Company Number 2366682

# YORKSHIRE WATER SERVICES LIMITED

*ANNUAL REPORT AND ACCOUNTS*

For the year ended
31 March 1996

# ANNUAL REPORT AND ACCOUNTS 1996

## Contents

**CHAIRMAN'S STATEMENT**

There is no doubt that 1995 goes down in the history books as a year of difficulty for Yorkshire Water Services and its customers. It is a year we do not intend to repeat.

Against a background of very low rainfall in an area that is traditionally wet, Yorkshire Water Services found supplying water increasingly difficult as reservoirs in some parts of Yorkshire reached all-time low levels. Although the company succeeded in keeping water supplied to all its customers through the taps, it accepts that the events of 1995 did much to harm its standing in the eyes of its customers, and caused stress and inconvenience. One of my first acts on joining the company in 1996 was to apologise publicly to customers for the problems we had caused. I also expressed, and now restate, to Yorkshire Water Services staff the thanks of the company for the commitment and dedication they have shown, over a long and difficult period, to keeping customers supplied.

We have also accepted that we have made mistakes, and are now determined to put them right. We are implementing the recommendations made by our Regulator to bring a number of services to customers up to the same high standard we already achieve in other areas. We are also using the conclusions of the Uff Report as a blueprint for our future actions.

We are determined that the water supply problems of 1995 will not be repeated. Since November, our staff and contractors have broken UK records to lay a network of new pipes and build new pumping stations so that we can provide water without concern to areas that last year faced large-scale tankering and the prospect of rota cuts.

We are also determined to make sure that, for the long term, we have a robust infrastructure and sufficient supplies to meet growing demands for water. Work has already started on creating a link to draw on the reserves of the Kielder reservoir, the initial stages of which will be ready for this autumn in case of need.

We are committed to substantially reducing our leakage and, in 1995/96 saved over 50 megalitres per day from being wasted.

I believe these actions create the foundation for an exemplary service to our customers, and will enable us to provide a service of which Yorkshire can be proud.

**Kevin Bond**
**Chairman and Managing Director**

## OPERATING REVIEW

### Operating Performance

There is no doubt that 1995 was a very difficult year operationally for Yorkshire Water Services. Yorkshire suffered exceptionally dry weather throughout 1995, with rainfall being around half of average. West Yorkshire, usually one of the wettest parts of the region, was particularly badly affected. The continuing dry and hot weather led to a rapid depletion of the reservoirs serving West Yorkshire and growing concern over available water supplies.

As the drought persisted, a series of measures were progressively put in place, including communication campaigns seeking help from customers in saving water, hosepipe bans, drought orders to obtain additional supplies safely from rivers, and emergency infrastructure schemes to bring additional water into the west of the region. With a real prospect of some reservoirs being unable to supply water for essential use, an unprecedented operation to bring water by road tanker into West Yorkshire was undertaken, lasting for 18 weeks, and involving at its peak a 24 hour operation utilising around 700 vehicles. The fact that the company was able to maintain supplies under such difficult conditions reflects enormous credit on all those employees involved.

In November, the company began a number of major engineering schemes to avert similar supply problems in future. The schemes are improving the Yorkshire Grid, and will provide additional water for West Yorkshire, the area most badly affected by the drought.

A review carried out by Dr Kevin Bond, the new Chairman and Managing Director of Yorkshire Water Services on his arrival in April 1996 identified the need for additional measures, and work on these is now under way, including abstracting and treating water from St Aiden's, a lake formed in mineral workings, and providing a link with the Tees river system supported from Kielder reservoir in Northumberland. Hosepipe bans and Restriction of Use orders continue, as do communication campaigns to keep customers informed and ask their help in preserving stocks.

Significant additional resources have also been provided to help reduce leakage from the distribution system. Some 2,500 leaks a month were being repaired in April 1996, an increase of 33% compared with the previous year and more than 100 staff are now involved in leakage detection, an increase of around 40%. The company is also providing telephone hotlines for the reporting of leaks, and providing free services to repair pipes on customers' properties in areas affected by Restriction of Use orders. The company has begun a £12 million pilot scheme in Bradford, Calderdale and Kirklees to reduce leakage and identify the best future methods of achieving significant reductions.

As a result of all the additional schemes, the company intends that even if the summer of 1996 is drier than that of 1995, it will maintain essential supplies for domestic and business use.

The new management of Yorkshire Water Services is determined to regain customers' trust and confidence, damaged as a result of the events of 1995. It has apologised for the anxiety created last year, and has accepted that mistakes have been made in the past in some aspects of its business.

In May 1996, a report was published by Professor John Uff Q.C., chairman of the independent inquiry called by Yorkshire Water Services to look at issues raised by the drought. The report contained the results and recommendations of his inquiry resulting from a two-week public hearing at which a number of local authorities, organisations, individuals and Yorkshire Water Services presented evidence.

The Uff report made a number of criticisms of the company's handling of the 1995 drought, and a series of recommendations designed to avoid a repeat of last year's events. Recommendations included the provision of a major new water resource, initiatives directed at demand management; a new strategy for reducing leakage and a programme to improve relationships with the community. The report praised the exceptional efforts put in by employees during the drought and also said that neither the other activities of the group, nor any disposal of assets, had affected the availability of water during the drought.

Work has already started on creating a Tees link that will be ready for use this autumn, and the company is undertaking a major review of leakage. The company has also begun to attempt to improve its relationship with organisations involved with its activities, and is seeking new ways of working in partnership with business and domestic customers, and groups involved with the environment. Other recommendations of the Uff report are being taken into account by the new management as it undertakes a full review of the business.

In June 1996, the company agreed to implement the recommendations of the Director General of Water Services following his six month investigation into the company's past performance. The report was critical of its performance in a number of areas, including unplanned supply interruptions of more than 12 hours, flooding from sewers, and leakage reduction. The Director General did however indicate that satisfactory performances were being achieved in the key areas of drinking water quality and waste water disposal.

A package of customer service improvements were agreed with the Director General. These included an undertaking not to increase charges, on average, to customers by more than inflation in 1997/98. As a consequence, average bills in the following two years will also be lower than allowed for in price limits set by the Director General in 1994. In all, customers will pay £40 million less in the three year period.

The company also agreed to set demanding new targets with the Director General to improve a wide range of services. These include reducing the amount of water lost through leakage to 338 million litres per day in 1997/98; substantial reductions in unplanned supply interruptions lasting more than 12 hours; further work on low pressure and on sewer flooding; more attention to properties at risk of sewerage flooding and undertaking an enhanced water conservation communication and education programme.

The new package of improvements, together with the £170 million of investment announced in November to protect future water supplies, will result in customers benefiting from an additional £220 million of investment in improved services by the year 2000.

**Investment in Improved Services**

Price increases and improved efficiency help to finance the company's substantial capital investment programme to improve water services. This is expected to exceed £1.7 billion for the five years from April 1995. The programme is required to deliver a quality service to customers in Yorkshire and meet both the UK regulatory and European Union requirements imposed upon the company. Some £235 million was invested in 1995/96.

The current five year programme follows a similar £1.3 billion programme successfully undertaken from 1989/90 to 1994/95. In this period, some 21 water treatment works throughout the region were built or renovated and approximately 5% of the underground infrastructure refurbished.

In addition to meeting its regulatory obligations the company will, in the first decade of its operating in the private sector, have made available through capital productivity improvements and other savings, around £300 million for discretionary expenditure to provide lasting benefits to customers.

**Financial Performance**

New price limits were set by OFWAT in July 1994 permitting an overall increase in main charges for 1995/96 of 5.8%. Since privatisation, Yorkshire Water's charges have increased less than most of the other major water and sewerage companies and bills remain lower than in many parts of the UK. Turnover from regulated activities actually increased by 5.3% because the full effect of the increase in charges was mitigated by a reduction in measured consumption in the second half year.

Improving efficiency through technology-led cost reduction continued to be a key objective for Yorkshire Water Services. Regulated operating costs, excluding the exceptional costs associated with the drought, reduced in real terms by 2.3%. Such downward pressure is essential if prices to customers are to be maintained at the lowest achievable levels while major improvements needed to improve an ageing infrastructure inherited at the time of privatisation are undertaken. As a result of improved working practices, the average number of employees in the year was 3,263, a reduction of 388 from the previous year.

Exceptional costs of £47.2 million were incurred in maintaining supplies to customers in 1995 as a result of the drought, and regulated operating profit was accordingly depressed to £165.1 million (1995: £146.5 million). If the exceptional drought costs and non-recurring costs incurred in the previous year are excluded, adjusted operating profit increases by 10% and the operating margin increases to 40%.

The improvement in the underlying financial performance of the company reflected the company's determination to beat the regulatory targets set by OFWAT and generate additional value for customers and shareholders.

## DIRECTORS' REPORT

The Directors have pleasure in presenting their seventh report, for the year 1 April 1995 to 31 March 1996.

### Share capital

There has been no change, during the year, to the company's share capital of £275 million in shares of £1 each fully paid, all of which is held by Yorkshire Water plc and its nominees.

### Principal activities

The principal activity of the company is the provision of drinking water and waste water management services to the Yorkshire region, for which the company is the water and sewerage undertaker.

### Directors

The Directors for the year, including any changes, are shown below:

| | |
|---|---|
| Trevor Newton OBE | Chairman |
| Tony Ward | Deputy Chairman |
| | |
| Richard Ackroyd | (appointed 01.03.96) |
| John Dunlop | (resigned 29.02.96) |
| Tracy Flanders | |
| John Layfield | |
| Ian Murdoch | (resigned 06.04.95) |
| Tony Shuttleworth | (resigned 31.03.96) |
| Clive Stones | |
| John Taylor | (resigned 30.06.95) |
| Charles Tunley | (resigned 06.04.95) |

Trevor Newton resigned on 31 May 1996, and Tony Ward resigned on 30 April 1996.

Kevin Bond was appointed Chairman and Managing Director on the 1 April 1996.

Margaret Stewart was appointed to the Board on 18 April 1996.

Margot Nichols was appointed to the Board on 20 June 1996.

### Financial results for the year

Profit on ordinary activities was £148.0 million, after taking into account the additional costs of the drought of £47.2 million. After adjusting for these exceptional costs the profit on ordinary activities amounted to £195.2 million.

**Dividends**

The total dividend for the year paid to the parent company, Yorkshire Water Plc, of £187.5m comprises the following:

| | Base Dividend Regulated Activities £m | Base Dividend Non-regulated Activities £m | Capital Restructuring Dividend £m | Total Dividend £m |
|---|---|---|---|---|
| First Interim Dividend | 20.6 | 0.2 | 0.0 | 20.8 |
| Second Interim Dividend | 41.1 | 0.6 | 0.0 | 41.7 |
| Final Dividend | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Base Dividend | 61.7 | 0.8 | 0.0 | 62.5 |
| Capital Restructuring Dividend | 0.0 | 0.0 | 125.0 | 125.0 |
| Total Dividend for the year | 61.7 | 0.8 | 125.0 | 187.5 |

As disclosed in last year's Annual Report, the Directors considered that there was scope to increase the level of debt in the Company to improve financing efficiency. Accordingly, in June 1995 a dividend of £125 million was made for capital restructuring purposes reducing the level of the base dividend for regulated activities, on which the base dividend for 1995/96 would be assessed, by 8.7%.

The Directors consider that the base dividend for regulated activities in respect of 1995/96, after being reduced to reflect the capital restructuring, should be increased by 2% above inflation. Consequently the base dividend for regulated activities for 1995/96 is £2.5 million (3.9%) below the amount paid in respect of 1994/95 which was £64.2 million.

The base dividend for non-regulated activities reflects the profitability of the non-appointed business.

Having regard to the interim dividends already approved, the Directors recommend that no final dividend should be paid in respect of 1995/96.

The view of the Directors is that the dividends relating to regulated activities for 1995/96 reflect business efficiency and management of economic risk and do not impair the Company's ability to finance the regulated business. The dividends paid therefore comply with the proposed amendment to the Company's Instrument of Appointment agreed with the Director General of Water Services.

**Reserves**

An amount of £39.5 million has been transferred from reserves, bringing the balance held in reserves to £975.4 million.

**Research and development**

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 1995/96 £4.4 million was committed to research and development including £2.7 million on fixed assets for research and development purposes.

**Fixed assets**

The Directors are aware that the value of certain land and buildings in the balance sheet may not be representative of the market value of these assets. A substantial proportion of land and buildings comprises specialised operational properties and structures, for which there is no ready market and it is not, therefore, practicable to provide a full valuation.

Movements in fixed assets are shown in Note 12 to the Accounts and include transfers to YW Estates Limited, which have all been made on the basis of independent external valuations obtained specifically for the purpose and approved by the Office of Water Services. With effect from the 1 April 1996, only those transfers with a value over £500,000 will be subject to approval by the Office of Water Services.

**Capital and infrastructure renewals expenditure**

Total expenditure on regulated activities during the year amounted to £234.9 million.

**Payment of Suppliers**

The company's policy on the payment of suppliers is to ensure that all payments are made in accordance with the terms and conditions agreed with suppliers, normally within 42 or 60 days net. For construction contracts, payment terms are covered by the appropriate Conditions of Contract, such as ICE 6th Edition and Model Form of Conditions of Contract for Process Plants (I Chem Eng).

**Contributions**

The company made contributions of £1,335 to charitable causes during the year. It made none to political causes.

**Instrument of appointment**

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory accounts. This additional information is included on pages 28 to 46. Further copies of these statements can be obtained, free of charge, by writing to Customer Communications, PO Box 201, Broadacre House, Vicar Lane, Bradford, BD1 5PX.

**Employees**

The company operates a human resource policy which recognises the importance of employee involvement in the significant changes being implemented in the company. There is an extensive communication process with employees and their representatives, including trade unions, to keep employees informed and involved in the change programme.

The company seeks to be an equal opportunity employer by adopting a positive approach to the development of women's potential and by responding to and reflecting the needs of special interest groups, the disabled and ethnic minorities.

The company continues to set and achieve high standards in its health and safety policies and to promote and achieve quality objectives throughout its businesses.

## Environmental policy

The company is fully committed to environmental improvement and during 1996 a separate report will be produced on its environmental policy and achievements.

## Auditors

Price Waterhouse are not seeking re-appointment as auditors of the company at the forthcoming Annual General Meeting. A resolution will be proposed at the Annual General Meeting to appoint Ernst and Young as auditors of the company and to authorise the directors to determine their remuneration.

By order of the Board.

D. J. Brimblecombe
**Company Secretary**

**Registered Office:**
2 The Embankment
Sovereign Street
Leeds
LS1 4BG.

**20 June 1996**

Registered in England No. 2366682.

# *Profit and Loss Account*

## *for the Year Ended 31 March 1996*

| | *Notes* | *1996* £m | *1995* £m |
|---|---|---|---|
| **Turnover - continuing operations** | | **526.2** | 501.2 |
| Operating costs | 2 | **(313.9)** | (307.5) |
| **Operating profit before exceptional costs** | | **212.3** | 193.7 |
| Drought costs | 2 | **(47.2)** | - |
| Restructuring costs | 2 | - | (27.2) |
| "Customer dividend" | 2 | - | (20.0) |
| **Operating profit** | | **165.1** | 146.5 |
| Interest | 3 | **(17.1)** | (10.3) |
| **Profit before taxation** | | **148.0** | 136.2 |
| Taxation | 4 | - | - |
| **Profit for the year** | | **148.0** | 136.2 |
| Dividends -restructuring | 5 | **(125.0)** | - |
| -interim | 5 | **(62.5)** | (42.2) |
| -final | 5 | - | (73.6) |
| **Transfer (from) / to reserves** | | **(39.5)** | 20.4 |

All recognised gains and losses are accounted for in the profit and loss account

The movement on reserves is shown in Note 22

# *Balance Sheet*
*as at 31 March 1996*

| | *Notes* | *1996* £m | *1995* £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | *12* | **1,904.1** | 1,792.3 |
| Investments | *11* | **0.2** | 0.2 |
| | | **1,904.3** | 1,792.5 |
| **Current assets** | | | |
| Stocks | *13* | **1.8** | 4.0 |
| Debtors | *14* | **167.1** | 293.3 |
| | | **168.9** | 297.3 |
| **Creditors: amounts falling due within one year** | | | |
| Short term borrowings | | **(21.3)** | (16.4) |
| Other creditors | *17* | **(177.7)** | (224.1) |
| | | **(199.0)** | (240.5) |
| **Net current (liabilities)/assets** | | **(30.1)** | 56.8 |
| **Total assets less current liabilities** | | **1,874.2** | 1,849.3 |
| **Creditors: amounts falling due after more than one year** | | | |
| Long term borrowings | *15* | **(357.8)** | (301.7) |
| Other creditors | *17* | **(120.7)** | (119.4) |
| **Provisions for liabilities and charges** | *18* | **(145.3)** | (138.3) |
| | | **1,250.4** | 1,289.9 |
| **Capital and reserves** | | | |
| Called up equity share capital | *21* | **275.0** | 275.0 |
| Profit and loss account | *22* | **975.4** | 1,014.9 |
| | | **1,250.4** | 1,289.9 |

Approved by the board and signed on its behalf on 20 June 1996

**Kevin Bond**
**Chairman & Managing Director**

**C. J. Stones**
**Deputy Managing Director**

# Notes to the Accounts

## 1. ACCOUNTING POLICIES

The following paragraphs summarise the more important accounting policies applied in the preparation of the accounts.

*Accounting convention and basis of preparation*

These accounts have been prepared under the historical cost convention and, except as disclosed below, in accordance with applicable accounting standards and the Companies Act 1985. Certain comparative figures have been restated in order to correspond to the form of analysis adopted in the current year.

*Turnover*

Turnover comprises charges to customers for water, sewerage and other services excluding value added tax.

*Research and development expenditure*

Research and development expenditure is written off in the profit and loss account in the financial year in which it is incurred. Expenditure on fixed assets relating to research and development projects is written off over the expected useful life of those assets.

*Pensions*

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the period benefiting from the employees' services.

*Taxation*

No provision is made for deferred taxation unless there is a reasonable probability that a liability will occur in the foreseeable future.

*Infrastructure assets*

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls) comprise a network of systems. Increases in capacity or enhancements of the network are treated as additions to fixed assets which are included at cost. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets. A review of planned expenditure was conducted as part of the July 1994 Periodic Review process, on the basis of which an annual revenue charge has been fixed. The charge reflects the amount which the Company plans to spend, on average, on the maintenance and renewal of infrastructure assets in each of the fifteen years up to 2005. Investment priorities and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Consequently, charges to the profit and loss account may be adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations in actual or planned expenditure. Until such accruals are fully utilised, an additional charge to the profit and loss account is made each year to maintain the value of any unexpended balance brought forward from the previous year.

*Fixed assets held under leases*

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the company are capitalised and depreciated over the shorter of their estimated useful lives and the term of the lease. The liability to the leasing company is included within borrowings. All other leases are operating leases and the rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

*Other tangible assets*

Other tangible assets are included at cost less accumulated depreciation.

*Depreciation*

Depreciation is charged, where appropriate, on the original cost of assets on a straight-line basis over the estimated economic lives of the assets. Freehold land is not depreciated. Depreciation is not charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

Depreciation is charged from the date of commissioning of assets and the principal economic lives used are:-

| | |
|---|---|
| Buildings | 30 - 60 years |
| Fixed plant | 20 - 40 years |
| Vehicles, mobile plant and computers | 3 - 10 years |

*Grants and Contributions*

Grants and contributions in respect of tangible assets, other than infrastructure assets, are deferred and credited to the profit and loss account by instalments over the expected economic useful lives of the related assets.

Grants and contributions in respect of expenditure enhancing the infrastructure network are applied in reducing that expenditure. This is not in accordance with Schedule 4 to the Companies Act 1985. The presentation is adopted because infrastructure assets, not having a finite economic life, and the related grants and contributions are not amortised and therefore, otherwise, would remain as separate assets and liabilities in perpetuity. The directors consider that the group's presentation shows a true and fair view of the investment in infrastructure assets.

Grants and contributions received in respect of expenditure charged to the profit and loss account during the year are included in the profit and loss account.

*Stocks*

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is stated at the lower of cost and net realisable value. Cost includes labour, materials, and an appropriate proportion of overheads.

*Foreign currencies*

Individual transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Assets and liabilities denominated in foreign currency are translated at the rate of exchange prevailing at the balance sheet date.

*Accounting standards*

The accounts of the company are prepared in compliance with all applicable accounting standards. No Statement of Total Recognised Gains and Losses has been presented because total recognised gains equate to the profit for the year.

# Notes to the Accounts

## 2. OPERATING COSTS

| | 1996<br>£m | 1995<br>£m |
|---|---|---|
| Own work capitalised | (28.5) | (21.3) |
| Other operating income | (2.2) | (3.2) |
| Raw materials and consumables | 21.4 | 17.8 |
| Other external charges | 169.9 | 138.8 |
| Staff costs (see note 9) | 79.3 | 93.2 |
| Depreciation of tangible assets | 62.9 | 54.5 |
| Amortisation of grants & contributions | (2.4) | (2.2) |
| Other operating charges | 60.7 | 77.1 |
| | 361.1 | 354.7 |
| **Representing:** | | |
| Operating costs | 313.9 | 307.5 |
| Drought costs | 47.2 | - |
| Restructuring costs | - | 27.2 |
| "Customer Dividend" | - | 20.0 |
| | 361.1 | 354.7 |
| **Other external charges include:** | | |
| Drought costs | 42.2 | - |
| "Customer Dividend" | - | 20.0 |
| Research and development | 1.4 | 1.2 |
| Operating lease rentals - plant and equipment | 0.7 | 0.6 |
| - other | 0.9 | 1.0 |
| Auditors' remuneration - audit fees and expenses | 0.1 | 0.1 |
| **Depreciation arises:** | | |
| On owned assets | 52.8 | 48.6 |
| On assets held under finance leases | 10.1 | 5.9 |
| **Other operating charges include:** | | |
| Infrastructure renewals charge | 49.8 | 49.3 |
| Drought costs | 0.2 | - |
| Restructuring costs | - | 17.1 |
| **Drought costs of £47.2m are included within the above analysis in:** | | |
| Raw materials and consumables | 3.9 | - |
| Staff costs | 0.9 | - |
| Other external charges | 42.2 | - |
| Other operating charges | 0.2 | - |

# *Notes to the Accounts*

## 3. *INTEREST*

| | *1996* | *1995* |
|---|---|---|
| | £m | £m |
| **Interest payable on:** | | |
| Bank loans and overdrafts | 11.6 | 11.3 |
| Other loans | 0.1 | 0.1 |
| Amounts due to parent company | 0.9 | 0.8 |
| Finance charges in respect of finance leases | 15.7 | 11.0 |
| Other | 0.2 | 0.6 |
| | 28.5 | 23.8 |
| **Interest receivable:** | | |
| Inter-company loans | (9.8) | (12.2) |
| Other | (1.6) | (1.3) |
| | 17.1 | 10.3 |

## 4. *TAXATION*

No corporation tax arises in respect of the profit for the year due to the excess of capital allowances over depreciation.

The full potential deferred tax liability on timing differences, calculated using the liability method, at a tax rate of 33% is

| | *1996* | *1995* |
|---|---|---|
| | £m | £m |
| Accelerated capital allowances | 210 | 167 |
| Unrelieved advance corporation tax | (63) | (65) |
| Short term timing differences | (54) | (46) |
| | 93 | 56 |

## 5. *DIVIDENDS*

| | *1996* | *1995* |
|---|---|---|
| | £m | £m |
| Capital Restructuring dividend | 125.0 | - |
| First Interim dividend | 20.8 | 42.2 |
| Second Interim dividend | 41.7 | - |
| Final dividend | - | 73.6 |
| | 187.5 | 115.8 |

# Notes to the Accounts

## 6. DIRECTORS

| Remuneration of the Board | Salary £000 | Bonus payments £000 | Benefits in kind £000 | 1996 Total emoluments excluding pension contributions £000 | 1995 Total emoluments excluding pension contributions £000 | 1996 Pension contri-butions £000 | 1995 Pension contri-butions £000 |
|---|---|---|---|---|---|---|---|
| Chairman: | | | | | | | |
| T. Newton OBE (resigned 31.05.96) | - | - | - | - | - | - | - |
| Directors: | | | | | | | |
| R. K. Ackroyd (appointed 01.03.96) | 6 | - | 1 | 7 | - | 1 | - |
| J. M. Dunlop (resigned 29.02.96) | 69 | - | 5 | 74 | 82 | 11 | 11 |
| T. Flanders | 75 | 5 | 6 | 86 | 77 | 12 | 10 |
| J. Layfield | 75 | 5 | 7 | 87 | 84 | 12 | 11 |
| I. G. Murdoch (resigned 06.04.95) | 1 | - | - | 1 | 80 | - | 12 |
| * A. J. Shuttleworth (resigned 31.03.96) | 88 | - | 6 | 94 | 72 | 11 | 11 |
| C. J. Stones | 75 | 5 | 9 | 89 | 83 | 12 | 11 |
| * J. M. Taylor (resigned 30.06.95) | 154 | - | 2 | 156 | 89 | 3 | 13 |
| * C. A. Tunley (resigned 06.04.95) | 7 | - | - | 7 | 83 | - | 13 |
| A. I. Ward (resigned 30.04.96) | 105 | - | 8 | 113 | 111 | 17 | 17 |
| | 655 | 15 | 44 | 714 | 761 | 79 | 109 |

The Chairman, Mr T. Newton, was an executive director of the holding company, Yorkshire Water Plc and his emoluments are shown in the accounts of that company.

The directors participated in a profit related pay scheme which is open to all UK employees who have been employed by the group for a minimum period. In 1995/96 this scheme paid £390 to each participant.

* Salary amounts for J. M. Taylor, C. A. Tunley and A. J. Shuttleworth include amounts of £133k, £6k and £20k respectively relating to other non-pensionable payments made on resignation from the Board.

The total emoluments for 1995 included £40,000 paid to four of the directors in respect of bonuses earned during that year.

In the absence of a prescribed method for showing pension entitlements earned by each director during the year, they have, as in previous years, been reported on a contributions basis.

## 7. DIRECTORS' SHARE OPTIONS

| | *Balance at 1 April 1995* | *Exercised during year* | *Lapsed during year* | *Balance at 31 March 1996* | *Exercise price (pence)* | *Market price at date of exercise (pence)* | *Date options exercisable* | *Date options expire* |
|---|---|---|---|---|---|---|---|---|
| R. K. Ackroyd | | | | | | | | |
| Sharesave | 1,746 | - | - | 1,746 | 415 | - | 01.03.98 | 31.08.98 |
| Sharesave | 2,536 | - | - | 2,536 | 408 | - | 01.03.00 | 31.08.00 |
| T. Flanders | - | - | - | - | - | - | - | - |
| J. Layfield | - | - | - | - | - | - | - | - |
| C. J. Stones | | | | | | | | |
| Sharesave | 1,746 | - | - | 1,746 | 415 | - | 01.03.98 | 31.08.98 |
| Sharesave | 2,536 | - | - | 2,536 | 408 | - | 01.03.00 | 31.08.00 |
| A. I. Ward | | | | | | | | |
| Sharesave | 2,622 | - | - | 2,622 | 286 | - | 01.03.97 | 31.08.97 |
| Executive | 8,720 | - | - | 8,720 | 301 | - | 13.07.93 | 13.07.00 |
| Executive | 12,365 | - | - | 12,365 | 353 # | | 10.01.95 | 10.01.02 |

The Chairman, Mr T. Newton, was an executive director of the holding company, Yorkshire Water Plc, and his share options are shown in the accounts of that company.

# subject to a performance target these options may be exercised at 301p between 10.01.97 and 10. 01.02.

The market price of the shares at 31 March 1996 was 683p (1995: 526p) and has ranged from 526p to 694p during the year.

The Executive Share Option Scheme and Sharesave Scheme refer to shares in the holding company, Yorkshire Water Plc and are described in the accounts of that company.

## 8. DIRECTORS' SHARE INTERESTS

The interests of the directors who held office at the end of the year, and their immediate families, in the ordinary shares of the holding company, Yorkshire Water Plc, as at 31 March 1996 and at the beginning of the year (or date of appointment if later) are set out below:

| | *Balance at 1 April 1995* | *Bought/ (sold) during year* | *Options exercised* | *Balance at 31 March 1996* | *Sold post 31 March 1996* | *Options exercised post 31 March 1996* | *Balance at 20 June 1996* |
|---|---|---|---|---|---|---|---|
| R. K. Ackroyd (appointed 01.03.96) | 10,835 | - | - | 10,835 | - | - | 10,835 |
| T. Flanders | - | - | - | - | - | - | - |
| J. Layfield | 8,172 | (1,348) | - | 6,824 | (1,400) | - | 5,424 |
| A. J. Shuttleworth (resigned 31.03.96) | 17,439 | - | - | 17,439 | (3,085) | 1,939 | 16,293 |
| C. J. Stones | 10,940 | 417 | - | 11,357 | - | - | 11,357 |
| A. I. Ward | 43,968 | - | - | 43,968 | (3,714) | - | 40,254 |

The Chairman, Mr T. Newton, was an executive director of the holding company, Yorkshire Water Plc, and his interests in the ordinary shares of Yorkshire Water Plc are disclosed in the accounts of that company.

Holdings of ordinary shares include the beneficial interests in shares under the Employee Profit Sharing Scheme.

At no time during the year has any director had a material interest in a contract with any company in the group, being a contract which was significant in relation to the business of that company.

## 9. EMPLOYEES

The average number of persons employed by the company during the year was 3,263 (1995: 3,651).

| | *1996* | *1995* |
|---|---|---|
| **Total employment costs:** | **£m** | **£m** |
| Wages and salaries | **65.1** | 69.0 |
| Social security contributions | **5.4** | 5.5 |
| Other pension costs | **8.8** | 18.7 |
| | **79.3** | 93.2 |

## *10. PENSIONS*

The holding company operates two defined benefit final pay schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS).

The employer's contributions and the pensions cost have been assessed in accordance with the advice of the group's actuaries William M Mercer Limited, using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose, the main actuarial assumptions adopted are based upon investment growth 2% greater than the rise in pay levels. Full allowance is also made for increases to pensions and deferred pensions under each scheme.

During the year various costs in addition to the normal company contributions have been incurred in pension terms due to restructuring within the company. These amounts, totalling £1.3 million, have been included within the pension cost for the period.

The last actuarial valuation of the two schemes was carried out at 31 March 1993 and details of the results of this valuation can be found in the accounts of the parent company. An actuarial valuation is being carried out as at 31 March 1996.

## *11. INVESTMENTS*

| | *Interests in associated undertakings* £m | *Other unlisted investments* £m | *Total* £m |
|---|---|---|---|
| **At 1 April 1995 and 31 March 1996** | - | 0.2 | 0.2 |

***Other unlisted investments***

The company owns 14% of the issued share capital of Water Pension Fund Holdings Limited, a company which is incorporated and operates in the UK providing administrative and like services to water company and other pension funds. The company also holds £26,583 of convertible unsecured loan stock and £26,583 of 'B' ordinary shares in Water Research Centre (1989) Plc, which conducts research on behalf of the water industry, and 1000 cumulative redeemable preference shares of £1 each in Capita Managed Services Limited.

# Notes to the Accounts

## 12. *TANGIBLE ASSETS*

| | Land and buildings £m | Infrastructure Assets £m | Plant and equipment £m | Under construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 1995 | 712.1 | 593.9 | 531.0 | 353.1 | 2,190.1 |
| Additions | 3.8 | 3.0 | 5.3 | 176.4 | 188.5 |
| Transfers on commissioning | 64.6 | 49.0 | 99.2 | (212.8) | - |
| Disposals | (2.1) | - | (4.3) | (2.5) | (8.9) |
| Grants and contributions | - | - | - | (11.9) | (11.9) |
| At 31 March 1996 | 778.4 | 645.9 | 631.2 | 302.3 | 2,357.8 |
| **Depreciation** | | | | | |
| At 1 April 1995 | 228.0 | - | 169.8 | - | 397.8 |
| Disposals | (1.2) | - | (3.3) | (2.5) | (7.0) |
| Depreciation for the year | 18.0 | - | 42.4 | 2.5 | 62.9 |
| At 31 March 1996 | 244.8 | - | 208.9 | - | 453.7 |
| **Net book amount at 31 March 1996** | 533.6 | 645.9 | 422.3 | 302.3 | 1,904.1 |
| Net book amount at 31 March 1995 | 484.1 | 593.9 | 361.2 | 353.1 | 1,792.3 |
| At 31 March 1996 assets included above held under finance leases amounted to: | | | | | |
| Cost | 77.4 | - | 146.1 | 39.7 | 263.2 |
| Depreciation | 3.2 | - | 19.5 | - | 22.7 |
| **Net book amount at 31 March 1996** | 74.2 | - | 126.6 | 39.7 | 240.5 |
| Net book amount at 31 March 1995 | 45.7 | - | 97.2 | 42.2 | 185.1 |

| | **Cost at 31 March 1996 £m** | **Depreciation at 31 March 1996 £m** | **Net book value at 31 March 1996 £m** | Net book value at 31 March 1995 £m |
|---|---|---|---|---|
| **The net book amount of land and buildings comprised:** | | | | |
| Freehold properties | **777.9** | **244.7** | **533.2** | 482.8 |
| Properties held on long lease | **0.2** | **0.0** | **0.2** | 1.1 |
| Properties held on short lease | **0.3** | **0.1** | **0.2** | 0.2 |
| | **778.4** | **244.8** | **533.6** | 484.1 |

The costs of assets transferred to the former Authority on 1 April 1974 are included in land and buildings.
Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets . This is a departure from the Companies Act 1985 requirements and is adopted, as explained in the Accounting Policy note on page 13, in order to show a true and fair view of the investment in infrastructure assets. As a consequence, the net book amount of fixed assets is £47.4 million lower than it would have been had this treatment not been adopted.

# *Notes to the Accounts*

## *13. STOCKS*

| | *1996* £m | *1995* £m |
|---|---|---|
| Raw materials and consumables | **1.5** | 3.7 |
| Work in progress | **0.3** | 0.3 |
| | **1.8** | 4.0 |

## *14. DEBTORS*

| | *1996* £m | *1995* £m |
|---|---|---|
| Trade debtors | **30.4** | 26.6 |
| Amounts owed by group undertakings | **2.7** | 5.6 |
| Amounts owed by parent company | **90.0** | 214.6 |
| Prepayments and accrued income | **30.4** | 29.1 |
| Other debtors: | | |
| Receivable within one year | **13.1** | 16.2 |
| Receivable after more than one year | **0.5** | 1.2 |
| | **167.1** | 293.3 |

## *15. LONG TERM BORROWINGS*

| | *1996* £m | *1995* £m |
|---|---|---|
| **Maturities** | | |
| Repayable within one and five years: | | |
| Bank loans | **20.1** | 20.1 |
| Finance leases | **1.6** | 3.2 |
| Repayable by instalments and maturing after five years: | | |
| Bank loans | **82.3** | 90.1 |
| Other loans | **0.5** | 0.6 |
| Finance leases | **253.3** | 187.7 |
| | **357.8** | 301.7 |

# Notes to the Accounts

## 16. AGGREGATE BORROWINGS AND CASH

| | *Bank loans and overdrafts* £m | *Other loans* £m | *Finance leases* £m | *Total* £m |
|---|---|---|---|---|
| **Repayments** | | | | |
| Within one year or on demand | 19.6 | 0.1 | 1.6 | 21.3 |
| Between one and two years | 8.2 | - | 0.8 | 9.0 |
| Between two and five years | 46.5 | 0.1 | 0.8 | 47.4 |
| After five years | 47.7 | 0.4 | 253.3 | 301.4 |
| | **122.0** | **0.6** | **256.5** | 379.1 |
| Amounts owed by parent company | | | | (90.0) |
| Net debt | | | | 289.1 |

As shown above, the net debt as at 31 March 1996 was £289.1m (1995: £103.5m).

Borrowings, any part of which is repayable after five years, have been negotiated at fixed and variable interest rates which at 31 March 1996 ranged between 6.61% and 11.5%.
Security against the revenues of Yorkshire Water Services Ltd has been given on £0.1m (1995: £0.1m) of the above borrowings.

## 17. OTHER CREDITORS

| | *1996* £m | *1995* £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade creditors | **34.1** | 60.8 |
| Capital creditors | **50.3** | 49.4 |
| Deferred grants and contributions on depreciating fixed assets | **2.1** | 2.1 |
| Amounts owed to parent company - proposed dividend | **41.7** | 73.6 |
| Amounts owed to group undertakings | **1.2** | 1.8 |
| Social security and payroll deductions | **2.8** | 2.4 |
| Taxation | **-** | 0.3 |
| Receipts in advance | **30.2** | 28.0 |
| Other creditors | **15.3** | 5.7 |
| | **177.7** | 224.1 |
| **Amounts falling due after more than one year:** | | |
| Capital creditors | **1.9** | 2.8 |
| Deferred grants and contributions on depreciating fixed assets | **82.4** | 80.9 |
| Other creditors | **36.4** | 35.7 |
| | **120.7** | 119.4 |

## 18. PROVISIONS FOR LIABILITIES AND CHARGES

| | *Infrastructure renewals* £m | *Landslip reinstatement* £m | *Total* £m |
|---|---|---|---|
| At 1 April 1995 | 136.1 | 2.2 | 138.3 |
| Expenditure in the year | (41.7) | (0.7) | (42.4) |
| Charged in profit and loss account | 49.8 | - | 49.8 |
| Other movements | - | (0.4) | (0.4) |
| | **144.2** | **1.1** | **145.3** |

## 19. COMMITMENTS

| | *1996* £m | *1995* £m |
|---|---|---|
| Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were: | **108.2** | 103.6 |

In addition Yorkshire Water Services Limited has a long term Asset Management Plan which identifies substantial future capital and infrastructure renewals expenditure.

At 31 March 1996 the company was committed to making the following payments during the next financial year under non-cancellable operating leases with terms as set out below:

| | ***Land and buildings 1996*** **£m** | ***Other 1996*** **£m** | *Land and buildings 1995* £m | *Other 1995* £m |
|---|---|---|---|---|
| **Leases which expire:** | | | | |
| Within one year | **-** | **0.3** | - | 0.4 |
| Between one and five years | **0.8** | **0.2** | 0.5 | 0.2 |
| After five years | **-** | **-** | 0.1 | - |
| | **0.8** | **0.5** | 0.6 | 0.6 |

## 20. CONTINGENT LIABILITIES

The banking arrangements of the company operate on a pooled basis with other group companies and the bank balances of each subsidiary can be offset against each other.

## 21. *CALLED UP SHARE CAPITAL*

| **At 1 April 1995 and 31 March 1996** | *Authorised* | *Allotted and fully paid* |
|---|---|---|
| Ordinary shares of £1 each | 275,000,000 | 275,000,000 |

## 22. *RESERVES*

| | £m |
|---|---|
| At 1 April 1995 | 1,014.9 |
| Transfer from reserves | (39.5) |
| **At 31 March 1996** | 975.4 |

There were no other movements in shareholders' funds during the year.

## 23. *ULTIMATE HOLDING COMPANY*

Yorkshire Water plc, which is registered in England, is the company's ultimate parent company and is the parent undertaking of the largest group to consolidate these accounts. Copies of the group accounts may be obtained from the Company Secretary, Yorkshire Water plc, 2 The Embankment, Sovereign Street, Leeds LS1 4BG.

## 24. *CASHFLOW STATEMENT*

The accounts do not include a cashflow statement because the accounts of the holding company contain a cashflow statement in accordance with Financial Reporting Standard 1.

# *Directors' Responsibilities and Auditors' Report*

## DIRECTORS' RESPONSIBILITIES

*In respect of the preparation of the financial statements*

The directors are required by law to present financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit and loss of the company for the financial year.
The directors confirm that appropriate accounting policies, as described in the notes to the accounts, have been applied consistently and that applicable accounting standards have been followed. In addition, reasonable and prudent judgement and estimates have been used in the preparation of the financial statements.
The directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the company and for ensuring that steps are taken with a view to preventing and detecting fraud and other irregularities.

## AUDITORS' REPORT

We have audited the financial statements on pages 10 to 11 and 14 to 24 which have been prepared under the historical cost convention and the accounting policies set out on pages 12 to 13.

***Respective responsibilities of directors and auditors***

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on those statements and to report our opinion to you.

***Basis of opinion***

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board.
An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.
In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

***Opinion***

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

**Price Waterhouse**

Chartered Accountants
and Registered Auditors
Leeds
20 June 1996

# Regulatory Accounting Information 1996

## Contents



*Explanatory note*

Pages 28 to 46 include the regulatory accounting information which the company is required to publish under the company's Instrument of Appointment as a water and sewerage undertaker. The information has been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

# *Historical Cost Profit and Loss Account*
### *for the year ended 31 March 1996*

| | Appointed £m | Non-appointed £m | 1996 Total £m | Appointed £m | Non-appointed £m | 1995 Total £m |
|---|---|---|---|---|---|---|
| **Turnover** | 522.6 | 3.6 | 526.2 | 496.7 | 4.5 | 501.2 |
| Operating costs | (360.5) | (2.8) | (363.3) | (354.7) | (3.2) | (357.9) |
| Operating income | 1.2 | - | 1.2 | 1.8 | - | 1.8 |
| **Operating profit** | 163.3 | 0.8 | 164.1 | 143.8 | 1.3 | 145.1 |
| Other income | 1.0 | - | 1.0 | 1.1 | 0.3 | 1.4 |
| Interest payable | (17.1) | - | (17.1) | (10.3) | - | (10.3) |
| **Profit on ordinary activities before taxation** | 147.2 | 0.8 | 148.0 | 134.6 | 1.6 | 136.2 |
| Taxation | - | - | - | - | - | - |
| **Profit on ordinary activities after taxation** | 147.2 | 0.8 | 148.0 | 134.6 | 1.6 | 136.2 |
| Dividends - restructuring | (125.0) | - | (125.0) | - | - | - |
| - interim | (61.7) | (0.8) | (62.5) | (41.4) | (0.8) | (42.2) |
| - final | - | - | - | (72.8) | (0.8) | (73.6) |
| **Transfer (from) / to reserves** | (39.5) | - | (39.5) | 20.4 | - | 20.4 |

The accounting policies set out on pages 12 to 13 apply to the historical cost regulatory accounting information.

# *Historical Cost Balance Sheet*
*as at 31 March 1996*

| | 1996 | | | 1995 | | |
|---|---|---|---|---|---|---|
| | Appointed £m | Non-appointed £m | Total £m | Appointed £m | Non-appointed £m | Total £m |
| **Fixed assets** | | | | | | |
| Tangible assets | 1,895.4 | 8.7 | 1,904.1 | 1,783.5 | 8.8 | 1,792.3 |
| Investments | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.2 |
| | 1,895.5 | 8.8 | 1,904.3 | 1,783.6 | 8.9 | 1,792.5 |
| **Current assets** | | | | | | |
| Stocks | 1.8 | - | 1.8 | 4.0 | - | 4.0 |
| Debtors | 75.7 | 1.4 | 77.1 | 77.4 | 1.3 | 78.7 |
| Short term investments | 90.0 | - | 90.0 | 214.6 | - | 214.6 |
| | 167.5 | 1.4 | 168.9 | 296.0 | 1.3 | 297.3 |
| **Creditors: amounts falling due within one year** | (194.4) | (2.4) | (196.8) | (236.3) | (2.2) | (238.5) |
| **Net current assets** | (26.9) | (1.0) | (27.9) | 59.7 | (0.9) | 58.8 |
| **Total assets less current liabilities** | 1,868.6 | 7.8 | 1,876.4 | 1,843.3 | 8.0 | 1,851.3 |
| **Creditors: amounts falling due after more than 1 year** | (396.2) | - | (396.2) | (340.2) | - | (340.2) |
| **Provisions for liabilities and charges** | (145.3) | - | (145.3) | (138.2) | - | (138.2) |
| **Deferred income** | (76.7) | (7.8) | (84.5) | (75.0) | (8.0) | (83.0) |
| | 1,250.4 | - | 1,250.4 | 1,289.9 | - | 1,289.9 |
| **Capital and reserves** | | | | | | |
| Called up share capital | 275.0 | - | 275.0 | 275.0 | - | 275.0 |
| Profit and loss account | 975.4 | - | 975.4 | 1,014.9 | - | 1,014.9 |
| | 1,250.4 | - | 1,250.4 | 1,289.9 | - | 1,289.9 |

# *Current Cost Profit and Loss Account for the Appointed Business*

*for the year ended 31 March 1996*

| | *Notes* | 1996 £m | 1995 £m |
|---|---|---|---|
| **Turnover** | *5* | **522.6** | 496.7 |
| Current cost operating costs | *6* | **(399.9)** | (382.5) |
| Operating income | *5* | **(0.7)** | 0.8 |
| | | **122.0** | 115.0 |
| Working capital adjustment | | **-** | 1.1 |
| **Current cost operating profit** | | **122.0** | 116.1 |
| Other income | | **1.0** | 1.1 |
| Interest payable | | **(17.1)** | (10.3) |
| Financing adjustment | | **11.3** | 12.2 |
| **Current cost profit on ordinary activities before taxation** | | **117.2** | 119.1 |
| Taxation | | **-** | - |
| **Current cost profit on ordinary activities after taxation** | | **117.2** | 119.1 |
| Dividends | | **(186.7)** | (114.2) |
| **Current cost transfer (from) / to reserves** | | **(69.5)** | 4.9 |

# *Current Cost Balance Sheet for the Appointed Business*

*as at 31 March 1996*

| | *Notes* | 1996 £m | 1995 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | *7, 8* | **14,627.7** | 13,666.2 |
| Third party contributions since 1989/90 | | **(134.0)** | (117.2) |
| **Working capital** | *9* | **(109.5)** | (0.8) |
| **Net operating assets** | | **14,384.2** | 13,548.2 |
| Cash and investments | | **0.1** | 0.1 |
| Non-trade debtors | | **14.8** | 16.8 |
| Non-trade creditors due within one year | | **(35.8)** | (21.7) |
| Dividends payable | | **(41.1)** | (72.8) |
| Creditors due after one year | | **(396.2)** | (340.2) |
| **Net assets employed** | | **13,926.0** | 13,130.4 |
| **Capital and reserves** | | | |
| Called up share capital | | **275.0** | 275.0 |
| Profit and loss account | | **578.1** | 647.6 |
| Current cost reserve | *10* | **13,072.9** | 12,207.8 |
| | | **13,926.0** | 13,130.4 |

# *Current Cost Cash Flow Statement*
*for the year ended 31 March 1996*

| | Notes | 1996 Appointed £m | 1996 Non-appointed £m | 1996 Total £m | 1995 Appointed £m | 1995 Non-appointed £m | 1995 Total £m |
|---|---|---|---|---|---|---|---|
| **Net cash flow from operating activities** | *11* | **203.6** | **1.2** | **204.8** | 217.5 | 1.5 | 219.0 |
| **Returns on investments and servicing of finance** | | | | | | | |
| Other income received | | **1.0** | **-** | **1.0** | 1.1 | 0.3 | 1.4 |
| Interest received | | **14.9** | **-** | **14.9** | 12.2 | - | 12.2 |
| Interest paid | | **(13.1)** | **-** | **(13.1)** | (12.6) | - | (12.6) |
| Interest in finance lease rentals | | **(6.0)** | **-** | **(6.0)** | (2.9) | - | (2.9) |
| Dividends paid | | **(218.4)** | **(1.0)** | **(219.4)** | (80.9) | (1.4) | (82.3) |
| **Net cash flow from returns on investments and servicing of finance** | | **(221.6)** | **(1.0)** | **(222.6)** | (83.1) | (1.1) | (84.2) |
| **Taxation** | | | | | | | |
| UK corporation tax paid | | **-** | **-** | **-** | - | - | - |
| **Investing activities** | | | | | | | |
| Purchase of fixed assets | | **(188.4)** | **-** | **(188.4)** | (117.9) | (0.2) | (118.1) |
| Reclassification of fixed assets | | **-** | **-** | **-** | (5.7) | 5.7 | - |
| Disposal of fixed assets | | **2.0** | **-** | **2.0** | 6.2 | - | 6.2 |
| Grants and contributions | | **18.6** | **-** | **18.6** | 25.5 | (0.1) | 25.4 |
| **Net cash outflow from investing activities** | | **(167.8)** | **0.0** | **(167.8)** | (91.9) | 5.4 | (86.5) |
| **Net cash (outflow)/ inflow before financing** | | **(185.8)** | **0.2** | **(185.6)** | 42.5 | 5.8 | 48.3 |
| **Financing** | | | | | | | |
| New leasing finance | | **65.6** | **-** | **65.6** | 13.1 | - | 13.1 |
| Capital in finance lease rentals | | **(1.8)** | **-** | **(1.8)** | (2.7) | - | (2.7) |
| Decrease/(increase) in short term deposits | | **124.6** | **-** | **124.6** | (70.0) | - | (70.0) |
| Repayment of long term loans | | **(2.4)** | **-** | **(2.4)** | (0.1) | - | (0.1) |
| **Net cash inflow/ (outflow) from financing** | | **186.0** | **-** | **186.0** | (59.7) | - | (59.7) |
| **Increase/(decrease) in cash** | | **0.2** | **0.2** | **0.4** | (17.2) | 5.8 | (11.4) |

# *Notes to the Regulatory Accounting Information*

## *1. ACCOUNTING POLICIES - CURRENT COST INFORMATION*

The current cost information has been prepared for the Appointed Business of Yorkshire Water Services Ltd in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. Profitability is measured on the basis of real financial capital maintenance in the context of assets which are valued at their modern equivalent asset value to the business.

The accounting policies used are the same as those adopted in the statutory historical cost accounts, except as set out below.

***Tangible fixed assets***

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

The modern equivalent asset values arising from the recent Periodic Review have now been incorporated in the 1995/96 Regulatory Accounting Information.

- *Land and buildings*

  Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

  Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

- *Infrastructure assets*

  Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the AMP.

  Values now reflect the AMP carried out at the last Periodic Review. A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

- *Other fixed assets*

  All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

- *Surplus land*

  Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed onto customers under Condition B of the Licence.

***Grants and other third party contributions***

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

***Real financial capital maintenance adjustments***

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

- *Working capital adjustment*

  This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors and the provision for liabilities and charges.

- *Financing adjustment*

  This is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

## 2. RING FENCING

In the opinion of the Directors, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets.

## 3. APPOINTED AND NON-APPOINTED BUSINESS

The historical accounting information shows separate figures for Appointed and Non-appointed Business.

The Appointed Business is defined to be the regulated activities of the Appointee, ie. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The Non-appointed Business encompasses those activities for which Yorkshire Water Services is not a monopoly supplier or the activity involves the optional use of an asset owned by the Appointed Business.

## 4. DIRECTORS' CERTIFICATE

The Directors of the company declare that the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least 12 months, its regulated activities and sufficient management resources to enable it to carry out its functions.

### *5. ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 1996*

| | 1996 Water services £m | 1996 Sewerage services £m | 1996 Total Appointed Business £m | 1995 Water services £m | 1995 Sewerage services £m | 1995 Total Appointed Business £m |
|---|---|---|---|---|---|---|
| **Turnover** | | | | | | |
| Measured | **90.0** | **51.8** | **141.8** | 85.6 | 53.1 | 138.7 |
| Unmeasured | **160.3** | **185.5** | **345.8** | 159.8 | 167.8 | 327.6 |
| Trade effluent | **-** | **25.8** | **25.8** | - | 20.4 | 20.4 |
| Other sources | **6.7** | **2.5** | **9.2** | 7.1 | 2.9 | 10.0 |
| **Total turnover** | **257.0** | **265.6** | **522.6** | 252.5 | 244.2 | 496.7 |
| **Operating income** | | | | | | |
| Current cost profit on fixed assets net of expenses | **0.2** | **(0.9)** | **(0.7)** | 0.9 | (0.1) | 0.8 |
| **Total operating income** | **0.2** | **(0.9)** | **(0.7)** | 0.9 | (0.1) | 0.8 |

## *6. ANALYSIS OF OPERATING COSTS AND ASSETS for the year ended 31 March 1996*

| | Resources and treatment £m | Distribution £m | **Water supply sub total £m** |
|---|---|---|---|
| **Direct costs** | | | |
| Employment costs | 5.2 | 7.6 | **12.8** |
| Power | 5.1 | 7.0 | **12.1** |
| Agencies | - | - | **-** |
| Hired and contracted services | 2.1 | 6.1 | **8.2** |
| Associated companies | - | 0.2 | **0.2** |
| Materials and consumables | 4.0 | 1.7 | **5.7** |
| Service charges | 5.5 | 0.1 | **5.6** |
| Other direct costs | 0.2 | 0.7 | **0.9** |
| **Total direct costs** | 22.1 | 23.4 | **45.5** |
| General and support expenditure | 12.9 | 19.1 | **32.0** |
| **Functional expenditure** | 35.0 | 42.5 | **77.5** |
| **Capital costs** | | | |
| Current cost depreciation | 24.1 | 7.1 | **31.2** |
| Infrastructure renewals expenditure | 5.8 | 25.8 | **31.6** |
| Infrastructure renewals accrual/prepayment | 2.1 | 8.7 | **10.8** |
| **Functional cost** | 67.0 | 84.1 | **151.1** |
| Business service functional expenditure | | | **15.9** |
| Total (from above) | | | **167.0** |
| Rates | | | **16.4** |
| Doubtful debts | | | **2.1** |
| Exceptional costs | | | **47.2** |
| Intangible assets | | | **-** |
| Business activities capital costs | | | **8.2** |
| **Service costs** | | | **240.9** |
| Services for third parties | | | **7.1** |
| **TOTAL** | | | **248.0** |
| **CCA GROSS MEA VALUES** | | | |
| Service activities | 2,692.3 | 3,570.1 | **6,262.4** |
| Business activities | | | **80.6** |
| **Service totals** | | | **6,343.0** |
| Services for third parties | | | **-** |
| **TOTAL** | | | **6,343.0** |

| SERVICE ANALYSIS | | | | | BUSINESS ANALYSIS | | |
|---|---|---|---|---|---|---|---|
| Sewerage £m | Sewage treatment £m | Sludge treatment and disposal £m | Sewage treatment and disposal £m | Sewerage services sub total £m | Customer services £m | Scientific services £m | Cost of regulation £m |
| 0.5 | 5.7 | 3.0 | 8.7 | **9.2** | | | |
| 0.8 | 5.6 | 1.2 | 6.8 | **7.6** | | | |
| 8.9 | - | - | - | **8.9** | | | |
| 0.5 | 2.5 | 3.5 | 6.0 | **6.5** | | | |
| - | - | 0.1 | 0.1 | **0.1** | | | |
| 0.1 | 2.0 | 1.4 | 3.4 | **3.5** | | | |
| 0.9 | 2.1 | - | 2.1 | **3.0** | | | |
| 0.2 | 0.4 | 0.2 | 0.6 | **0.8** | | | |
| 11.9 | 18.3 | 9.4 | 27.7 | **39.6** | 13.9 | 6.8 | 1.7 |
| 4.4 | 13.2 | 5.1 | 18.3 | **22.7** | 4.5 | 1.9 | 0.5 |
| 16.3 | 31.5 | 14.5 | 46.0 | **62.3** | **18.4** | **8.7** | **2.2** |
| 4.0 | 39.4 | 8.8 | 48.2 | **52.2** | | | |
| 9.2 | 0.9 | - | 0.9 | **10.1** | | | |
| (2.7) | - | - | - | **(2.7)** | | | |
| 26.8 | 71.8 | 23.3 | 95.1 | **121.9** | | | |
| | | | | **13.4** | | | |
| | | | | **135.3** | | | |
| | | | | **6.1** | | | |
| | | | | **2.0** | | | |
| | | | | **-** | | | |
| | | | | **-** | | | |
| | | | | **8.2** | | | |
| | | | | **151.6** | | | |
| | | | | **0.3** | | | |
| | | | | **151.9** | | | |
| 7,692.7 | 1,845.3 | 2.1 | 1,847.4 | **9,540.1** | | | |
| 70.1 | | | 214.5 | **284.6** | | | |
| 7,762.8 | | | 2,061.9 | **9,824.7** | | | |
| | | | | **-** | | | |
| | | | | **9,824.7** | | | |

## 6. ANALYSIS OF OPERATING COSTS AND ASSETS
*for the year ended 31 March 1995*

| | Resources and treatment £m | Distribution £m | Water supply sub total £m |
|---|---|---|---|
| **Direct costs** | | | |
| Employment costs | 5.3 | 8.4 | **13.7** |
| Power | 5.0 | 6.1 | **11.1** |
| Agencies | - | - | **-** |
| Hired and contracted services | 1.0 | 5.8 | **6.8** |
| Associated companies | - | - | **-** |
| Materials and consumables | 3.5 | 1.9 | **5.4** |
| Service charges | 4.4 | 0.1 | **4.5** |
| Other direct costs | 1.1 | 1.7 | **2.8** |
| **Total direct costs** | 20.3 | 24.0 | **44.3** |
| General and support expenditure | 11.9 | 18.5 | **30.4** |
| **Functional expenditure** | 32.2 | 42.5 | **74.7** |
| **Capital costs** | | | |
| Current cost depreciation | 17.9 | 7.6 | **25.5** |
| Infrastructure renewals expenditure | 2.0 | 41.2 | **43.2** |
| Infrastructure renewals accrual/prepayment | 6.6 | (11.4) | **(4.8)** |
| **Functional cost** | 58.7 | 79.9 | **138.6** |
| Business service functional expenditure | | | **16.2** |
| Total (from above) | | | **154.8** |
| Rates | | | **16.6** |
| Doubtful debts | | | **2.5** |
| Exceptional costs | | | **26.2** |
| Intangible assets | | | **-** |
| Business activities capital costs | | | **10.0** |
| **Service costs** | | | **210.1** |
| Services for third parties | | | **6.0** |
| **TOTAL** | | | **216.1** |
| **CCA GROSS MEA VALUES** | | | |
| Service activities | 2,673.3 | 3,141.1 | **5,814.4** |
| Business activities | | | **129.1** |
| **Service totals** | | | **5,943.5** |
| Services for third parties | | | **-** |
| **TOTAL** | | | **5,943.5** |

| SERVICE ANALYSIS | | | | | BUSINESS ANALYSIS | | |
|---|---|---|---|---|---|---|---|
| Sewerage £m | Sewage treatment £m | Sludge treatment and disposal £m | Sewage treatment and disposal £m | **Sewerage services sub total £m** | Customer services £m | Scientific services £m | Cost of regulation £m |
| 0.6 | 6.5 | 3.3 | 9.8 | **10.4** | | | |
| 0.4 | 5.8 | 1.3 | 7.1 | **7.5** | | | |
| 9.3 | - | - | - | **9.3** | | | |
| (0.6) | 2.3 | 3.4 | 5.7 | **5.1** | | | |
| - | - | 0.1 | 0.1 | **0.1** | | | |
| 0.1 | 1.5 | 1.4 | 2.9 | **3.0** | | | |
| 1.0 | 2.3 | - | 2.3 | **3.3** | | | |
| 0.5 | 1.0 | 0.6 | 1.6 | **2.1** | | | |
| 11.3 | 19.4 | 10.1 | 29.5 | **40.8** | 13.5 | 7.4 | 2.3 |
| 5.5 | 12.5 | 5.1 | 17.6 | **23.1** | 4.1 | 1.7 | 0.6 |
| 16.8 | 31.9 | 15.2 | 47.1 | **63.9** | **17.6** | **9.1** | **2.9** |
| 6.1 | 26.3 | 5.6 | 31.9 | **38.0** | | | |
| 8.9 | 0.4 | - | 0.4 | **9.3** | | | |
| 1.5 | - | - | - | **1.5** | | | |
| 33.3 | 58.6 | 20.8 | 79.4 | **112.7** | | | |
| | | | | **13.5** | | | |
| | | | | **126.2** | | | |
| | | | | **10.3** | | | |
| | | | | **2.0** | | | |
| | | | | **21.0** | | | |
| | | | | - | | | |
| | | | | **6.6** | | | |
| | | | | **166.1** | | | |
| | | | | **0.3** | | | |
| | | | | **166.4** | | | |
| 7,344.7 | 1,587.0 | 277.0 | 1,864.0 | **9,208.7** | | | |
| 54.0 | | | 67.7 | **121.7** | | | |
| 7,398.7 | | | 1,931.7 | **9,330.4** | | | |
| | | | | - | | | |
| | | | | **9,330.4** | | | |

## *7. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE as at 31 March 1996*

| | Specialised operational assets £m | Non-specialised operational properties £m | Infrastructure assets £m | Other tangible assets £m | Total £m |
|---|---|---|---|---|---|
| **Gross replacement cost** | | | | | |
| At 1 April 1995 | 2,846.6 | 205.2 | 11,501.4 | 720.7 | 15,273.9 |
| AMP adjustment | 43.2 | (165.7) | 532.9 | (195.6) | 214.8 |
| RPI adjustment | 93.9 | 6.8 | 379.5 | 23.8 | 504.0 |
| Disposals | (3.4) | (1.9) | 0.0 | (8.1) | (13.4) |
| Additions | 131.3 | (1.0) | 64.6 | (6.5) | 188.4 |
| **At 31 March 1996** | 3,111.6 | 43.4 | 12,478.4 | 534.3 | 16,167.7 |
| **Depreciation** | | | | | |
| At 1 April 1995 | 1,424.4 | 41.6 | - | 141.7 | 1,607.7 |
| AMP adjustment | (82.0) | (36.9) | - | (94.9) | (213.8) |
| RPI adjustment | 46.9 | 1.4 | - | 4.7 | 53.0 |
| Disposals | (1.3) | (0.8) | - | (6.8) | (8.9) |
| Charge for year | 82.1 | 0.3 | - | 19.6 | 102.0 |
| **At 31 March 1996** | 1,470.1 | 5.6 | - | 64.3 | 1,540.0 |
| **Net book amount at 31 March 1996** | 1,641.5 | 37.8 | 12,478.4 | 470.0 | 14,627.7 |
| **Net book amount at 1 April 1995** | 1,422.2 | 163.6 | 11,501.4 | 579.0 | 13,666.2 |

# *Notes to the Regulatory Accounting Information*

## *8. CURRENT COST ANALYSIS OF FIXED ASSETS BY SERVICE as at 31 March 1996*

| | Water supply £m | Sewerage £m | Sewage treatment & disposal £m | Total £m |
|---|---|---|---|---|
| **Gross replacement cost** | | | | |
| At 1 April 1995 | 5,943.5 | 7,398.7 | 1,931.7 | 15,273.9 |
| AMP adjustment | 86.3 | 99.9 | 28.6 | 214.8 |
| RPI adjustment | 196.1 | 245.5 | 62.4 | 504.0 |
| Disposals | (5.8) | (4.6) | (3.0) | (13.4) |
| Additions | 122.9 | 23.3 | 42.2 | 188.4 |
| **At 31 March 1996** | 6,343.0 | 7,762.8 | 2,061.9 | 16,167.7 |
| **Depreciation** | | | | |
| At 1 April 1995 | 605.4 | 103.6 | 898.7 | 1,607.7 |
| AMP adjustment | (274.1) | 6.0 | 54.3 | (213.8) |
| RPI adjustment | 19.9 | 3.0 | 30.1 | 53.0 |
| Disposals | (3.6) | (0.5) | (4.8) | (8.9) |
| Charge for year | 40.6 | 5.0 | 56.4 | 102.0 |
| **At 31 March 1996** | 388.2 | 117.1 | 1,034.7 | 1,540.0 |
| **Net book amount at 31 March 1996** | 5,954.8 | 7,645.7 | 1,027.2 | 14,627.7 |
| **Net book amount at 1 April 1995** | 5,338.1 | 7,295.1 | 1,033.0 | 13,666.2 |
| **Analysis by asset type** | | | | |
| Specialised operational assets | 729.7 | 80.9 | 830.9 | 1,641.5 |
| Non-specialised operational properties | 33.0 | 4.5 | 0.3 | 37.8 |
| Infrastructure assets | 4,990.7 | 7,444.2 | 43.5 | 12,478.4 |
| Other tangible assets | 201.4 | 116.1 | 152.5 | 470.0 |
| **Net book amount at 31 March 1996** | 5,954.8 | 7,645.7 | 1,027.2 | 14,627.7 |

## 9. WORKING CAPITAL

| | 1996 £m | 1995 £m |
|---|---|---|
| Stocks | 1.8 | 4.0 |
| Trade debtors | 29.3 | 25.8 |
| Trade creditors | (33.2) | (60.3) |
| Short term capital creditors | (50.2) | (49.2) |
| Infrastructure renewals (accrual)/prepayment | (144.2) | (136.0) |
| Trade payments in advance | (30.2) | (28.0) |
| Payroll related taxes & DSS contributions | (2.8) | (2.4) |
| Group trade debtors/(creditors) | 91.6 | 218.4 |
| Landslip reinstatement | (1.1) | (2.2) |
| Prepayments | 29.5 | 29.1 |
| | (109.5) | (0.8) |

## 10. MOVEMENT ON CURRENT COST RESERVE

| | 1996 £m | 1995 £m |
|---|---|---|
| **Balance at 1 April 1995** | 12,207.8 | 11,853.5 |
| AMP adjustment | 428.6 | - |
| RPI adjustments | | |
| Fixed assets | 451.0 | 371.2 |
| Working capital | 0.0 | (1.1) |
| Financing | (11.3) | (12.2) |
| Grants & third party contributions | (3.2) | (3.6) |
| **Balance at 31 March 1996** | 13,072.9 | 12,207.8 |

### *11. RECONCILIATION OF APPOINTED BUSINESS OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES*

| | 1996<br>£m | 1995<br>£m |
|---|---|---|
| **Current cost operating profit** | 122.0 | 116.1 |
| Current cost depreciation | 99.8 | 80.0 |
| Current cost loss / (profit) on sale of assets | 1.8 | (0.8) |
| Increase in stocks, debtors and prepaid expenses | (2.5) | (7.3) |
| (Decrease) / increase in creditors and accrued expenses | (24.5) | 34.3 |
| Increase / (decrease) in provisions | 7.0 | (3.7) |
| Working capital adjustment | 0.0 | (1.1) |
| **Net cash flow from operating activities** | 203.6 | 217.5 |

## 12. CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS - ROLLING SUMMARY

| | 1996 £m | *1995 £m | *1994 £m | *1993 £m | *1992 £m |
|---|---|---|---|---|---|
| **Turnover** | **522.6** | 513.1 | 510.0 | 492.6 | 478.1 |
| Current cost operating costs | **(399.9)** | (395.1) | (387.8) | (370.1) | (374.9) |
| Operating income | **(0.7)** | 0.8 | 6.2 | 1.1 | 3.6 |
| | **122.0** | 118.8 | 128.4 | 123.6 | 106.8 |
| Working capital adjustment | **0.0** | 1.1 | 1.1 | 0.4 | 1.2 |
| **Current cost operating profit** | **122.0** | 119.9 | 129.5 | 124.0 | 108.0 |
| Other income | **1.0** | 1.1 | 1.0 | 0.9 | 1.0 |
| Interest receivable/(payable) | **(17.1)** | (10.6) | (14.4) | (12.9) | (1.4) |
| Financing adjustment | **11.3** | 12.6 | 8.0 | 5.2 | 5.8 |
| **Current cost profit before taxation** | **117.2** | 123.0 | 124.1 | 117.2 | 113.4 |
| Taxation | **-** | - | - | - | - |
| **Current cost profit on ordinary activities** | **117.2** | 123.0 | 124.1 | 117.2 | 113.4 |
| Dividends | **(186.7)** | (118.0) | (63.0) | (59.9) | (58.1) |
| **Current cost transfer (from)/ to reserves** | **(69.5)** | 5.0 | 61.1 | 57.3 | 55.3 |

* Figures for years prior to 1995/96 have been restated into pounds of the latest year using RPI indexation.

## 13. CURRENT COST BALANCE SHEET FOR THE APPOINTED BUSINESS - ROLLING SUMMARY

| | 1996 £m | *1995 £m | *1994 £m | *1993 £m | *1992 £m |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | **14,627.7** | 14,035.2 | 14,088.5 | 13,985.6 | 13,790.4 |
| Third party contributions since 1989/90 | **(134.0)** | (120.4) | (108.4) | (75.1) | (44.5) |
| **Working capital** | **(109.5)** | (0.8) | (34.0) | (44.7) | (21.6) |
| **Net operating assets** | **14,384.2** | 13,914.0 | 13,946.1 | 13,865.8 | 13,724.3 |
| Cash and investments | **0.1** | 0.1 | 0.1 | 1.4 | 3.5 |
| Non-trade debtors | **14.8** | 17.3 | 9.0 | 11.5 | 9.3 |
| Non-trade creditors due within one year | **(76.9)** | (97.1) | (42.4) | (51.4) | (43.3) |
| Creditors due after one year | **(396.2)** | (349.4) | (337.0) | (315.6) | (248.2) |
| **Net assets employed** | **13,926.0** | 13,484.9 | 13,575.8 | 13,511.7 | 13,445.6 |
| **Capital and reserves** | | | | | |
| Called up share capital | **275.0** | 282.4 | 292.3 | 299.2 | 304.7 |
| Profit and loss account | **578.1** | 665.1 | 683.2 | 636.8 | 589.8 |
| Current cost reserve | **13,072.9** | 12,537.4 | 12,600.3 | 12,575.7 | 12,551.1 |
| | **13,926.0** | 13,484.9 | 13,575.8 | 13,511.7 | 13,445.6 |

* Figures for years prior to 1995/96 have been restated into pounds of the latest year using RPI indexation.

# *Auditors' Report on the Regulatory Accounting Information*

*To the Director General of Water Services*

We have audited the regulatory financial statements on pages 28 to 45.

*Respective Responsibilities of directors and auditors*

As described on page 25, the company's directors are responsible for the preparation of the regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

*Basis of opinion*

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the regulatory financial statements in terms of generally accepted accounting principles, the Regulatory Accounting Guidelines and consistency with the statutory accounts.

*Opinion*

In our opinion, the regulatory financial statements contain the information for the year to 31 March 1996 required to be published and submitted to you by Yorkshire Water Services Limited to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991.

In respect of this information, we report that in our opinion:

(a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;

(b) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;

(c) the summarised financial statements on pages 28 to 29 have been properly prepared from the financial statements set out on pages 10 to 24 and, in conjunction therewith give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business; and

(d) the current cost financial information on pages 30 to 32 and 35 to 45 has been properly prepared in accordance with the Regulatory Accounting Guideline 1, Accounting for Current Costs issued in May 1992 by the Office of Water Services.

Price Waterhouse
Chartered Accountants
and Registered Auditors
Leeds
20 June 1996