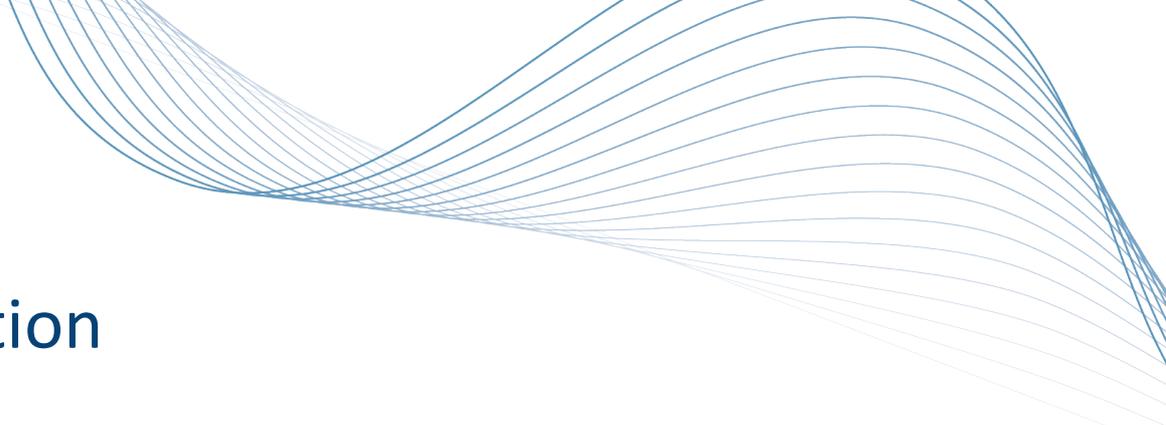


ANNUAL REPORT AND ACCOUNTS 2020-21

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Introduction

As the economic regulator of publicly owned Scottish Water, the Water Industry Commission for Scotland (WICS) works to ensure that the industry is internationally admired for excellence and is sustainable both today and for future generations.

This report outlines our work in 2020-21, the final year of the current six-year (2015-21) regulatory control period. The report is presented in three parts:

1. The performance report consisting of:

- A foreword from our Chair
- A statement from our Chief Executive and Accountable Officer summarising our performance during the year.
- The overview section, which explains our purpose and strategy, activities and operational risks.
- Performance analysis, which shows our progress against this year’s performance measures and our financial performance.

2. The accountability report consisting of:

- The corporate governance report
- A remuneration and staff report
- Parliamentary accountability
- Independent auditor’s report

3. The financial statements consisting of:

- Statement of comprehensive net expenditure for the year to 31 March 2021
- Statement of financial position at 31 March 2021
- Statement of cashflows for the year to 31 March 2021
- Statement of changes in equity for the year ended 31 March 2021
- Notes to the financial statements.



1. Performance report

1.1 Foreword from the Chair

I am pleased to present our annual report for the period 2020-21. This was a difficult year for customers and communities in Scotland, as the impacts of the Covid-19 pandemic continued to be felt.

The pandemic served to highlight the fundamental importance of reliable and high-quality water and wastewater services. The maxim that you cannot wash your hands without water was never more apposite – a point well illustrated by the fact that during the lockdown of late spring 2020 we each used around 30 litres more water in our homes every day.

It is to help ensure that these services exist for future generations, to the same high standards as they do today, that our final determination allowed for significant further investment by Scottish Water over the forthcoming six-year period 2021-27. The determination was founded on a long-term approach, one that will enable Scottish Water to plan its investment and activities in a way that will deliver most benefits for customers and communities.

In particular, the £4.5 billion investment over the six-year period ensures that Scottish Water has the funding it needs to deliver the first phase of its ambitious net zero emissions target for 2040. The investment will also help ensure that Scottish Water's assets such as its pipes and sewers are better able to withstand future unexpected events.

The final determination represented the final stage in what was our most collaborative and transparent review to date. We are building on this level of collaboration as we look to the future. As I signalled in last year's annual report, we have been moving to a new approach, one based on candid, open and transparent discussions between all stakeholders about the challenges we face, the work that needs to be done, and how much this might cost.

Key to all of this is the transformation required of Scottish Water. I'm pleased to report that this year it took the first steps on the journey necessary to achieve genuine ownership and responsibility for its strategy, customer relationships and decision-making.

A central tenet will be for Scottish Water to engage fully with customers and communities, and to explain very clearly the consequences and impacts of decisions. For our part we will continue to challenge but also to support Scottish Water. We will also ensure that we understand stakeholders' perceptions of Scottish Water and can share our own assessment of performance and progress.

Our work relies very much on the productive relationships that exist within the sector, and I would like to take this opportunity to thank our stakeholders for their challenge and support throughout the Strategic Review process.

I would also like to thank the Chief Executive and staff for their continuing commitment, particularly given that we have all had to work remotely this year. During that time, we have also welcomed several new graduate analysts to our team. Although starting their working lives during a difficult time and in a fully remote setting they have already made very valuable contributions, particularly to our international work. I very much look forward to thanking them in person as soon as circumstances allow.

A handwritten signature in black ink, appearing to read 'Donald MacRae', with a long horizontal flourish extending to the right.

Professor Donald MacRae OBE FRSE
Chairman
December 2021

1.2 Statement from the Chief Executive and Accountable Officer

I am pleased to present our annual report and to provide a summary of our performance for 2020-21. Since we were established some 20 years ago, we have become an industry-leading organisation – the first UK regulator to show that economic regulation could be applied successfully to a publicly-owned company. This has only been possible by making sure that we do not rest on our laurels, and by working with stakeholders to identify innovations – scanning the horizon for best practice and sharing and learning within the UK and internationally.

Our objective at all times is to establish the best outcomes for water and wastewater customers, communities and the Scottish environment – an approach firmly rooted in doing what is right for both current and future customers. Our decisions are within the context of the Scottish Ministers' objective to transition to a net zero industry by 2040 and to ensure the sustainable long-term future of the water industry.

Our key achievements this year are summarised here, with more detailed information provided in the sections that follow.

ENSURING VALUE FOR MONEY FOR CUSTOMERS

This year marked the culmination of our Strategic Review of Charges 2021-27. We consulted on our draft determination (published in October 2020) and set out our decisions in the final determination (published in December 2020).

- The draft determination outlined the need for a long-term, sustainable and innovative approach to replacing Scottish Water's assets. It also presented our analysis of the investment necessary to improve water quality and the environment further, and to support economic growth.
- The final determination considered the Ministers' final objectives for the industry and their Principles of Charging. The determination also took account of the responses we had received to the draft determination.

The final determination allowed for the investment necessary for Scottish Water to start to transition becoming a more sustainable industry. It also set out our expectations in terms of the transformation that will be required of Scottish Water over the coming years, including a focus on openness and candour in its engagement with customers, communities and stakeholders, supported by high-quality evidence and analysis.

In the period since the determination was published, we have worked closely with Scottish Water as they develop their transformation plan, providing constructive feedback and challenge on their proposals.

MONITORING SCOTTISH WATER'S PERFORMANCE

We published our annual performance report for 2019-20 in December 2020. This was the penultimate year of the six-year regulatory period 2015-21.

The report showed that, overall, Scottish Water continued to perform well.

- The level of customer service (as measured by the Overall Performance Assessment (OPA) score) exceeded the target range.
- Scottish Water had achieved year-on-year improvements in the household customer experience measure.
- Scottish Water's operating costs were in line with the level projected in its Delivery Plan.
- Overall progress in delivering the investment programme was broadly on target, although there were a small number of remaining projects that Scottish Water was finding challenging to deliver.

The report covered the period to March 2020, just before the full effects of the Covid-19 pandemic took hold in Scotland. It was clear at that time that Scottish Water was facing an output delivery challenge completing a relatively small number of remaining projects by the end of the regulatory period (2020-21). This has been exacerbated by the impacts of the pandemic. We have worked on an ongoing basis with Scottish Water, the Scottish Government and the other regulators to understand the full effects of the pandemic on delivery. We will report on this in our next annual performance report in autumn 2021.

ACHIEVING GREATER VALUE AND CHOICE THROUGH RETAIL COMPETITION

Following a root and branch review of the competitive retail market, including extensive consultation and engagement with market participants, we have now put in place a series of measures in order to:

- Support a level playing field.
- Assist with implementing market health checks.
- Further protect customers (by removing the requirement for prepayments).
- Strengthen provisions relating to mergers and acquisitions between licensed providers.

We have also provided further information about our expectations in terms of behaviours from licensed providers. Another key area of our retail work this year has related to the support measures for non-household customers affected by the impacts of the pandemic on their businesses. Starting in March 2020, WICS put in place a series of market support measures, including a temporary suspension of wholesale prepayment requirements and a charge deferral scheme.

In March 2021 we consulted on these ongoing measures and on how the market might transition back to normal operations. We also consulted on measures to ensure that retailers are appropriately financially resilient.

SUPPORTING HYDRO NATION

This year we continued to develop and grow our relationships in the international arena, as part of our commitment to the Scottish Government's Hydro Nation initiative. Our involvement helps ensure that we stay at the forefront of regulatory best practice while sharing our own expertise in water sector regulation with other countries.

We have provided further technical assistance to the Romanian regulator and have completed a collaborative project working with two of New Zealand's water companies. We have also worked with the New Zealand Government's Department of Internal Affairs (DIA) as it considered the case for reform of the country's water sector.

In addition, we have continued to extend our links with other overseas regulators, including through attending international conferences and by participating in international organisations such as WAREG and the OECD's Network of Economic Regulators.

We believe that our international work makes a real difference for those with whom we collaborate and brings benefits for Scottish customers in terms of the insights into best practice we gain. It also brings a direct financial benefit by reducing the levy that we would charge Scottish Water and provides interesting and valuable learning experiences for our staff (which supports our employee recruitment and retention).

To close, along with many other organisations we have been considering the options for our future working arrangements as we emerge from the pandemic. Towards the end of the year, we set up an internal working group to engage with staff and to understand their preferences and views on aspects of working arrangements and potential models. We will report on the outcome of this process in next year's report.

Whatever the final operating model, I am very confident that we will continue to operate as a strongly coherent team. This reflects the shared commitment of our staff to deliver maximum benefits for Scotland's water and sewerage customers.

1.3 Organisational review

OUR PURPOSE AND STRATEGY

We are a non-departmental public body with a statutory duty to promote the interests of customers of Scottish Water. We do this by challenging Scottish Water to achieve long-term value and best-in-class levels of service for its customers and communities.

We published our new [Corporate Plan](#), covering the period 2021-27, in December 2020. The plan, which was agreed with Scottish Ministers, explains:

- our strategic objectives
- the outcomes we are setting out to achieve for customers, communities and other stakeholders
- the activities we will need to undertake to deliver these outcomes
- the resources necessary.

Underpinning our Corporate Plan was an acknowledgement that there is substantial value from moving to more flexible, transparent and collaborative ways of working and decision making. Our objectives are as follows:

- To support the sector to achieve its long-term vision and the [Scottish Ministers' Objectives for Scottish Water](#).
- To challenge Scottish Water to achieve best in class levels of service for its customers and communities.
- To become an international leader in the field of economic regulation.

Our Corporate Plan is focused on ensuring that we continue to meet our statutory obligations to current and future customers. It will also ensure that we contribute fully to the delivery of the [water industry vision](#). This is particularly important given the need for Scottish Water to achieve net zero emissions by 2040 and to maintain service levels by repairing, refurbishing and replacing the industry's assets in a timely way.

We will report our progress against the objectives set out in the Corporate Plan in future annual reports.

OUR CONTRIBUTION TO THE SCOTTISH GOVERNMENT'S PURPOSE

The overall purpose of the [Scottish Government's National Performance Framework \(NPF\)](#) is to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, including through creating sustainable growth. The NPF provides a clear vision for Scotland, with broad measures of national wellbeing covering a range of economic, health, social and environmental indicators and targets.

The elements of the NPF that we consider we can contribute towards, either directly as a result of our own actions, or indirectly through our statutory functions, are as follows:

NPF elements	How we contribute
We respect, protect and fulfil human rights and live free from discrimination.	We comply fully with diversity and equal opportunity legislation and are living wage accredited.
We are open, connected and make a positive contribution internationally.	By supporting the Scottish Government’s Hydro Nation programme, we collaborate with many other regulators and water industry stakeholders, sharing best practice and helping others to build capacity.
We are well educated, skilled and able to contribute to society.	<p>We have a performance management process that identifies areas for development and encourages continual training and education of our staff.</p> <p>We have improved our graduate training and development programme, so that students are able to develop their careers by working with us.</p>
We have thriving and innovative businesses, with quality jobs and fair work for everyone.	<p>We promote a long-term, sustainable water industry.</p> <p>We ensure the smooth functioning of the retail market.</p>
We value, enjoy, protect and enhance our environment.	<p>We off-set our carbon footprint from our international travel by funding tree planting in Scotland.</p> <p>We support Scottish Water in its six-capital approach to investment appraisal and are supporting it to meet its target to deliver net zero emissions by 2040.</p> <p>Indirectly, by managing the retail market, we support retailers who provide water efficiency advice and other bespoke environmental services to customers.</p>

OUR ORGANISATIONAL MODEL

WICS is a non-departmental public body sponsored by the Scottish Government’s Directorate for Environment, Climate Change and Land Reform. We have 25 employees.

Our Board comprises four non-executive members (including the Chair) and the Chief Executive. The Board is responsible for overall governance. Further information about our Board members and about the role of our Audit and Risk Committee (ARC) is covered in the governance statement within the Accountability Report.

We are funded through a levy on Scottish Water and on the retailers that participate in the competitive non-household market. The size of these levies is set by Scottish Ministers in light of the objectives and key targets agreed through the corporate planning process. Where resources allow, we seek to supplement that income with income derived from the external projects that we undertake as part of our international work.

OUR OPERATING ENVIRONMENT

We work closely with many stakeholders, and these relationships are summarised below. We acknowledge and appreciate the continued support of all our stakeholders in the development of the Strategic Review of Charges 2021-27 and in working with us to transition to our new regulatory approach, based on candid and transparent behaviours and high-quality evidence and analysis.

Stakeholder	Interaction with our work
Scottish Parliament	We are accountable to the Scottish Parliament through Scottish Ministers.
Scottish Government	The Scottish Government sets the overall objectives and principles of charging for the water industry in Scotland.
Scottish Water	We have a duty to protect the interests of both current and future customers by making sure that: <ul style="list-style-type: none"> • Scottish Water is sustainably funded for the long-term and delivers value for money. • Scottish Water is as efficient and effective as it can be so that customers pay no more than is necessary.
Scottish Environment Protection Authority (SEPA)	SEPA regulates Scottish Water's performance regarding compliance with environmental standards and investment in improvements.
Drinking Water Quality Regulator (DWQR)	The DWQR regulates Scottish Water's compliance with drinking water quality and investment to protect public health.

Stakeholder	Interaction with our work
Citizens Advice Scotland (CAS)	CAS undertakes advocacy and research on behalf of consumers in relation to Scottish Water's operations and investment planning.
Central Market Agency (CMA)	The CMA administers the competitive non-household retail market.
Scottish Public Services Ombudsman (SPSO)	With responsibility for complaints and dispute resolution in the water sector, the SPSO provides insights into levels of trust and confidence among consumers.

KEY CHALLENGES AND RISKS

Challenges for the industry

In undertaking our work, we must consider several challenges that have an impact on the industry:

- The effects of climate change, as reflected in the climate emergency that was declared by the Scottish Government in May 2019. The water industry will have a vital role to play in helping deliver the Scottish Government's overall target of achieving net zero emissions by 2045. Scottish Water has a substantial operational and embodied carbon footprint and has been set a demanding challenge by Scottish Ministers to achieve net zero five years earlier, by 2040.
- The need to operate, refurbish and replace Scottish Water's very large asset base (including the extensive network of pipes, sewers and treatment works) in an economically optimal way. This will be necessary to maintain service and help Scottish Water achieve its net zero target. Joint work with Scottish Water has identified that expenditure on asset replacement may eventually have to increase three-fold from current levels.
- The response to the pandemic, which will continue to affect businesses and households across Scotland for some time. Our next annual performance report, in autumn 2021, will report on the impacts of the pandemic in relation to output delivery.

Regulatory approach

At the Strategic Review of Charges 2021-27 we explained that the sector is moving to a new regulatory approach. The approach is based on candid and open communication, strong collaboration between all stakeholders, and high-quality evidence and analysis on Scottish Water's part. This combination of candour and analysis will give stakeholders the confidence they need in relation to Scottish Water's performance.

It is important that we continue to communicate to stakeholders why the change in approach is necessary, how it will work, and the benefits it will bring. We must also support Scottish Water and the retailers as they adopt the approach.

This year we have worked with Scottish Water as it has begun to consider the cultural and operational changes that will be required for it to undergo the scale of transformation envisaged.

Attracting and retaining staff

It is important that we plan properly for the succession of key roles and adequately manage our resources and staff retention.

We seek to attract and retain the best talent and to ensure that our employees have the skills and expertise they need. We also make sure that we maintain our pool of high-quality analytical talent.

Our pay structure is in line with the Scottish Government's pay policy, which provides a clear grading structure that promotes staff development. All employees are provided with a career-average pension as a core component of the reward package, and this is highly valued by employees. We provide high standards of training and learning and development opportunities, which not only helps with employee retainment but also supports our succession planning.

Managing the retail market

We are responsible for managing the competitive market for retail, non-household services. In this regard we must ensure that the market continues to work in an orderly way and in the interests of customers. We manage the risk that this does not happen by engaging with retailers to develop their understanding of the business practices and behaviours that are required and by being clear about our expectations.

International work

We have a statutory requirement to support the Scottish Government's Hydro Nation initiative. During the past four years we have had an increasing number of contacts from regulatory colleagues across Europe and internationally who wish to learn more from us about the Scottish water industry's journey and experience. This has led to several engagements to assist with improving water sector regulation in other countries, including in Romania and New Zealand.

As a small office, with limited resources, we need to ensure that we can take full advantage of this demand. Our challenges include managing our resources – including staffing and financial, ensuring the welfare of our employees (once they are again able to travel overseas), and managing the general operations and project management for funded projects.

Cyber resilience, and records management and data protection

Protecting the confidentiality, integrity, and availability of our IT systems and information remains a critical element of our meeting our strategic objectives. As such we will continue to treat this area of our operations as a top priority. This year, we continued to remain compliant with the government-backed Cyber Essentials Plus standard. We recognise, however, that ongoing work is required to continue to protect us from the persistent threat of a cyber security incident.

To ensure that we continue to have a strong organisational focus on cyber resiliency all our staff, management and Board receive regular awareness training. We also make use of our membership of the Scottish Business Resilience Centre to support our Incident Management Planning and Business Continuity arrangements.

In relation to records management we remain committed to putting high-quality processes and procedures in place. This year we have continued to liaise with the National Records of Scotland, despite the difficulties faced during the pandemic.

We have also reviewed and revised our transparency statements to remain aligned with the UK GDPR following Brexit. We continue to work closely with our Data Protection Officer (DPO) to keep abreast of any legislative developments in this area.

In addition, we have carried out data protection impact assessments (DPIAs) on new technologies that were put in place to improve remote working. Our staff continue to receive regular training on data protection matters, with further steps taken in light of increased remote working. We have also involved our DPO in our project this year to develop our new corporate website, ensuring that a 'privacy by design' approach was considered from the outset.

Managing risk

When it comes to risk our overall goal is to operate in an environment of 'no surprises'. We do this by creating a culture focussed on assessment and maximum mitigation of risk. Some of the steps we have taken to manage risk include:

All employees are trained to be on alert for any risks that may impact on the delivery of our objectives.

Our Audit and Risk Committee provide the Board with assurances relating to strategic risks. The Committee is also responsible for reviewing the comprehensiveness and reliability of assurances on governance, operational risk management and the control environment.

Our risk strategy is supported by risk management software, an outsourced programme that integrates risk management processes.

Managing the impacts of the Covid-19 pandemic

In light of our business continuity planning we were in a strong position to respond swiftly to the need to move to remote working when the Covid-19 shutdown took place in March 2020.

We remained fully operational while moving to home working and have been able to maintain our usual levels of productivity during the year.

Our senior management and the Board continue to manage the risks associated with Covid-19 and focus on ensuring the ongoing safety and wellbeing of staff. In March this year, we amended the normal place of work in our employment contracts to be 'from home'. We also introduced a home working policy to support all staff.

Looking ahead, we have sub-leased our office space for the next two and a half years and, consulting closely with all staff, have reviewed the options for our future working arrangements. We will report on the outcome of this process in next year's report. Any steps that we do take will be in line with the Scottish Government's guidelines for public bodies.

1.4 Performance Analysis

The year we are reporting on (2020-21) represents the final year covered by our previous Corporate Plan (2015-21). The plan explained the direction our work would take and what we planned to achieve during the period.

We have now published a new Corporate Plan (2021-27). The new Corporate Plan supports our revised strategy, which the Board agreed in May 2020. The strategy reflects the context in which we are operating and puts emphasis on implementing a framework that allows for long-term thinking and planning; supporting the sector to deliver a world-leading service for water and sewerage customers and communities in Scotland; and placing our work at the forefront of best practice in economic regulation.

The new Corporate Plan contains 11 specific and measurable key performance indicators (KPIs) that encompass all strands of our work. It also details the activities we will undertake in order to achieve the outcomes outlined in the Corporate Plan. Next year's annual report will report in more detail on progress against the KPIs.

This following section provides commentary on how we have delivered against the objectives set out in our Corporate Plan for 2015-21.

DEVELOPING OUR APPROACH: SRC21

Our Corporate Plan commitment

We made clear that customers' views would be at the heart of decision-making when we set charges. We noted too that public legitimacy, which derives in large part from the central involvement of customers in the process, is of paramount importance.

We committed to ensuring that there would be no barriers within our regulatory approach that would get in the way of innovation. This enables Scottish Water to continually innovate to meet the expectations of customers both now and into the future.

Our performance in 2020-21

During the year we published two key documents relating to the outcome of the Strategic Review of Charges for 2021-27: the draft determination (October 2020) and final determination (December 2020).

The draft determination set out for consultation our proposals in relation to the charge caps that should apply to allow Scottish Water to deliver, at the lowest reasonable overall cost, Scottish Ministers' Objectives for the industry, consistent with their Principles of Charging. The final determination set our decisions in relation to these charges.

Our final determination took account of the following:

- The challenges that Scottish Water is facing, including the target to deliver net zero emissions by 2040 and the need for increased investment in the industry's water and wastewater assets.
- The fact that we will not want to minimise charges today if that means future customers paying higher prices. To do so would be inconsistent with our duty to look after the interests of both current and future customers.
- The responses we received to our draft determination. (We provided a summary of the themes that emerged from the responses, and published responses in full on our website.)

We hope that Scottish Water will take full advantage of the opportunities of the new regulatory framework. At its core is the need for Scottish Water to transform the way it operates, taking full ownership of delivering its contribution to the industry vision, setting out a clear strategy for how this will be achieved – supported by analysis and evidence – and engaging fully with stakeholders, customers and the communities that it serves on how it will prioritise its resources.

Our expectation is that Scottish Water will ensure that customer and community views become as integral to organisational decision-making as the views of asset managers and operators. This will

require a transformation in how its business operates but will be essential to meeting its 2040 obligations.

In line with our commitment to making sure that our regulatory approach remains both innovative and appropriate for the challenges Scottish Water faces in the years ahead, we have supported a peer review by the OECD of SRC21 that will report this coming autumn. As part of the OECD peer review missions, we received ongoing feedback from the peers throughout the SRC21 process and this helped shape our thinking. We will report on progress with the recommendations made by the OECD at the conclusion of their work in future annual reports.

Now that the SRC 2021-27 process has ended our focus is on supporting Scottish Water's transformation to meet the expectations set out in the final determination, as well as starting to plan our activity for the next SRC (2027-33). We will report on activities in this area in next year's annual report.

MONITORING SCOTTISH WATER'S PERFORMANCE

Our Corporate Plan commitment

During the 2015-21 regulatory control period, we expected Scottish Water to continue to improve its efficiency, to maintain, at a minimum, its levels of service and to deliver the £3.5 billion investment programme required to achieve drinking water, environmental and other objectives set for the industry by the Scottish Ministers.

In a number of areas, we work with other stakeholders to monitor and report on progress against these expectations and to report. Specifically, we are one of the members of the Delivery Assurance Group – formerly the Outputs Monitoring Group, which is chaired by the Scottish Government and brings together Scottish Water, WICS, the DWQR, SEPA and CAS.

The Delivery Assurance Group's role is to ensure that Scottish Water is making appropriate progress towards the timely delivery of the Scottish Ministers' Objectives. The group assesses Scottish Water's progress in delivering the key milestones of the investment programme against its targets set out in the delivery plan and publishes reports on a quarterly basis. Such reporting helps give customers and other stakeholders confidence in Scottish Water's delivery against its agreed targets.

Our performance in 2020-21

We published our annual report on Scottish Water's performance in December 2020. It set out our assessment of Scottish Water's performance delivery in 2019-20, the penultimate year of the six-year regulatory control period 2015-21.

The report comprised an overall rating alongside a summary comment on performance for each of the main areas that affect key outcomes for customers and the environment, as well as the company's financial strength.

We assessed Scottish Water's performance by comparing what was delivered in 2019-20 with Scottish Water's Delivery Plan, originally published in March 2015 and updated annually to reflect changes to the delivery profile agreed through the DAG. The Delivery Plan sets out how Scottish Water plans to deliver its objectives, within the financial limits set in the final determination. The report showed that, overall, Scottish Water continued to perform well.

- The level of customer service (as measured by the OPA score) exceeded the target range. This compares very favourably with historic performance across the industry.
- Scottish Water had achieved year-on-year improvements in the household customer experience measure. This measure was introduced in 2015-16 to assess and report on Scottish Water's interactions with its customers.
- Scottish Water's operating costs were in line with the level projected in its Delivery Plan. Scottish Water's capital expenditure of £665m in 2019-20 was 6% below its central forecast in the Delivery Plan. As in previous years, we can only judge how Scottish Water has performed on capital expenditure at the end of the regulatory control period.
- Overall progress in delivering the investment programme was broadly on target, although there were a small number of remaining projects that Scottish Water was finding challenging to deliver.

The report covered the period to March 2020, just before the full effects of the Covid-19 pandemic took hold in Scotland. It was clear at that time that Scottish Water was facing an output delivery challenge completing a relatively small number of remaining projects by the end of the regulatory period (2020-21). This has been exacerbated by the impacts of the pandemic. We have worked on an ongoing basis with Scottish Water, the Scottish Government and the other regulators to understand the full effects of the pandemic on delivery. We will report on this in our next annual performance report in autumn 2021.

Looking ahead, we have also been exploring with Scottish Water how it will report performance in the 2021-27 period, reflecting our new regulatory approach and Scottish Water's anticipated transformation activity.

THE NON-HOUSEHOLD RETAIL MARKET

Our Corporate Plan commitment

We published our last Corporate Plan around two years before the non-household retail market opened south of the border. At that time, we said that we would contribute to the practical

implementation of the UK Government's Water Act 2014 and would work to ensure that, as far as possible, non-household customers in Scotland benefited from the competitive opportunities that would follow from this development of the retail markets.

Since the retail market opened in England in 2017, we have been keeping the regulatory framework under review to make sure that it continues to serve the interests of customers, licensed providers, and Scottish Water.

Our performance in 2020-21

In 2019 we initiated a root and branch review of the competitive retail market, to ensure that it continues to work well for customers, market participants and Scottish Water. Given the market's maturity (it first opened in Scotland in 2008) this was a timely opportunity to undertake a comprehensive review of all market arrangements.

Following our review, and an extensive process of engagement, we made the necessary changes required to update and improve the market arrangements. We implemented the agreed policy changes in April 2021 (slightly later than originally planned due to the Covid-19 pandemic).

The comprehensive package of reforms encompassed measures to support a level playing field; to implement market health checks; to protect customers (by removing the requirement for prepayments); and in relation to mergers and acquisitions between licensed providers. We also provided further information about our expectations in terms of behaviours from licensed providers.

This year we also put in place support measures for non-household customers affected by the impacts of the pandemic on their businesses. These measures, which started in March 2020, included a temporary suspension of wholesale prepayment requirements and a charge deferral scheme.

We consulted on these ongoing measures in March 2021, and at the same time consulted on how the market might transition back to normal operations. We also consulted on measures to ensure that retailers are appropriately financially resilient.

INTERNATIONAL WORK

Our Corporate Plan commitment

The Scottish Government's Hydro Nation vision seeks to raise Scotland's international profile through knowledge exchange and developing trade opportunities for services, manufacturing and research. The vision was still in its early stages when we published our Corporate Plan.

In October 2018 the Scottish Parliament added us to the list of bodies specified in the Water Resource Act 2013 as having a statutory duty in this area.

Our performance in 2020-21

Our involvement in the Hydro Nation initiative helps ensure that we remain in touch with regulatory best practice while providing useful experience and opportunities for staff and an exposure to alternative regulatory approaches and techniques.

This year we continued to develop and grow our relationships in the international arena, as part of our commitment to the Scottish Government's Hydro Nation initiative. We provided technical assistance to the Romanian regulator (ANRSC) as part of a wider consortium with BDO Romania and Giscan Associates. ANRSC has embarked on a journey to reform its regulatory remit, the underpinning legislative framework, and its technical capabilities in the water and wastewater industry.

We completed our collaborative project working with two of New Zealand's water companies – Wellington Water and Watercare. The purpose of this project was to evidence a better understanding of current performance, assets, future investment requirements and costs for each company which would support New Zealand's water reform agenda.

We worked with the New Zealand Government's Department of Internal Affairs (DIA) as it has considered the case for regulatory reform of the country's sector. We initially supported 47 councils to complete a regulatory data return. This informed our analysis of future investment requirements. We also undertook an assessment of the economic benefits of structural and regulatory reform, encompassing our analysis of the likely cost savings with and without industry aggregation.

We have been in contact with a number of sector colleagues in Australia, providing feedback on proposals and adding insights based on our regulatory experience. This has included Yara Valley Water and Sydney Water.

We participated remotely in several international conferences and continued to collaborate with international organisations such as the OECD's Network of Economic Regulators and WAREG, a network of European Regulators focused on sharing knowledge and experience in regulation.

We believe that our international work makes a difference for those we collaborate with and brings benefits for Scottish customers in terms of the insights and best practice we gain. It also brings a financial benefit by reducing the levy that we would charge Scottish Water and provides interesting and valuable learning experiences for our staff (which supports our employee recruitment and retention).

Our work continues to be seen as a model for regulation of a public-sector entity – not only by the Scottish Government but also by organisations, academics and other commentators in the rest of the UK and abroad.

FINANCIAL PERFORMANCE

Our Corporate Plan commitment

We prepare a detailed annual budget, in line with our Corporate Plan, which is submitted to our Board for approval. We use a comprehensive budgeting and financial reporting system, which aligns with the Scottish Public Finance Manual (SPFM), to compare actual results to the budgets that our Board has approved. Management accounts are prepared each month, with significant variances from budget investigated and reported. Cash flow and other financial forecasts are prepared regularly throughout the year to ensure that we have sufficient cash to meet our operational needs.

Our total budget for the regulatory period 2015-21, as agreed with the Scottish Government in the Corporate Plan, was £23m, including cash carried forward from the previous regulatory period. Expenditure for the same period was £21.7m, being £1.4m (6%) below budget.

During the period, we received net income of £1.3m in relation to other activities, including our work in the international arena. This additional income and savings made during the period allowed us to make repayments to Scottish Water and the licensed provider's totalling £1.8m during the period.

As part of our Corporate Plan for the regulatory control period 2021-27, we will look to support further the Scottish Government's commitment to establishing Scotland as a Hydro Nation.

Financial performance 2020-21

As set out in the financial statements, there was a net deficit for the year of £577,200 before any adjustments for actuarial losses (2019-20: deficit of £543,056). As was the case last year, this was a planned deficit to utilise cash reserves.

Expenditure for the financial year 2020-21 was £4,003,025 (2019-20: £4,375,839), being around £322,000 below our internal budget for the year. Expenditure on travel and office related costs was limited as a result of the pandemic. There were no other material financial impacts arising as a result of Covid-19.

The balance on the General Reserve as at 31 March 2021 was a liability of £2,943,227 (2019-20: asset of £1,146,973). This significant movement was the result of the pension liability at 31 March

2021. The pension fund position at the end of 2020-21 was impacted by a rise in market derived consumer price indexation, resulting in an increase in the pension increase assumption rate by 1%. It was also affected by the recent formal valuation which allowed for any changes in financial and demographic assumptions and other changes over the period. The key movements in the pension fund are disclosed in full in [note 3.5.12](#).

The purpose of the formal pension funding valuation, which is carried out every three years, is to assess the ongoing financial position of the Fund and to determine the cash contribution rates at which WICS should contribute in the future. The aim of the funding valuation is to ensure that the existing assets alongside future expected investment returns and contributions will be sufficient to meet future benefit payments from the Fund.

The purpose of the accounting valuation as at 31 March 2021 is to facilitate consistent comparison of pension positions between employers. The accounting calculations can produce significantly different results from the formal funding valuation calculations.

Based on the most recent formal pension valuation (as at 31 March 2020) the actuary estimates that the funding level as at 31 March 2021 is 113%.

Supplier payment policy

It is our policy to pay all supplier invoices that are not in dispute within the terms of the relevant contract and as soon as possible following receipt of an invoice. In line with the Scottish Government's guidance, we aspire to a 10-working day target for paying bills to businesses in Scotland. Paying supplier bills promptly is seen as a key objective, and an important expression of our commitment to supporting business. The average time taken to pay suppliers in 2020-21 was 5 days (2019-20: 7 days).

THE PUBLIC SERVICES REFORM (SCOTLAND) ACT 2010

The Public Services Reform (Scotland) Act 2010 imposed duties on the Scottish Government and on public bodies such as WICS to publish specific information about their expenditure. The Act also requires us to publish two statements outlining the steps we have taken to promote and increase sustainable growth and to improve efficiency, effectiveness and economy. The duties to publish this information are intended to promote greater openness and transparency. We publish an [annual document](#) on our website setting out our response to the requirements of the Act.

SOCIAL MATTERS

Our statutory purpose is designed to deliver environmental, social and economic success. We take our social responsibility seriously and ensure that all staff policies and procedures are up to date and comply with the most recent legislation.

EQUALITY AND DIVERSITY IN OUR WORKPLACE

We are committed to valuing and promoting equal opportunities and diversity in all areas of recruitment, employment, training and managing people and to providing benefits to our employees. We are also committed to complying with our general public-sector duty to eliminate unlawful discrimination and promote equality of opportunity. In this respect, we promote and support a culture where all employees can develop their full potential, irrespective of any protected characteristics they may have. Our staff handbook outlines our policy regarding equal opportunities.

We follow the Scottish Government's Pay Policy. This has prioritised protecting those on low pay through a progressive approach delivered through the application of tiered pay increases.

We offer a free, confidential Employee Assistance Programme to all staff. This service provides counselling, signposting and information to help staff with personal or work-related problems that may be affecting their health, wellbeing or performance. It is accessed either online or through a 24-hour Freephone service.

ANTI-BRIBERY AND CORRUPTION

As part of our zero-tolerance approach towards fraud, bribery and corruption we have an employee code of conduct, whistleblowing policy and clear policies regarding acceptable levels of gifts and hospitality (both given and received). We actively encourage staff to be aware of appropriate behaviours with both customers and suppliers. We also maintain a gifts and hospitality register.

No frauds were detected in 2020-21.

We take malpractice very seriously and are committed to conducting our business with honesty and integrity. We encourage open communication from all those who work for us, and we want everyone to feel secure about raising concerns. Our whistleblowing policy makes it clear that staff should raise any concerns they may have. All staff are protected under whistleblowing laws if they raise concerns in the correct way.

Transparency of Information

We aim to be open in all that we do; our default approach is to publish information on our activities on our website whenever possible. We maintain frequent dialogue with industry stakeholders and regularly set out our approach and decisions in published papers.

Complaints

This year, we have been working to review and revise our complaints handling procedure (CHP) to make sure that it aligns with the SPSO's revised model CHP (launched in January 2020). Our revised CHP was approved by the SPSO in June 2020 and is available on our website.

We value and recognise the learning that complaints can generate, and we use complaints information to help us improve the services we provide. During 2020-21 we received two complaints from members of the public. These are outlined below.

2020-21 complaint statistics

Nature of complaint	Action taken by WICS	Stage of resolution
Dissatisfaction relating to our information provision on default charges; and in relation to our regulation of, and action against, retailers not adhering to default charge requirements.	<p>Provided background information to the customer in relation to the recent changes to charging, based on rateable value.</p> <p>Wrote to retailers to remind them of their responsibility to explain, in a clear manner, any changes to customers' bills.</p> <p>Developed a succinct information leaflet that explains default tariffs. We published the leaflet on our corporate website and on the Scotland on Tap website.</p>	Stage 1
Dissatisfaction with new measures introduced to assist business customers during the Covid-19 pandemic. In particular, the deferral scheme.	We provided clear and detailed information to the customer about new measures introduced, specifically the Water Charges Relief Scheme and the Wholesale Charges Deferral Scheme.	Stage 1

OUR ENVIRONMENTAL PERFORMANCE

Scotland has some of the most ambitious greenhouse gas reduction targets in the world and we wish to contribute as much as we can to help deliver this world-leading climate change action.

Public Bodies in Scotland are bound by the Climate Change Public Bodies Duties as set out in Part 4 of the Climate Change (Scotland) Act 2009. These duties require public bodies, in exercising their functions to:

- contribute to carbon emissions reduction (climate change mitigation);

- contribute to climate change adaptation; and
- act sustainably.

As a small office, we recognise that the extent to which we can continually reduce our carbon footprint is limited. That said, we do all that we can to make sure that our internal office functions are delivered in a sustainable and carbon aware manner. Our internal policies encourage employees to make carbon aware decisions in relation to procurement, travel and recycling.

We were able to switch our office heating to the Stirling District Heating Scheme at the end of 2019. This project was the first in the UK to use a mix of cutting-edge renewable technologies to harness energy from wastewater, bringing cheap, low-carbon heat to Stirling through a district heating network, delivering a range of significant environmental and economic benefits.

Employees undertook negligible travel as a result of our Stirling office being closed and employees working from home. This reduced carbon emissions from running an office. Working from home provided an opportunity to carry out our functions remotely¹, without the need to travel. We are reviewing our future working arrangements and have sub-leased our office space for the next two and a half years. This will significantly reduce our environmental impact for the future.

Overseas travel is sometimes required as part of our contribution to the Hydro Nation initiative. We off-set our carbon footprint from international travel by funding tree planting in Scotland. As a result of the pandemic no international travel was undertaken by employees in the last year.

In addition to managing our own environmental performance, through our function as the economic regulator of Scottish Water, we play a key role in helping facilitate the delivery of Scottish Minister's Objectives for the water industry in related areas such as environmental impact, carbon reduction and biodiversity. Details of our carbon footprint is provided below.

¹ We have not assessed the carbon impact of home working.

	2020-21		2019-20	
Area	Non-financial information	Financial information	Non-financial information	Financial information
Energy	Electricity: 8.0 tonnes CO ₂ Gas: 8.5 tonnes CO ₂ Total carbon from energy: 16.5 tonnes CO₂	Electricity: £4,979 Gas: £1,429	Electricity: 9.1 tonnes CO ₂ Gas: 9.3 tonnes CO ₂ Total carbon from energy: 18.4 tonnes CO₂	Electricity: £7,171 Gas: £1,882
Waste	Waste to landfill: 0.1 tonnes CO ₂ Paper waste recycled: 0.0 tonne CO ₂ Total carbon from waste: 0.1 tonnes CO₂	£634	Waste to landfill: 5.4 tonnes CO ₂ Paper waste recycled: 0.02 tonne CO ₂ Total carbon from waste: 5.4 tonnes CO₂	£1,786
Water	0.04 tonnes CO₂	£1,740	0.2 tonnes CO₂	£2,231
Transport and travel	0.2 tonnes CO₂	£283	77 tonnes CO₂	£132,684

The information in this table is based on our best estimates. We used the following sources for the information:

Energy: all information based on actual usage as reported on gas and electricity invoices.

Waste: financial information taken from actual invoices received in relation to waste collection and shredding services; volume based on estimated average weekly volume of waste, multiplied by number of collections in year. Volume of recycled paper collated from recycling providers service report.

Water: information based on water consumption reports detailing water, sewage and drainage volume and financial charges.

Transport and travel: Financial and mileage volume relating to vehicles is based on mileage estimates of journeys taken by employees during the year and estimated expenditure.

All conversions to carbon consumption are calculated using data available from the Department for Environment, Food and Rural Affairs.

Mr Alan Sutherland

Alan D A Sutherland

Chief Executive

02 December 2021

2.Accountability report

2.1 Corporate Governance report

2.1.1 DIRECTOR'S REPORT

The Board

Our Board is responsible for the overall direction and performance of our organisation, including our efficiency and effectiveness as a public body. Members come from a variety of business backgrounds and bring with them a wealth of knowledge and expertise.

Our Board currently comprises Donald MacRae (Chair), three further non-executive members, and the Chief Executive, Alan Sutherland. Members of the Board are appointed by Scottish Ministers. The length of appointments may vary to ensure continuity of membership but is usually three or four years. There is the possibility of a further term, subject to evidence of effective performance and satisfying the skills, knowledge and personal qualities required on the Board at the time of re-appointment. The membership during the year is detailed below.

Name	Position	Initial appointment date	Re-appointment date	End date
Donald MacRae	Chair	01/07/2016*	-	30/04/2022
Jo Armstrong	Member	01/07/2016	01/07/2020	30/06/2024
Ann Allen	Member	01/07/2020	-	30/06/2025
Robin McGill	Member	01/01/2020	-	31/12/2024

*Appointed as Chair on 1 May 2018

Directors

The Directors during the year were Alan Sutherland and Ian Tait. As well as being the Chief Executive and Accountable Officer, Alan Sutherland is also an executive member of the Board of WICS.

Interests held by the Board

We ask our Board Members and Directors to complete a declaration of interest and we publish a register of interests on our website. During the year, neither the Board members nor directors held interests in other bodies with which WICS has dealings.

Auditors

Under the Public Finance and Accountability (Scotland) Act 2000, our independent auditors are appointed for the Auditor General by Audit Scotland. Audit Scotland has been appointed as WICS' external auditors for a five-year period from 2016-17 to 2020-21. The appointment is undertaken in accordance with the Code of Audit Practice approved by the Auditor General.

The fees paid to Audit Scotland in respect of the independent statutory audit for the financial year 2020-21 are £13,670 (2019-20: £13,340).

As a result of the significant disruption resulting from Covid-19, the Auditor General for Scotland and the Accounts Commission have extended the current audit appointment by one year. All relevant audit information has been made available to our auditors, and the Accountable Officer has taken steps to ensure that the auditors are aware of any relevant audit information.

Other information

In the year to 31 March 2021, we did not have any notifications of data breaches to the Information Commissioner's Office.

Significant events since the end of the financial year

There is one significant event that requires disclosure under the terms of IAS 10: events after the reporting period, details of which can be found in [note 3.5.11](#), relating to the audit of WICS expenditure on a European Commission funded project in 2018-19. In accordance with the requirements of IAS 10, events are reviewed and considered up to the date on which the financial statements are authorised for issue. This is interpreted as the date on which the Independent Auditor's report is signed.

2.1.2 STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005, Scottish Ministers have directed WICS to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of WICS and its income and expenditure, statement of financial position and cash flows for the financial year.

In preparing the financial statements, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM), and to:

- Observe the Accounts Direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards, as set out in FReM, have been followed, and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on a going concern basis.

The Permanent Secretary has appointed the Chief Executive as Accountable Officer of WICS. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding our assets, are set out in the SPFM published by Scottish Ministers.

So far as the Accountable Officer is aware, there is no relevant audit information of which WICS' auditors are unaware. The Accountable Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that our auditors are aware of that information.

The Accountable Officer confirms that the annual report and accounts are fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

2.1.3 GOVERNANCE STATEMENT

The Governance Framework

WICS is a non-departmental public body. The broad framework in which we operate is set out in a [Framework Document](#), which also defines key roles and responsibilities which underpin the relationship between WICS and the Scottish Government. While this document does not confer legal powers or responsibilities, it forms a key part of our accountability and governance framework.

Non-departmental public bodies are directed by Scottish Ministers to comply with the SPFM. The SPFM provides guidance on the proper handling of public funds to ensure:

- Compliance with statutory and parliamentary requirements.
- Value for money.
- High standards of propriety.
- Effective accountability and robust systems of internal control.

The SPFM is issued by Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

The Accountable Officer is responsible for maintaining a sound governance framework that supports the achievement of the organisation's policies, aims and objectives set by Scottish Ministers, while safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which we are directed and controlled. It enables us to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of our 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 governance framework has been in place at WICS for the year ended 31 March 2021 and up to the date of approval of the annual report and accounts.

The Board

The role of the Board is to provide strategic leadership, direction, support and guidance to ensure that we deliver and are committed to delivering our functions effectively and efficiently and in accordance with the aims, policies and priorities of Scottish Ministers.

Board members have corporate responsibility for ensuring that WICS fulfils its statutory duties, meets any targets agreed with Scottish Ministers and for promoting the efficient and effective use of staff and other resources in accordance with the principles of Best Value.

The Board meets regularly and during 2020-21 met ten times for regular meetings and met with the Audit and Risk Committee in November to discuss strategic risks. At each regular meeting the Board has a mandate to focus on strategic issues relating to monitoring Scottish Water's performance, the SRC and developments in the retail market.

A full description of our Board's role and responsibilities is detailed within its Scheme of Delegation. Additionally, Board members are required to comply with the Code of Conduct for Members of the Board. Board members discharge their duties in accordance with the guidance set out in appointment letters and in *On Board – A Guide for Board Members of Statutory Boards*.

As well as attending Board meetings and strategy meetings, Board members carry out non-executive engagement with stakeholders. Reports of engagement activity are provided at each subsequent Board meeting to ensure that the activity is noted and to give members and management the opportunity to discuss issues arising from this activity.

Corporate Plan

Our Corporate Plan reflects our strategic aims and objectives as agreed by the Scottish Ministers. The plan should include the key objectives and associated key performance targets for the period covered by the plan, and the strategy for achieving those objectives. It should also set out how these will contribute towards the achievement of the Scottish Government's primary purpose and how they align with the National Performance Framework. We have developed a comprehensive plan for the next regulatory period (2021-27). This plan is published on our website and outlines the specific measures against which we will measure and report on our success against our objectives.

Risk management

All bodies to which the SPFM is directly applicable must operate a risk management strategy in accordance with relevant guidance issued by Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM and we have used this to derive our own risk management strategy.

As part of the Corporate Plan for 2021-27, we have identified the risks associated with the delivery of the objectives set out in the Plan. During the year, the Board assessed the strategic risks facing the organisation and set the risk appetite for the organisation.

Following this exercise, we reviewed our risk management strategy to ensure it was appropriate to manage the risks identified as part of this exercise. The risk management strategy aims to identify things that might prevent us from delivering our statutory purpose and to identify appropriate controls to manage the risk to a tolerable level. The risk management framework seeks to (i) understand the threats, (ii) identify and prioritise risks (iii) identify controls to reduce or mitigate the risk and (iv) monitor the risk until it has been reduced to a tolerable level.

Our risk management strategy makes clear the roles and responsibilities for achieving an effective control framework. The focus of our strategy is a risk register which identifies potential or actual risks to the achievement of the objectives set out in our Corporate Plan.

Risks are assessed in terms of the likelihood of them occurring, the impact they would have if they did occur.

The Board is responsible for defining the organisation's risk appetite. The risk register is populated by contributions from all staff, and each risk is scored and set a realistic target to reduce the level of the risk. The action plans in place to reduce risk ratings are subject to continual review. They are monitored by staff internally and reviewed by WICS' Audit and Risk Committee (ARC) on a quarterly basis. The Accountable Officer also reviews the register prior to its submission to the ARC. The Board is informed of significant changes to the register or new risks.

Audit and Risk Committee (ARC)

The Board has appointed the ARC to assist in fulfilling the Board's statutory and fiduciary responsibilities by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and annual report. Members are appointed to the ARC by the Board. The ARC is governed by its Terms of Reference and remit.

The ARC meets to receive reports from internal and external auditors and WICS staff. The internal and external auditors may attend all meetings of the ARC. In addition, they may contact the Chair of the ARC at any time to express specific concerns identified during audit work.

The ARC meets at least four times a year. During the year the ARC was chaired by Ross Finnie until his appointment ended on 30 June and he was replaced by Robin McGill. There are a further three non-executive members. The non-executive members are appointed by the Board based on the breadth of skill, knowledge and experience they can bring to the ARC.

The ARC operates independently and reports to the Board. The ARC presented the annual report of the ARC to the December 2021 Board meeting, which outlined the work undertaken by the ARC to review WICS' control systems and financial reporting processes to measure and manage the risk inherent in the delivery of the organisation's objectives. The report did not highlight any material issues or concerns.

Internal audit

Internal audit has been provided by Grant Thornton since April 2018. At the start of the appointment, we agreed a three-year internal audit workplan to provide assurance that key risks are being managed effectively and value for money is being achieved. It is a risk-based plan, taking into account our risk management framework, our strategic objectives and priorities, and the views of senior managers and members of the ARC.

Before each audit, the scope of work is approved by the senior management team and the ARC. The auditors prepare a report for the ARC following each audit. We produce a quarterly report for the ARC explaining progress with management actions.

The reviews undertaken by the internal audit team during the year are discussed below.

International activities

We are required to support the Scottish Government Hydro Nation vision, captured in the Water Resource Act 2013. In recent years our international activities have grown and continue to be developed. Our work in the international arena is captured within our Corporate Plan for the period 2021-2027. Our first significant project was EU funded work in Romania, which was subject to a previous internal audit. During 2020-21, we delivered projects in New Zealand, which formed the subject of this internal audit review.

The summary of findings concluded that “partial assurance was obtained with improvement required”, containing 4 recommendations, of which one was classified as higher risk, two medium risk and one low risk. The recommendations included adopting defined project management disciplines, the interface of international work with risk management and establishment of a formal strategy.

We have integrated these recommendations into our annual workplan for 2021-22 and plan to establish a formal project board for each international project. Our international work has been fully integrated into the business-as-usual activities of the office and, with regards to risk and reporting, we will manage this work as we do all our other activities.

Graduate recruitment

One of the nine outcomes included within our Corporate Plan 2021-27 is “sustaining a high-performing team, with a focus on continuous improvement.” The Corporate Plan outlines the aim of building a permanent analytical team of 10 – 12 people, which will be driven by graduate recruitment. The internal audit team reviewed our graduate recruitment strategy and the process that is in place.

The review resulted in a rating of “reasonable assurance with some improvement required, with one medium, two low and one advisory recommendations. The recommendations made were around formalising our panel interviews to ensure a consistent approach is taken for all candidates and feedback is accurately recorded and that a formal assessment of diversity and inclusion should be conducted as part of the process.

We have already taken steps to address the issues identified and had made changes to our recruitment process to ensure consistency and transparency at all stages of our graduate recruitment activities. We are committed to providing equal opportunities in employment. We agree that diversity and inclusion data monitoring is important to ensure we are considering potential barriers and protected characteristics of applicants.

Retail administration

WICS is the licensing authority within the market, responsible for assessing licence applications and where appropriate, granting licenses. These licences allow retailers to compete in the market by offering water and sewerage services to non-household customers.

The objective of this audit was to test the design and operation of controls in place for the Licence Provider application process, granting of licences and subsequent billing of providers. This report was rated as “reasonable assurance” obtained with two advisory recommendations.

The review recommended that documents in relation to the licensing process should be retained electronically. We are planning to carry out an exercise to convert existing paper records to an electronic format and have made changes to the process that require electronic versions of all documentation.

The review also recommended a brief bad debt policy to be included within our financial procedures, which will be considered as part of the next formal review of the policies.

Overall opinion

The overall opinion of internal audit for the period, based on the scope of reviews undertaken, is “that reasonable assurance with some improvement required can be given on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control”.

Significant governance issues

There have been no governance issues identified during the year that are significant in relation to WICS’ overall governance framework.

Review of effectiveness

2.2 Remuneration and Staff report

REMUNERATION POLICY

The Board and Chief Executive’s remuneration packages are agreed within the parameters set by the Scottish Government’s pay policy. The Scottish Government approves the daily fee to be paid to the Chairs and members, as well as approving the Chief Executive Remuneration packages.

Board members contribute at least one day per week in support of WICS’ activities. The Chair devotes at least two days per week in support of WICS’ activities.

There is no separate Remuneration Committee and remuneration related issues are brought to the attention of the Board as they arise. No performance payments were made in 2020-21 in accordance with the Scottish Government pay policy.

The rest of this Remuneration and Staff report is subject to audit.

DIRECTORS' SALARY AND PENSION ENTITLEMENTS

The total remuneration of the Chief Executive in the year was £171,502 (2019-20: £164,416). The total remuneration of the Directors was as follows:

	Gross salary £(000)	Pension benefits £(000)	Total £(000)	Gross Salary £(000)	Pension benefits £(000)	Total £(000)
Alan Sutherland, Chief Executive	170 - 175	9	180 - 185	165 - 170	9	170 - 175
Ian Tait, Director	115 - 120	58	175 - 180	100 - 105	41	140 - 145
Katherine Russell, Director*	-	-	-	25 - 30	3	30 - 35

*Retired in June 2019.

The accrued pension benefits have been calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

The Directors' normal retirement age is 67, which is the earliest date at which the member can take full benefits without consent and without reduction. There are no additional benefits to which the Directors would become entitled on early retirement.

No bonus payments or benefits in kind were paid to the Chief Executive or Director during 2020-21 (2019-20: £nil). The total remuneration of the Chief Executive and other Director was £355k-£360k (2019-20: £315k-£320k). The Director is also an ordinary member of the Falkirk Council Pension Scheme. The Chief Executive withdrew from the Scheme on 31 March 2017.

Retirement benefits of the Directors are as follows:

	Cash equivalent transfer value*					
	Accrued pension as at 31 March 2021 and related lump sum £(000)	Accrued pension as at 31 March 2020 and related lump sum £(000)	Change in pension net of inflation and related lump sum £(000)	At 31 March 2021 £(000)	At March 2020 £(000)	Increase net of members' contributions £(000)
Alan Sutherland	30 – 35 plus, lump sum of 30 – 35	30 – 35 plus, lump sum of 25 – 30	0 – 2.5 plus, lump sum of 0 – 2.5	570	505	60
Ian Tait	35 – 40 plus, lump sum of 30 – 35	30 – 35 plus, lump sum of 30 – 35	2.5 - 5 plus, lump sum of 0 – 2.5	633	563	56

*The cash equivalent transfer value is the actuarially assessed value of the retirement scheme benefits accrued by a member at a point in time.

BOARD REMUNERATION

The remuneration of the Board members, other than the Chief Executive, was as follows:

	2020-21 Total £(000)	2019-20 Total £(000)
Donald MacRae	35 – 40	35 – 40
Ross Finnie	0 - 5	10 – 15
Jo Armstrong	15 – 20	10 – 15
Robin McGill	15 – 20	10 – 15
Ann Allen	15 – 20	-
Libby Gawith	-	10 – 15

Board Members are not members of the pension scheme. WICS did not pay any amounts on behalf of Board Members in the year in respect of PAYE and National Insurance contributions due on travel to work expenses in 2020-21 (2019-20: £382). No benefits in kind were paid in the year.

FAIR PAY DISCLOSURE

The range of staff remuneration within WICS is £20k-25k to £170k-£175k (2019-20: £20-25k to £165-£170k). Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The remuneration of the highest paid Director of WICS for the year to 31 March 2021 was £171,502 (2019-20: £165,174). This was 4 times the annualised median remuneration of the workforce, which was £38,872 (2019-20: £37,164). The highest paid Director of WICS is the Chief Executive.

	2020-21	2019-20
Highest paid Director's total remuneration (£)	171,502	165,174
Median total remuneration (£)	38,872	37,164
Ratio	4.4	4.4

AVERAGE NUMBER OF PERSONS EMPLOYED

The average number of full-time equivalent persons employed during the year was 25 (2019-20: 22), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2021	Year ended 31 March 2020
Chief Executive and Directors	2	2
Other employees	23	20

All employees are employed on permanent contracts.

Staff composition

At the end of the financial year, the number of employees of each sex was as follows:

	Male	Female	Total
Directors	2	-	2
Other employees	13	12	25

Staff costs are outlined in [note 3.5.4](#) of the financial statements.

EXIT PACKAGES

There were no voluntary exit packages or compulsory redundancies in the year.

HEALTH, SAFETY AND WELL-BEING

It is our policy to safeguard the health, safety and welfare of all employees by providing healthy and safe working conditions. We consider a positive health and safety culture to be an essential part of the way in which we conduct our business. We acknowledge that, as a business, we also have a responsibility to suppliers and other stakeholders in relation to health and safety matters. Our health and safety policy outlines the responsibilities WICS has towards employees and provides guidance on health and safety issues within the office.

Our employee handbook outlines the procedures in place for managing staff in a supportive way. We are committed to supporting employees who are absent due to sickness, and we have flexible policies relating to the return to work for employees who have been absent for health and other personal reasons or following maternity or paternity leave.

We actively encourage education and training for all employees. Our performance management and development policy are used to identify training needs and opportunities for development.

SICKNESS ABSENCE

The average length of time that each employee was absent due to sickness was 2.6 days (2019-20: 6 days).

2.3 Parliamentary Accountability Report

FUNDING

WICS has a Corporate Plan in place, agreed with Scottish Ministers and published on our website. We agree with the Scottish Government the issues to be addressed in the plan and the timetable for its preparation and review. The finalised plan reflects our strategic aims and objectives as agreed by Scottish Ministers, indicative budgets and any priorities set by Scottish Ministers.

Under the 2002 Act as amended by the 2005 Act, WICS is funded by a levy paid by Scottish Water. Following approval by Scottish Ministers of our Corporate Plan, the Sponsor Directorate instructs Scottish Water to pay the amount determined to us on a monthly basis. In addition, fees are payable by licensed providers on a cost recoverable basis, sufficient to meet the costs we incur in exercising our functions relating to water services and sewerage services.

The Corporate Plan, or elements thereof, is updated between Strategic Reviews as and when considered necessary and a copy is provided to the sponsor unit prior to the start of the Strategic Review period.

LOSSES AND SPECIAL PAYMENTS

There were no losses or special payments in the year (2019-20: £nil).

GIFTS

No gifts were made during the year.

CONTINGENT LIABILITIES

A contingent liability has been recognised in relation to EU funding received in 2018-19. See [note 3.5.11](#) for more information. In the prior year a contingent liability was recognised relating to Guaranteed Minimum Pensions Equalisation, which has now been reflected in the accounts liability as at 31 March 2021.

Mr Alan Sutherland

Alan D A Sutherland

Chief Executive

02 December 2021

2.4 Independent Auditor's Report

Independent auditor's report to the members of the Water Industry Commission for Scotland, the Auditor General for Scotland and the Scottish Parliament

REPORTING ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Water Industry Commission for Scotland for the year ended 31 March 2021 under the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2020/21 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2021 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 FReM; and
- have been prepared in accordance with the requirements of the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 26 January 2018. The period of total uninterrupted appointment is four years. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the body is complying with that framework;
- identifying which laws and regulations are significant in the context of the body;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

REPORTING ON REGULARITY OF EXPENDITURE AND INCOME

Opinion on regularity

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. In addition to my responsibilities to detect material misstatements in the financial statements in respect of irregularities, I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

REPORTING ON OTHER REQUIREMENTS

Opinion prescribed by the Auditor General for Scotland on audited part of the Remuneration and Staff Report

I have audited the parts of the Remuneration and Staff Report described as audited. In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Statutory other information

The Accountable Officer is responsible for the statutory other information in the annual report and accounts. The statutory other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this statutory other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

USE OF MY REPORT

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Stephen O'Hagan

Stephen O'Hagan
Audit Scotland
4th Floor, The Athenaeum Building
8 Nelson Mandela Place
Glasgow, G2 1 BT
03 December 2021

3. Financial statements

3.1 Statement of comprehensive net expenditure for the year ended 31 March 2021

The notes on pages 49 - 71 form part of these financial statements	Notes	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Income			
Income from activities	3.5.2	3,423,460	3,827,918
Expenditure			
Staff costs	3.5.4	(2,489,919)	(2,282,581)
Depreciation	3.5.6	(29,162)	(45,510)
Other expenditure	3.5.5	(1,483,944)	(2,047,748)
		(4,003,025)	(4,375,839)
Operating deficit		(579,565)	(547,921)
Interest receivable		1,171	6,006
Net deficit for the year after interest		(578,394)	(541,915)
Corporation tax receivable/(payable)		1,194	(1,141)
Net deficit for the year after tax		(577,200)	(543,056)
Other comprehensive net income			
Actuarial (loss)/gain	3.5.12	(3,513,000)	561,000
Total comprehensive net (expenditure)/income for the year		(4,090,200)	17,944

All income and expenditure relate to continuing activities.

3.2 Statement of financial position as at 31 March 2021

The notes on pages 49 - 71 form part of these financial statements	Notes	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Non-current assets			
Property, plant and equipment	3.5.6	41,210	62,955
Total non-current assets		41,210	62,955
Current assets			
Other receivables	3.5.7	144,067	390,074
Cash and cash equivalent		2,525,559	1,691,848
Total current assets		2,669,626	2,081,922
Current liabilities			
Trade payables and other current liabilities	3.5.8	(1,663,363)	(272,174)
Total current liabilities		(1,663,363)	(272,174)
Non-current liabilities			
Provisions	3.5.9	(69,700)	(62,730)
Total net assets, excluding pension liabilities		977,773	1,809,973
Pension scheme liability		(3,921,000)	(663,000)
Net assets		(2,943,227)	1,146,973
Equity			
General reserve		(2,943,227)	1,146,973

Mr Alan Sutherland

Alan D A Sutherland

Chief Executive

02 December 2021

3.3 Statement of cashflows for the year to 31 March 2021

The notes on pages 49 - 71 form part of these financial statements	Notes	Year ended 31 March 2021	Year ended 31 March 2020
Cash flows from operating activities		£	£
Operating deficit		(579,565)	(547,921)
<i>Adjustments for non-cash items</i>			
Difference in pension costs compared to contributions	3.5.12	(267,000)	150,000
Depreciation on tangible non-current assets	3.5.6	29,162	45,510
Finance costs		12,000	28,000
Loss on disposal of fixed assets	3.5.6	2,179	-
Increase in provision	3.5.9	6,970	6,970
<i>Movements in working capital</i>			
Decrease in other receivables	3.5.7	246,007	235,445
Increase/(decrease) in trade payables and other current liabilities	3.5.8	1,391,189	(284,253)
Net cash inflow/(outflow) from operating activities		840,942	(366,249)
Cash flows from investing activities			
Purchase of property, plant and equipment	3.5.6	(9,596)	(18,915)
Net cash outflow from investing activities		(9,596)	(18,915)
Cash flows from financing activities			
Interest received		1,171	6,006
Corporation tax receivable/(payable)		1,194	(1,141)
Net inflow from financing activities		2,365	4,865
Net increase/(decrease) in cash and cash equivalents		833,711	(380,299)
Cash as at 1 April		1,691,848	2,072,147
Cash as at 31 March		2,525,559	1,691,848
Net increase/(decrease) in cash and cash equivalents		833,711	(380,299)

3.4 Statement of changes in equity for the year ended 31 March 2021

The general reserve is analysed in note 10	£
Balance at 1 April 2019	1,129,029
Total comprehensive net income for the year 2019-20	17,944
Balance as at 31 March 2020	1,146,973
Total comprehensive net expenditure for the year 2020-21	(4,090,200)
Balance as at 31 March 2021	(2,943,227)

The notes on pages 49 - 71 form part of these financial statements.

The Accountable Officer authorised the financial statements for issue on 2 December 2021. The financial statements were approved by the Board on 2 December 2021.

3.5 Notes to the financial statements

3.5.1 ACCOUNTING POLICIES

The financial statements are prepared in a form determined by Scottish Ministers, in accordance with the Water Industry Act 1999, as amended by the Water Industry (Scotland) Act 2002 and the Water Services etc. (Scotland) Act 2005.

The financial statements are prepared as required by the Accounts Direction issued by Scottish Ministers and prepared in accordance with the FReM issued by HM Treasury.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public-sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the circumstances of WICS for the purpose of giving a true and fair view has been selected. The policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the financial statements.

The preparation of the financial statements in conformity with the FReM requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below in “Critical accounting estimates and key judgements”.

The Board and Chief Executive have considered the budget for 2021-22, including the statutory contribution from Scottish Water and Licensed Provider levies, and consider that WICS has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

(i) Accounting Convention

These financial statements have been prepared under the historical cost convention modified to take account of the revaluation of property, plant and equipment and intangible assets.

(ii) Critical accounting estimates and key judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. WICS makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and

assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The present value of the pension obligations depends on several factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/ (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

WICS determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, WICS considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in [note 3.5.12](#).

(iii) Newly Adopted IFRS

In these financial statements, there are no adopted IFRSs which are effective for the first time which have had a material effect on the financial statements therefore there has been no restatement of comparatives.

(iv) Adopted IFRS not yet applied

IFRS 16 “Leases”, has been issued but has not been applied in these financial statements. IFRS 16 supersedes IAS 17 Leases and is being applied by HM Treasury in the Government Financial Reporting Manual (FReM) from 1 April 2022. IFRS 16 introduces a single lessee accounting model that results in a more faithful representation of a lessee’s assets and liabilities and provides enhanced disclosures to improve transparency of reporting on capital employed.

Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. While no standard definition of ‘low value’ has been mandated, WICS has elected to utilise the capitalisation threshold of £5,000 to determine the assets to be disclosed.

WICS expects that its existing finance leases will continue to be classified as leases. All existing operating leases will fall within the scope of IFRS 16 under the ‘grandfathering’ rules mandated in the FReM for the initial transition to IFRS 16. In future years new contracts and contract renegotiations will be reviewed for consideration under IFRS 16 as implicitly identified right-of-use assets. Assets recognised under IFRS 16 will be held on the Statement of Financial Position as (i)

right-of-use assets which represent the Board's right to use the underlying leased assets; and (ii) lease liabilities which represent the obligation to make lease payments.

The bringing of leased assets onto the Statement of Financial Position will require depreciation and interest to be charged on the right-of-use asset and lease liability, respectively. Cash repayments will also be recognised in the Statement of Cash Flows, as required by IAS 7.

The impact of the initial application of the standard as adopted by the FReM cannot be reasonably estimated for inclusion in these accounts.

(v) Furniture and fittings and information technology

Furniture and fittings and information technology are recorded in the financial statements at depreciated replacement cost because their fair market value is not readily available.

Depreciation is charged on cost less estimated residual value on a straight-line basis over the expected useful lives of up to a maximum of:

furniture and fittings: 10 years, which is not more than the lease term of the building in which the furniture and fittings are located; and
information technology: 4 years.

WICS considers that all the assets in these categories have short useful lives and the depreciation rates provide a realistic reflection of consumption and reduction in carrying value. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(vi) Financial assets

Classification

WICS classifies its financial assets as 'loans and receivables'. WICS does not hold any financial assets that would be classified as 'available for sale' or 'held-to-maturity'. The classification depends on the purpose for which the financial assets were acquired and is determined at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables comprise other receivables and cash and cash equivalents.

Recognition and measurement

Financial assets are recognised when WICS becomes party to the contractual provisions of the financial instrument. Financial assets are no longer recognised when the rights to receive cash flows from the asset have expired or WICS has transferred substantially all risks and rewards of ownership.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that WICS will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The carrying amount of the asset is reduced using a provision account and the amount of the loss is recognised in the comprehensive statement of income and expenditure. When a loan or receivable is uncollectible it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited in the comprehensive statement of income and expenditure.

(vii) Financial liabilities

Classification

WICS classifies its financial liabilities on initial recognition as other financial liabilities. Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities. WICS' other financial liabilities comprise trade and other payables in the balance sheet.

Recognition and measurement

Financial liabilities are recognised when WICS becomes party to the contractual provisions of the financial instrument. A financial liability is removed from the balance sheet when it is extinguished, that is when the obligation is discharged, cancelled, or expired. Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(viii) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(ix) Provisions

Provisions are recognised when WICS has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

(x) Income and expenditure

Funding is by way of a statutory contribution paid by Scottish Water, as directed by Scottish Ministers. Licensing activity is funded by a levy charged to Licensed Providers. Income is also received from the beneficiaries of support provided by WICS in relation to Hydro Nation activities.

Purchases of goods and services are recorded as expenditure when the goods or services are received rather than when payments are made.

All income and expenditure is recognised in the statement of comprehensive net expenditure in the period to which it relates.

(xi) Value added tax

Most of the activities of WICS are outside the scope of Value Added Tax (VAT) and, in general, WICS is not required to declare output tax to HMRC on the income that it receives. Correspondingly, WICS is not entitled to recover VAT that it incurs on costs (input tax) in relation to these activities that fall outside the scope of VAT. Such irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

(xii) Operating Leases

In line with IAS17, leases where most of the risks and rewards of ownership of the asset remain with the lessor are classified as operating leases. Operating lease payments are recognised in the comprehensive statement of income and expenditure on a straight-line basis over the lease term. The benefit of any lease incentive is recognised as a reduction in rental expense on a straight-line basis over the life of the lease.

(xiii) Employee benefits

Employees of WICS are members of the Local Government Pension Scheme (the Scheme) administered by Falkirk Council. The Scheme is a tax approved, defined benefit occupational pension scheme and the scheme regulations are made under the Public Service Pension Schemes

Act 2013 and, in the case of the Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014, under the Superannuation Act 1972. The Scheme is contracted out of the State Second Pension scheme and meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008.

The Scheme is accounted for on a defined benefit basis under IAS 19. Assets and liabilities of the Scheme are held separately from those of WICS. The Scheme's assets are measured using market values and the Scheme's liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are calculated to spread the cost of pensions over employees' working lives. The contributions are determined by an actuary based on triennial valuations using the Age Attained Method. The actuaries also review the progress of the Scheme in each of the intervening years. Variations from regular cost are spread over the expected average remaining working lifetime of members of the Scheme after making allowances for future withdrawals.

The expected cost of providing staff pensions to employees contributing to the Scheme is recognised in the statement of comprehensive expenditure on a systematic basis over the expected average remaining lives of members of the funds in accordance with IAS 19 and recognises retirement benefits as the benefits are earned and not when they are due to be paid. The statement of comprehensive expenditure also includes the net impact of returns on the Scheme's assets and interest on the Scheme's liabilities, which is disclosed (net) as other finance income or interest payable. A pension scheme asset is recognised on the balance sheet only to the extent the surplus may be recovered by reduced further contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent that WICS has a legal or constructive obligation to settle the liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive net expenditure in the period in which they arise.

Past-service costs are recognised immediately in income and expenditure, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(xiv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

WICS recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(xv) **Segmental reporting**

Operating segments are identified based on internal reports about components of WICS that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segments and assess their performance.

3.5.2 INCOME

	Year ended 31 March 2021	Year ended 31 March 2020
	£	£
Scottish Water statutory contribution	1,234,100	2,179,608
Levy on licensed providers	1,314,642	1,584,645
Hydro Nation income	874,718	63,665
	3,423,460	3,827,918

3.5.3 ANALYSIS OF NET EXPENDITURE BY SEGMENT

The purpose of activity reporting is to analyse costs by income stream, allowing for a better understanding of how (and against which activities) resources are being deployed. A summary of the full year report is detailed below. The reporting format changed during the year, with Hydro Nation activities being reported as a separate category. Income and expenditure associated with Hydro Nation during 2019-20 was included within Network Regulation and overheads.

Contribution to overheads by activity	Year ended 31 March 2021	Year ended 31 March 2020
	£	£
Network Regulation	(275,640)	(122,506)
Retail	1,017,789	1,150,767
Hydro Nation	391,679	-
Total contribution to overheads	1,133,828	1,028,261
Overheads	(1,711,028)	(1,571,317)
Deficit for the year	(577,200)	(543,056)

3.5.4 STAFF RELATED COSTS

	Year ended 31 March 2021	Year ended 31 March 2020
	£	£
Wages and salaries	1,807,968	1,612,541
Social security costs	211,925	180,122
Pension costs	470,026	489,918
Staff costs per statement of comprehensive net expenditure	2,489,919	2,282,581

The cash contributions made to the pension scheme are disclosed in note [3.5.12.1](#).

3.5.5 OTHER EXPENDITURE

	Year ended 31 March 2021	Year ended 31 March 2020
	£	£
Travel and subsistence	283	263,971
Office accommodation	192,929	131,938
General operating costs	353,621	421,199
Regulation and licensing costs	687,268	1,075,295
Recruitment	28,491	44,959
Information technology	198,087	53,526
Finance charges	23,265	56,860
	1,483,944	2,047,748

The operating costs for the year are stated after charging the external audit fee of £13,670 (2019-20: £13,340) and, within office accommodation, an operating lease rental of £139,650 (2019-20: £49,175).

The office accommodation lease arrived at the ten-year break point on 14 March 2021. The break option was not invoked and WICS is now obligated to fulfil the full term of the lease – a further 5 years to 14 March 2026. The value of the 15-year lease has been recalculated, and an adjustment has been made at the end of the year to account for this on a straight-line basis.

At the end of the financial year, we were in discussions with another public body to sub-lease the office for an initial 2.5-year period.

Finance charges principally relate to the net interest cost of the pension scheme for the year (see note [3.5.12.3](#)).

Services categorised under regulation and licensing costs are provided by external consultants.

3.5.6 PROPERTY, PLANT AND EQUIPMENT

	Information technology	Furniture and fittings	Total
Cost	£	£	£
At 31 March 2020	179,665	274,011	453,676
Additions	9,595	-	9,595
Disposals	(72,199)	-	(72,199)
At 31 March 2021	117,061	274,011	391,072
Depreciation			
At 31 March 2020	128,510	262,211	390,721
Charge for the year	25,859	3,303	29,162
Eliminated on disposals	(70,021)	-	(70,021)
At 31 March 2021	84,348	265,514	349,862
Net book value at 31 March 2021	32,713	8,497	41,210
Net book value at 31 March 2020	51,155	11,800	62,956

Cost	£	£	£
At 31 March 2019	163,732	271,029	434,761
Additions	15,933	2,982	18,915
At 31 March 2020	179,665	274,011	453,676
Depreciation			
At 31 March 2019	101,737	243,474	345,211
Charge for the year	26,773	18,737	45,510
At 31 March 2020	128,510	262,211	390,721
Net book value at 31 March 2020	51,155	11,800	62,955
Net book value at 31 March 2019	61,995	27,555	89,550

3.5.7 OTHER RECEIVABLES

	Year ended 31 March 2021	Year ended 31 March 2020
Current receivables	£	£
Prepayments	12,682	197,748
Other receivables	131,385	192,326
Total other receivables	144,067	390,074

	Year ended 31 March 2021	Year ended 31 March 2020
Intra-government receivables	£	£
Central Government	1,143	-
Local Authorities	-	13,065
Bodies external to government	142,924	377,009
Total other receivables	144,067	390,074

3.5.8 CURRENT LIABILITIES

	Year ended 31 March 2021	Year ended 31 March 2020
Current payables	£	£
Trade payables	27,747	40,274
Taxation and Social Security	59,768	52,301
Accruals	1,530,781	142,097
Pension	45,067	37,502
Total current liabilities	1,663,363	272,174

	Year ended 31 March 2021	Year ended 31 March 2020
Intra-government payables	£	£
Local Authorities	60,658	48,599
Central Government	59,837	52,301
Bodies external to government	1,542,868	171,274
Total current liabilities	1,663,363	272,174

3.5.9 PROVISIONS FOR LIABILITIES AND CHARGES

	Year ended 31 March 2021	Year ended 31 March 2020
	£	£
Balance at 1 April 2020	62,730	55,760
Provided in the year	6,970	6,970
Balance at 31 March 2021	69,700	62,730

The provision for dilapidation costs relates to WICS' contractual duty to repair leasehold property on termination of the lease. Provision is made for the estimated costs of fully repairing leasehold properties at the balance sheet date.

3.5.10 NOTE TO THE STATEMENT OF CHANGES IN EQUITY

	Note	Operations	Pension	General Reserve
		£	£	£
Balance at 1 April 2019		2,175,029	(1,046,000)	1,129,029
<i>Changes in reserves 2019-20</i>				
Actuarial gains		-	(691,000)	(691,000)
Change in assumptions underlying the present value of the scheme liabilities		-	1,252,000	1,252,000
Net surplus/(deficit) for the year		(365,056)	(178,000)	(543,056)
Balance as at 31 March 2020		1,809,973	(663,000)	1,146,973
<i>Changes in reserves 2020-21</i>				
Actuarial gains	3.5.12	-	1,616,000	1,616,000
Change in assumptions underlying the present value of the scheme liabilities	3.5.12	-	(5,129,000)	(5,129,000)
Net surplus/(deficit) for the year		(832,200)	255,000	(577,200)
Balance as at 31 March 2021		977,773	(3,921,000)	(2,943,227)

3.5.11 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

There were no capital commitments at 31 March 2021 (2019-20: £nil).

(ii) Commitments under operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the stated periods. The amounts relate entirely to WICS' office accommodation.

	Year ended 31 March 2021	Year ended 31 March 2020
	£	£
Not later than one year	20,441	49,176
Later than one year and not later than 5	340,110	49,176
Total at 31 March 2021	360,551	98,352

WICS did not trigger the ten-year break clause of the 15-year lease of the office building. Therefore, the lease commitment is for a further five years of rent.

(iii) Contingent liabilities

In 2018-19, WICS received grant income from the European Commission (EC) in relation to a project with the Romanian Public Services Regulatory Authority (ANRSC), totalling £905,645. During 2021-22, the EC undertook an audit of WICS' expenditure on the project. At the time of this report, the EC has requested supplementary evidence for approximately £135k worth of WICS' staff costs. WICS is sourcing this additional material and is content that this will not give rise to any liability to the EU.

3.5.12 PENSION

(i) Background

Some employees and former employees of WICS are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme. In the period WICS paid contributions totalling £717k (2019-20: £334k) into the Fund. Under the Superannuation Regulations, contributions are set to meet 100% of the overall liabilities of the Fund. We have been advised that specific (minimum) rates for employer contributions in 2021-22 will be 29.4%.

In accordance with IAS 19 WICS commissioned the Fund's actuaries to undertake a valuation as at 31 March 2021. This calculation was based on rolling forward valuation data at 31 March 2020 (the last formal valuation) to 31 March 2021 based on several financial assumptions.

The main financial assumptions used included:

Financial assumptions	Year ended 31 March 2021 %	Year ended 31 March 2020 %
Pension Increase Rate (CPI)	2.80	1.80
Salary Increase Rate	3.40	2.20
Discount rate	2.05	2.30

The average future life expectancies at age 65 are summarised below.

Financial assumptions	Males	Females
Current pensioners (years)	20.5	23.2
Future pensioners (years)	21.9	25.2

(ii) Change in the fair value of plan assets, defined benefit obligation and net liability for the year ended 31 March 2021

	Assets	Obligations	Net (liability)/ asset
	£(000)	£(000)	£(000)
Fair value of employer assets	7,187	-	7,187
Present value of funded liabilities	-	7,810	(7,810)
Present value of unfunded liabilities	-	40	(40)
Opening position as at 31 March 2020	7,187	7,850	(663)
<i>Current service cost</i>	-	450	(450)
Total service cost	-	450	(450)
<i>Net interest</i>			
Interest income on plan assets	173	-	173
Interest cost on defined benefit obligation	-	185	(185)
Total net interest	173	185	(12)
Total defined benefit cost recognised in deficit	173	635	(462)
<i>Cashflows</i>			
Participants' contributions	117	117	-
Employer contributions	714	-	714
Estimated benefits paid	(147)	(147)	-
Estimated unfunded benefits paid	(3)	(3)	-
Estimated contributions in respect of unfunded benefits paid	3	-	3
Expected closing position	8,044	8,452	(408)
<i>Re-measurements</i>			
Change in financial assumptions	-	3,426	(3,426)
Change in demographic assumptions	-	87	(87)

	Assets	Obligations	Net (liability)/ asset
Other experience	110	1,616	(1,506)
Return on assets excluding amounts included in net interest	1,506	-	1,506
Total re-measurements recognised in Other Comprehensive Income (OCI)	1,616	5,129	(3,513)
Fair value of employer assets	9,660	-	9,660
Present value of funded liabilities	-	13,539	(13,539)
Present value of unfunded liabilities	-	42	(42)
Closing position as at 31 March 2021	9,660	13,581	(3,921)

(iii) Change in the fair value of plan assets, defined benefit obligation and net liability for the year ended 31 March 2020

	Assets	Obligations	Net (liability)/ asset
	£(000)	£(000)	£(000)
Fair value of employer assets	7,347	-	7,347
Present value of funded liabilities	-	8,346	(8,346)
Present value of unfunded liabilities	-	47	(47)
Opening position as at 31 March 2019	7,347	8,393	(1,046)
<i>Service cost</i>			
Current service cost	-	465	(465)
Past service costs (including curtailments)	-	21	(21)
Total service cost	-	486	(486)
<i>Net interest</i>			
Interest income on plan assets	188	-	188
Interest cost on defined benefit obligation	-	216	(216)
Total net interest	188	216	(28)

	Assets	Obligations	Net (liability)/ asset
Total defined benefit cost recognised in deficit	188	702	(514)
<i>Cashflows</i>			
Participants' contributions	99	99	-
Employer contributions	334	-	334
Estimated benefits paid	(90)	(90)	-
Estimated unfunded benefits paid	(2)	(2)	-
Unfunded benefits paid	2	-	2
Expected closing position	7,878	9,102	(1,224)
<i>Re-measurements</i>			
Change in financial assumptions	-	(897)	897
Change in demographic assumptions	-	(304)	304
Other experience	-	(51)	51
Return on assets excluding amounts included in net interest	(691)	-	(691)
Total re-measurements recognised in Other Comprehensive Income (OCI)	(691)	(1,252)	561
Fair value of employer assets	7,187	-	7,187
Present value of funded liabilities	-	7,810	(7,810)
Present value of unfunded liabilities	-	40	(40)
Closing position as at 31 March 2020	7,187	7,850	(663)

(iv) Fair value of plan assets

The below asset values are at bid value as required under IAS19, for the period ended **31 March 2021**.

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Equity securities:				
Consumer	721.3	-	721.3	7%
Manufacturing	519.2	-	519.2	5%
Energy and utilities	342.1	-	342.1	4%
Financial institutions	802.5	-	802.5	8%
Health and care	265.4	-	265.4	3%
Information technology	886.0	-	886.0	9%
Other	51.0	-	51.0	1%
Debt securities:				
Corporate Bonds (investment grade)	-	-	-	0%
Corporate Bonds (non-investment grade)	-	-	-	0%
UK Government	135.8	-	135.8	1%
Other	-	-	-	0%
Private equity:				
All	-	140.8	140.8	1%
Real estate:				
UK property	-	534.7	534.7	6%
Overseas property	-	0.8	0.8	0%
Investment funds and unit trusts:				
Equities	2,380.9	-	2,380.9	25%
Bonds	605.8	-	605.8	6%

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Hedge funds	-	-	-	0%
Commodities	-	-	-	0%
Infrastructure	-	943.0	943.0	10%
Other	889.7	217.1	1,106.8	11%
Derivatives:				
Inflation	-	-	-	0%
Interest rate	-	-	-	0%
Foreign exchange	-	-	-	0%
Other	-	-	-	0%
Cash and cash equivalents:				
All	223.9	-	223.9	2%
Totals	7,824	1,836	9,660	100%

The asset value, at bid value, for the period ended **31 March 2020** are outlined in the table below.

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Equity securities:				
Consumer	466.8	-	466.8	6%
Manufacturing	426.2	-	426.2	6%
Energy and utilities	284.9	-	284.9	4%
Financial institutions	533.6	-	533.6	7%
Health and care	250.6	-	250.6	3%

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Information technology	575.6	-	575.6	8%
Other	25.5	-	25.5	0%
Debt securities:				
Corporate Bonds (investment grade)	-	-	-	0%
Corporate Bonds (non-investment grade)	-	-	-	0%
UK Government	114.4	-	114.4	2%
Other	-	-	-	0%
Private equity:				
All	-	160.8	160.8	2%
Real estate:				
UK property	-	441.2	441.2	6%
Overseas property	-	1.8	1.8	0%
Investment funds and unit trusts:				
Equities	1,463.0	-	1,463.0	20%
Bonds	375.9	-	375.9	5%
Hedge funds	-	-	-	0%
Commodities	-	-	-	0%
Infrastructure	-	818.6	818.6	11%
Other	683.4	140.0	823.4	11%
Derivatives:				
Inflation	-	-	-	0%
Interest rate	-	-	-	0%
Foreign exchange	-	-	-	0%

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Other	-	-	-	0%
Cash and cash equivalents:				
All	424.7	-	424.7	6%
Totals	5,625	1,562	7,187	100%

(v) Projected defined benefit cost for the period to 31 March 2022

	Assets	Obligations	Net (liability)/ asset	% of pay
Projected current service cost	-	768	(768)	(53.7%)
Total service cost	-	768	(768)	(53.7%)
Interest income on plan assets	202	-	202	14.1%
Interest cost on defined benefit obligation	-	286	(286)	(20.0%)
Total net interest cost	202	286	(84)	(5.9%)
Total included in income statement	202	1,054	(852)	(59.6%)

Employer's contributions for the period to 31 March 2022 will be approximately £421,000.

(vi) Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below.

Change in assumptions at 31 March 2021	Approximate % increase to Employer	Approximate monetary amount £(000)
0.1% decrease in Real Discount rate	2%	320
0.1% increase in the Salary Increase rate	0%	27

0.1% increase in the Pension Increase rate (CPI)	2%	290
1 year increase in member life expectancy	4%	543

3.5.13 RELATED PARTY TRANSACTIONS

As WICS is a non-departmental public body sponsored by the Scottish Government, the Scottish Government is regarded as a related party. There have been no transactions between WICS and the Scottish Government.

WICS has had transactions with other central and local government bodies: Scottish Water, Falkirk Council, Stirling Council and Audit Scotland.

A levy is received from each licensed provider to fund any licensing activity carried out by WICS. Anglian Water and Business Stream are licensed providers. Through a Scottish Government framework agreement, Anglian Water, replaced by Business Stream in April 2020, provides WICS with water and wastewater services and are therefore considered as related parties.

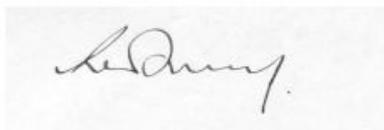
Related party	Income (£)	Expenditure (£)	Year-end receivable (£)	Year-end payable (£)
Anglian Water	73,848	367	-	17,915
Scottish Water Business Stream	661,749	1,372	-	159,538

All Board members and Directors complete and update a register of interests on an annual basis. During the year 2020-21, no Board Member, Director or other related party has undertaken any material transactions with WICS.

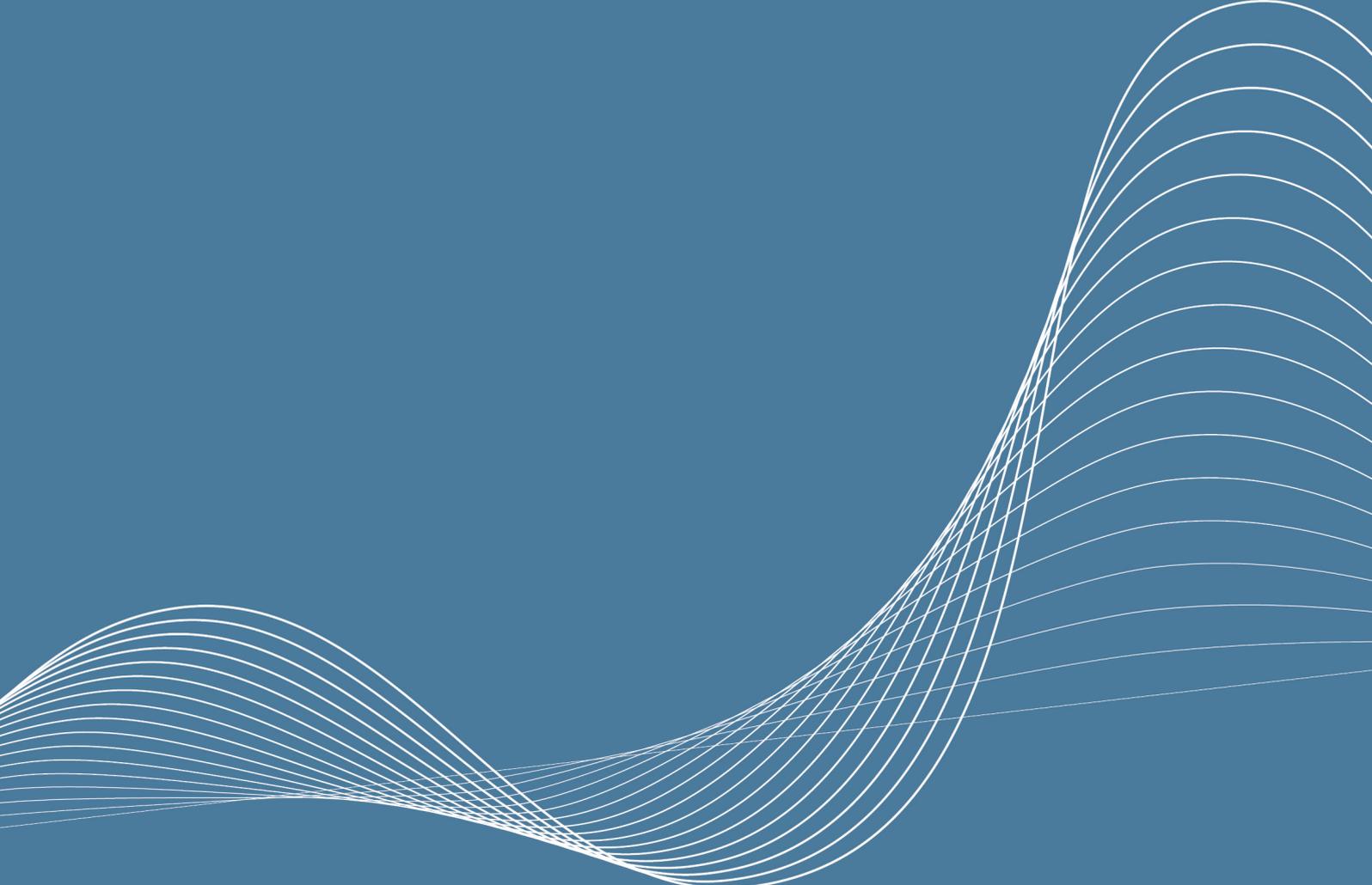
4. Accounts Direction

WATER INDUSTRY COMMISSION FOR SCOTLAND DIRECTIONS BY THE SCOTTISH MINISTERS

1. The Scottish Ministers give the following directions to the Water Industry Commission for Scotland (“WICS”) in exercise of powers conferred by section 1(3) of the Water Industry (Scotland) Act 2002 (the “2002 Act”), as amended by section 1(1) of the Water Services etc. (Scotland) Act 2005. In accordance with section 1(3) of the 2002 Act, the Scottish Ministers have consulted WICS.
2. The statement of accounts for the financial year ended 31 March 2018, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. These directions shall be reproduced as an appendix to the statement of accounts.
5. The direction given by the Scottish Ministers to WICS, in relation to statements of accounts, dated 3 October 2006 is revoked.



Signed by the authority of the Scottish Ministers
Dated: 31 July 2018



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WICS Economic
regulation for
Scotland's water

