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*“A huge burden
has been lifted...
I can now get on
with my life”*

energywatch: making a difference

energywatch

Annual Report and Accounts 2005-2006

Presented to Parliament in pursuance of paragraph 8(4b), schedule 2, Utilities Act 2000

Ordered by House of Commons to be printed on 20th July 2006



Contents

- 1 A year of challenge and change
Ed Gallagher, chair of energywatch
- 2 The energywatch council
- 3 Making a difference
Allan Asher, chief executive of energywatch
- 5 Making a difference every day
- 7 Bad billing: the scale of the problem
- 9 Standing up for small businesses
- 11 The unkindest cut
- 13 Getting priorities straight
- 15 Highlights 2005-06
- 19 Consumers must be at the heart
of government reviews
- 21 How to contact energywatch
- 22 Key Performance Indicators
- 23 Accounts

A year of challenge and change



The past year has been a challenging one for energywatch, and the next 12 months will see that challenge continue.

The organisation itself has undergone a major restructuring designed to deliver the best possible services to consumers while making the most effective use of our resources.

Externally, rising energy prices have brought an increase in fuel poverty and real hardship to many households and individuals. It is those least able to cope that find themselves facing the greatest pressure, and we have increased our effort to actively seek out those who need our help. We are working in local

communities with partner organisations to make sure that those in need are aware of our services and encouraged to use them.

The dramatic increases in prices also saw more emphasis on helping consumers to reduce bills by switching suppliers, but also by becoming more energy efficient. How to achieve energy efficiency also had a higher profile as fears over security of supply increased. Our leadership on the smarter metering debate and our contribution to the government's energy review has been robust and considered. Consumers will play a major role in the fight against climate change if they have the information and incentives to act and save energy.

Throughout the year energywatch played a major part in contributing to policy reviews and representing the interests of consumers at the highest level to government and regulators. But that does not mean we lost sight of our key mission – to bring practical help to consumers who were experiencing problems. The stories outlined on the following pages show how we have made a difference to the lives of ordinary people. In many cases, without energywatch, they would have had nowhere to turn.

As I mentioned it has been a time of change for us as an organisation and that change continues. The future of energywatch itself as an independent body remains unclear while we await the details of the new consumer advocacy arrangements. Combining greater cost efficiency with stronger consumer advocacy is a complex challenge which if successful could yield real benefits for consumers. But if new arrangements are not sufficiently thought through, the negative consequences could be considerable. Our position remains clear: any new arrangements must not leave customers worse off and stranded from the support they need to benefit from the competitive energy market.

It speaks volumes for the quality and dedication of our staff that throughout this uncertain period they have remained firmly focused on meeting consumers' needs. My thanks go to them, and to the newly constituted council, for making a real difference where it counts: to the quality of people's lives.

Professor Ed Gallagher, chair of energywatch

The energywatch council



Ed Gallagher CBE FREng, (chair) joined energywatch on 1st April 2004. He was the chief executive of the Environment Agency, which he created by the merger in 1995 of the National Rivers Authority, HM Inspectorate of Pollution and the local authority waste management functions – involving 86 organisations and 10,500 employees. Prior to this he was chief executive of the National Rivers Authority and held various board level directorships and senior management roles at Amersham International and Black and Decker, amongst others. He has considerable experience in executive and non-executive roles in both the private and public sectors, including chairman of Envirofresh Plc and as a civil service commissioner.



Allan Asher (chief executive) joined energywatch from the Consumers' Association where he was director of campaigns and communications. Previously as deputy chairman of Australia's competition and consumer protection agency, the ACCC, Allan was responsible for the economic regulation of gas and electricity transmission. A barrister and solicitor, Allan has held director posts in consumer protection bodies for 20 years and has extensive experience in the promotion of the economic interests of consumers in developing countries.



Charles Coulthard is the chair of the **energywatch Scottish Committee**. He previously held senior posts with OFGEM, where he was director for Scotland, and OFREG. He has extensive experience of energy consumer issues from a regulatory perspective, and has recently been involved in charities dealing with fuel poverty and energy efficiency in Scotland.



Julian Salisbury chairs the **energywatch Welsh Committee**. Julian has energy industry experience with Swalec and Wales Gas, and has also worked in the engineering industry and local government since 1993. He was a member of the Cardiff Community Health Council between 2000 and 2006.



Tim Cole has been a council member since 2000. He is an independent business consultant, and has extensive experience in energy consumer representation, as well as an understanding of small business and rural issues.



Sharon Darcy has been a council member since 2000. She has previously worked with the NAO, Consumers International and the Consumers' Association. She is a member of the Thames committee for the Consumer Council for Water and maintains links with environmental and consumer bodies.



Andrew Horsler has been a council member since 2000 and acted as chair between January and March 2004. With a background in the coal industry, he now works as a consultant on coal and energy matters and has an extensive knowledge of energy market issues. He is an energywatch appointee on the Balancing and Settlements Code Panel for the electricity industry.



John Howard is a consumer broadcaster and journalist (he presented the Radio 4 programme "You And Yours" between 1983-97). He served on the Mortgage Code Compliance Board and Financial Services Consumer Panel, to which he was recently appointed chair.

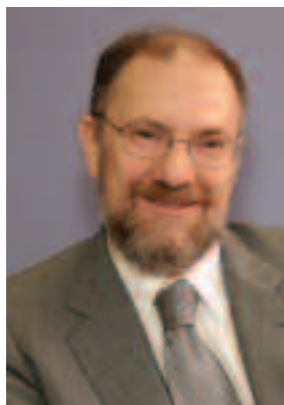


Brian Saunders has very extensive senior management experience in the electricity industry, most recently as chief executive of ELEXON, and previously with Powergen and the CEGB. He has particular experience of complex industry issues and the challenges facing industrial and commercial customers.



Krishna Sarda has been chief executive officer of the Ethnic Minority Foundation since 2002. Previously, he was director of diversity at the London Borough of Camden from 1993-2002 and was the director responsible for management of legal services and advocacy at the UK Immigrants Advisory Service from 1990-92. He has also held board positions and worked with the Terrance Higgins Trust and the NCVO. He was recently awarded an honorary doctorate for his work on poverty and social justice.

Making a difference



energywatch's services are rooted in the real, everyday experience of gas and electricity consumers.

Consumers recovered £6.7 million in compensation and bill reductions this year thanks to energywatch action.

The average award for domestic consumers with billing complaints, which made up two-thirds of the complaints received last year, was £168 per household.

This year energywatch had 222,892 in-depth contacts with consumers and received 62,075 complaints that needed detailed investigation with energy companies. These, together with quantitative and qualitative research, gave us a wealth of information about consumers' concerns.

That level of insight has helped us make a difference in three specific areas this year.

Firstly, in the energy market, we armed consumers with information that empowered them to act. More than one million people have visited the energywatch website. Through our improved website they obtained the latest facts about the market, and 400,000 consumers logged on in the last three months of 2005-06. We established a tight accreditation system for all commercial sites switching consumers from one supplier to another. And, in solving complaints, we exceeded even the tough targets we had set ourselves, resolving 84% within 35 days, and 95% within 66 days.

It is three years since energywatch first called for a competition inquiry into European gas and electricity markets. Finally, the European Commission has confirmed that those markets are not working, cost consumers in Great Britain dearly and require urgent and decisive action.

Secondly, we helped more consumers to reduce their energy consumption and consumers saved as much as several hundred pounds a year. Every month we referred more than 1,000 consumers to energy advice bodies. Hundreds of thousands of consumers affected by soaring price rises changed suppliers and many cut their bills by conserving energy and choosing cheaper payment methods. Our Energy Smart campaign is helping an increasing number of consumers to reduce household carbon emissions and save money for themselves.

Thirdly, working with vulnerable consumers remained a top priority. Over the last nine months our new priority consumer team has referred over 6,000 consumers to their supplier's priority service register. We can be especially proud of our role in reducing the number of disconnections due to debt from 26,000 four years ago to 3,000 today.

The organisational changes we made have helped us to achieve our goals. The priority consumer team enables us to make far more effective connections with consumers who we might otherwise miss. Strong partnerships have been developed with the organisations who are most trusted by these consumers so that we can help them help the people they represent.

Our company performance team changes the behaviour of companies, rooting out the bad practice and spreading the good. This year, we persuaded one more supplier to join the two suppliers who have stopped charging pre-paying customers more than others and a third company to set up a trust fund providing credit counselling and emergency grants. We persuaded one supplier to write off a substantial amount of consumer debts caused by delays with recalibrating token electricity meters.

Consumers have noticed these improvements. In one poll we carried out this year, 87% said they were happy with our service.

However, huge problems still exist in the energy market, particularly in relation to selling, billing and accounts. There has been a rapid increase in the number of 'fuel poor' consumers and this year a million more consumers will spend more than 10% of their household income on heating and light.

energywatch gives consumers all the information they need to act in their own interests, and when they are unable to do so, we advocate on their behalf.

I am pleased that we have continued to play a leading role in the Consumer Action Network (CAN). By joining forces with other consumer advocates we have not only shared resources and expertise, but have helped each other achieve more for vulnerable and hard to reach consumers.

Our services are needed more than ever. The huge disparity between providers and users in the energy market makes consumer representation vitally important and energywatch makes the voices of consumers heard, loud and clear!



Allan Asher, chief executive

Making a difference every day

Every day energywatch makes a difference to people's lives.

The work we do has a real impact on quality of life – often for the most vulnerable in society. Billing complaints, disconnections and unfair energy contracts for businesses are just some of the issues taken up by energywatch on behalf of consumers.

Working solo, or with partner organisations, we work until problems are resolved.

Our advisers get to grips with complex details, linking consumers with expert advice, identifying problems between agencies, companies and social services which prevent the most vulnerable getting the help or advice they need, deserve and are entitled to.

In the 12 months covered by this report we had more than half a million contacts from consumers by phone, letter or email – and just over one million visitors to our website. We processed 222,892 enquiries and resolved 62,075 complaints.

But we don't just sit and wait for consumers to come to us. Formed in 2005, our priority consumer team works at grass roots level in the regions meeting consumers and agencies face to face, listening to problems, helping to solve them.

This includes working with people on benefits, those suffering from respiratory conditions and members of black and minority ethnic communities to improve their quality of life.

In only nine months the team has directly registered 6,040 eligible consumers on the priority service register, referred over 1,000 consumers to grant giving bodies and reached 330,000 consumers with relevant and useful information and advice.

Fact

During the last 12 months we helped consumers recover £6.7 million in compensation, goodwill gestures and bill reductions.



Re-uniting families

Young mother Kathryn Smith was heartbroken when her five-week-old son Morgan was re-admitted to hospital because her house was too cold.

Luckily, her community health worker had been to an energywatch seminar and contacted priority consumer team member Michael Temple. He explains: **“Social services told Kathryn that Morgan couldn't come home until a heating system was installed. Although Kathryn had already been accepted for an EAGA grant for a new oil central heating system, the paperwork still had to be processed. Kathryn was becoming more and more distressed at being separated from her son.”**

Michael got straight on to EAGA who were very responsive. An EAGA surveyor visited Kathryn's home to assess whether her house was suitable for the oil heating system. Unfortunately it was not. Michael contacted EAGA again to see what other options were available. EAGA agreed that given Kathryn's circumstances they were prepared to install a more expensive system at no extra cost. Mother and baby were soon reunited.

Kathryn said: **“I can't thank Michael enough for his support in getting my heating sorted out and – most importantly – in helping to bring my baby home.”**

Reaching out to communities

In the Birmingham region, the Somali Organisation Community Network provides welfare advice to more than 45,000 people. Majid Hussain, from the priority consumer team, has been working closely with the local community to make our services more accessible.

Mrs Haashni visited energywatch with an interpreter. She was having problems in establishing her correct supplier, and she had received demands from different companies. She was not able to resolve this herself, partly because of language difficulties and partly because she was not familiar with how the system worked.

energywatch succeeded in establishing who her supplier was and got them to inform the other companies. The disputed bills were recalculated leaving Mrs Haashni with a credit of £27 instead of a debt of £425.

Mrs Haashni said: **“I am very very happy with the help energywatch gave me. Without their help I don't know who I could have gone to.”**



Bad billing: the scale of the problem

Every consumer should receive a clear, accurate and timely bill. But this is not the reality. The fact that nearly 66% of all the consumers who complained to energywatch did so about billing suggests a serious consumer problem.

For every consumer we encounter who has doggedly tried to resolve their billing problems, there are others – particularly the poor and vulnerable – who may have fallen by the wayside.

Because of the scale of the problem – the high numbers of complaints, numerous cases of debt, and the frustration and annoyance caused – we submitted a Supercomplaint to Ofgem in April 2005 calling for decisive action to improve billing standards. Under the Enterprise Act 2002, energywatch can refer, in the form of a Supercomplaint, market structures or practices that we suspect work against the interests of consumers.

It was the culmination of a high profile campaign for billing reform. As with our Stop Now! campaign on mis-selling, and our campaigns on customer transfers and disconnections, we were determined to assert the rights of consumers to a better service and to achieve change within the industry.

In its response to our Supercomplaint, Ofgem put forward three positive requirements:

- That by July 2006 all bills more than two years old will be written off (reduced to one year by July 2007).
- There will be a new ombudsman with the power to resolve disputes and offer compensation.
- Energy companies must review their contracts to ensure they are clear, fair and balanced.

Ofgem gave the energy companies 12 months to act. If companies drag their feet the changes will be imposed on them. This is good news for all consumers – and proof that energywatch gets results and has a real impact.

Fact

After receiving a significant increase in Powergen billing complaints, the company performance team worked extensively with the supplier over a number of months. Their complaint numbers more than halved over an eight month period.

Bad bills: not just an inconvenience

Bad billing can mean people get themselves in debt without warning, or that an existing debt becomes much worse. Being in debt isn't just an inconvenience – it causes anxiety, misery, even conflict in families. In extreme cases it can mean the difference between eating and going hungry. And circumstances can change quickly – the loss of a job or partner can plunge families into debt, adding extra pressure or worry at a time when they are already vulnerable.

energywatch attacks the issue of bad bills at a number of levels. As well as helping to resolve cases for individuals and vulnerable groups, we monitor company performance and hold regular meetings with companies to discuss policies and emerging trends. We also mount campaigns designed to help consumers get better and fairer deals.

Any bill which isn't accurate is a bad bill – and that includes estimated bills. Consumers need to be able to compare prices between suppliers to identify the most competitive prices. But how can they when bills are inaccurate, hard to understand and the correction process for bills so slow? Bad billing is a very real barrier to building effective and competitive retail markets.

Throughout 2005, energywatch played a key role in the development of a British Standards Institution (BSI) standard on utility billing, both in recommendations for the final standard itself and in bringing together partner organisations to look at the issue. This not only culminated in the publishing of the standard, but provides a benchmark for the energy industry's own code of practice.

What energywatch achieved on billing in 2005-2006:

- 36,000 billing cases were resolved
- 15,229 consumers received compensation
- More than £2.5 million was paid out to consumers

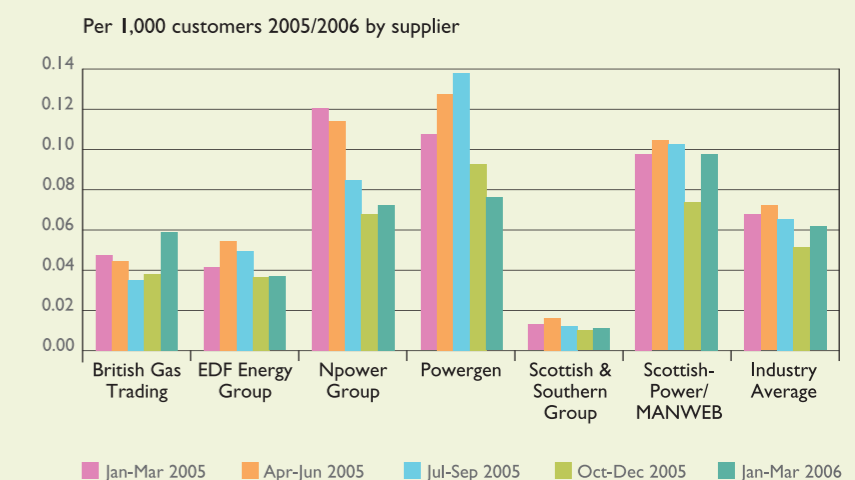
Getting to the root of the problem

Mr Duncan Taylor in Norwich contacted energywatch after becoming immensely frustrated with his energy supplier. He explains:

"I hadn't had a proper bill since January 2004. People kept reading the meter, but the readings were not passed on to Powergen and all my bills were estimates. When I got a bill for £881 I tried to get the matter resolved, but I never got to speak to the right person and the company took no ownership of the problem."

After he contacted energywatch things really started moving: **"Once I spoke to someone who could help, the problem was solved very quickly. Suddenly my complaint had a higher profile and Powergen sat up and took notice. Three weeks later Powergen offered me £80 as a goodwill gesture and they corrected my account. It was a great relief."**

Domestic account and billing complaints





Standing up for small businesses

Small businesses often get a raw deal where energy is concerned – which is why around 30,000 of them turned to energywatch for help and advice during the last 12 months.

Although they spend around £3.2 billion a year on energy, small businesses face many of the same problems as domestic consumers – inaccurate and incomprehensible bills, deceptive selling practices, accumulating debts, the threat of disconnection and poor customer service.

But many will have no more expertise than domestic consumers in dealing with big energy suppliers – and small businesses lack the protection domestic consumers enjoy. They can get tied up in legally binding contracts for up to five years, even over the phone. They have no access to price comparisons and there is no code of practice on selling, billing or disconnection. And if problems do occur it can very often put the survival of the business at risk.

We make it our business to inform fledgling businesses about energy issues, to help small businesses choose or change their energy supplier, deal with energy brokers, negotiate contracts, make sense of meters and bills and lodge effective complaints. As well as practical help, we're also committed to tackling the underlying problems that affect businesses daily.

That is why we've teamed up with the Federation of Small Businesses on our "Make the Connection" campaign, which calls for fair energy contracts, clear and timely bills, and better standards of customer care.

Fact

Calls from business consumers to energywatch were up by 25% on last year: we responded to 20,928 enquiries and handled 8,162 complaints.



Spotting trends

When energywatch received more than 50 contacts from Chinese restaurants complaining about sales contacts on behalf of energy supplier Elf, alarm bells began to sound.

Says Paul Savage, business services manager: "Part of our work is to spot trends and see if they indicate an underlying problem or issue.

"These calls indicated to us that agents selling on behalf of Elf were taking advantage of a lack of knowledge and English language skills, specifically targeting members of the Chinese business community.

"In one case we were contacted by a consumer's son, complaining that his parents had been persuaded to agree to a contract despite having inadequate English to make such a verbal contract. In another case, a call to renew a contract had been taken by a 12 year old child."

energywatch met with Elf to discuss the situation. The end result was that Elf stopped using the broker in question, and the majority of restaurants were released from the verbal contracts they had made.

Fact

Thanks to energywatch £3.35 million was gained for business consumers through billing adjustments and compensation payments from suppliers last year.

Securing a fairer deal

In June 2004, the Manchester based company LB Roofing (Walkden) ordered their electricity connection from United Utilities (UU), and paid in full.

LB Roofing built storage space for the meter using UU's design drawings, but it proved to be too small. UU then refused to connect their energy supply and the firms embarked on a year-long battle.

LB Roofing invited energywatch to mediate. Finally UU agreed to supply electricity and to pay LB Roofing a five figure sum in compensation.

Adele Fisher, office manager for LB Roofing, said: "Before energywatch got involved I had to spend 10 minutes cranking up the generator just so I could make a cuppa. We were very pleased with energywatch and would recommend other businesses to use their service."

The unkindest cut

It's hard to imagine living without heat, light and power, especially in winter. The impact on a household of having the energy supply cut off is devastating. And it is precisely the people who find it hardest to cope who are most likely to be disconnected.

The good news is that disconnections due to debt have fallen from 26,000 in 2001 to only 3,000 in 2005. This is partly a result of energywatch's vigorous campaigning on behalf of vulnerable and low-income consumers.

That campaign produced a voluntary code from energy suppliers pledging not to disconnect vulnerable consumers and a House of Commons Trade and Industry Select Committee Inquiry in 2005.

The inquiry found that some companies had disconnected households using incorrect names, addresses and meter readings. Some consumers were not in debt, others were not even their customers. Many had to wait days or even weeks to be reconnected.

Energy companies have responded positively to energywatch's campaign and have taken some positive steps. However, energywatch is closely monitoring the disconnection statistics. We will not hesitate to step up our campaign if we need to. We are determined to make unfair and erroneous disconnections a thing of the past.

Fact

30% of disconnections happen to the poorest 13% of the population. People who are being disconnected are more likely to live on low incomes, have multiple debts, have children and be in a single parent household.



Allan Asher, chief executive of energywatch says: "Our work to reduce disconnections has made a huge difference to consumers. The dramatic drop in the number of disconnections is a terrific victory for energywatch, which has campaigned so hard on behalf of vulnerable and low-income consumers."

Giving consumers a lifeline

After falling into debt with her gas account and being unable to repay it, Mrs Mackey from Thames Ditton was disconnected by Scottish and Southern Energy (SSE).

Mrs Mackey is registered disabled and was in hospital when the supply was cut off. Her 15-year-old daughter was alone in the house without heating and hot water for nearly a month and Mrs Mackey was discharged from hospital to a cold house.

Prior to disconnection, SSE had gone to court to obtain a warrant. Mrs Mackey was ordered to pay £22 a week by the court, despite only receiving £98 a week in benefits.

When Mrs Mackey came to energywatch we took up her case with SSE. The company eventually accepted that they would reconnect Mrs Mackey with repayment through the Fuel Direct scheme. energywatch continued to negotiate on her behalf and now she pays only £2.80 a week towards her debt, and £7.10 a week for gas.

Getting consumers more protection

Magistrates have a critical role in approving entry warrants to homes prior to disconnection. Although the number of disconnections has declined significantly, magistrates' courts have been unable to consider each case individually, often dealing with several applications at once.

In 2005 energywatch started to work with magistrates and others to develop greater protection for consumers and more support for magistrates.

With valuable input from Her Majesty's Court Service, the Judicial Studies Board and the Justices' Clerks' Society, we produced new guidance for magistrates.

The guidance sets out what steps suppliers should take prior to disconnection, and provides key questions to be put to suppliers, along with the reasonable answers they could expect.

The guidance will be published in the Adult Court Bench Book – the reference source for all magistrates in England and Wales. energywatch will work with others to ensure that similar guidance is adopted by sheriffs in Scotland.



Getting priorities straight

energywatch talks to consumers every single day – listening to their problems and helping to resolve their complaints. Every day we give individuals and small businesses the confidence to stand up to energy suppliers. And every day we put pressure on companies to provide a better service. However, energywatch is concerned that for some consumers engaging with energy suppliers can be a negative, difficult or even damaging experience. We are also aware that the vulnerable consumers who seek our help may represent the tip of the iceberg.

Talking to consumers themselves

Currently pensioners and people who are disabled, chronically sick or vision or hearing impaired are entitled to free, additional services from energy suppliers.

We wanted to know whether all those who are eligible are accessing the services, whether the eligibility criteria should be expanded, and we wanted to expose any shortfalls in current provision. We were aware, from the feedback provided by partner agencies such as the Energy Saving Trust and the Department for Work and Pensions, that millions of pounds in benefits and grants were unclaimed by the consumers who needed them most.

The members of our priority consumer team contacted consumers and grass roots organisations in the places they meet – neighbourhood centres, faith groups, ‘flu jab clinics. We asked them what they thought the issues were – what are the barriers to the take up of grants and benefits, what are the most effective means of communication, what would improve service?

The replies told a consistent story, and alongside results from our “Putting Priorities in Order” research, are helping the priority consumer team work more effectively with vulnerable groups. Support is best face to face, it needs to emphasise that people are entitled to support and are not taking charity – and it needs to be respectful of their capacity to cope. Barriers include massive confusion over what is available, language problems, a fear of losing pride and a distrust of bureaucracy.

Fact

The priority consumer team has referred more than 1,000 eligible consumers to grant giving bodies.

Make people the priority

- Three quarters of eligible consumers do not know about the priority service register (PSR) (November 2004 Ofgem Social Action Plan Review)
- 6,040 eligible consumers directly registered on PSR by the priority consumer team (July 05-March 06)

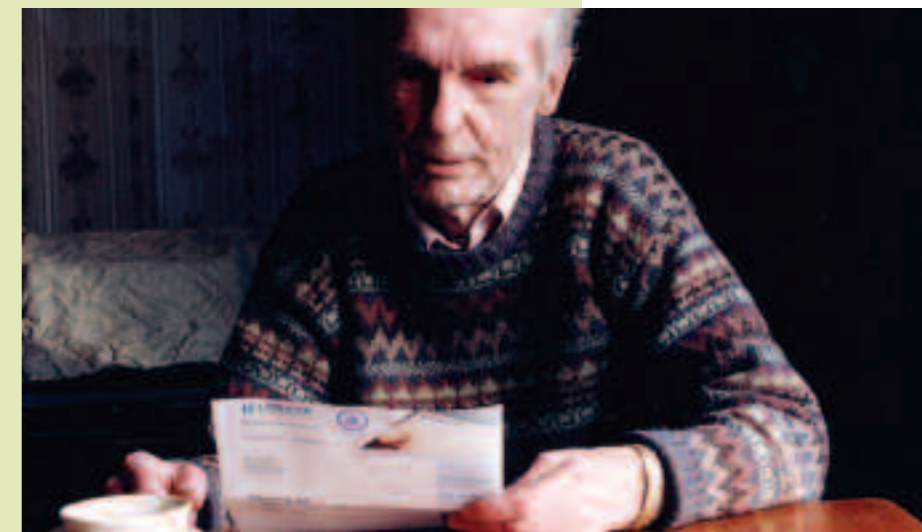
Real issues, real problems

This year we commissioned much needed research, called “Putting Priorities in Order”, to find out the key issues for some of the most vulnerable consumers and, in particular, whether the present priority service register (PSR) arrangements serve their needs.

The key findings of the research gave us cause for concern. Consumers of all ages said that being able to afford to stay warm in winter was their top priority. And consumers on low incomes, who were worried about soaring energy costs and the impact on their household finances, admitted they would cut back spending on other things in order to stay warm. **“When I work out my weekly money, that’s the first thing I do, my gas and electric. Everything else has to be given a miss if I can’t afford it.”**

Our research also revealed that while some PSR services are valued, awareness of them is low and take-up is patchy. Consumers want good quality advice on how to reduce bills, how to conserve energy and how to stay safe. But, worryingly, they say that energy suppliers do not always respond to their requests for help. **“I’ve tried to get some of the free things, but nothing has happened even after lots of phone calls – I don’t know what would be useful until I actually get something.”**

Many consumers reported problems with bills or meter readings which were compounded by the difficulty they experienced in contacting customer services. Many felt trapped or vulnerable if they were in arrears and they said that energywatch had helped them to resolve disputes with energy suppliers. **“I felt I was being penalised. I was a single mum and they didn’t take that into consideration. They just wanted their money. I said I’d give them less, but they just said no.”**



The timing of this research was important, as the supply licence conditions that underpin the PSR are currently under review as part of a wider evaluation by Ofgem.

energywatch will use the findings of this research to shape our recommendations to Ofgem on the future of the PSR. We will do everything in our power to ensure it provides services that meet the needs of the most vulnerable consumers, and that we build on the research to identify the right sort of support for those who need it most.

Highlights 2005-06

April

Since day one bad billing has been our number one complaint. In 2004-05 we received 40,000 complaints about poor billing. Our first action this year is to make billing the subject of the first energy 'Supercomplaint'. This gives Ofgem the opportunity to find solutions for consumers beset by inaccurate, late and incomprehensible billing.

FACT: April saw 3,725 complaints from households about account and billing, the highest number in any month for 2005-06 (24% higher than the monthly average).

May

We began a major commitment to ensure Ofgem's review of the energy supply licence delivers effective consumer protection as well as a more efficient set of regulations.

Transparent gas markets are a step closer when Ofgem publishes its assessment of the energywatch modification to the Unified Network Code (UNC 006). Introduced in November 2004, the 'mod' would make real time information on gas supply available to big gas buyers.

FACT: In April 20% of all complaints to energywatch related to transfers from one supplier to another.

June

We see the first signs from Brussels of the focused review of European energy markets we've been calling for since 2003. We also brief MEPs in Strasbourg on a draft directive requiring companies to provide better information on energy consumption to their customers. At home we launch the 'Get Smart' campaign to bring smarter metering technology into homes to cut bad bills, provide solutions for

those trapped on expensive pre-payment meter tariffs and help consumers manage their energy use.

FACT: energywatch achieved more compensation and bill reduction for domestic households in June than in any other single month. A total of £379,000 went back to consumers from their energy companies.

July

Ofgem's response to the Supercomplaint sets big challenges for industry. The decision to compel companies to act or face active regulation gives real hope that the end for inaccurate, estimated and incomprehensible billing may actually come about.

Research, co-funded by energywatch, warns that dramatic double-digit hikes in fuel prices would blow the government's fuel poverty targets off course. "*The Fall and Rise of Fuel Prices and Fuel Poverty*" shows that we will struggle to eradicate fuel poverty among vulnerable households by 2010 if energy prices continue to rise while incomes remain comparatively static.

FACT: Doorstep sales agents like warm weather. The summer brought them on to the streets and energywatch saw a 30% increase on the monthly average for complaints about their behaviour.

August

The end of a year long project with groups of older people in Wales gives us a better understanding of their issues and concerns as energy consumers. The project, together with other research and the experience of the priority consumer team, helps us focus on what this important group of consumers needs from us.

November

The priority consumer team hosts its first community conference at Northallerton Civic Centre with Richmondshire & Hambleton District Councils and Primary Care Trust, York Energy Efficiency Advice Centre and the Department for Work and Pensions. The event acts as a focus for effective local action in a seemingly prosperous rural community where 18% of homes are still affected by fuel poverty.

Months of effort and work by the company performance team with Scottish & Southern Energy to improve upon the mis-selling record of their sales agents are to no avail, energywatch makes a formal referral to Ofgem for a breach of the supply licence.

energywatch also provides case studies to the BBC's Watchdog programme on energy mis-selling by a sales agency called Universal Energy. The Watchdog programme led Scottish and Southern Energy to stop Universal carrying out doorstep sales on their behalf in England.

FACT: November saw 50 businesses complain to us about direct selling from energy companies, 30% more than the monthly average. However, account and billing complaints remain the most common accounting for 44% of all business complaints in November.

December

The priority consumer team has another good outcome when EAGA agree to distribute 50,000 leaflets promoting free services to priority consumers. The team also takes the opportunity to show Stuart Burgess, the prime minister's rural advocate, around the project in Richmondshire and Hambleton.

FACT: **EDF Energy price rise:**
15.5% gas – 10.7% electricity
Powergen price rise:
11.9% gas – 7.2% electricity

September

The campaign for smarter metering jumps forward again with the publication of "*Get Smart: bringing meters into the 21st century*" and a sold-out seminar that galvanises the growing support for smarter metering. A marginal issue three months ago is now on the agenda of companies, regulators and government.

FACT: **British Gas price rise:**
14.2% gas – 14.2% electricity

October

With a billing ombudsman due in July, energywatch commissions "*Future Services: complaint handling and dispute resolution in the utilities*" on behalf of the Consumer Action Network (CAN). The report, from the University of Leicester, sets out best practice and principles for successful alternative dispute resolution. This is crucial in anticipation of the billing ombudsman and government plans for streamlining consumer advocacy.

After we work closely with the British Standards Institution (BSI), BS 8463, a standard for utilities billing, is published. If adopted properly, standards help companies perform better without the need for more formal regulation: something that is needed in respect of energy companies' billing practice.

FACT: **Scottish Power price rise:**
12% gas – 7% electricity (average)

Highlights 2005-06 continued

January

Scottish and Southern Energy and Npower prices go up. energywatch experiences a clamour from consumers for switching advice and price comparisons. Our media team makes sure that our Energy Smart messages are accessible across all media as energy prices dominate the headlines and the news bulletins.

The activities of some third party intermediaries in the business markets are a cause for concern. energywatch brings brokers and consumers together in a seminar to explore how a code of practice might improve the market.

FACT: Scottish and Southern Energy price rise:
13.6% gas – 12% electricity
RWE npower price rise:
13.7% gas – 12% electricity

February

The European Commission interim findings on gas and electricity markets vindicates energywatch's call for a competition inquiry and promises action for consumers. Another big step toward UNC 006 is taken when a second impact assessment is published and Ofgem declares it is minded to accept the modification. October is the date when markets may start to be less driven by uncertainty and doubt and more by transparency and openness.

energywatch unveils its new tougher "Confidence Code" for online price comparison sites. The revision of the voluntary code will give consumers more confidence that the information on accredited websites will be accurate and unbiased.

Another push for an effective ombudsman scheme comes when we host speakers from Ofgem, Otelo, the University of Leicester and

the Energy Retail Association at an "Informing the Debate" seminar. The seminar is the latest attempt to establish common agreement of what should underpin successful alternative dispute resolution (ADR) in the energy market.

Pre-payment meter consumers pay more and are hardest hit by price rises. Some companies do not reset meters for long periods, leading to debts building up, and then recovering the backdated amount in full, rolling several price rises into one. We highlight the problem to Ofgem and then work with them to negotiate a better deal for British Gas customers in particular.

FACT: We achieved over £765,000 in compensation and bill reduction for domestic and business consumers, another record month for energywatch.

March

The latest success in our campaign to reduce the number of disconnections means that energy companies will face stiffer questioning before magistrates grant warrants to disconnect consumers. There will be less chance of mistakes leading to a consumer having to cope without gas or electricity because of company error.

FACT: Scottish Power price rise
15% gas – 8% electricity
British Gas price rise
22% gas – 22% electricity
Powergen price rise
24.4% gas – 18.4% electricity
EDF Energy price rise
14.7% gas – 4.7% electricity
Npower price rise
15% gas – 13.4% electricity

Ofgem reports 900,000 consumers switch supplier in March.

Statistical highlights

- £6,744,738 for consumers in compensation, goodwill gestures and bill reduction. The average award for domestic consumers with billing complaints was £168 per household
- 326,000 telephone calls were initially received by the consumer contact centre (CCC) and a further 162,000 calls went straight to energywatch advisers
- The consumer contact centre dealt with 196,000 calls from consumers for help and support or advice
- 131,000 more complex issues were resolved by energywatch consumer advisers
- We logged 222,892 new enquiries
- We handled 62,075 new complaints from consumers which required detailed investigation with specific energy companies
- The website had 471,000 pieces of advice and information downloaded, an increase of 52.8% in visits and 36.6% in unique visitors. 200,000 answers were given through our online 'ask a question' facility
- Our priority consumer team has registered 6,040 consumers on the priority service register (PSR)
- The priority consumer team has been able to refer over 1,000 eligible consumers to grant giving bodies

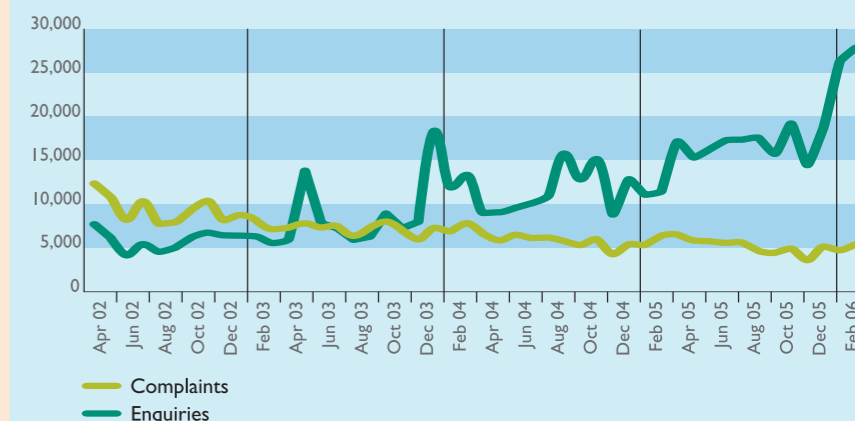
Energy prices

Annual percentage change



Energywatch complaints and enquiries

Received since April 2002



Consumers must be at the heart of government reviews

Government reviews of energy policy and consumer representation will have serious implications for consumers. That is why energywatch has committed so much time and energy this year to helping the reviews deliver real benefits for consumers.

The Energy Review aims to help government achieve its key goals of secure, sustainable and competitive energy markets, whilst also eradicating fuel poverty.

In our contribution, we have been able to build on our work to find new approaches to help consumers cut carbon and protect vulnerable consumers from fuel poverty.

Information is the missing ingredient from attempts to increase domestic energy saving. The success of our campaigns for better bills and statements, smarter metering, and more personalised information from companies will help consumers relate to their own energy consumption and to see how they can make a difference to their bills and to climate change.

Spiralling energy prices threaten to undo the good progress on eradicating fuel poverty. While energy efficiency is the long term solution to fuel poverty, millions of vulnerable households will face another winter unable to heat their homes. In our response, energywatch called on companies and government to help those who simply cannot afford to keep their homes warm.

That means companies introducing social tariffs and bringing their pre-payment prices in line with other charges. It also means a government strategy to support the incomes of vulnerable households during the winter months.

Our tests for the Energy Review

- A government action plan that uses information, incentives and smarter metering to help consumers reduce energy consumption.
- An urgent review of how innovative 'demand side' measures can help achieve greater security of supply.
- Government follows the European inquiry into energy markets with a review of how well our competitive energy markets are serving consumers.
- Government reasserts its fuel poverty targets and commits to support the incomes of the most vulnerable households at times of punitive energy prices.

The future of consumer representation as well as the future of energywatch itself is under review.

In January, government consulted on ways of streamlining and strengthening consumer advocacy through the creation of new consumer support bodies.

The proposals would mean replacing complaints and advice services with Consumer Direct giving practical advice to energy consumers, an ombudsman scheme to help consumers resolve complaints and a cross sector policy body called Consumer Voice, to represent the interests of consumers.

energywatch has cautioned that any new arrangements must not leave consumers stranded from vital support.

Helping millions of consumers has shown us that consumers with urgent or complex problems may fall outside the remit of the new bodies because they need more than simple advice, yet cannot wait for an ombudsman scheme to help them.

Throughout the year we have made a crucial contribution to the development of best practice in alternative dispute resolution schemes. Not just with thought provoking research papers and seminars, but through our role in the development of an ombudsman for energy consumers: an outcome from our Supercomplaint in April 2005.

energywatch uses the wealth of experience we derive from our front line staff and our company performance team to contribute to and initiate policy development in the energy sector: energywatch shows how effective advocacy must be based on the real experiences of consumers.

The ambition of developing stronger consumer advocacy retains our unequivocal support. However, we will continue to apply our experience in supporting consumers and intervening in the energy market to ensure that ambition is realised in the practical arrangements that emerge.

How to contact energywatch

Consumers can visit our website where they can not only email energywatch directly, but also access a range of frequently asked questions and leaflets designed to help them.

The address of the website is **www.energywatch.org.uk**

Our customer helpline is **0845 906 0708**

Our textphone is **18001 0845 906 0708**

Our head office address is:

energywatch
4th Floor
Artillery House
Artillery Row
London
SW1P 1RT

Fact

- During the last 12 months the website had 471,000 pieces of advice and information downloaded.
- An increase of 52.8% in visits and 36.6% in unique visitors.
- More than 200,000 answers were also given through our online 'ask a question' facility.

Key Performance Indicators

Key Performance Indicator	target	actual
Consumers rating our service as good or excellent	90%	86%
Complaints resolved within 35 working days of receipt	80%	84%
Complaints resolved within 66 working days of receipt	95%	95%
Enquiries resolved and closed within 10 working days	95%	95%
Prompted public awareness of energywatch products and services	40%	a
Advice and information despatched within two days of request	95%	95%
Referrals to energy efficiency advice bodies	15,000	17,293 b
Increase in consumers accessing advice on energywatch website	10%	37% c
Increase in the number of consumers on the priority service register	10%	d

- energywatch did not conduct a public awareness survey in 2005-06. In 2004-05 prompted awareness of energywatch was 43.5%.
- This does not include 13,867 home energy check forms sent to consumers in Scotland and Wales with each complaint acknowledgement letter.
- There was an increase this year of 37% on unique visitors and of 53% on total visits.
- Ofgem no longer publishes PSR information quarterly. Consequently we are unable to report on increase for the financial year until December 2006.

Accounts for the period

1 April 2005 to 31 March 2006

Directors Report

These accounts have been prepared in a form directed by the Secretary of State for Trade and Industry with the approval of the Treasury and in accordance with paragraph 8(2), Schedule 2 of the Utilities Act 2000.

About energywatch

The Gas and Electricity Consumer Council (energywatch) was established on 7 November 2000 by the Utilities Act 2000 to protect and promote the interests of all gas and electricity consumers in England, Scotland and Wales.

energywatch is an executive Non Departmental Public Body (NDPB) and is supported by grant-in-aid from the Department of Trade and Industry (DTI). This grant-in-aid is funded through the licence fees collected by Ofgem and paid by energy suppliers, shippers, distributors, gas transporters and the electricity transmission licence holders.

These accounts for the period 1 April 2005 to 31 March 2006 mark the fifth statutory accounts to be produced by energywatch.

energywatch is separate from the energy regulator, Ofgem. However, energywatch has a formal agreement with Ofgem to share an open, constructive and effective relationship. This agreement is contained in a Memorandum of Understanding between the two organisations.

energywatch did not make any charitable donations during the year.

Principal Activities

The principal activities are discussed in the annual report.

External Auditors

The Comptroller and Auditor General (C&AG) audits energywatch's annual accounts. An audit fee of £29K has been agreed for the 2005-06 external audit. The audit services provided by the C&AG's staff in the National Audit Office related only to statutory audit work.

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

During the year the Public Accounts Committee published a report entitled "Energywatch and Postwatch", (published 29 November 2005, HC 654) as a follow up to the Comptroller and Auditor General's report published October 2004.

Internal Auditors

The Internal Audit services provided by Bentley Jennison during the 12 months ended 31 March 2006 gave assurances that energywatch has adequate and effective risk management, internal control and corporate governance processes in place to manage the achievement of the organisation's objectives. Whilst Bentley Jennison have provided a positive opinion for the risk management framework, they are working with management to ensure that the defined system is further developed and embedded throughout the organisation.

Role of energywatch

energywatch is the independent gas and electricity consumer watchdog, set up by Parliament in November 2000. It provides free, impartial information and advice and takes up complaints on behalf of consumers who have been unable to resolve problems directly with

their energy companies. In addition, it works with energy companies, the regulator and policy makers to deal with the underlying causes of consumer complaints.

Under the Utilities Act 2000, energywatch has a statutory duty to protect and promote the interests of current and future energy consumers in England, Scotland and Wales. It also has a specific duty to 'have regard' to the interests of consumers who are of pensionable age, living with disabilities, chronically sick, on low-incomes, or residing in rural areas.

Office structure

energywatch operates an Office structure that enables the organisation to respond to the needs of energy consumers throughout Great Britain.

It operates from offices in London, Manchester, Birmingham, Newcastle and Bournemouth and national offices for Scotland (Glasgow) and Wales (Cardiff). The Head office is in London.

Office closure

During the year energywatch announced the closure of its Manchester office by exercising a lease break clause. The office closed on 1 April 2006 but liability continued until 21st May 2006 when the break clause crystallised.

Better Payment Practice

energywatch complies with the Better Payment Practice Code in its treatment of suppliers. The key principles are to settle the terms of payment with suppliers when agreeing the transaction, to settle disputes on invoices without delay and to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. Ninety five percent of suppliers' invoices were paid within 30 days of the invoice date.

Future events

In January 2006 the DTI started a period of public consultation on the future provision of consumer services for the utility industries. The outcome of the review is due to report in July 2006.

energywatch's future development will also be guided by the delivery of the four key goals set out in the Corporate Plan 2004-08. The goals are: providing services to consumers; championing the interests of consumers, particularly the vulnerable; promoting markets that work well for all consumers; and improving value and impact.

Each year an annual Work Plan is agreed that supports the Corporate Plan and sets out the work programme, outputs and resources for the year.

Governance

The energywatch Council is the governing body of the organisation and is responsible for the setting of energywatch policy, for the discharge of its statutory duties and responsibilities and for overseeing the sound financial management of the organisation. Council members are appointed by the Secretary of State for Trade and Industry.

There were eight Council meetings, five Audit Committee meetings and two Remuneration Committee meetings during the year.

energywatch Audit Committee

In accordance with best practice and Treasury requirements energywatch appointed an Audit Committee in December 2000. Positions on the Audit Committee are held by non-executive Council members.

The Audit Committee members for the year were:

- Tim Cole (Chair) until September 2005
- Sharon Darcy (Chair) from October 2005
- Brian Saunders
- Charles Coulthard
- Krishna Sarada
- John Howard – until September 2005



Allan Asher
Accounting Officer
energywatch

Principal Office
4th Floor Artillery House
Artillery Row
London SW1P 1RT

12th July 2006

Council members are listed in the Annual Report.

Management Commentary

energywatch has a duty to investigate complaints from energy consumers and also responds to requests for advice or information. New contacts from consumers are received by telephone, fax, letter, email, through the website or in person at one of our offices. Services are delivered through an outsourced call centre and 7 operational offices in England, Scotland and Wales. Where possible, consumers are empowered to enable them to resolve their own problem directly with their supplier. In other cases, energywatch will deal with the relevant company on behalf of the consumer and seek to ensure that the problem is resolved, including where appropriate payment of compensation to the consumer.

A comprehensive performance management framework is in place to measure performance in complaint and enquiry handling.

Key performance indicators include:

- % of complaints resolved in 35 working days
- % of complaints resolved in 66 working days
- % of enquires resolved in 10 working days
- telephone answering performance
- customer satisfaction.

A number of key changes were made to the organisation during the year, including:

- separation of operational case handling activities from other functional roles
- implementation of a “virtual office” across the English offices
- centralisation of business consumer cases in the Newcastle office
- closure of the Manchester office.

These changes have allowed improved operational efficiency, with performance against all of the KPI measures increasing during the year. Complaint numbers (62,075) are falling due to the combined effect of tackling the sources of complaints with suppliers and increased consumer empowerment. Volumes of enquiries (222,892) continue to rise,

particularly during the last quarter in response to the announcements of big energy price rises from all suppliers. Forecast volumes for 2006-07 are 59,000 complaints and 215,000 enquiries.

At 31 March 2006, energywatch employed 239 staff (full time equivalents), of which 158 are based in the 7 operational offices and are wholly engaged on the delivery of complaint handling services to consumers. [There are also 19 full time equivalents in the outsourced call centre.]

The DTI is currently consulting on the future of consumer representation and the proposed approach would significantly impact the work undertaken by energywatch. In the shorter term, the energy suppliers are required to implement an Ombudsman scheme to deal with unresolved billing complaints by July 2006. Until details are finalised, it is not possible to assess the likely impact on energywatch workload. If energywatch funding is reduced as is anticipated in 2007-08, this could represent a threat to service levels, unless consumer contacts reduce significantly.

The energywatch risk register details the impact, probability and exposure to key risks. Each risk has an allocated owner who is responsible for ensuring appropriate mitigating actions are in place. The register is reviewed by the Management Board and endorsed by the

Audit Committee. Key risks include the impact of the external review of consumer services and an increased volume of new cases causing an imbalance between workload and resources.

energywatch maintains close relationships with all major participants in the industry, including suppliers, distributors, Ofgem and other bodies.

energywatch uses Dataforce for the outsourced call centre and its current contract will expire on 31 March 2007.

KPIs

Complaints (35WD & 66WD) and Enquiries (10WD) – data is taken from the service mail system and expresses the number of cases resolved within the target as a percentage of complaints or enquiries received.

Telephones – data is taken from the telephone system and shows the percentage of the total calls received by energywatch offices which are answered by an agent.

Customer satisfaction – data is taken from monthly outbound telephone surveys conducted by Dataforce, to show the percentage of consumers who were satisfied with the service received from energywatch. Only consumers who had logged a complaint were contacted.

Performance

	04/05		05/06		06/07
	target	result	target	result	target
	%	%	%	%	%
Complaints – 35WD	75	81	80	84	80
Complaints – 66WD	95	93	95	95	95
Enquiries – 10WD	–	–	95	95	95
Customer Satisfaction	90	87	90	86	90
Telephones ¹	–	–	95	93	95
Complaints against EW ²	–	–	–	–	100

¹ Percentage of calls answered.

² Complaints against energywatch replied within 10 working days.

Financial Events

energywatch was allocated grant-in-aid monies of £13M in 2005-06. All of the allocation was drawn down. During the year energywatch implemented a major restructuring programme and made 30 staff redundant. In addition, we embarked on a further round of redundancies following the announcement of the closure of our Manchester office. The redundancies resulted in lump sum compensation payments falling into this year.

Fixed assets additions during the year totalled £13K. This amount was credited to the Government grant reserve and will be released to match against the depreciation of those assets (see note 17). Other movements on reserves have resulted from the revaluation of fixed assets £4K and from the transfer of the deficit for the year.

During the year energywatch made a new provision for early retirements and deferred pension payment of £313K.

Manchester Office Closure

The success energywatch has achieved in reducing the number of complaints has resulted in significant excess physical capacity across its operational offices, than was necessary to accommodate the staff numbers required to support anticipated future workload. All of the offices were on long term leases, but those for Birmingham and Manchester contained lease break clauses which could be activated in 2006. The annual premises running costs (rent, rates and service charges) for each office were approximately £150,000.

All options for bringing capacity into balance with forecast requirements were investigated, including sub-letting space, undertaking work for other bodies and relocating to smaller premises. Unfortunately no suitable arrangements could be negotiated and the greatest cost savings were from closure of the Manchester office, with a cumulative NPV saving of £855,000 to 2011-12. The energywatch Council approved the closure in August 2005 and following consultation with

the Trade Unions, staff in Manchester were issued 6 months notice in October 2005. This provided for the closure of the office in April 2006, to allow sufficient time to complete the dilapidation works and hand back the premises to the landlord in May 2006.

Staff were provided with training or outplacement support, to help them find alternative employment and were allowed to leave energywatch during their notice period if they were offered another position. During the period to closure, the amount of new case work taken by the Manchester office was progressively reduced to allow the live cases to be cleared. When the office finally closed, there were less than 30 open cases and these were transferred to the Newcastle and Birmingham offices.

Results for the year

The deficit for the year amounted to £501K (2004-05 deficit of £209K). Included in this total are accounting entry adjustments for the property provision decrease of £19K and fixed asset devaluation cost of £40K.

During the year energywatch made a special severance payment of £30K for continued training to a former employee whose post became redundant, as part of a compromise agreement on termination of employment. During the NAO's audit it came to light that energywatch had misunderstood their delegated authority for this payment. Prior approval should have been obtained from the Treasury. The requirements of Government Accounting were breached and retrospective approval was not forthcoming. As a consequence, this payment is deemed to be irregular, and the C&AG has qualified his audit opinion and provided a Report on the matter.

Staffing and Equal Opportunities

energywatch is committed to supporting the principle of equal opportunities and opposes all forms of unlawful or unfair discrimination

on the grounds of colour, race, nationality, ethnic origin, sex, marital status, disability, age, sexual orientation, religion or belief, or trade union membership.

Our aim is to recruit and develop the best person for the job and to create a working environment free from unlawful discrimination, victimisation and harassment and in which staff are treated with dignity and respect.

Staff are regularly consulted on issues regarding health, safety and welfare, which are taken into account in the future operations.

Race Equality Scheme

energywatch, as a grant-aided public body, is committed to race equality and diversity. We regard unfair treatment and any form of discrimination as unacceptable, and we believe that it is in our best interest, that is, of our staff and the communities we serve, for diversity to be valued and celebrated. We employ staff from the wide racial mix of the UK multi-cultural society and we believe that the positive benefits that accrue from this are a working environment that is free from racial discrimination or harassment.

In line with our Race Equality Scheme (RES) any new policies or processes - including the organisational review and Manchester Office closure were assessed for their impact on our commitment to promote race equality. There are processes in place to capture ethnicity and satisfaction data, we plan to widen the survey in 2006-07 to help us identify who contacts us and then focus on reaching those consumers who do not.

Sustainability policy

We have developed and implemented a sustainability policy and an action plan to be reviewed annually which sets out how we will deliver environmentally and socially responsible, operational practice and demonstrates our commitment to continually improve our environmental performance and role on a cost-effective basis.

Going Concern

The accounts show a deficit on the Income and Expenditure account of £501K and negative taxpayers' equity of £2,985K as at 31 March 2006. This deficit is as a result of the reorganisation and redundancies arising from the early retirement provision. These liabilities will fall due in future years and, to the extent that they are not to be met from energywatch's other sources of income, may only be met by future grants or grants-in-aid from energywatch's sponsoring department, the DTI. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Negative taxpayers equity is due largely to the existence of provisions for onerous leases, early retirement and pension costs reflecting obligations incurred in relation to the transfer of functions from legacy organisations.

The DTI has confirmed that there is no reason to believe that the Department's future sponsorship will not be forthcoming within the capital and resources budgets set by Spending Review Settlements. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.



Allan Asher
Accounting Officer
energywatch

12th July 2006

Remuneration Report of the Council

The purpose of the Remuneration Committee is to:

- Advise the Council on the appointment, remuneration terms and performance objectives of the Chief Executive;
- Monitor and evaluate the performance of the Chief Executive, and make recommendations to the Council;
- Receive and review at suitable intervals, not less than once a year, a report by the Chief Executive on the performance of senior executives reporting directly to him in order to give appropriate advice;
- Advise, upon request from the Chief Executive, on all matters relating to energywatch human resources policies and practice.

Membership

The Committee comprises 3 non-executive Council Members one of whom is appointed as Chair. Allan Asher, the Chief Executive is invited to attend committee meetings. He is not involved in discussion concerning his remuneration.

During 2005-06 Tim Cole chaired the Committee and its other members were John Howard and Julian Salisbury. The Committee has detailed written terms of reference that it and the Council review annually. These may be viewed on the organisation's website, www.energywatch.org.uk. The Committee met twice in 2005-06.

Statement of energywatch's policy on directors' remuneration

The Remuneration Committee advises the Council on the remuneration package for the Chief Executive. Directors' remuneration including the possible extent of any performance related pay, is subject, however to the recommendations of the Senior Salaries Review Body. ¹To ensure that energywatch can attract and retain executives who are expected to meet challenging performance criteria, the Council's policy is to ensure that the remuneration package for directors aligns with the rewards available to comparators. Such comparators are identified from independently compiled remuneration research.

In designing the schemes and in preparing this report the Council and the Committee have complied with the provisions of the Companies Act 1985.

Directors' contracts

The Directors are permanent employees and therefore potential beneficiaries of the Civil Service Compensation Scheme. During 2006-07, the Director of Services will be re-employed on a part-time basis for 18 months following his retirement.

The following sections provided details of the remuneration and pension interests of the Chief Executive and Directors of energywatch

Remuneration

	2005/06 Salary £ 000	Benefits in kind (to nearest £100)	2004/05 Salary £ 000	Benefits in kind (to nearest £100)
Chief Executive				
Allan Asher	(90-95)	N/A	(85-90)	N/A
Directors				
Keith Tolladay	(85-90)	N/A	(70-75)	N/A
Adam Scorer	(60-65)	N/A	(50-55)	N/A

The Chief Executive, Allan Asher, was the highest paid employee during the period. He is a member of the Premium Pension Scheme.

Remuneration of Chief Executive and other Directors for the 12 months ended 31 March 2006

Disclosure of Salary and Pension Information (Civil Service) 12 months ended 31 March 2006.

	1	2	3	4	5	6	7	8	9	10	11
Name	Salary including performance pay (£K) [previous year comparative]	Start Date	End Date	Real increase in pension (£K)	Real increase in lump sum (£K)	Pension at End Date (£K)	Lump sum at End Date (£K)	CETV at Start Date (nearest £K)	CETV at End Date (nearest £K)	Employee contributions and transfers - in (£K)	Real increase in CETV funded by employer (nearest £K)
Allan Asher	90-95 [85-90]	31/03/05	31/03/06	0-2.5	N/A	0-5	N/A	27	73	2.5-5	37
Keith Tolladay	85-90 [70-75]	31/03/05	31/03/06	7.5-10	25-27.5	35-40	115-120	647	977	0-2.5	196
Adam Scorer	60-65 [50-55]	31/03/05	31/03/06	0-2.5	N/A	0-5	N/A	6	22	0-2.5	11

¹ The Council sets objectives for each director and assesses their performance to determine the extent of any performance related bonus.

Salary

'Salary' includes gross salary; performance pay or bonuses; (up to a maximum of 10% of base salary) overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pension

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) 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 three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respects of service before 1 October 2002 calculated broadly in the same way as in Classic.

The Partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age

of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit over (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.

Columns 8 & 9 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 11 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and the end of the period.

The Cash Equivalent Transfer Values

A Cash Equivalent Transfer Values (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 the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details,

include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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

Real increase in CETV

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



Allan Asher
Accounting Officer
energy watch

12th July 2006

Statement of Accounting Officer's Responsibilities

Under paragraph 8(2), Schedule 2 of the Utilities Act 2000, the Secretary of State with the approval of the Treasury, has directed energywatch 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 energywatch's state of affairs at the year-end and of its income and expenditure and total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, energywatch is required to:

- observe the Accounts Direction issued by the Secretary of State, 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;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume energywatch will continue in operation.

The Accounting Officer for the DTI has appointed the Chief Executive of energywatch as Accounting Officer. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for keeping proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Government Accounting'.

Statement on the System of Internal Control

I Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control which supports the achievement of organisational policies, aims and objectives as set by the Management Statement and Financial Memorandum whilst safeguarding the public funds and organisational assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

energywatch is supported by Council members who are responsible for:

- Setting the organisation's strategies and enabling frameworks;
- Monitoring performance against annual Work Plan objectives and targets;
- Identifying the central activities required to support delivery of the Corporate Plan and approving the annual budget;
- Evaluating the impact of emerging issues or significant divergences from Corporate and Work Plan delivery;

The Council is chaired by a non-executive appointee and comprises the organisation's Chief Executive, together with non-executive members. An Audit Committee has been established to support the Chief Executive through monitoring and reviewing the adequacy and effectiveness within the organisation of:

- Corporate governance arrangements;
- Processes for managing risks;
- Internal audit and related activity;
- Management responses to the recommendations resulting from internal audit work;
- Accounting Officer Statements on Internal Control.

The Chief Executive and energywatch Senior Managers meet with senior officials from within the Department for Trade & Industry at regular intervals. These meetings usually occur on a quarterly basis and issues discussed include performance against KPIs, financial expenditure and policy development. In addition, the energywatch Chair regularly meets with Ministers.

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

3 Capacity to handle risk

As Accounting Officer, I also have responsibility for reviewing our capacity to handle risk. To effect this energywatch has implemented the following:

- A risk management policy reflecting the purpose and underlying approach to risk management and the role of the staff and senior management team, accessible to all staff on the intranet;
- An organisational risk register that identifies all known operational risks assigned to individual risk owners. The risk register energywatch has implemented includes mitigating actions to eliminate or reduce this risk and is reviewed quarterly

for effectiveness. All projects on their commencement are assessed for risk and resource implications and regularly reviewed over their lifecycle, for changes in the risk profiles.

- A programme of risk awareness training for Council Members and staff.
- Summaries of the top 10 high likelihood and high impact risks and risks whose level has changed are presented at each meeting of the Audit Committee.

4 The risk and control framework

The risk management framework in addition to the organisational risk register is informed by the following process:

- Regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects. Each manager is required to provide corporate governance assurance to the Accounting Officer in respect of their management and compliance with internal controls, risk, finance and asset controls;
- Inclusion of risk management as a standing item on the Audit Committee agenda. There are regular reviews of the risk implications of operational activities;
- Establishment of key performance and risk indicators and development of the strategic risk framework;
- A Management Board which meets regularly to consider the operational plans and strategic direction of the organisation;
- Ensuring energywatch's operations and system of internal control comply with the principal recommendations from the government departments such as the Cabinet Office and Office of Government Commerce (OGC) with regards to best practice.

5 Review of effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Council, the Audit 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 the role of energywatch bodies which inform my review are detailed below:

The energywatch Council

The Council is the governing body of the organisation and carries responsibility for setting energywatch policy priorities and for promoting the efficient and effective use of staff and other resources, whilst ensuring that it fulfils the aims and objectives of the Secretary of State. The main responsibilities of the Council are as follows:

- The Council is entrusted with public funding and therefore has a particular duty to observe the highest standards of corporate governance. This includes ensuring and demonstrating integrity and objectivity in the transaction of their business and, wherever possible, following a policy of openness and transparency in the dissemination of their decisions.
- The Council has a duty to enable the organisation to achieve and develop its strategic aims. This responsibility includes considering and approving the organisation's three year Corporate Plan and the Forward Work Programme and resource deployment.

- The Council should regularly monitor the performance of the organisation against its planned strategies and key performance indicators.
- The Chief Executive is the Accounting Officer responsible to the DTI Principal Accounting Officer and to Parliament for ensuring value for money, regularity and propriety in deploying all the organisations resources. The Council's financial responsibilities include ensuring the solvency of the organisation and safeguarding its assets; receiving and approving the Annual Report and Accounts.

The Audit Committee

In addition to their other activities, the Audit Committee oversees the adequacy and effectiveness as described above. It achieves this by:

- Reviewing the planned activity and results of the external and internal audit;
- Considering the adequacy of Management response to issues identified by audit and other review bodies on a quarterly basis;
- Periodic reports from the Chairman of the Audit Committee, to the Council, concerning internal control, risk management and corporate governance.

Internal Audit

The Council has oversight of the organisations arrangements for internal and external audit, as well as ensuring the existence and integrity of financial and other control systems. This responsibility is delegated to the Audit Committee.

The Internal Auditors report to the Audit Committee and agree a rolling programme of audit for each forthcoming year according to the Committee's priorities.

Regular audit reports are made, along with the end of year Annual Report, as defined by Government Internal Audit Standards. A review of Corporate Governance and Risk Management was performed during the year,

in accordance with the approved internal audit plan. This concluded that the design of the Corporate Governance system and the associated controls are effective, with a number of instances of good practice identified.

An additional audit of Financial Management and Budgetary Control was also commissioned following the identification of possible control issues. This report made a number of recommendations to address the weaknesses identified. A follow up review provided adequate assurance as at 31 March 2006 that risks material to the achievement of the system objectives were adequately managed and controlled.

Internal control problem

During the year energywatch made a special severance payment of £30K for continued training to one former employee. My view is that the payment was good value for money but the requirements of Government Accounting were breached and irregular expenditure was incurred as a result.

The Audit Committee noted that energywatch will ensure all future potential payments in this category are referred for prior approval in accordance with Government Accounting. energywatch had also reviewed its delegated authorities and agreed with DTI the delegations contained within a revised Financial Memorandum.



Allan Asher
Accounting Officer
energywatch

12th July 2006

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of energywatch for the year ended 31 March 2006 under the Utilities Act 2000. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of energywatch, Accounting Officer and auditor

The Council and the Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Utilities Act 2000 and Secretary of State directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Utilities Act 2000 and Secretary of State directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and

the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if energywatch has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 33 to 36 reflects energywatch's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of energywatch's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the information on pages 1 to 25 of the Annual Report, the unaudited part of the Remuneration Report and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

energywatch's circumstances, consistently applied and adequately disclosed.

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

Unqualified opinion on the truth and fairness of the financial statements and qualified opinion on the regularity of expenditure arising from an unauthorised special severance payment made to a former employee in respect of termination of employment

As disclosed on page 27 of the Management Commentary, during 2005-06 energywatch made an unauthorised special severance payment to a former employee in relation to the termination of their employment. The payment went beyond that which energywatch employees, or former employees, are contractually entitled to receive. As such it is deemed to be a 'special payment' that requires the prior approval of the Treasury under Section 18 of Government Accounting. energywatch, however, did not obtain the necessary prior approval via the Department of Trade and Industry (DTI) before making the payment. Following the identification of this payment during my audit, the DTI declined to request retrospective approval for the payment from Treasury on the grounds that it would not have sought to make such a payment itself.

Accordingly, I have concluded that the payment for £30,000 did not conform with the authorities that govern it and has not been applied for the purposes intended by Parliament.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Utilities Act 2000 and directions made thereunder by the Secretary of State, of the state of energywatch's affairs as at 31 March 2006 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Utilities Act 2000 and Secretary of State directions made thereunder; and
- except for the expenditure relating to the unauthorised special severance payment made to a former employee referred to above, 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.

Details of this matter are set out in my Report on page 39.

John Bourn
Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
Victoria, London
SW1W 9SP

14th July 2006

The maintenance and integrity of the energywatch website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Introduction

- As part of my audit of energywatch's financial statements, I am required to satisfy myself that the expenditure and income shown in the accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so I have regard, in particular, to Treasury authorities and the Treasury Manual "Government Accounting", which sets out the financial framework within which government entities are required to operate.
- I have qualified my audit opinion on the energywatch 2005-06 financial statements. My qualification arises in respect of the regularity of expenditure owing to the inclusion of an unauthorised special severance payment for £30,000. This payment was made to an employee, in respect of the termination of employment.

Background to the Irregular Payment

- During 2005-06 energywatch made a special severance payment to an employee in relation to the termination of their employment. Following a restructuring exercise, the employee's post was made redundant, and the payment of £30,000 was made in addition to the contractual compensation as part of a compromise agreement.
- The payment went beyond that which energywatch employees, or former employees, are contractually entitled to receive. Payments of this type require the prior approval of the Treasury under Section 18 of Government Accounting. This is because they are classified

as 'special payments' and in exceeding contractual entitlements are considered to be contentious. energywatch should first have referred details of the proposed payment to the Department for Trade and Industry (DTI) as the sponsoring department. Had the DTI supported energywatch's proposals then they would have sought the necessary approval, on behalf of energywatch, from the Treasury.

- energywatch did not regard this payment as contentious and did not seek to obtain prior approval to make such a payment.
- The payment was identified during my audit. The DTI did not subsequently support an approach to Treasury for approval, as they did not consider the payment to have been in accordance with Departmental policy on such payments.
- energywatch have assured me that they understand the requirements for Treasury approval and, in future, no such payments will be made unless the necessary approval has been obtained before any offers are made to the staff involved.

John Bourn
Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
Victoria, London
SW1W 9SP

14th July 2006

Income and Expenditure Account

12 Months ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
Income			
DTI Grant in aid	2	13,313	13,500
Miscellaneous income	3	147	413
	
		13,460	13,913
	
Expenditure			
Staff costs	4	6,966	7,286
Other administration costs	5	5,323	6,866
	
		12,289	14,152
	
Operating surplus/(deficit) before exceptional items		1,171	(239)
Reorganisation costs	6	(1,709)	(0)
	
Operating (deficit) after exceptional items		(538)	(239)
Plus:			
Interest receivable		33	34
Profit/(Loss) on disposal of fixed assets	7	4	(4)
	
Notional cost of capital	8	(56)	(67)
	
(Deficit) on operating activities		(557)	(276)
Add back notional cost of capital		56	67
	
(Deficit) transferred to General Reserve		(501)	(209)
	
All amounts relate to continuing activities			
<hr/>			
Statement of Recognised Gains and Losses for the 12 months ended 31 March 2006		2005-06 £'000	2004-05 £'000
Net loss on revaluation of tangible fixed assets		(18)	23

The Accounting Policies and notes on pages 43-55 form part of these Accounts.

Balance Sheet

As at 31 March 2006

	Note	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Fixed Assets			
Intangible assets	9	35	50
Tangible assets	10	156	529
		191	579
Debtors (due after more than one year)			
	11.1	21	50
Current Assets			
Debtors (due within one year)	11&11.2	662	396
Cash at bank and in hand	14	–	148
		874	1,173
Total Assets			
Cashbook overdraft	14	(665)	–
Creditors (due within one year)	12&13	(343)	(800)
		(1,008)	(800)
Total Assets less Total Liabilities			
		(2,985)	(2,138)
Tax payers equity:			
General reserve	16	(3,495)	(2,994)
Government grant reserve	17	479	807
Revaluation reserve	18	31	49
		(2,985)	(2,138)

The Accounting Policies and notes on pages 43-55 form part of these Accounts

Cashflow Statement

12 Months ended 31 March 2006

	2005-06 £'000	2004-05 £'000
Net cash outflow from Operating activities (note 28)*	(703)	107
Returns on Investment and Servicing of Finance		
Interest received	33	34
Capital Expenditure		
Purchase of Intangible Fixed Assets	(5)	(77)
Purchase of Tangible Fixed Assets	(9)	(207)
Proceeds from sale of Fixed Assets	6	8
Total Capital Expenditure	(8)	(276)
Financing		
Capital grant-in-aid received	13	284
(Decrease)/Increase in cash	(665)	148

*Notes to the reconciliation of operating (deficit)/surplus to Operating cashflows (see page 55)

Statement of accounting policies and notes to the accounts

I. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual issued by HM Treasury and are in accordance with the Accounts Direction issued by the Secretary of State for Trade and Industry. The particular accounting policies adopted by energywatch are described below. They have been consistently applied in dealing with items considered material to the financial statements.

1.1 Accounting conventions

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

1.2 Fixed assets

Expenditure on intangible and tangible fixed assets is capitalised. The minimum level for the capitalisation of tangible fixed assets is £1,000.

Assets are revalued annually using indices provided by the Office of National Statistics.

1.3 Depreciation/Amortisation

Depreciation/Amortisation is provided on all fixed assets, at rates calculated to write off the cost of valuation of each asset, less any estimated residual value, evenly over its expected useful life. The expected useful lives of the principal categories are:

Furniture and fittings	5 years
Computer equipment	4 years
Other equipment	4 years
Software Licenses	4 years

1.4 Provisions

energywatch makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (i.e. a present obligation from past events exist), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, energywatch discounts the provision to its present value using a discount rate of 2.2 per cent, the Government's standard rate. Provisions are calculated on the basis of estimated future cash flows.

1.5 Government grants

energywatch is financed by grant-in-aid from the DTI which receives these monies from Ofgem's license fees raised on behalf of energywatch. Grant-in-aid is recognised only to the extent that it is within the limits set by the DTI and on the basis of payments made in the year which qualify for grant support rather than accrued expenditure. Grant-in-aid of a revenue nature is credited to income in the year to which it relates. Grant receivable for capital expenditure is credited to a deferred Government Grant account and released to the Income and Expenditure account over the expected useful lives of the relevant assets.

1.6 Pension costs

The current position is as follows:

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit elements of the scheme are unfunded and are non-contributory except in respect of dependent benefits. energywatch recognises the expected cost of those elements on a systematic and rational basis over the period during which it benefits from employees' services by payments to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, energywatch recognises the contributions payable for the year.

1.7 Early retirement costs

energywatch is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retired early. energywatch provides in full for this cost.

1.8 Operating leases

Rentals due under operating leases are charged to the Income and Expenditure Account over the lease terms on a straight line basis, or on the basis of actual rentals payable which fairly reflects usage.

1.9 Capital charge

A charge, reflecting the cost of capital utilised by energywatch, is included in the Income and Expenditure account. The charge is calculated at the Government's standard rate of 3.5 per cent for 2005-06, on the average carrying value of all assets less liabilities, except for cash balances with the Office of the Paymaster General (OPG) where the charge is nil.

1.10 Research and development

Expenditure on research is written off to the Income and Expenditure Account in the year in which it is incurred.

1.11 Taxation

energywatch is not liable for corporation tax on interest earned on bank deposits.

1.12 Legal costs

energywatch bears the cost of general legal advice and the DTI bears the cost of litigation which are treated as notional costs.

1.13 Intra-Government Balances

In accordance with NDPBs' accounts guidance, agency debtors and creditors balances have been analysed accordingly.

1.14 Revaluation reserve

This reflects the unrealised element of the cumulative balance of indexation and the revaluation adjustment of tangible fixed assets.

2. Grant-in-aid

	2005-06 £'000	2004-05 £'000
Amount receivable and received		
Department of Trade and Industry (DTI)	12,984	13,267
Adjustment of deferred capital grant (note 17)	(13)	(284)
Release of deferred capital grant (note 17)	342	517

Grant-in-aid released to the income and expenditure account	13,313	13,500

3. Other income

	2005-06 £'000	2004-05 £'000
Miscellaneous income		
Rental income from sub-let of property	105	102
Other income (note i.)	42	311

	147	413

(note i.)

Other income consists largely of the refund of £22K which energywatch received from Manchester Council for non-domestic rates.

4. Staff and related costs

	Permanently Employed staff £'000	Others £'000	2005-06 £'000	2004-05 £'000
Salaries and Wages	5,540	106	5,646	6,153
Social security costs	426	0	426	406
Pension costs	894	0	894	727

	6,860	106	6,966	7,286

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but energywatch is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation at the website www.civilservice-pensions.gov.uk.

For 2005-06, employers' contributions of £894K were payable to the PCSPS (2004-05 £727K) at one of four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme.

	2005-06	2004-05
Average number of staff		
Staff permanently employed by energywatch	239	272
Others engaged on the objectives of energywatch (note i)	4	12

	243	284

note i.

This includes consultants and temporary staff.

Remuneration of other Council Members:

	2005-06 £'000	2004-05 £'000
Tim Cole	5-10	5-10
Sharon Darcy	5-10	5-10
Charles Coulthard	5-12	0
Ed Gallagher (Chair)	35-40	35-40
Andrew Horsler	5-10	5-10
Brian Saunders	5-10	0
John Howard	5-10	0
Julian Salisbury	5-12	0
Krishna Sarda	5-10	0

Council members were appointed by the Secretary of State on contracts from March 2005 to March 2008.

The Chair is appointed on a 36 month contract.

Council member posts are non pensionable.

5. Administration costs and other expenditure

	2005-06 £'000	2004-05 £'000
Administration costs		
Office costs	1,001	1,088
Rent and associated costs	1,859	1,619
Call centre	842	1,088
IT (non-consultancy) costs	317	567
Publicity	196	346
Policy and research	0	405
Campaign & research	164	0
Training	70	138
Legal and professional	62	274
Depreciation/amortisation	342	517
External audit fee (note i.)	29	28
Project costs	61	85
Devaluation of fixed assets	40	50
Early retirement pensions provision (GCC and EW)	294	1,026
Effect of unwinding of the discount factor	17	106
Changes to existing provisions	48	67
Onerous leases and associated costs	(19)	(538)

	5,323	6,866

(note i.) There was no auditor remuneration for non-audit work.

6. Reorganisation costs

	2005-06 £'000	2004-05 £'000
Deferred pensions provision (note 15)	313	0
Redundancy payments (note i)	1,357	0
Related reorganisation payments	39	0
	1,709	0

(note i)

During the year energywatch made 30 members of staff redundant. In addition, a further round of redundancies resulted from the closure of our Manchester office and the total redundancy sum of £1,357k was paid in 2005-06.

7. Disposal of fixed assets

	2005-06 £'000	2004-05 £'000
Profit/(Loss) on disposal of fixed assets	4	(4)

8. Notional cost of capital

	2005-06 £'000	2004-05 £'000
At 3.5% on average of total assets less total liabilities for the year	56	67

In the financial year 2005-06 the notional cost of capital was 3.5% (2004-05 3.5%).

9. Intangible fixed assets

	2005-06 £'000
	Software Licences
As at 1 April 2005	67
Additions	5
Disposals	0
Revaluations/(Devaluation)	(3)
As at 31 March 2006	69
Depreciation	
As at 1 April 2005	17
Charge for the year	17
As at 31 March 2006	34
NBV: As at 31 March 2006	35
NBV: As at 31 March 2005	50

10. Tangible fixed assets

Cost of valuation	Furniture & Fittings £'000	Office* Equipment £'000	Computer Equipment £'000	Total £'000
As at 1 April 2005	640	872	700	2,212
Additions	0	0	9	9
Disposals	(2)	0	(3)	(5)
Revaluations/(Devaluations)	4	(21)	(16)	(33)
As at 31 March 2006	642	851	690	2,183
Depreciation				
As at 1 April 2005	445	672	566	1,683
Charge for the year	123	131	96	350
Revaluation/(Devaluation) of depreciation	(4)	0	0	(4)
Disposals	0	0	(2)	(2)
As at 31 March 2006	564	803	660	2,027
NBV: As at 31 March 2006	78	48	30	156
NBV: As at 31 March 2005	195	200	134	529

*This includes Software Equipment, with a NBV of £63K at 31 March 2006.

11. Debtors

	As at 31 March 2006 £ 000	As at 31 March 2005 £ 000
Other Debtors	72	69
Prepayments	590	327

	662	396

Other debtors include season ticket loans and staff advances

11.1 Debtors due after more than one year

Prepayments	21	50
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11.2 Intra-Government Balances

	As at 31 March 2006 £ 000		As at 31 March 2005 £ 000	
	Debtors: Amounts falling due within one year £ 000	Debtors: amounts falling due after more than one year £ 000	Debtors: amounts falling due within one year £ 000	Debtors: amounts falling due after more than one year £ 000
Balances with central government bodies	4	0	14	0
Balances with local authorities	205	0	0	0
Balances with NHS Trusts	0	0	0	0
Balances with Public Corporations and trading funds	0	0	0	0
Balances with bodies external to government.	453	21	382	50

As at 31 March 06	662	21	396	50

12. Creditors

	As at 31 March 2006 £ 000	As at 31 March 2005 £ 000
Social security & other taxes	194	198
Accruals	133	541
Deferred income	16	61

	343	800

Amounts (falling due after one year)

12.1 Deferred income	7	28
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13. Intra-Government Balances

	As at 31 March 2006		As at 31 March 2005	
	Creditors: Amounts falling due within one year £ 000	Creditors: amounts falling due after more than one year £ 000	Creditors: amounts falling due within one year £ 000	Creditors: amounts falling due after more than one year £ 000
Balances with central government bodies	273	0	338	0
Balances with local authorities	0	0	0	0
Balances with NHS Trusts	0	0	0	0
Balances with Public Corporations and trading funds	0	0	0	0
Balances with bodies external to government.	70	7	462	28

As at 31 March 06	343	7	800	28

14. Cashbook Overdraft/cash at bank and in hand

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
As at 1 April	148	(1)
Cash (outflow)/inflow	(813)	149
As at 31 March	(665)	148

Note:

At 31 March 2006 payments of £833K were made which led to a deficit of £665K in the cashbook.

15. Provision for liabilities and charges

	Onerous lease provision £'000	Early retirement provision (GCC) £'000	Early retirement provision (EW) £'000	Pension provision £'000	Total £'000
As at 1 April 2004	1,339	815	0	329	2,483
New Provision recognised	0	0	313	0	313
Additional Provisions in year	0	294	0	0	294
Amounts Used in the Period	0	(273)	(12)	(26)	(311)
Changes to Existing Provisions	(19)	0	0	67	48
Unwinding of the discount factor	0	17	0	0	17
As at 31 March 2006	1,320	853	301	370	2,844

Onerous Lease Provision

The provision for onerous leases is in respect of the ongoing payments for properties previously occupied by legacy organisations, or by energywatch, but which are now surplus to requirements. This includes properties with leases which terminate between 2008 and 2015. The actual costs involved are not certain at the balance sheet date, being subject to revision through rent reviews, etc. Future income streams are recognised as and when sub-letting of properties is reasonably certain.

Provisions for Early retirement pensions GCC

The provision for early retirement reflects energywatch's ongoing obligation to make payments into the pension schemes of former employees of legacy organisations, who were made redundant on the creation of energywatch. The amount reflected above is a reasonable estimate based on the most recently available information, although the actual amount to be paid is not certain, and will be affected by factors beyond energywatch's control. The payments are funded through Grant in Aid from the DTI. The obligation will terminate in 2011.

Provisions for Early retirement pensions EW

The provision for early retirement reflects energywatch's ongoing obligation to make payments into the pension schemes of former employees who were made redundant in 2005-06 following the recent reorganisation. During the year a cash payment of £12K was made in respect of these obligations and similar payments will be made in future years, until the individuals reach retirement age (see note 15). The amount reflected above is a reasonable estimate based on the most recently available information, although the actual amount to be paid is not certain, and will be affected by factors beyond energywatch's control. The payments are funded through Grant in Aid from the DTI.

Pension Provision

The pension provision relates to the ongoing payments in respect of the pension liabilities for the former chairmen of the Electricity Consumer Committees (ECC) (see pension note). There are uncertainties surrounding the actual payments to be made, which are currently based on actuarial estimates.

The pension liability was revalued by the Government Actuary's Department (GAD) on 31 March 2006 and its current valuation is reflected above.

16. General reserve

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
As at 1 April	(2,994)	(2,785)
Transfer from income and expenditure account	(501)	(290)
As at 31 March	(3,495)	(2,994)

17. Government grant reserve

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
As at 1 April	807	1,040
Amount used to purchase fixed assets	13	284
Less: Movement on grant reserve released to the Income and Expenditure account	(342)	(517)
Grant realised	1	0
	479	807

18. Revaluation reserve

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
As at 1 April	49	26
Backlog depreciation written off	(22)	0
Realised during the year	4	23
As at 31 March	31	49

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

19. Obligations under operating leases

The minimum lease payments to which energywatch is committed under non-cancellable operating leases for the coming year are:

	2005-06 Total £'000	2004-05 Total £'000
Within one year	3	193
Between two and five years	541	797
After five years	544	82
	1,088	1,072

20. Capital commitments

There were no capital commitments as at 31 March 2006.

21. Pension schemes

The pension scheme for the former chairmen of the ECCs is analogous with the PCSPS pension scheme and a provision was shown in Ofgem accounts until 31 March 2001. The provision was taken on as an energywatch liability during 2002-03. The value of the pension liability has been estimated by the Government Actuary's Department to be £370K. FRS 17 valuation requirements have been applied for the year ending 31 March 2006.

Earnings	Contribution
Band 1 Up to £18,000	16.2%
Band 2 £18,001 to £37,000	18.6%
Band 3 £37,001, to £63,500	22.3%
Band 4 £63,501 and over	24.6%

22. Related party transactions

energywatch is an executive non-departmental public body sponsored by the DTI and is regarded as a related party, as are other entities sponsored by the DTI.

There is a sub-MOTO between energywatch, Inland Revenue and Department of Health on one of the former Ofgem office in Belgrave Road London.

energywatch provides IT services to Postwatch. In addition, it sub-lets parts of the London office to the Welsh Assembly Government.

A senior member of staff is on loan to energywatch by the Department of Education for a period of 2 years ending June 2006.

None of the Council Members, key management staff or other related parties have undertaken any material transactions with energywatch during the year.

23. Contingent Liabilities and assets

There were no reportable contingent liabilities at 31 March 2006.

24. Losses and Special Payments

As explained in paragraph 2 under Results for the year, during the year energywatch made a special severance payment of £30K for continued training to a former employee which was not in accordance with Treasury Authority and is therefore deemed to be irregular. This payment forms part of energywatch's staff costs disclosed under note 4.

25. Post balance sheet events

There were no reportable post balance sheet events at 31 March 2006.

26. Financial targets

There were no financial targets set by the DTI during the period.

27. Financial instruments

energywatch has no borrowings and relies primarily on departmental grants for its cash requirements, and is therefore not exposed to liquidity risks. It has no material deposits, and all material assets and liabilities are denominated in sterling so it is not exposed to interest rate risk or currency risk.

However, as permitted under FRS 13 this disclosure excludes short term debtors and creditors which would become payable from the balance sheet date and there is no material difference between the book value and fair value of assets and liabilities at 31 March 2006.

28. Reconciliation of Operating (deficit)/surplus to operating cash flows

	2005-06 Total	2004-05 Total
	£'000	£'000
Operating (deficit)/surplus	(538)	(239)
Movements not involving cash		
Depreciation	367	517
Permanent Diminution of Fixed Assets	40	50
(Increase)/decrease in debtors	(237)	254
(Increase)/decrease in creditors	(457)	(88)
Transfer from Capital GIA	(342)	(517)
Increase/(decrease) in provision	381	661
Adjustment for cash utilisation of provision	83	(531)
Net cash outflow from Operating activities	(703)	107
Reconciliation of net cash flow to movements in net funds		
Change in funds	(813)	149
energywatch funds at 1 April	148	(1)
(Deficit)/Funds at 31 March	(665)	148

The creditors' amount is net of non-operating expenses relating to fixed asset purchases accrued at 31 March 2006