water industry commission FOR SCOTLAND

ANNUAL REPORT AND FINANCIAL STATEMENTS 2014-15

ACHIEVING BEST VALUE FOR WATER AND SEWERAGE CUSTOMERS

As economic regulator of the Scottish water and sewerage industry our statutory role is to promote the interests of households and businesses. We do this by incentivising Scottish Water to maintain stable prices, by insisting on better service and by facilitating greater value and choice through the competitive retail framework.

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> THE STRATEGIC REVIEW OF CHARGES FOR 2015-21 REPRESENTS AN EXCELLENT OUTCOME FOR CUSTOMERS, WITH TYPICAL HOUSEHOLD BILLS PROJECTED TO INCREASE BY £5 OR LESS EACH YEAR.

Professor Gordon Hughes, Chairman

SG/2015/154 **For the period 1 April 2014 to 31 March 2015.**

Laid before the Scottish Parliament by the Scottish Ministers under Part 1, section 5(4) of the Water Industry (Scotland) Act 2002 (as amended). October 2015

CHAIRMAN'S FOREWORD

The year 2014-15 was marked by various major pieces of work undertaken by the Commission.

For water customers in Scotland the most important achievement was the successful completion of the Strategic Review of Charges for 2015-21. This was finalised in November 2014 and represented an excellent outcome for customers, with typical household bills projected to increase by £5 or less each year over the period. The Strategic Review incorporates significant regulatory innovations including the adoption of a rolling investment programme and financial tramlines in place of a fixed cost of capital. The outcome was the product of an unprecedented degree of cooperation between the Commission, the Customer Forum (representing customers) and Scottish Water. The Commission is grateful to all of the stakeholders who participated in the process.

A second major area of work concerned the development of the retail market in England. The Commission has made a major contribution to the formulation of market rules, working with DEFRA, Ofwat and industry representatives with the goal of promoting a unified Anglo-Scottish market. The prospect of market opening in 2017 has stimulated the entry of new retail operators into the Scottish market, thus strengthening competition and offering a wider range of choices to non-household customers. The Commission is working on the task of incorporating lessons from the work on the English market into the market rules for the Scottish market.

During the year the Commission has been involved in the Scottish Government's Hydro Nation programme. It has provided training to the Greek Special Secretariat for Water, and hosted meetings with regulatory bodies in Oman, Ireland and Abu Dhabi. In addition, it has made a significant contribution to the establishment of the European Water Regulators Network (WAREG), a group bringing together water regulators in Europe.

Looking forward, the Commission is considering how to build upon the regulatory developments in the Strategic Review of Charges with a view to promoting greater innovation and ensuring the incentive regime establishes an appropriate balance between risks and costs. It will continue to work to improve the operation of the retail market and to play an active part in the Hydro Nation programme.

The success of the Commission's work is the product of the individual contributions of its staff. We are extremely grateful to all of them for their goodwill, competence and overall contribution to the effective execution of our responsibilities.

Professor Gordon Hughes
Chairman
September 2015

ENSURING VALUE FOR MONEY FOR CUSTOMERS

We have a duty to ensure that customers in Scotland receive the best possible value for money for their water and wastewater services. We achieve this by limiting the amount that Scottish Water can charge its customers, and we decide what these limits should be through a process called the Strategic Review of Charges (or price review).

In each review, we set price limits that allow Scottish Water to deliver Scottish Ministers' objectives for the water industry at the lowest reasonable overall cost.

STRATEGIC REVIEW: 2010-15

This was an important year for the Commission, as it marked the end of our 2010-15 Strategic Review of Charges[1]. Over the period we have seen Scottish Water outperform the determination that we set out in 2009 through improvements in efficiency and by controlling costs. As a result, customers in Scotland have enjoyed three years of price freezes (2010-11, 2011-12 and 2012-13) and two years of below inflation increases (2013-14 and 2014-15).

The average household bill for water services in Scotland for 2014-15 is **£56 cheaper than in England or Wales**

STANDARDS OF SERVICE are also among the highest **IN THE UK**

1. Water Industry Commission for Scotland, 'The Strategic Review of Charges 2010-15: The final determination', November 2009.

We believe that our final determination is good for customers, good for our environment in Scotland, and good for the Scottish economy. It will allow Scottish Water to build on what it has achieved over the past five years while ensuring that customers receive value for money and the further improvements in service they want.

Alan Sutherland, Chief Executive

STRATEGIC REVIEW: 2015-21

We published our final determination for water and sewerage charges for the period 2015-21 in November 2014. It was formally accepted by Scottish Water in December 2014.

In the determination, we set out that household customers' bills will increase below the rate of inflation throughout the 2015-21 period. We also said that there would not be any increase in the maximum charges payable by non-household customers, except in the case of a substantial increase in inflation.

The final determination also allowed for funding of an extensive investment programme of over £3.5 billion over the 2015-21 regulatory period. Such investment is vital for ensuring that customers and the environment can continue to be best served by Scottish Water's activities. This is why the Commission has continued to encourage Scottish Water to look for and adopt innovative approaches across a number of areas, including novel solutions at water and wastewater treatment works and improved approaches to sustainable land management. Successful delivery of this investment programme will be monitored by the Commission, the quality regulators, the Scottish Public Services Ombudsman and Citizens Advice Scotland through the Government-chaired Outputs Monitoring Group (OMG).

Typical household bills will
increase by £5 or less
EACH YEAR OF THE 2015-21 PERIOD

"The successful engagement with the Forum has demonstrated the value that Scottish Water can derive from having a direct, almost organic relationship with customers: that is, to gain essential insight into what the company should be aiming for to support its vision of being Scotland's most valued and trusted business."

The Customer Forum for Water in Scotland - Legacy Report

THE ROLE OF THE CUSTOMER FORUM

One of the regulatory innovations that we introduced in the 2015-21 Strategic Review process was the establishment of the Customer Forum. The Forum's role was to identify customer priorities and to secure the best outcome for customers within the ranges for the key inputs to the price review that the Commission had determined (these included operational expenditure, capital expenditure and financeability).

This year the Forum was primarily focused on reviewing its work to date and drawing out lessons learned from customer involvement in the Strategic Review of Charges process. This culminated in the publication of its Legacy Report in February 2015. The Forum has also contributed over the year to the drafting of new measures of customer satisfaction: the Customer Experience Measure (CEM) for both household and non-household customers, the High Esteem Test, and additional measures around the Overall Performance Assessment (OPA).

We intend to work closely with Citizens Advice Scotland, Scottish Water and the Scottish Government to decide whether and how the Customer Forum's role should develop in the future.

DEVELOPING OUR APPROACH TO FUTURE STRATEGIC REVIEWS

We continue to think critically about our approach to Strategic Reviews to continuously develop and improve our work. This has been especially important this year, as we look back at the recently completed Strategic Review process. This reflective process is guided by the following set of principles:

- Customer legitimacy, which derives in large part from the central involvement of customers in the process, is of paramount importance.
- Customers in Scotland should consider their water and sewerage bills to be reasonable.
- The Commission will work with Scottish Water and others to ensure that the best value for money solution is chosen.

This developing approach has led to our push towards encouraging more cost-effective and innovative solutions while protecting customers from risk. An example of this approach is the work that we have been doing with the Centre of Expertise for Water and others on catchment management – an approach to improving water quality which brings Scottish Water, farmers and other stakeholders together to find smarter ways to protect drinking water quality.

MONITORING SCOTTISH WATER'S PERFORMANCE

It is important that customers in Scotland can feel confident that their water and sewerage services are being delivered in an efficient way. We monitor Scottish Water's levels of efficiency by considering current operating costs and capital investment costs, and assessing how far the company could be expected to reduce these costs, both today and in the future.

MONITORING PERFORMANCE

We are a member of the Outputs Monitoring Group, alongside representatives from the Scottish Government, Scottish Water, the Scottish Environment Protection Agency, the Drinking Water Quality Regulator, the Scottish Public Service Ombudsman and Citizens Advice Scotland.

The group is responsible for reviewing progress towards achieving ministerial objectives (set out in an agreed programme of works) and interim milestones for output delivery (set out in Scottish Water's agreed delivery plan). The group meets every three months and publishes quarterly reports on the Scottish Government's website.

SCOTTISH WATER'S LEVEL OF QUALITY
OF SERVICE IS NOW COMPARABLE
with the highest performing
companies in England and Wales

MONITORING CUSTOMER SERVICE

We have continued to push Scottish Water to improve its levels of customer service in each year of the regulatory period, a challenge which Scottish Water has consistently surpassed. This year, we have further developed our approach to assessing Scottish Water's service performance, after consultation with Scottish Water and the Customer Forum:

- The OPA remains an important tool in our regulatory toolkit. It allows us to continuously monitor key components of service performance, and facilitates accurate year-on-year comparisons.
- A new Customer Experience Measure to measure customer satisfaction was in development during the year. The CEM allows Scottish Water's performance to be benchmarked against its peers, both within the sector and, importantly, in comparator sectors. Separate versions of the CEM can be applied to household and non-household customers.
- A High Esteem Test has also been developed. This test measures and compares customers' perceptions of a range of companies from different sectors in the UK. This allows Scottish Water to be measured against, and challenged by, some of the most well perceived companies in the country.
- Progress in areas that the Customer Forum had identified as being customer priorities will be monitored through new enhanced service activity measures in a number of areas (including external flooding, visible leakage, and carbon footprint reductions).

REPORTING ON PERFORMANCE

We publish an annual Performance Report, which describes Scottish Water's performance in delivering these key outcomes for customers and the environment over the year. This report covers both the outputs monitored by the Outputs Monitoring Group, and the measures of customer service.

ACHIEVING GREATER VALUE AND CHOICE THROUGH COMPETITION

Non-household customers in Scotland have been able to choose their retailer for water and wastewater services since April 2008, when the market was opened up to competition. This has given these customers the ability to determine the price and service level that reflects their own needs.

COMPETITION IN SCOTLAND

There are around 150,000 non-household customers in Scotland, and the competitive retail market for these customers has an annual gross market value of £330 million.

There are now 18 retailers, licensed by the Commission, who are able to compete for these customers and provide retail water and sewerage services across Scotland. We expect that this number may increase further as the opening of the retail market in England, due in April 2017, draws nearer.

This increase in competition has created significant financial and environmental benefits to customers in Scotland, and these benefits continue to rise. Retail competition has empowered customers so that they can ensure that they get the service they want at a price they can afford. Competition in the non-household retail market has also helped make Scottish Water more focused on its core activities and more accountable to its wholesale customers.

This year has seen a strong, continued growth in activity within the competitive market, and welcome increases in levels of customer switching. We have also witnessed a marked shift in the structure of the market, with new entrants taking a larger market share.

THE ANGLO-SCOTTISH MARKET

The market for non-household retail water and wastewater services in England is due to open in April 2017. The Commission was asked to take a leadership role in the Open Water programme and in Open Water Market Limited (OWML), the legal entity charged with policy delivery.

Over the past year, the Commission has been closely involved in the development of this market, helping to foster the emergence of an Anglo-Scottish market and secure benefits for non-household customers in both countries. Our staff particularly contributed in the areas of communications and engagement, the development of the Market Operator and the assurance framework, and designing the codes and processes needed for a successfully functioning market.

The formal role of the Commission in the market opening came to a close in May 2015. Responsibility for market opening has now been transferred from OWML to Market Operator Services Limited.

With only two years to go until market opening, we have left those areas of the market's development for which we had responsibility in good shape. An independent review of the Open Water programme, produced for Ofwat in May 2015, praised OWML, which the Commission had led, for its role in developing the English retail market:

> **"The programme has made good progress thanks to the contribution and commitment of Open Water Market Limited and its key personnel and resources available to it. The importance of this contribution is recognised by all persons interviewed in the course of this review."**

While we will no longer have a formal role in the development of the market, we will continue to be vigilant in monitoring developments to ensure that Scottish interests are protected.

THE PROMISE OF COMPETITION in the retail market in England has encouraged **further growth and activity in the Scottish retail market**

MANAGING OUR OFFICE

With a staff of less than 20 people we are responsible for regulating an industry with an annual turnover of more than £1 billion that provides a vital service to the Scottish people. We carry out our role at a cost of less than 40 pence per person in Scotland each year.

BEING TRANSPARENT AND ACCOUNTABLE

The Commission is a non-departmental public body with statutory responsibilities, which acts independently of Ministers. We consider that we are accountable to customers in Scotland; we achieve this through consultation and by being transparent in our work.

As part of our accountability, we must agree a corporate plan with Scottish Ministers as well as submitting an annual report and financial statements. The corporate plan sets out our work plans and budget projections for a six-year period.

REDUCING OUR OWN COSTS

Overall, expenditure incurred by the Commission in 2014-15 has decreased by 10% compared to the previous year. 2013-14 was a busy year in the regulatory cycle of the Commission, with more consultancy time required. In 2014-15, much less consultancy resource was needed to conclude work on the Strategic Review of Charges, which was published in November 2014.

We continue to monitor and review contracts to ensure the delivery of value for money, and during the year we let the consultancy contracts for the next Review period, using the OJEU Open procedure through Public Contracts Scotland. The procurement process was robust and ensured open competition.

The savings made during the year have allowed us to repay £250,000 to licensed providers, and the surplus remaining for the regulatory period has been ring-fenced for a Scottish Water project. At the end of the year our Corporate Plan for the next 6 years was approved by the Scottish Government. At the start of the next regulatory control period in 2015, we proposed initially to decrease Scottish Water's levy to £2.00m and to increase it at just 1.6% each year thereafter. This annual change is exactly in line with the increase in household bills that is proposed in the draft determination. The licensed providers' levy will see an annual increase of 2.5%; this recognises the increasing activity that will be required of this office as we lead up to the opening of the Anglo-Scottish markets, proposed under the UK Government's Water Act, and planned to take place in April 2017.

COMMUNICATING WITH OUR STAKEHOLDERS

Communication through an open and constructive dialogue with our stakeholders is an integral part of our work as a regulator. Throughout the past year we have pushed to keep our stakeholders informed about our work – sharing our experience in preparing for and managing the competitive retail market in Scotland, describing our developing regulatory approach and explaining the Scottish model of regulation. This communication has been conducted through a range of relevant media, including Twitter, articles and interviews in the press, and an updated and expanded series of Information Notes that we have published on our website.

SHARING OUR EXPERIENCE

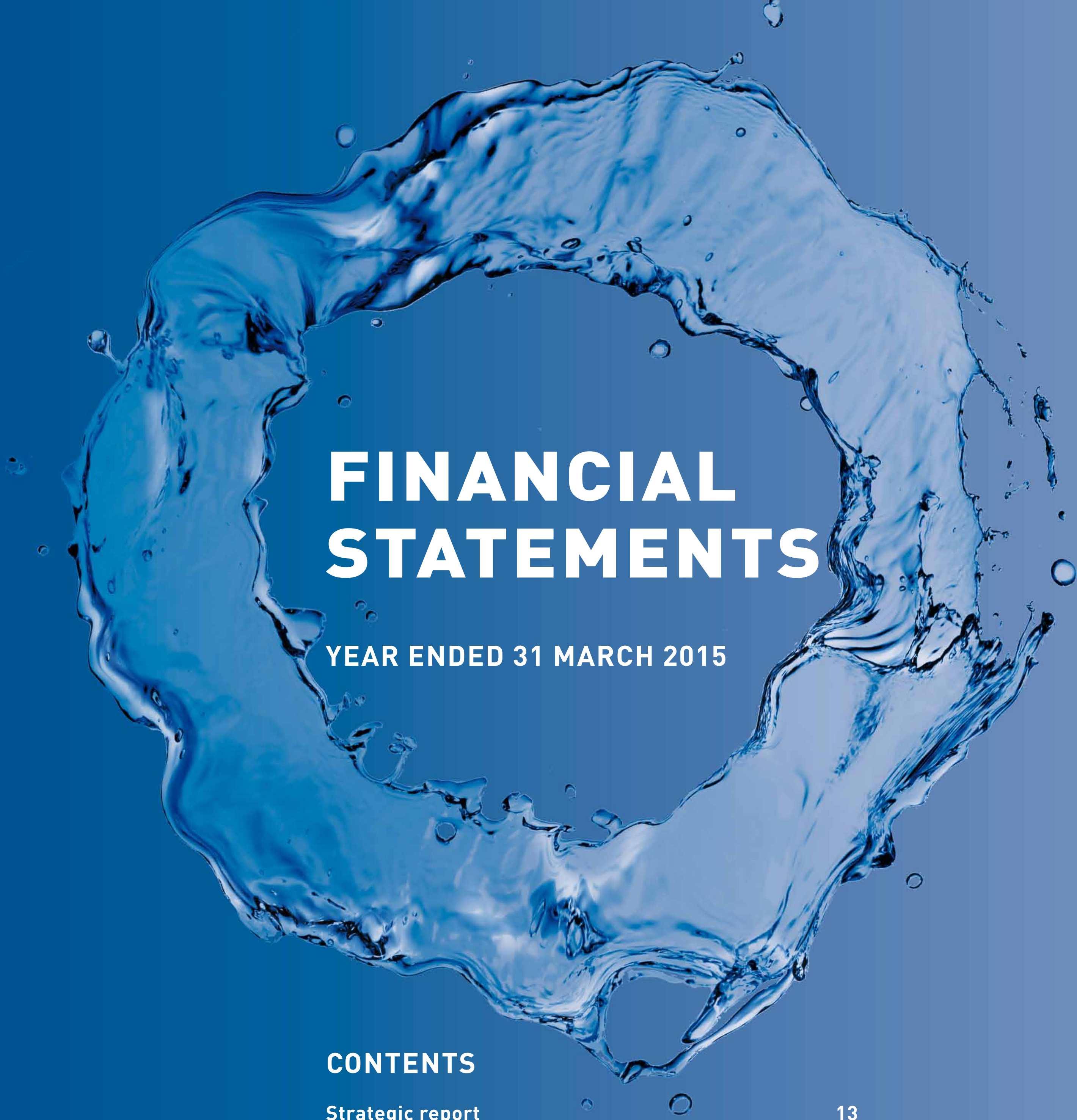
The Commission's work is seen as a model for regulation of a public sector entity by organisations, academics and other commentators in the rest of the UK and abroad. Over the past year we have increasingly taken the opportunity to support the Scottish Government's Hydro Nation initiative by sharing our experience and expertise with this national and international audience.

In 2014 the Commission became a member of WAREG, the European Water Regulators Network. We have subsequently been very active in ensuring that WAREG has an appropriately robust governance and organisational structure to ensure that it meets its considerable potential. The Commission's Director of Strategy and Corporate Affairs, Ms Katherine Russell, was elected by the membership of WAREG to the position of Vice President.

Across the year we have also been involved in delivering a training programme to the Greek Special Secretariat for Water, hosted meetings with regulatory bodies in Oman, Ireland and Abu Dhabi, contributed to an OECD report on approaches to economic regulation in the water sector, and attended numerous conferences and meetings.

FREEDOM OF INFORMATION

In 2014-15 we received 14 requests for information under the Freedom of Information Act.



FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2015

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The Accountable Officer authorised these financial statements for issue on 1 October 2015

STRATEGIC REPORT

1 INTRODUCTION

The Water Industry Commission for Scotland (the Commission) presents the financial statements for the year from 1 April 2014 to 31 March 2015. The financial statements have been prepared in a form directed by the Scottish Ministers in accordance with the Water Industry Act 1999. The Commission is required to make a report to Scottish Ministers at the end of each year on its activities during the year and arrange for the report to be published.

2 HISTORY AND STATUTORY BACKGROUND

The Commission is a non-departmental public body sponsored by the Scottish Government Directorate for Environment and Forestry. The Commission was formed on 1 July 2005. The office of the Water Industry Commissioner for Scotland was dissolved at that time. The Water Services etc. (Scotland) Act 2005 transferred to the Commission the former Commissioner's function of promoting the interests of water customers. It also gave the Commission the functions of:

- determining limits on Scottish Water's charges; and
- creating and managing the UK's first ever regime for licensing the provision of retail water services to the non-household sector.

These functions are subject to scrutiny by the Competition and Markets Authority.

3 PERFORMANCE ACTIVITIES

Goals

We set out our approach to the 2015-21 Strategic Review in our methodology document 'Innovation and Choice' in May 2013, explaining the changes we were making to the regulatory framework in order to ensure that Scottish Water would be equipped for future challenges. In November 2014 we published our final determination of water and sewerage charges for 2015-21. The determination set out the price limits that will apply from April 2015. Under the determination, household customers' bills will increase below the rate of inflation over the six-year regulatory control period. Typical household bills will increase by £5 or less each year. For business customers, Scottish Water will be permitted to increase its wholesale charges at no more than CPI minus 0.3% per year over the period 2015-21. The review process saw the introduction of a number of regulatory innovations. Particularly important was the extensive involvement of the Customer Forum, which represented the interests of consumers throughout the process.

We have assessed Scottish Water's performance by comparing what was delivered in 2014-15 with Scottish Water's delivery plan projections for that year. We are pleased to report that Scottish Water continued to perform well in 2014-15, with overall performance on investment delivery remaining on target despite delays in some programme areas.

With regard to retail competition, we have been pleased to see more retailers entering the market this year, influenced by the prospect of a similar market developing in England. With regard to the new arrangements for a competitive market in England we continue to do all we can to ensure the market opens in April 2017. We are working closely with Defra, Ofwat and the incumbent companies and new entrants in achieving this goal. We are being remunerated on a cost basis for the Commission's participation in this work.

Supplier payment performance

It is the Commission's policy to pay all invoices not in dispute within 30 days from receipt of the invoice or the agreed contractual terms if otherwise specified. However, the Commission aims to pay suppliers as soon as possible following receipt of an invoice. During 2014-15, the average length of time taken to pay an invoice was 6 days (2013-14: 7 days), which is in line with the Scottish Government's 10 day payment pledge.

Sustainability

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

- contribute to carbon emissions reduction (climate change mitigation);
- contribute to climate change adaption; and
- act sustainably.

The Commission endeavours to behave in a carbon aware manner, with the location of our office allowing employees and visitors to have better access to sustainable forms of transport. We have seen a slight reduction in travel costs and associated carbon footprint during the year. Our recycling capabilities are improving in the office, and this is demonstrated with a 35% reduction in waste to landfill. Our energy usage has also decreased slightly from last year.

Details of the carbon footprint of the office of the Commission can be found in the table below.

	2014-15		2013-14	
Area	**Non-financial information**	**Financial information**	**Non-financial information**	**Financial information**
Energy	Electricity: 24 tonnes CO_2 Gas: 8 tonnes CO_2 Total carbon from energy: 32 tonnes CO_2	Electricity: £5,825 Gas: £1,916	Electricity: 23 tonnes CO_2* Gas: 11 tonnes CO_2 Total carbon from energy: 34 tonnes CO_2	Electricity: £6,489 Gas: £2,567
Waste	Waste to landfill: 5 tonnes CO_2 Paper waste recycled: 1 tonnes CO_2 Total carbon from waste: 6 tonnes CO_2	£900	Waste to landfill: 8 tonnes CO_2* Paper waste recycled: 2 tonnes CO_2 Total carbon from waste: 10 tonnes CO_2	£1,207
Water	**Note 1**	£2,974	98 tonnes CO_2*	£2,154
Transport and travel	28 tonnes CO_2	£81,935	37 tonnes CO_2	£90,539

Note 1: Due to a leak elsewhere in the building, we do not have an accurate reading of the water consumption of the office.

**Some prior year comparative figures have been recalculated due to a change in conversion factors used.*

All of the information in the 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.

Water: financial information taken directly from invoices received by Business Stream. Due to a water leak elsewhere in the building, no accurate consumptions figures are available.

Transport and travel: financial information based on actual expenditure in the year; volume based on mileage estimates of journeys taken by employees during the year.

All conversions to carbon consumption are calculated using data available from Defra.

The Public Services Reform (Scotland) Act 2010

The Public Services Reform (Scotland) Act 2010 imposed new duties on the Scottish Government and on public bodies such as the Commission to publish specific information on 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 a document with our response to the requirements of the Act each year on our website.

Risks

A strategic risk register is in place, overseen by the Commission and the Audit Committee, in accordance with the approved risk management strategy. Risks are managed by the Commission and the strategic risk register identifies the important role that employees have in the achievement of the Commission's objectives. The register explains the continued actions being undertaken by the Commission to retain, train and develop employees in order to limit staff turnover and ensure continuity of knowledge within the organisation. Also, during the year, the risk register documented the work being carried out in relation to our business continuity plan, including our plans to move to cloud based solutions, following extensive training and revision of the plan.

Employees

The Commission recognises the commitment of all employees in carrying out the functions of its Office, and seeks to be an equal opportunity employer in the recruitment, training and development of all staff. The Commission seeks to consult fully with employees on all matters that impact upon their employment within the office. At the end of the financial year, the number of employees of each sex was as follows:

	Male	Female	Total
Directors	2	1	3
Other employees	8	8	16

The average length of time that each employee was absent due to sickness was 8 days (2013-14: 15 days).

4 FINANCIAL OVERVIEW

As set out in the financial statements, there was a retained net surplus for the year of £516,303 (2013-14: £302,674). Last year saw a peak in activity due to the preparation of the Draft Strategic Review of Charges. As a result of the success of this work, less expenditure was required on consultants than anticipated. The balance on the General Reserve as at 31 March 2015 was £152,354 (2013-14: £232,051). Despite an increase in the cash balance, there was a significant deterioration in the balance sheet position of the pension liability, due to a reduction in the net discount rate over the period, the negative impact of which has outweighed the positive asset return achieved.

Changes in non-current assets

No expenditure was incurred on the investment of information technology and furniture and fittings for the year ended 31 March 2015 (2013-14: £34,519).

Pensions

Some employees and former employees of the Commission's office are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme. In accordance with IAS 19 (Revised) – Employee Benefits (IAS 19), the Commission commissioned the Fund's actuaries to undertake a valuation as at 31 March 2015. This calculation was based on rolling forward valuation data at 31 March 2014 to 31 March 2015, on the basis of a number of financial assumptions. Despite strong asset returns, a further deterioration in the pension liabilities has been the result of falling real bond yields, leading to a reduction in the net discount rate over the period. Details on the pension scheme can be found in the remuneration report on page 18, the accounting policies listed from page 31 and in note 12 to the financial statements.

5 FUTURE DEVELOPMENTS

Following the publication of the Final Strategic Review of Charges for the period 2015-21 we have begun to review the approach that we took and the ways in which the regulatory framework may continue to evolve. A key element of our developing approach is our early work on 'innovation, risks, reporting and returns'. The objective of this work is to encourage more cost-effective, innovative solutions while protecting customers from risk. We also intend to work closely with the Citizens Advice Bureau, Scottish Water and the Scottish Government based on the successful outcome of their involvement in the price review process.

With regards to developing our future approach to monitoring the performance of Scottish Water, we are conscious of the need to continue to review and develop the mechanisms by which we measure and report on performance. We are working jointly with the multi-stakeholder 'Outputs Monitoring Group' in this area.

Within retail competition we will work closely with Defra to ensure the implementation of the UK Government's Water Act delivers the aims of the future water and sewerage industry that all stakeholders would wish to see.

1 October 2015

Alan D A Sutherland, Accountable Officer

Water Industry Commission for Scotland
Moray House, Forthside Way, Stirling FK8 1QZ

DIRECTORS' REPORT

1 PRINCIPAL ACTIVITIES

As the economic regulator of the Scottish water and sewerage industry we have a statutory duty to promote the interests of consumers and business customers. We do this by incentivising Scottish Water to reduce prices, by insisting on better service and by facilitating greater value and choice through the competitive retail framework.

2 THE COMMISSION

The Commission meets regularly throughout the year and currently comprises the Chairman, two further non-executive members, and the Chief Executive. Members of the Commission are appointed by Scottish Ministers. The length of appointments may vary to ensure continuity of Commission membership, but are usually three or four years. On 29 April 2014, John Reynolds resigned from the Commission.

3 DIRECTORS

The Directors during the year were Alan Sutherland, Katherine Russell and Ian Tait. As well as being the Accountable Officer, Alan Sutherland is also an executive member of the board of the Commission.

4 INTERESTS HELD BY THE COMMISSION

Neither the Commission, nor its members or directors, held interests in other bodies with which the Commission has dealings. The Commission has a register of interests which is available for inspection on our website.

5 AUDITOR

Audit appointments are made by the Auditor General, either to Audit Scotland or private firms for a five year term. From the financial year 2014-15, the auditor for the Commission is KPMG LLP. Their appointment is undertaken in accordance with the Code of Audit Practice approved by the Auditor General. The cost of these services for the year to 31 March 2015 amounted to £13,365 (2013-14: £11,750). In addition, KPMG provided non-audit services to the value of £8,760 (2013-14: £nil).

6 DISCLOSURE OF INFORMATION TO AUDITOR

So far as the Accountable Officer is aware, there is no relevant audit information of which the Commission's auditor is 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 the Commission's auditor is aware of that information.

7 DATA LOSS

There have been no instances of personal data loss in the year.

8 SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

There have been no significant events since the end of the financial year that require adjustment or disclosure under the terms of IAS 10: events after the reporting period. 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.

Alan D A Sutherland, Accountable Officer

1 October 2015

REMUNERATION REPORT

1 BACKGROUND

The Chairman and Commission members are appointed by Scottish Ministers in line with the Code of Practice issued by the Scottish Commissioner for Public Appointments. The Chief Executive is appointed by the Chairman of the Commission. The parameters for the remuneration of the Chief Executive, the Chairman and the members of the Commission are set by the Scottish Government's Public Sector Pay Policy for Senior Appointments, which is updated annually.

There is no separate Remuneration Committee and remuneration related issues are brought to the attention of the Commission as they arise. Performance pay and bonuses of all employees are in line with the Public Sector Pay Policy as defined by the Scottish Government on an annual basis.

2 DIRECTORS' SALARY AND PENSION ENTITLEMENTS

This section of the remuneration report is subject to audit.

The total remuneration of the Chief Executive in the year was £144,320 (2013-14: £142,420). The Chief Executive received an annual increment of 1.5% back-dated to November 2013 and an increment of 2.5% effective from November 2014. The total remuneration of the Directors was as follows:

	2014-15			2013-14		
Directors	Gross Salary £(000)	Pension benefits £(000)	Total £(000)	Gross Salary £(000)	Pension benefits £(000)	Total £(000)
Alan Sutherland, Chief Executive	140 – 145	35 – 40	180 – 185	140 – 145	20 – 25	165 – 170
Katherine Russell, Director of Corporate Affairs & Strategy	125 – 130	25 – 30	150 – 155	120 – 125	20 – 25	145 – 150
Ian Tait, Director of Investment	95 – 100	50 – 55	145 – 150	90 – 95	15 – 20	105 – 110

The Directors' normal retirement age is 65, 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 Directors during 2014-15 (2013-14: £nil). The total remuneration of the Chief Executive and other Directors was £365k-£370k (2013-14: £360k-365k). The Chief Executive and the Directors are also ordinary members of the Falkirk Council Pension Scheme.

Directors	Accrued pension as at 31/03/15 £(000)	Lump sum as at 31/03/15 £(000)	Real increase in pension £(000)	Real increase/ (decrease) in lump sum £(000)	Value of increase (excluding Director's own contribution) £(000)	Director's own contribution £(000)
A Sutherland	20 – 25	25 – 30	2.5 – 5	0 – 2.5	35 – 40	15 – 20
K Russell	15 – 20	10 – 15	0 – 2.5	(0 – 2.5)	25 – 30	10 – 15
I Tait	15 – 20	20 – 25	2.5 – 5	0 – 2.5	50 – 55	10 – 15

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 average banded remuneration of the highest paid Director of the Commission for the year to 31 March 2015 was £144,320 (2013-14: £142,500). This was 5 times (2013-14: 6 times) the annualised median remuneration of the workforce, which was £28,000 (2013-14: £26,000). The highest paid Director of the Commission is the Chief Executive.

	2014-15	2013-14
Highest paid Director's total remuneration (£000)	144.3	142.5
Median total remuneration (£)	28,000	26,000
Ratio	5.2	5.5

3 COMMISSION REMUNERATION

This section of the remuneration report is subject to audit.

The remuneration of the Commission Members, other than the Chief Executive, is determined by Scottish Ministers and subject to the Scottish Government's Public Sector Pay Policy for Senior Appointments. The remuneration of the Commission members, other than the Chief Executive, was as follows:

	2014-15 £(000)	2013-14 £(000)
Professor Gordon Hughes	36 – 40	36 – 40
Ross Finnie	11 – 15	11 – 15
Libby Gawith	11 – 15	11 – 15
John Reynolds (note 1)	0 – 5	11 – 15

Note 1: John Reynolds resigned from the Commission on 29 April 2014.

Commission Members are not members of the pension scheme. The Commission also paid £2,270 on behalf of Commission Members in the year in respect of PAYE and National Insurance contributions due on travel to work expenses in 2014-15 (2013-14: £2,542). No benefits in kind were paid in the year.

1 October 2015

Alan D A Sutherland, Accountable Officer

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005, the Scottish Ministers have directed the Water Industry Commission for Scotland 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 the Water Industry Commission for Scotland and its income and expenditure, changes in equity 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 in particular 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 the 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 Scottish Ministers have appointed the Chief Executive as Accountable Officer of the Water Industry Commission for Scotland. 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 the Water Industry Commission for Scotland's assets, are set out in the Scottish Public Finance Manual (SPFM) published by the Scottish Ministers.

GOVERNANCE STATEMENT

1 SCOPE OF RESPONSIBILITY

The SPFM is issued by the 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.

As Accountable Officer, I have responsibility for maintaining a sound governance framework that supports the achievement of the organisation's policies, aims and objectives set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the Commission is directed and controlled. It enables the Commission to monitor the achievement of its 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 the Commission's 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 the Commission for the year ended 31 March 2015 and up to the date of approval of the annual report and financial statements.

3 THE COMMISSION'S GOVERNANCE FRAMEWORK AND REVIEW OF EFFECTIVENESS

The Commission aims for the highest standards in corporate governance and details of the processes, significant developments and issues identified during the period are outlined below.

3.1 The Commission

The Commission members have corporate responsibility for ensuring that the Commission fulfils its statutory duties, any targets agreed with Scottish Ministers and for promoting the efficient and effective use of staff and other resources by the Commission in accordance with the principles of Best Value. At the end of April 2014, John Reynolds resigned from his post as a member of the Commission. There were no other changes to the membership of the Commission during the year.

The Commission reviews our strategy and its implementation regularly. This includes assessing changing external economic, political, environmental and social factors and our capacity to deliver in light of any such changes. The Commission meets regularly and at least quarterly for general business, including a review of the risk register. At each meeting the Commission discusses strategic issues relating to the Strategic Review of Charges and developments in the retail market.

3.2 Audit Committee

The Audit Committee meets 4 times a year and monitors and reviews risk, control and corporate governance. During the year the Committee was chaired by Ross Finnie, who replaced John Reynolds as Chairman from 1 May 2014. In addition, membership of the Committee includes two non-executive members who are not Commission members. The non-executive members are appointed internally by the Chief Executive and Chairman of the Committee based on the breadth of skill, knowledge and experience they can bring to the Committee. During the year, both non-executive members were re-appointed for a further three years. The external and internal auditors attend all meetings and are given the opportunity to speak confidentially to the Committee members. The Audit Committee operates independently and reports to the Commission. The Committee presented the annual report of the Audit Committee to the April 2015 Commission meeting, which concluded that the Committee was satisfied that the Commission has acted diligently to set in place effective control systems and financial reporting processes to measure and manage the risk inherent in the delivery of the organisation's objectives.

3.3 Internal audit

The work of the internal auditor is submitted to the organisation's Audit Committee and includes regular reports and the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement.

The work of internal audit only identified five medium and four low rated findings during the financial year 2014-15, most of which have been actioned and are now closed. Based on the internal audit work performed during the year, no specific areas of weakness were identified that should be reported in this governance statement and the work confirmed that there are adequate and effective governance, risk management and control processes to enable the related risks to be managed and objectives to be set.

3.4 Risk management

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

The Commission has established a robust and effective framework for the management of risk, one that is proactive in understanding risk, builds upon existing good practice and is integral to all our decision making, planning, performance reporting and delivery processes. Our risk 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. It also documents the controls in place to manage these risks and any action being taken to reduce the risk rating.

The Commission actively champions the risk management process and has defined the organisation's risk appetite. The risk register is populated by contributions from the Commission and 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 the Commission's Audit Committee on a quarterly basis. I, as the Accountable Officer, also review the register prior to its submission to the Audit Committee. The Commission is informed of significant changes to the register or new risks.

4 SIGNIFICANT GOVERNANCE ISSUES

The review of effectiveness of the Commission's governance framework, as detailed above, provides good assurance of the effectiveness of the Commission's system of internal control. There have been no governance issues identified during the year that are significant in relation to the Commission's overall governance framework. Specific, but not significant, opportunities for improvement in governance and internal controls identified as part of the assurance processes detailed above have been addressed.

1 October 2015

Alan D A Sutherland, Accountable Officer

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.

We have audited the financial statements of the Water Industry Commission for Scotland for the year ended 31 March 2015 under the Water Services etc. (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the Statement of Changes in Equity and the related notes. 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 2014/15 Government Financial Reporting Manual (the 2014/15 FReM).

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 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

RESPECTIVE RESPONSIBILITIES OF ACCOUNTABLE OFFICER AND AUDITOR

As explained more fully in the Statement of the Accountable Officer's Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the 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 2015 and of its net retained surplus 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 2014/15 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 there under by the Scottish Ministers.

OPINION ON REGULARITY

In our 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.

OPINION ON OTHER PRESCRIBED MATTERS

In our opinion:

- the part of the Remuneration Report to be audited 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; and
- the information given in the Strategic Report and Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Andrew Shaw 8 October 2015

Andrew Shaw
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants,191 West George Street, Glasgow G2 2LJ

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2015

	Note	Year ended 31 March 2015 £	Year ended 31 March 2014 £
Income			
Income from activities	2	3,589,514	3,116,640
Expenditure			
Staff costs	4	1,346,955	1,260,304
Depreciation	6	29,666	53,949
Other expenditures	5	1,698,621	2,106,513
		3,075,242	3,420,766
Operating surplus/(deficit)		514,272	(304,126)
Interest receivable		2,031	1,452
Retained net surplus/(deficit) for the year		**516,303**	**(302,674)**
Other comprehensive income			
Actuarial losses		(596,000)	(141,000)
Total comprehensive income for the year		**(79,697)**	**(443,674)**

All income and expenditure relates to continuing activities.

The notes on pages 31 – 47 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2015

	Note	Year ended 31 March 2015 £	Year ended 31 March 2014 £
Non-current assets			
Property plant and equipment	6	119,710	149,376
Other receivables	7	-	2,734
Total non-current assets		**119,710**	**152,110**
Current assets			
Other receivables	7	489,016	128,165
Cash and cash equivalent		1,220,671	821,690
Total current assets		**1,709,687**	**949,855**
Total assets		**1,829,397**	**1,101,965**
Current liabilities			
Trade payables and other current liabilities	8	(316,163)	(184,004)
Total current liabilities		**(316,163)**	**(184,004)**
Non-current assets plus net current assets, excluding pension liabilities		**1,513,234**	**917,961**
Pension Scheme liability	12	(1,333,000)	(665,000)
Non-current assets plus net current assets, including pension liabilities		**180,234**	**252,961**
Non-current liabilities			
Provisions	9	(27,880)	(20,910)
Net Assets		**152,354**	**232,051**
Equity			
General Reserve		152,354	232,051

1 October 2015

Alan D A Sutherland, Accountable Officer

The notes on pages 31 – 47 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2015

	Note	Year ended 31 March 2015 £	Year ended 31 March 2014 £
Cash flows from operating activities			
Operating surplus/(deficit)		514,272	(304,126)
Adjustments for non-cash items			
Difference in pension costs compared to contributions	12	43,000	21,000
Depreciation on tangible non-current assets	6	29,666	53,949
Loss on disposal of non-current assets	5	-	261
Finance costs		29,000	22,000
Increase in provision	9	6,970	6,970
Movements in working capital			
(Increase)/Decrease in trade and other receivables	7	(358,117)	283,310
Increase/(Decrease) in trade payables	8	132,159	(8,942)
Net cash inflow from operating activities		**396,950**	**74,422**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	-	(34,519)
Net cash outflow from investing activities		**-**	**(34,519)**
Cash flows from financing activities			
Interest received		2,031	1,452
Net inflow from financing activities		**2,031**	**1,452**
Net increase in cash and cash equivalents		**398,981**	**41,355**
Cash as at 1 April		821,690	780,335
Cash as at 31 March		1,220,671	821,690
Net increase in cash and cash equivalents		**398,981**	**41,355**

The notes on pages 31 – 47 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (SCE)

FOR THE YEAR ENDED 31 MARCH 2015

	£
Balance at 1 April 2013	675,725
Total comprehensive income for the year 2013-14	(443,674)
Balance as at 31 March 2014	232,051
Total comprehensive income for the year 2014-15	(79,697)
Balance as at 31 March 2015	**152,354**

The general reserve is analysed in note 10.

The notes on pages 31 – 47 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The financial statements are prepared in a form determined by the 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 the 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 particular circumstances of the Commission 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 in 1.2 Critical accounting estimates and key judgements.

The Commission and Accountable Officer have considered the budget for 2015-16, comprising the statutory contribution from Scottish Water and licensed provider levies, and consider that the Commission has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

1.1 Accounting Convention

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

1.2 Critical accounting estimates and 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. The Commission 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 a number of 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.

The Commission 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, the Commission 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 12.

1.3 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.

Adopted IFRS not yet applied

The following Adopted IFRS has been issued but has not been applied in these financial statements. Its adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

IFRS 13 "Fair Value Measurement"

1.4 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.

The Commission considers that all of 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.

A full year's depreciation is provided in the year of acquisition and none in the year of disposal.

1.5 Intangible assets

Intangible assets relate to software licenses and externally developed software. They are recorded at depreciated replacement cost because their fair value is not readily available. Amortisation is charged on cost less estimated residual value on a straight line basis over the expected useful lives of up to a maximum of four years, or less where the licence term is less than four years.

1.6 Financial assets

Classification

The Commission classifies its financial assets as 'loans and receivables'. The Commission 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 the Commission becomes party to the contractual provisions of the financial instrument. Financial assets are derecognised when the rights to receive cash flows from the asset have expired or the Commission 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 the Commission 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 through the use of 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.

1.7 Financial liabilities

Classification

The Commission 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. The Commission's other financial liabilities comprise trade and other payables in the balance sheet.

Recognition and measurement

Financial liabilities are recognised when the Commission 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.

1.8 Cash and cash equivalents

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

1.9 Provisions

Provisions are recognised when: the Commission 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 a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. 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.

1.10 Income

Funding is by way of the statutory contribution paid by Scottish Water, as directed by Scottish Ministers. Licensing activity is funded by a levy charged to licensed providers. All income is recognised in the statement of comprehensive income in the period to which it relates.

1.11 Value added tax

Most of the activities of the Commission are outside the scope of Value Added Tax (VAT) and, in general, the Commission is not required to declare output tax to HMRC on the income that it receives. Correspondingly, the Commission 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. The Commission became VAT registered from 1 January 2015 to recognise the provision of services being carried out in relation to the opening of the retail market in England, which is subject to VAT. Input tax is recovered on all costs directly associated with this work and these activities also permit the Commission to recover a percentage of the VAT incurred on other applicable overhead costs.

1.12 Operating Leases

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.

1.13 Employee benefits

Employees of the Commission are members of the Local Government Superannuation Scheme administered by Falkirk Council. The scheme is a defined benefit pension scheme, providing benefits based on final pensionable pay, which are contracted out of the State Earnings-Related Pension Fund.

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 the Commission. 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 so as to spread the cost of pensions over employees' working lives. The contributions are determined by an actuary on the basis of 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 income and 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 income and 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 the Commission 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 income 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 of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

1.14 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. The Commission 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.

1.15 Segmental reporting

Operating segments are identified on the basis of internal reports about components of the Commission that are regularly reviewed by the chief operating decision makers (the Chief Executive and Commission) in order to allocate resources to the segments and assess their performance.

2 INCOME

	Year ended 31 March 2015 £	Year ended 31 March 2014 £
Scottish Water statutory contribution	2,080,008	1,733,340
Levy on licensed providers	1,158,618	1,383,300
Other income	350,888	-
	3,589,514	**3,116,640**

Other income relates to the reimbursement of costs associated with the work done by the Commission in relation to the development of the retail market in England. The Commission has a memorandum of understanding in place with Open Water Market Limited (OWML), the body charged by Government to coordinate the development of the market rules, framework and systems required for an effective non-household retail market in England. From 8 September 2014 the Commission has recharged costs incurred directly in relation to this work and time spent by Commission employees, on a cost recovery basis.

3 ANALYSIS OF NET EXPENDITURE BY SEGMENT

The purpose of activity reporting is to analyse the Commission's costs and income by team and by the key work streams of the organisation. This allows the Commission to have a better understanding of how resources are being deployed and against which activities. The full year report is detailed below. The format of this report has changed several times during the year and therefore this is a summary of the information produced for management reporting purposes to enable comparison to prior year figures, which are shown in italics under the current year figures.

The figures in this analysis do not include the IAS 19 pension adjustments, being a debit of £43k to staff costs and finance costs of £29k.

		ACTIVITY			
		Determination of prices and monitoring of performance	Managing and developing the competitive framework	Office administration and other corporate costs	TOTAL
Income received (£)	2014-15	2,080,008	1,508,856	-	3,588,864
	2013-14	*1,733,340*	*1,383,300*	-	*3,116,640*
Expenditure (£)	2014-15	900,663	1,048,332	856,449	2,805,444
	2013-14	*1,046,706*	*1,080,498*	*1,166,267*	*3,293,471*
Reallocation of office administration and corporate costs	2014-15	547,923	308,526	(856,449)	-
	2013-14	*609,842*	*430,195*	*(1,166,267)*	*(126,230)*
Surplus/(deficit) (£)	**2014-15**	**631,422**	**151,998**	**-**	**783,420**
	2013-14	*76,792*	*(127,393)*	-	*(50,601)*

Reconciliation to statement of comprehensive income:

	Year ended 31 March 2015 £	Year ended 31 March 2014 £
Net surplus/(deficit) for the year per statement of comprehensive income	516,303	(302,674)
Cost of secondments and Hydro Nation	195,767	210,525
Interest receivable	-	(1,452)
Staff costs: IAS 19 adjustment	43,000	21,000
Other income	(650)	-
Finance income: IAS 19 adjustment	29,000	22,000
Retained net surplus/(deficit) for the year as above	**783,420**	**(50,601)**

4 STAFF NUMBERS AND RELATED COSTS

Staff costs comprise:

	Year ended 31 March 2015 £	Year ended 31 March 2014 £
Wages and salaries	1,053,534	981,856
Social security costs	99,793	97,370
Pension costs	193,628	181,078
Staff costs per statement of comprehensive income	**1,346,955**	**1,260,304**

The cash contributions made to the pension scheme are disclosed in note 12.1.

In the year to 31 March 2015, one employee (2013-14: nil) left the Commission under voluntary severance. The total cost of the exit package was £25,000 - £50,000.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was 17 (2013-14: 16), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2015	Year ended 31 March 2014
Chief Executive and Directors	3	3
Corporate Affairs	7	7
Analysis	7	6

All employees are employed on permanent contracts.

5 OTHER EXPENDITURE

	Year ended 31 March 2015 £	Year ended 31 March 2014 £
Staff travel and subsistence	196,168	184,221
Office accommodation	107,572	107,353
General operating costs	428,984	449,250
Regulation and licensing costs	779,080	1,312,694
Customer Forum	58,192	(64,482)
Recruitment	56,923	19,101
Information project and IT Support	40,506	73,943
Finance charges	31,196	24,172
Loss on disposal of non-current assets	-	261
	1,698,621	**2,106,513**

The operating costs for the year are stated after charging the external audit fee of £13,365 (2013-14: £11,750), non-audit fees of £8,760 (2013-14: £nil) and, within office accommodation, an operating lease rental of £49,176 (2013-14: £49,176).

6 PROPERTY, PLANT AND EQUIPMENT

	Information technology £	Furniture and fittings £	Total £
Cost			
At 31 March 2014	174,895	277,656	452,551
Additions	-	-	-
Disposals	(2,593)	-	(2,593)
At 31 March 2015	**172,302**	**277,656**	**449,958**
Depreciation			
At 31 March 2014	162,840	140,335	303,175
Charge for the year	5,470	24,196	29,666
Eliminated on disposals	(2,593)	-	(2,593)
At 31 March 2015	**165,717**	**164,531**	**330,248**
Net book value at 31 March 2015	**6,585**	**113,125**	**119,710**
Net book value at 31 March 2014	**12,055**	**137,321**	**149,376**

	Information technology £	Furniture and fittings £	Total £
Cost			
At 31 March 2013	178,334	258,853	437,187
Additions	4,470	30,049	34,519
Disposals	(7,909)	(11,246)	(19,155)
At 31 March 2014	**174,895**	**277,656**	**452,551**
Depreciation			
At 31 March 2013	140,943	127,177	268,120
Charge for the year	29,753	24,196	53,949
Eliminated on disposals	(7,856)	(11,038)	(18,894)
At 31 March 2014	**162,840**	**140,335**	**303,175**
Net book value at 31 March 2014	**12,055**	**137,321**	**149,376**
Net book value at 31 March 2013	**37,391**	**131,676**	**169,067**

7 OTHER RECEIVABLES

	As at 31 March 2015 £	As at 31 March 2014 £
Current receivables		
Prepayments	227,125	128,165
Other receivables	261,891	-
	489,016	128,165
Long-term receivables		
Prepayments	-	2,734
	-	2,734
Total other receivables	**489,016**	**130,899**

	As at 31 March 2015 £	As at 31 March 2014 £
Intra-government receivables		
Central Government	151,808	-
Bodies external to government	337,208	130,899
Total other receivables	**489,016**	**130,899**

8 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	As at 31 March 2015 £	As at 31 March 2014 £
Trade payables	44,485	10,565
Taxation and Social Security	94,749	27,509
Accruals	176,929	145,930
Total trade payables and other current liabilities	**316,163**	**184,004**

	As at 31 March 2015 £	As at 31 March 2014 £
Intra-government payables		
Local Authorities	2,110	2,112
Central Government	104,479	37,830
Bodies external to government	209,574	144,062
Total trade payables and other current liabilities	**316,163**	**184,004**

9 PROVISIONS FOR LIABILITIES AND CHARGES

	As at 31 March 2015 £	As at 31 March 2014 £
Balance at 1 April 2014	20,910	13,940
Provided in the year	6,970	6,970
Provision utilised in the year	-	-
Balance at 31 March 2015	**27,880**	**20,910**

The provision for dilapidation costs relates to the Commission's 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.

10 NOTE TO THE STATEMENT OF CHANGES IN EQUITY

The general reserve is analysed below to highlight that element which relates to pensions.

	Note	Operations £	Pension £	General Reserve £
Balance at 1 April 2013		1,156,725	(481,000)	675,725
Changes in reserves 2013-14				
Actuarial gains		-	89,000	89,000
Change in assumptions underlying the present value of the scheme liabilities		-	(230,000)	(230,000)
Net surplus for the year		(259,674)	(43,000)	(302,674)
Balance as at 31 March 2014		**897,051**	**(665,000)**	**232,051**
Changes in reserves 2014-15				
Actuarial gains	12	-	109,000	109,000
Change in assumptions underlying the present value of the scheme liabilities	12	-	(705,000)	(705,000)
Net retained surplus for the year		581,303	(65,000)	516,303
Balance as at 31 March 2015		**1,478,354**	**(1,326,000)**	**152,354**

11 COMMITMENTS AND CONTINGENT LIABILITIES

11.1 Capital commitments

There were no capital commitments at 31 March 2015 (2013-14: £nil).

11.2 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 the Commission's office accommodation.

	2014-15 £	2013-14 £
Later than 5 years:	295,056	344,232

11.3 Contingent liabilities

The Commission had no contingent liabilities at 31 March 2015 (2013-14: £nil).

12 PENSION

12.1 Background

Some employees and former employees of the Commission's office are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme. In the period the Commission paid contributions totalling £194,000 (2013-14: £182,000) 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 2015-16 will be 19.1%, plus a fixed amount of £22,600.

In accordance with IAS 19 the Commission commissioned the Fund's actuaries to undertake a valuation as at 31 March 2015. This calculation was based on rolling forward valuation data at 31 March 2014 (the last formal valuation) to 31 March 2015 on the basis of a number of financial assumptions. The main financial assumptions used included:

12.2 Financial Assumptions

	Year Ended 31 March 2015 %	Year Ended 31 March 2014 %
Pension Increase Rate	2.5	2.8
Salary Increase Rate	3.9	5.1
Discount rate	3.3	4.3

Life expectancy is based on the Fund's VitaCurves assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% pa. Based on these assumptions, the average future life expectancies at age 65 are summarised below.

	Males	Females
Current pensioners	22.1 years	23.8 years
Future pensioners	24.3 years	26.3 years

12.3 Change in the fair value of plan assets, defined benefit obligation and net liability for the year end 31 March 2015

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)
Fair value of employer assets	4,153	-	4,153
Present value of funded liabilities	-	4,772	(4,772)
Present value of unfunded liabilities	-	46	(46)
Opening position as at 31 March 2014	**4,153**	**4,818**	**(665)**
Service cost			
Current service cost	-	230	(230)
Past service cost (including curtailments)	-	7	(7)
Total service cost	**-**	**237**	**(237)**
Net interest			
Interest income on plan assets	183	-	183
Interest cost on defined benefit obligation	-	212	(212)
Total net interest	**183**	**212**	**(29)**
Total defined benefit cost recognised in deficit	**183**	**449**	**(266)**
Cashflows			
Plan participants' contributions	68	68	-
Employer contributions	192	-	192
Contributions in respect of unfunded benefits	2	-	2
Benefits paid	(46)	(46)	-
Unfunded benefits paid	(2)	(2)	-
Expected closing position	**4,550**	**5,287**	**(737)**
Re-measurements			
Changes in demographic assumptions	-	(47)	47
Change in financial assumptions	-	532	(532)
Other experience	-	220	(220)
Return on assets excluding amounts included in net interest	109	-	109
Total re-measurements recognised in Other Comprehensive Income (OCI)	**109**	**705**	**(596)**
Fair value of employer assets	4,659	-	4,659
Present value of funded liabilities	-	5,946	(5,946)
Present value of unfunded liabilities	-	46	(46)
Closing position as at 31 March 2015	**4,659**	**5,992**	**(1,333)**

12.4 Change in the fair value of plan assets, defined benefit obligation and net liability for the year end 31 March 2014

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)
Fair value of employer assets	3,694	-	3,694
Present value of funded liabilities	-	4,130	(4,130)
Present value of unfunded liabilities	-	45	(45)
Opening position as at 31 March 2013	**3,694**	**4,175**	**(481)**
Service cost			
Current service cost	-	203	(203)
Total service cost	**-**	**203**	**(203)**
Net interest			
Interest income on plan assets	171	-	171
Interest cost on defined benefit obligation	-	193	(193)
Total net interest	**171**	**193**	**(22)**
Total defined benefit cost recognised in deficit	**171**	**396**	**(225)**
Cashflows			
Plan participants' contributions	69	69	-
Employer contributions	180	-	180
Contributions in respect of unfunded benefits	2	-	2
Benefits paid	(50)	(50)	-
Unfunded benefits paid	(2)	(2)	-
Expected closing position	**4,064**	**4,588**	**(524)**
Re-measurements			
Change in financial assumptions	-	232	(232)
Other experience	-	(2)	2
Return on assets excluding amounts included in net interest	89	-	89
Total re-measurements recognised in Other Comprehensive Income (OCI)	**89**	**230**	**(141)**
Fair value of employer assets	4,153	-	4,153
Present value of funded liabilities	-	4,772	(4,772)
Present value of unfunded liabilities	-	46	(46)
Closing position as at 31 March 2014	**4,153**	**4,818**	**(665)**

12.5 Projected defined benefit cost for the period to 31 March 2016

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)	% of pay
Current service cost	-	225	(225)	(27.8%)
Total service cost	**-**	**225**	**(225)**	**(27.8%)**
Interest income on plan assets	157	-	157	19.4%
Interest cost on defined benefit obligation	-	202	(202)	(25.0%)
Total net interest cost	**157**	**202**	**(45)**	**(5.6%)**
Total included in income statement	**157**	**427**	**(270)**	**(33.4%)**

Employer's contributions for the period to 31 March 2016 will be approximately £177,000.

12.6 Sensitivity analysis

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

Change in assumptions at 31 March 2015	Approximate % increase to Employer	Approximate monetary amount £(000)
0.5% decrease in Real Discount Rate	14%	811
1 year increase in member life expectancy	3%	180
0.5% increase in the Salary Increase Rate	5%	283
0.5% increase in the Pension Increase Rate	9%	511

13 RELATED PARTY TRANSACTIONS

The Commission is a non-departmental public body sponsored by the Scottish Government Directorate for Environment and Forestry. The Directorate is regarded as a related party, as is Scottish Water, which is required by Scottish Ministers to provide a funding contribution. In addition, the licensed provider, Business Stream (a Scottish Water company), is also considered as a related party. During the year, the Commission has had material transactions with Scottish Water and Business Stream.

Below is a breakdown of all related party transactions in the year.

Related party	Income (£)	Expenditure (£)	Year-end receivable (£)	Year-end payable (£)
Scottish Water	2,080,008	-	-	-
Business Stream	965,945	2,866	409	-

All Commission members and Directors complete and update a register of interests on an annual basis. During the year 2014-15, no Commission Member, Director or other related party has undertaken any material transactions with the Commission.

14 LOSSES AND SPECIAL PAYMENTS

There were no losses or special payments made during this period (2013-14: £nil).

WATER INDUSTRY COMMISSION FOR SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of The Water Industry Act 1999, hereby give the following direction.

2. The statement of accounts for the financial year ended 31 March 2006, 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. This direction shall be reproduced as an appendix to the statement of accounts.

Signed by the authority of the Scottish Ministers

Dated 03 October 2006

October 2015

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