- 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 8 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. donated assets;

- c. amounts to be surrendered to the Consolidated Fund;
- d. cash balances;
- e. 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).

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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 NIRAM. Where the balance of 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
- all items (whether or not they arise in the normal course of business) over £100,000 which are required by NIRAM 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.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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### *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.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 2 Income

	2005	2004
	£'000	£'000
Direct Charges	37,628	38,634
Other Operating Income	2,472	2,236
<b>Income from Activities</b>	<u>40,100</u>	<u>40,870</u>

CFER income has been included within Other Operating Income (2005:£35k, 2004:£84k).

### Note 3 Business Activities Attracting Fees and Charges

	2005			2004		
	Income	Cost	Surplus (Deficit)	Income	Cost	Surplus (Deficit)
	£000	£000	£000	£000	£000	£000
Water	36,198	248,197	(211,999)	36,748	213,600	(176,852)
Sewerage	3,902	182,646	(178,744)	4,122	174,502	(170,380)
<b>Total</b>	<u>40,100</u>	<u>430,843</u>	<u>(390,743)</u>	<u>40,870</u>	<u>388,102</u>	<u>(347,232)</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 2 above

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 4 Staff Costs

#### (i) Analysis of Staff Costs

	2005	2004
	£'000	£'000
Salaries and Wages	46,864	48,393
Social Security Costs	3,567	3,675
Superannuation	5,223	5,454
Sub- total	<u>55,654</u>	<u>57,522</u>
Less Staff costs capitalised	(5,760)	(5,146)
<b>Total</b>	<u><b>49,894</b></u>	<u><b>52,376</b></u>

The above staff costs all relate to permanent staff (senior management, industrials and non-industrials). Non permanent staff costs (agency, temporary and contract staff) totaling £1,293k have all been included within operating costs in the Income and Expenditure Account.

#### (ii) Average Numbers of persons employed

The average number of persons employed during the year was:

	2005	2004
Senior Management	8	8
Industrials	963	1,025
Non industrials	1,068	1,124
Agency temporary & contract	102	58
<b>Total</b>	<u><b>2,141</b></u>	<u><b>2,215</b></u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### (iii) Senior Managers

The salary, pension entitlements and the value of any taxable benefits in kind of the most senior members of staff were as follows:

	Notes	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	
		Salary & Allowances including performance pay £'000	Benefits in kind (rounded to nearest £100)	Real increase and related lump sum at age 60 £'000	Total accrued pension at age 60 at 31 Mar 2005 and related lump sum £'000	CETV at 31 Mar 2004 (nearest £'000)	CETV at 31 Mar 2005 (nearest £'000)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000)	
Katharine Bryan	1	205-210	10,500	2.5-5.0	0-5	5	58	49	
John Kelly		65-70	-	0-2.5 plus 0-2.5	30-35 plus 100-105	592	591	0	
Robin Mussen		Consent to disclosure withheld							
David Carson		65-70	-	0-2.5 plus 2.5-5.0	10-15 plus 40-45	188	213	14	
Peter May		60-65	-	0-2.5 plus 0-2.5	10-15 plus 30-35	128	145	9	
Trevor Haslett		65-70	-	0-2.5 plus 0-2.5	0-5 plus 10-15	58	75	14	
William Duddy		55-60	-	0-2.5 plus 2.5-5.0	20-25 plus 65-70	338	383	26	
Bill Gowdy	2	15-20	-	0-2.5 plus 2.5-5.0	20-25 plus 60-65	309	326	18	
John Leslie	3	Consent to disclosure withheld							

1Salary & Allowances for Katharine Bryan includes costs of relocation including professional fees & removal costs

Benefits in kind for Katharine Bryan includes costs of car hire and flights prior to relocation Katharine Bryan is in the Premium Scheme for which there is no automatic lump sum

2Bill Gowdy was acting Director of Operations from 1 April 2004 to 27 June 2004. The full time equivalent was £55-60k

3John Leslie was acting Director of Standards & regulation from 1 April 2004 to 20 August 2004

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Salary

'Salary' includes gross salary; performance pay or bonuses; overtime and any other allowances to the extent that it is subject to UK taxation.

### Benefit in Kind

The monetary value of benefit in kind covers any benefits provided and treated by the Inland Revenue as a taxable emolument. Katherine Bryan's benefit in kind was in respect of rental accommodation, car hire and air travel to and from England.

### Pensions

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 Price 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 3 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% and 12.5% (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% 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.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

Column 5 & 6 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 7 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contribution paid by the employee (including the value of any benefits transferred from

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

another pension scheme or arrangement) and uses common market factors for the start and end of the period.

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 the disclosure applies. The CETV figures, and from 2004-05 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 scheme

and for which the Scheme 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 PCSPS(NI) is an unfunded defined benefit scheme which produces its own resource accounts, but 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 PCSPC(NI) resource accounts.

For 2004-05, employers' contributions of £5,356,525 were payable to the PCSPS(NI) (2003/04 £5,449,673) at one of four rates in the range 12 to 18 per cent of pensionable pay, based on salary bands. From 1 April 2005 these rates have increased as a result of the latest

actuarial valuation to between 16.5% and 23.5%. The contribution reflects 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. Employers' contributions of £3,857 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £401, 0.8 per cent 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 £393.70.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 5 Operating Costs

Analysis of operating costs by type of expense:

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Power	16,377	14,752
Rates	10,252	9,798
Materials and Consumables	12,099	12,516
Other Operating Costs	44,767	45,021
Notional Charges	4,249	4,554
Loss/(Profit) on Disposal of Assets	235	(360)
Other Costs of Employment	1,511	1,883
Release from Government Grant Reserve	(1,793)	(1,548)
	<u>87,697</u>	<u>86,616</u>

### Analysis of Notional Charges

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Construction Service	1,724	1,939
DRD Personnel Costs	749	569
NIAO (Audit fee)	27	27
Other	1,749	2,019
	<u>4,249</u>	<u>4,554</u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 6 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	2005 £'000	2004 £'000
Capital employed 1 April 2004		5,111,241	4,787,325
Total assets less liabilities		5,563,691	5,219,616
Less: Indexed Fixed Assets		(5,600,374)	(5,251,476)
Plus: Unindexed Fixed Assets		5,386,676	4,943,709
Less: SIB Funded Assets		(77,033)	
Less: Donated assets	15	(127,054)	(105,852)
EU grant creditor		11,867	8,734
Assets funded by EU grants			
Amounts to be surrendered to the Consolidated Fund	12	-	46
Bank Balances		12,873	(210)
Capital employed 31 March 2005		<u>5,170,646</u>	<u>4,814,567</u>
Average Capital Employed for capital charging		5,140,944	4,800,946
Capital charge @ 3.5%		<u>179,933</u>	<u>168,033</u>
Add interest on Reinvestment & Reform Initiative loan (see note 15)		2188	-
Total Capital Charge		<u><u>182,121</u></u>	<u><u>168,033</u></u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 7 Tangible Fixed Assets

	Assets in the course of construction	Freehold Land	Freehold Buildings	Civil Structures	Fixed Plant	Infrastructure Assets	Mobile Plant & Vehicles	Information Technology	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost/Valuation</b>									
<b>At 1 April 2004</b>	<b>300,422</b>	<b>98,892</b>	<b>168,272</b>	<b>1,164,487</b>	<b>542,844</b>	<b>5,030,903</b>	<b>20,246</b>	<b>6,327</b>	<b>7,332,393</b>
Indexation		4,337	4,022	51,468	16,337	225,167	630	9	301,970
Additions	214,961	-	167	769	1,931	12,619	668	894	232,009
Donated Assets		8	-	119	107	15,412	-	-	15,646
Transfers	(151,043)	555	6,718	17,846	35,246	90,218	93	367	-
Disposals		(427)	(881)	(8,033)	(3,924)	(7,822)	(1,292)	-	(22,379)
<b>At 31 Mar 2005</b>	<b>364,340</b>	<b>103,365</b>	<b>178,298</b>	<b>1,226,656</b>	<b>592,541</b>	<b>5,366,497</b>	<b>20,345</b>	<b>7,597</b>	<b>7,859,639</b>
<b>Accumulated Depreciation</b>									
<b>At 1 April 2004</b>	-	-	(52,449)	(511,586)	(320,316)	(1,179,362)	(12,695)	(4,509)	(2,080,917)
Indexation	-	-	(1,285)	(23,232)	(9,595)	(53,725)	(428)	(7)	(88,272)
Disposals	-	-	881	8,034	3,924	7,822	1,250	-	21,911
Charge	-	-	(4,102)	(26,901)	(22,311)	(55,172)	(1,948)	(1,553)	(111,987)
<b>At 31 Mar 2005</b>	-	-	(56,955)	(553,685)	(348,298)	(1,280,437)	(13,821)	(6,069)	(2,259,265)
<b>Net Replacement Value</b>									
<b>At 31 Mar 2005</b>	<b>364,340</b>	<b>103,365</b>	<b>121,343</b>	<b>672,971</b>	<b>244,243</b>	<b>4,086,060</b>	<b>6,524</b>	<b>1,528</b>	<b>5,600,374</b>
<b>At 31 March 2004</b>	<b>300,422</b>	<b>98,892</b>	<b>115,823</b>	<b>652,901</b>	<b>222,528</b>	<b>3,851,541</b>	<b>7,551</b>	<b>1,818</b>	<b>5,251,476</b>

Note : The depreciation charge in Note 7 does not include the release from Donated Asset Reserve of £970k resulting in a net depreciation charge of £111,017k.

Note: During the year fixed asset additions totalling £56,038k were financed through the Reinvestment and Reform Initiative.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 8 Analysis of Administration and Programme Costs.

	2005		2004	
	£'000	£'000	£'000	£'000
<b>Administration costs</b>				
Staff costs	55,654		57,522	
Other administration costs	14,025		13,827	
Notionals	4,249		4,554	
Movement in provisions	250		(90)	
Cost of capital charge	3,343		3,834	
Own work capitalised	(5,760)		(5,146)	
<b>Net Administration Costs</b>		<b>71,761</b>		<b>74,501</b>
<b>Programme Costs</b>				
<b>Request for Resources B</b>				
Expenditure	182,097		150,950	
Cost of capital charge	178,778		164,199	
Less EU income - department	(1,793)		(1,548)	
Consolidated Fund Extra Receipts	(35)		(84)	
Other	(40,065)		(40,786)	
<b>Net Programme Costs</b>		<b>318,982</b>		<b>272,731</b>
Operating Deficit per Income & Expenditure Account		<u>390,743</u>		<u>347,232</u>

Consolidated Fund Extra Receipts have been reclassified as Programme costs (in 2003-04 they were disclosed as Administration costs).

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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### Depreciation

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

	2005	2004
	£'000	£'000
Administration costs (included within 'Other administration costs')	2,056	1,865
Programme costs (included within 'Expenditure')	109,931	79,843
Total depreciation	<u>111,987</u>	<u>81,708</u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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### Note 9 Investments

	2005 £'000	2004 £'000
Investments	<u>59</u>	<u>85</u>

Shares have been revalued to market value at 31 March 2005.

### Note 10 Stocks and work in progress

	2005 £'000	2004 £'000
Raw materials and consumables	2,058	2,163
Work in progress	178	186
	<u>2,236</u>	<u>2,349</u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 11 Debtors due within one year

	2005	2004
	£'000	£'000
Trade debtors	3,694	4,726
Prepayments and accrued income	10,362	11,005
EU grant receivable-capital	11,867	8,734
VAT	14,017	7,606
	<u>39,940</u>	<u>32,071</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 2004	8,734	46,996
Amounts claimable 04/05	3,133	3,128
Received in year	-	(41,390)
At 31 March 2005	<u>11,867</u>	<u>8,734</u>

### Note 12 Creditors: Amounts falling due within one year

	2005	2004
	£'000	£'000
Bank overdraft	12,892	-
Trade creditors	41,183	28,495
Other creditors and accruals	5,827	5,106
Government loans repayable within one year	751	940
EU grants payable to Consolidated Fund on receipt	11,867	8,734
	<u>72,520</u>	<u>43,275</u>

Other creditors and accruals include £ 0 k payable to the Consolidated Fund, (2004: £46k)

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 13 Creditors: Amounts falling due after more than one year

	2005	2004
	£'000	£'000
Government loans	661	2,012
Capital Retentions	3,510	2,758
	<u>4,171</u>	<u>4,770</u>

### *Repayments falling due in the following periods*

Government Loans	2005	2004
	£'000	£'000
Between two and five years	-	1028
Between one and two years	661	984
	<u>661</u>	<u>2,012</u>

### *Government loans repayable by instalment*

	2005	2004
	£'000	£'000
Wholly repayable within 5 years	1,412	2,952
Total All Loans	1,412	2,952
Less: amounts due within 1 year	(751)	(940)
	<u>661</u>	<u>2,012</u>

The government loan is due to be repaid fully in 2007. The annual interest rate on the loan is 4.6%

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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### Note 14 Provisions for liabilities and charges

	<b>2005</b>
	<b>£'000</b>
Balance at 1 April 2004	2,102
Payments made	(2,110)
Increase in provision	2,254
<b>Balance at 31 March 2005</b>	<b><u>2,246</u></b>

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

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 15 Movements on Reserves

	General Fund	Donated Assets Reserve	Revaluation Reserve	Government Grant Reserve	Total
	2005 £'000	2005 £'000	2005 £'000	2005 £'000	2005 £'000
Balance at 1 April 2004	3,380,943	112,378	1,638,485	104,238	5,236,044
Additions		15,646			15,646
Net deficit	(390,743)				(390,743)
Net Vote Funding in Year	305,500				305,500
Notional Charges	4,249				4,249
Cost of capital charge	182,121				182,121
Real'd element transfer	21,807		(21,807)		0
EU grant claimed	(3,133)			3,133	0
CFERs	(35)				(35)
Release to Income and Expenditure		(970)		(1,793)	(2,763)
Revaluation of fixed assets					0
Adjustment of stock value					0
Revaluation of investments			(26)		(26)
Surplus on indexation		5,169	204,568	3,961	213,698
Real'd element disposals	368		(368)		0
At 31 March 2005	3,501,077	132,223	1,820,852	109,539	5,563,691

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 2004-05 a further £2,188,290 was due to the Water Service but was not actually issued in order to pay for the interest on loans applicable to WaterService. The interest charge has been included in the cost of capital.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 16 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 £840k. There are no annual payments under this contract.

#### *Charge to the Operating Cost Statement and future commitments*

The total amount charged to the Operating Cost Statement in respect of off-balance sheet PFI transactions in

2004/05 was £2,427,000 (2003/04 £2,618,000).

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 2005-06, analysed by the period during which the commitment expires is as follows

	2004/05	2003/04
	£'000	£'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	
Expiry within 21 to 25 years		2,400

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 17 Capital Commitments and Contingent Liabilities

Capital commitments at 31 March 2005 for which no provision has been made in the accounts were as follows:

	2005	2004
	£'000	£'000
Contracted	192,331	121,165
Authorised but not contracted	1,069,441	1,146,000

The Department is disputing liability in 342 Public liability and 27 Employer's liability cases amounting to £3,091k. It has been estimated that there is a less than 50% chance of these cases leading to a loss.

### Note 18 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.

	2004-05	2003-04
	£'000	£'000
Obligations under operating leases comprise:		
Office Equipment		
Expiry within 1 year	17	44
Expiry within 2 to 5 years	3	6
	<u>20</u>	<u>50</u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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### **Note 19 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.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 20 Intra Government Balances

	<b>Debtors: Amounts falling due within one year £000</b>	<b>Debtors: Amounts falling due after more than one year £000</b>	<b>Creditors: Amounts falling due within one year £000</b>	<b>Creditors: Amounts falling due after more than one year £000</b>
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
<b>At 31 March 2005</b>	<b>39,940</b>	<b>-</b>	<b>72,520</b>	<b>4,171</b>
Balances with other central government bodies	7,806		11,401	2,012
Balances with local authorities	43		8	
Balances with NHS Trusts	-			
Balances with public corporations and trading funds	-		24	
Balances with bodies external to government	24,222		31,842	2,758
<b>At 31 March 2004</b>	<b>32,071</b>	<b>-</b>	<b>43,275</b>	<b>4,770</b>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### Note 21 Notes to the cash flow statement

#### (i) Reconciliation of Net Deficit to Operating Cash Flows

	Note	2005 £'000	2004 £'000
Operating deficit before interest and capital charge		(208,508)	(179,015)
<b>Adjustments for non-cash transactions</b>			
EU Grant income released from reserves		(1,793)	(1,548)
Loss/(Profit) on disposal of assets		235	(360)
		<u>(210,066)</u>	<u>(180,923)</u>
Depreciation on tangible fixed assets		111,017	80,893
Notional charges	5	4,249	4,554
<b>Adjustments for movements in working capital</b>			
Decrease/(Increase) in stocks	10	113	70
Decrease/(Increase) in debtors	11	(4,736)	1,023
Increase/(Decrease) in creditors	12 & 13	14,219	(5,994)
Increase/(Decrease) in provisions	14	144	289
<b>Net cash outflow from operating activities</b>		<u><u>(85,060)</u></u>	<u><u>(100,088)</u></u>

The movement in debtors & creditors excludes EU grants receivable & payable. In addition the movement in creditors excludes loans repayable & associated interest (£11k 2005: £22k 2004) and the bank overdraft.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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

	2005 £'000	2004 £'000
(Decrease)/Increase in cash in the period	(13,083)	8,248
Cash used to repay debt	1,540	1,540
Change in net debt	<u>(11,543)</u>	<u>9,788</u>
Net debt at 1 April 2004	(2,742)	(12,530)
<b>Net debt at 31 March 2005</b>	<b><u>(14,285)</u></b>	<b><u>(2,742)</u></b>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

### (iii) Analysis of Changes in Net Debt

	At 1 April 2004 £'000	Cash flows £'000	Other changes £'000	At 31 March 2005 £'000
Cash at hand, at bank	210	(191)	-	19
Overdraft	-	(12,892)	-	(12,892)
Debt due within one year	(940)	1,129	(940)	(751)
Debt due after one year	(2,012)	411	940	(661)
<b>TOTAL</b>	<u><u>(2,742)</u></u>	<u><u>(11,543)</u></u>	<u><u>-</u></u>	<u><u>(14,285)</u></u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005.

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### **Note 22 Proposed Revaluation of assets on transfer to a Government Owned Company**

The Department for Regional Development is committed to transforming Water Service into a fully self financing Government Owned Company (GoCo) by 2008/09. It is anticipated that the new company 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 Northern Ireland Resource Accounting Manual (NIRAM) 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. 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 and the value of the write down will be determined in due course. An appropriate valuation for the GoCo will be determined in accordance with relevant valuation methodologies applicable in this context.

In 2004-05 the assets have been valued in accordance with the requirements of NIRAM and there is no inherent impairment in the value of the assets requiring a write down for operational reasons.

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