

M Tables – Regulatory Accounts

Commentary

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1. General Comments

Scottish Water prepares its statutory financial statements under International Financial Reporting Standards (IFRS). The M Tables have been prepared on a Regulatory basis, as agreed with the WICS, which includes IFRS based information in addition to the 'original' Regulatory based information. The presentation of the IFRS basis information were agreed with the WICS.

Details and explanations of the IFRS adjustments are provided in the commentary for the relevant tables in Appendix 1 to this document.

The consolidation tables – M27a and M28a – include the results of Scottish Water and all its subsidiaries. Business Stream's results are included in the Licensed column and all other subsidiaries have been added to the non-core non-licensed column. In previous years M27 and M28 were prepared excluding IFRS adjustments. IFRS adjustments are now included within M27a and M28a with Scottish Water linked to tables M4 and M5 rather than M1 and M2.

2. Basis of preparation

SW produces statutory consolidated accounts incorporating the results of all subsidiary companies. The consolidated statements also include the balance sheet (and relevant notes) for SW only ('company'). Reconciliations between the statutory accounts and the regulatory tables are detailed in Appendix 2 to this document.

M Table financial information is for SW only, i.e. excluding all subsidiaries, and is analysed between Core (= Regulatory business) and the remaining Non-Core (= Non-regulatory activities) where required. The exceptions to this are:

- tables M18W and M18WW which include the costs of SW's non regulated activities and all other non-regulated activities within Scottish Water Horizons (SWH); and
- tables M27a and M28a which provide reconciliations from the SW Core figures to the group consolidated income statement and balance sheet respectively.

Regulated and Non-Regulated activities have been accounted for separately in SW's general ledger system enabling the production of profit & loss accounts and balance sheets for them. These accounts form the basis for the historical cost figures and the analysis in Tables M1 & M2.

Cost analysis in Tables M18 W and M18 WW was prepared using reports from SW's Activity Based Management (ABM) system. The ABM methodology used in 2019/20 did not differ from the methodology in 2018/19 and was audited as part of the WICS audit in May 2020. A detailed explanation of the methodology was provided in Appendix 3 in the 2018/19 regulatory accounts commentary.

As a consequence of the COVID-19 pandemic the forecast values for 2020/21 have been excluded from the tables. The forecast information for 2020/21 included in Scottish Water's Delivery Plan Update (March 2020) will be significantly impacted by the COVID-19 pandemic. However, it is still too early to forecast the impact with high confidence in particular in relation to wholesale revenue, household revenue receipts and capital investment figures. In our 2018/19 submission we included forecast information for 2019/20 which reflected Scottish Water's 2015-21 Delivery Plan Update (March 2019) approved by the Scottish Government.

3. Assumptions

M Table completion

The M Tables are consistent with the basis agreed between Scottish Water and the WICS in 2013, updated by the presentation changes agreed in March 2020. Therefore, the M Tables have been completed using the historical cost information and IFRS based information. This approach aids transparency and the reconciliation processes between the historical cost-based results in Tables M1 and M2, the IFRS based Regulatory Accounts themselves and the IFRS statutory accounts.

As agreed with the WICS Table M27 and M28 have been replaced with M27a and M28a. This change further enhances the relationship between regulatory and statutory accounts. As in previous years the analysis provided in table M7 is at a total level only and has not been split into water and wastewater components. In addition, Table M32 (Embedded debt & interest) has been removed.

In 2018/19 WICS also requested additional analysis of capital maintenance expenditure with the introduction of table M6-T. As agreed with WICS table M6-T will be completed in future years as the relevant information to populate the table is not yet available. However, analysis of capital maintenance expenditure can be found in the G tables.

Non-core tax charge

The tax charge for the non-core element of Scottish Water is calculated on the actual profit attributable to the non-regulatory businesses in 2019/20 at the standard Corporation Tax rate of 19% (2019: 19%) and added to the brought forward balance from the previous year (Tables M1, M2).

IFRS

Tables M4, M5, M6, M11, M19, M27a and M28a have been completed with IFRS based information to provide the Regulatory Accounts. There are no IFRS adjustments in respect of turnover, therefore core turnover in Table M7 remains the same in Tables M1 and M4.

Table 19, "Statement of Comprehensive Income" appears directly under Table 4. The layout follows our practice since 2015/16 to include all of the IAS 19 adjustments in respect of the post-employment benefits (which are non-cash) in Table 19.

Additional tables are provided, either within the commentary or as appendices, to aid the reconciliation between the historic cost tables (Tables M1 and M2), the IFRS Regulatory tables (Tables M4, M5 and M19) and the statutory accounts.

Ratios

In agreement with the WICS in 2013, Table M6R – Regulatory Accounts, Ratio information – was added to the standard M Table file. This table provides all of the information for, and calculation of, the basic ratios in one place. The ratios calculated in Table M6R are the clean calculation using the actual financial information, with all figures referenced from the relevant M Tables. The information in Table M6R provides the platform from which any further regulatory funding type adjustments and calculations can be made by the WICS.

4.1 Commentary – Tables M1 to M31

This section supplements the narrative in the Strategic Report section of the Annual Report and Accounts 2019/20: Performance and Prospects. The commentary provided in this section for individual tables, explain significant year-on-year movements or provide additional guidance on how the information was gathered or calculated. There are no comments on the tables which appear self-explanatory.

Table M1 – Historic Cost Income & Expenditure Account

The Core information is from the general ledger reports for the Regulated business. The non-core information relates to the sundry non-regulated activities which remain within Scottish Water. The results in this table are consistent with the information presented in Table M1 in previous years and the basis for the internal management reporting to the Board. The main differences to the statutory income statement are due to the IFRS adjustments in respect of infrastructure assets, PFI costs and pension charges. These are explained in more detail in the comments for Tables M4 and M19.

SW's total tax charge, on a statutory basis, was £73.9m (2019: £19.7m) (lines 1.13 to 1.14). The increase in SW's total tax charge has resulted from the cancellation of the reduction in corporation tax from 19% to 17%, scheduled to take place from 1 April 2020. Therefore, closing UK deferred tax assets and liabilities have been recognised at 19%. The impact of the cancellation of the rate reduction has resulted in an increase to the net UK deferred tax liability.

Table M2 – Historic Cost Balance Sheet

Core / Non-core information is from the general ledger reports. The non-core information relates to the sundry non-regulated activities which remain within Scottish Water.

The results in this table are consistent with the information presented in Table M2 in previous years and the basis for the internal management reporting to the Scottish Water Board. The main differences to the statutory balance sheet are due to the IFRS adjustments in respect of infrastructure assets, PFI assets and the pension liability. These are explained in more detail in the comments for Table M5.

The infrastructure renewals accrual (line 2.14) has increased to £191.4m as at 31 March 2020. However, this is offset by the infrastructure maintenance expenditure identified within assets under construction of £197.9m, awaiting project completion and reclassification.

Post-employment liability (line 2.27) is blank because the IAS 19 pension liability is not included in Table M2, being an IFRS adjustment. This approach is consistent with the presentation of Table M2 in previous years.

Other provisions (line 2.28) decreased by £3.8m to £46.1m due to decreases in the wholesale income uncertainty provision and the reorganisation provision.

Table M3 – HCA Balance Sheet – Reconciliation to Statutory Accounts

This provides a summary of the main reconciling items from Tables M1 and M2 to the main financial results in the statutory accounts.

The Profit and Loss section (lines 3.1-3.5) reconciles the statutory Group consolidated figures to Table M1 Core figures, because no profit and loss figures are provided for SW company in the statutory accounts. The balance sheet section (lines 3.11-3.18) reconciles SW Company figures from the statutory accounts to Table M2 Core figures.

Table M4 – Regulatory Accounts Income & Expenditure

Table M4 provides the results of Scottish Water Core on the IFRS Regulatory Accounting basis. The additional lines provide greater visibility of the relevant cost elements. As agreed with the WICS, line M4.5 reflects the 'normal' annual cost of SW's pension contributions. The non cash pension adjustments, as calculated under IAS 19, have all been included in Table M19.

The reconciliation of the results shown in Table M1 to the results in Tables M4 is provided in Appendix 1.1. The reconciling items are purely the IFRS entries in respect of the infrastructure assets and PFI costs. The net impact on the profit before tax is summarised below.

<i>(Increase)/decrease in costs</i>		£m	<i>Note ref.</i>
IAS 16	Infrastructure assets - depreciation & maintenance	(14.3)	1.
IFRIC 12	PFI costs - depreciation & lease liability	<u>7.6</u>	2.
Scottish Water - net increase in costs		<u>(6.7)</u>	

1. IAS 16 'Property, plant & equipment'

Under IAS 16 infrastructure renewals accounting is not permitted and infrastructure assets are depreciated over the estimated lives of the identified components of the network. Expenditure which is judged to enhance the asset base, or where it is probable that future economic benefits will flow to Scottish Water, is capitalised. All other expenditure is charged as an operating cost and is entered in line 4.10 'Infrastructure capital maintenance charge'. These costs, along with the calculated depreciation, replace the original 'Infrastructure renewals charge' (IRC).

In 2019/20, the infrastructure expenditure charged to the income statement was £126.3m (line 4.10) and the depreciation charge was £19.4m (line 4.8). These charges were partially offset by the reversal of the infrastructure renewals charge of £131.4m in Table M1 (line 1.5). Therefore, the net increase to costs was £14.3m.

2. IAS 17 'Leases' & IFRIC 12 'Service concession arrangements'

Under IFRIC 12, the PFI service concession arrangements were reclassified as finance leases resulting in the PFI assets being brought on to Scottish Water's balance sheet. The annual PFI costs incurred are broken down into three categories: operating costs, finance costs and a reduction of the finance lease obligation. In addition, there is a depreciation charge calculated in respect of the leased assets held on the balance sheet.

In Table M4, line 4.3 'PPP costs' consists of the operating costs totalling £125.4m in 2019/20. The total depreciation charges of £19.4m are in line 4.9, the finance costs of £17.9m are in line 4.17 and Scottish Water internal costs of £0.6m are in line 4.4.

Therefore, the total of the PPP costs in Table M4, as detailed above, is £163.3m whereas the total in Table M1 is £170.9m (lines 1.3 & 1.6). The net reduction to costs of £7.6m is due to the offsetting effect of the costs transferred against the finance lease obligation in the balance sheet (Table M5, line 5.25). The table below provides the reconciliation from Table M1 to Table M4.

		2019/20
		£m
		M Table / line ref
	PPP costs	M1.3 166.8
	Amortisation of PPP assets	M1.6 <u>4.1</u>
	Total PPP costs in Table M1	170.9
IFRS adjustments:		
Add:	Depreciation charges - PPP leased assets	15.3
Less:	Finance lease obligation - to balance sheet	<u>(22.9)</u>
	Total PPP costs in Table M4	M4.3, 4.4, 4.9 & 4.17 <u>163.3</u>

Table M19 – Regulatory Accounts - Statement of comprehensive income

This table has been completed on the basis agreed in April 2016 and includes all of the IAS 19 'Employee benefits' adjustments in respect of the post-employment benefits. These IFRS adjustments are all non-cash.

The profit for the year (line 19.1) is the Core retained profit from Table M4 (line 4.26).

The actuarial gains/losses on post-employment plans (line 19.2), net of related deferred taxation, are as reported in the statutory results for Scottish Water. The gross pension liability decreased £26.2m to £217.1m (£175.9 net after deferred tax). The decrease in scheme liabilities due to experienced liabilities being £158.3m lower than expected, partially offset by lower than expected returns on scheme assets of £103.2m, represent the gross actuarial gain of £55.1m which, net of deferred tax, forms the £47.0m credit in M19.

The post-employment plans (non-cash), net of tax (line 19.3) consists of the total service cost and the net financing expense as calculated under IAS 19 which replace the 'normal management' operating costs as charged in tables M1 and M4 (line 4.5). The net adjustment of £23.1m is analysed as follows:

	SW
	£m
Pension service cost adjustments & holiday pay	(24.7)
Interest on pension scheme net liabilities	(6.3)
Deferred tax on IAS 19 adjustments	7.9
	<u>(23.1)</u>

There were no other gains or losses (line 19.4).

Table M5 – Regulatory Accounts Balance Sheet

Tangible assets balance (line 5.1) equals the Property, plant & equipment balance per the IFRS statutory accounts, excluding the PFI assets which are shown separately in line 5.2.

The PFI assets total of £290.5m consists of the SW owned assets and the assets treated as leased under the IFRS basis. The related finance lease liability is shown in line 5.25. The following tables provide additional analysis and reconciliation to the presentation in the statutory accounts.

Balance sheet (see Appendix 2.3)

Property, plant & equipment			
Leased assets			253.2
Owned assets	(reclassification)		37.3
		M5, line 5.2	<u>290.5</u>
Other loans & borrowings			
Finance lease liability	< 1 year		(22.6)
	> 1 year		(256.6)
	total	M5, line 5.25	<u>(279.2)</u>

In previous years third party contributions (line 5.3) consisted of grants and contributions. As agreed with the WICS for 2019/20 third party grants and contributions has been reflected in lines 5.4 and 5.17 to provide a simpler reconciliation to the statutory accounts. Previous years have been restated to reflect this change.

Other creditors due after one year (line 5.17) consists of payments received in advance (£51.6m) and deferred income (£9.5m).

Post-employment asset / (liability) (line 5.20) shows the retirement benefit obligation under IAS 19, net of the related deferred tax balance, as detailed below.

Balance sheet

Retirement benefit obligations (Post employment liabilities)	(217.1)
Deferred taxation on retirement benefit obligations	41.1
Retirement benefit obligations - net	M5, line 5.20 (176.0)

The other provisions total of £31.6m (line 5.21), a decrease of £2.0m compared to 2018/19, is made up of restructure (£0.1m), income uncertainty (£30.3m) and property leases (£1.2m).

Restructure: This provision relates to the redundancy costs associated with employees who will leave SW under VR and early retirement. Pension related liabilities associated with employees who have left SW under the VR schemes are recognised in the post-employment liability (line 5.20).

Income uncertainty: This provision relates to uncertainty around the wholesale/non-domestic income. The balance of £30.3m represents the balance associated with Business Stream and 3rd party licenced providers (LPs).

Retained earnings (line 5.26) consists of the total of the reserve brought forward from 31 March 2019 and the retained profit for 2019/20 (Table M19, line 19.5).

Table M6 – Regulatory Income and Expenditure and Cash Flow

Table M6 includes the calculation of the ‘*Operating profit for regulatory purposes*’ (line 6.10) and the reconciliation to the ‘*Net cash flow from operating activities*’ (line 6.16).

The capital maintenance charge (line 6.7), used in calculating the ‘*Operating profit for regulatory purposes*’, is the three-year rolling average of capital maintenance expenditure. This calculated average charge replaces the actual annual charges shown in Table M4 for depreciation (lines 4.7, 4.8 & 4.9) and infrastructure capital maintenance (line 4.10).

The average capital maintenance charge is added back, along with other ‘non cash’ adjustments and the working capital movement, to give the net cash flow from operating activities (line 6.16).

Interest paid (line 6.19) of £148.7m includes intercompany interest paid to Business Stream of £1.1m and £1.4m to 3rd party LPs in relation to the settlement of wholesale billing and reconciliation process. Loan interest payments in respect of Government and other borrowings totalled £146.2m.

On the IFRS basis, £22.9m of PFI costs were reclassified as finance lease repayments and appear in line 6.21.

The total capital expenditure is adjusted for the movement in short term capital creditors year on year. The tables below provide the detail and the reconciliation of the total capital investment to the capital enhancement expenditure (line 6.24) and capital maintenance expenditure (line 6.25).

	M Table / line ref	2019/20 £m
Opening short term capital creditor	M11.10 (18/19)	109.2
Add: Capital investment (net of contributions)		656.4
Less: Closing short term capital creditor	M11.10 (19/20)	<u>(124.1)</u>
=> Capital expenditure		<u>641.5</u>
Analysed:		
Capital enhancement expenditure	M6.24	296.5
Capital maintenance expenditure	M6.25	<u>345.0</u>
Capital expenditure (total)		<u>641.5</u>

Capital investment (net of contributions) is analysed further in the table below.

	2019/20 £m
Capital investment (gross Q&S) on a regulatory basis	672.1
Add: PFI investment	<u>0.9</u>
Total capital investment	673.0
Less: Contributions	<u>(16.6)</u>
Capital investment (net of contributions)	<u>656.4</u>

PFI investment has been included in the capital enhancement total within the cash flow (line 6.24) as shown in the table above.

Table M6R – Regulatory Accounts – Ratio information

Table M6R provides all of the information for, and calculation of, the ‘basic’ ratios in one place. The ratios provided are:

- funds from operations to net debt;
- cash interest cover [1]; and
- cash interest cover [2], i.e. after deduction of capital maintenance expenditure.

The ratios presented here are the clean calculations using the actual financial information, with all of the figures referenced from the relevant M Tables.

Table M7 – Analysis of Turnover and Operating Income

Turnover from services supplied to household customers increased by £22.0m to £903.7m (line 7.1) reflecting the increase in household charges of 1.6%, effective from 1 April 2019 and the increase in properties connected to the network. The additional lines (lines 7.13 – 7.15) provide detail on the movements in household revenue.

Turnover from wholesale services provided to Licensed Providers increased by £14.6m, or 4.5%, to £338.2m (line 7.3) reflecting the average tariff increase of 2.0% and a £15.0m change in the income uncertainty provision, partly offset by a reduction in consumption. The additional lines (lines 7.17 – 7.22) provide a further analysis of the year on year movements in wholesale revenue.

Turnover from other sales increased by £0.9m to £12.5m (line 7.7).

Table M11 – Regulatory Accounts Working capital (Core)

All of the balances presented in Table M11 are on an IFRS basis. A separate reconciliation (Appendix 1.3) has been prepared showing the reclassifications of the balances in Table M2 at 31 March 2020 into the regulatory IFRS working capital (Table M11). Additional lines have been added in 2019/20 to include third party contributions.

Other trade debtors (line 11.4) relate to wholesale and sundry billing. The increase of £12.7m to £19.3m reflects the timing of the Scottish public service contract transfer to Business Stream.

Capital creditors consist of the balances of capital creditors and accruals relating to third parties.

Table M18W and M18WW commentary - see Section 4.2 below

Table M21 – Taxation analysis

The 2018/19 data has been updated to reflect the actual 2018/19 tax computation submitted.

Table M22 – Fixed asset additions

The non infrastructure additions (line 22.8) are the amounts reclassified from the fixed assets under construction (AUC) during the financial year. The total of £335.0m (line 22.8) agrees to the total of the reclassifications in the statutory accounts (Note 9, SW company) from AUC into Specialised operational properties and structures; Non-specialised operational properties and structures; and Plant, machinery and vehicles.

The figures in the section “Infrastructure renewals charges, expenditure and provision”, (lines 22.20 – 22.22), are the movements during each financial year. The closing balance at March is shown in Table M2, line 2.14.

As previously mentioned, the infrastructure renewals prepayment/(accrual) balance is only relevant in the historic cost accounts (Table M2). Due to the different treatment of the non-enhancement infrastructure expenditure under IFRS, there is no prepayment/(accrual) balance in the new Regulatory/IFRS balance sheet (Table M5).

Table M27a – Consolidated IFRS Income Statement

In 2019/20 table M27 has been replaced with table M27a. The main change to the table is the inclusion of the IFRS adjustments, allowing a reconciliation between Scottish Water Company Statutory results and the overall statutory results in the year. The core column is now populated with the values from table M4 rather than table M1 and allows the user to directly compare with the published statutory results of 2019/20.

The intercompany items being visibly eliminated (in col 3) on this table are the intercompany wholesale income in SW and the intercompany cost of sales in Business Stream. The intercompany interest between SW and Business Stream already eliminates across line 27.16.

Non-core / non-licensed includes the remaining non regulatory business within SW (as per table M1), the results for the two holdings companies (Scottish Water Business Stream Holdings (SWBSH) & Scottish Water Horizons Holdings (SWHH), SWH, Bandwidth Energy Limited (BEL) and the North-East Scotland PFI companies.

Table M28a – Consolidated Historic Cost Balance Sheet

In 2019/20 table M28 has been replaced with table M28a. The main change to the table is the inclusion of the IFRS adjustments, allowing a reconciliation between Scottish Water company statutory results and the overall statutory results in the year. The core column is now populated with the values from table M5 rather than table M2 and allows the user to directly compare with the published statutory results of 2019/20.

The intercompany items being visibly eliminated are:

- intercompany debtor, creditor and provision balances (lines 5.4 and 5.21);
- intercompany profit elimination and related tax impact (lines 5.19 and 5.26); and
- investments in subsidiary companies and the relevant share capitals (lines 5.12 & 5.24).

There were no intercompany loans.

The Non-core / non licensed column includes the remaining non regulatory business within SW (as per table M2) and the balance sheets of SWBSH, SWHH, SWH, BEL and the North-East Scotland PFI companies.

Tables M30 & M31 – Inventory of loans

Tables M30 and M31 provide a full listing of SW's loans.

Table M30 details the principal value of the loans due for repayment in full by their maturity dates. The listing includes details of the £125m of loans repaid during 2019/20 (lines 6 to 25).

Table M31 details the loans which have periodic repayment of the principal throughout the term of the loan.

4.2 Commentary & Reconciliation – Tables M18W & M18WW

Trading Results & Reconciliation

Scottish Water produces statutory group consolidated accounts incorporating the results of Business Stream. The M18 tables are produced for Scottish Water regulated and non-regulated activity only, prepared on a historic cost basis and excluding IFRS adjustments.

To aid comparison, the table below reconciles Scottish Water's statutory group consolidated accounts to cost data included in the M18 tables of the Regulatory Accounts.

SW Group Statutory Accounts

	£m	£m
Cost of Sales	1,185.2	
Admin Expenses	<u>175.8</u>	
SW Group Expenditure		1,361.0
Less Business Stream		(358.0)
AES/SWSG costs		(18.6)
AES/SWSG elimination with SW PFI		23.7
Horizons Holdings		(1.2)
IFRS adjustments		<u>(17.0)</u>
Expenditure included in M18 Tables		<u>989.9</u>
Represented by		
SW Regulated		973.5
Non Regulated (incl. SW Horizons)		16.4

Scottish Water regulated and non-regulated results are further reconciled below, to the Regulatory Accounts tables M18 (W & WW).

(£m)	SW Regulated and Non- Regulated	Diff SW Stat - M18	M18W/WW Tables		
			Total	M18 W	M18 WW
Employment	211.9		434.1	241.8	192.3
Other	223.4				
Opex	435.2	(1.1)	434.1	241.8	192.3
PFI	166.9	1.5	168.4	0.0	168.4
Infrastructure depreciation	131.4	(1.6)	129.8	86.5	43.3
Depreciation charges	254.6		259.3	131.3	128.0
Grant amortisation	(1.3)	1.6	(1.3)	(0.9)	(0.4)
Amortisation of PFI assets	4.1				
Gain on sale of assets	(1.0)				
Expenditure *	989.9	0.4	990.3	458.6	531.7
Explained by					
Charges to SWBS and other for support		0.4			

* Table References - lines:

[M18W.55] [M18WW.56]

The line differences are table presentation differences explained as follows:

- £1.5m difference between the SW Board report and the M18 Tables re. PFI costs which represents costs incurred in providing SW support services to PFI activities;
- The expenditure totals differ slightly due to charges to SWBS for support being excluded in the preparation of the M18 tables.

Commentary

Total operating costs increased by £23.0m (2.4%) to £990.3m.

Total Operating Costs	2019/20 £m	2018/19 £m	Variance £m
Operating expenditure - Water M18w.43	241.750	253.764	+12.014
Capital maintenance - Water M18w.54	216.856	207.308	(9.548)
Operating expenditure - Waste M18ww.44	360.704	338.596	(22.108)
Capital maintenance - Waste M18ww.55	170.949	167.595	(3.354)
	990.259	967.263	(22.996)

Operating expenditure for water operations decreased relative to the prior year primarily because significant expenditure was incurred in 2018-19 to maintain water supplies and service levels through the extended dry weather period. Further detail on year-on-year variances is set out below.

Activity Analysis

	2019/20	2018/19	Variance
	£m	£m	£m
Wholesale	920.312	895.775	(24.537)
Retail	53.428	54.341	+0.913
Non Regulated	16.519	17.147	+0.628
	990.259	967.263	(22.996)

Wholesale activity costs increased by £24.5m (2.7%) from 2018/19 to £920.3m reflecting the following key movements:

- An increase in direct employment costs of £2.2m (2.9%), primarily relating to pay progression;
- An increase in power costs of £6.5m (12.6%), primarily driven by tariff increases of £5.9m. Year-on-year energy consumption reduced in water operations (-£1.4m) but increased in wastewater operations (+£2.0m) reflecting overall higher rainfall in 2019-20 compared to the extended dry weather conditions of the previous year;
- A reduction in hired and contracted services of £2.9m (8.3%). During 2018-19 additional costs were incurred to maintain water supplies through the prolonged period of dry weather and to recover associated leakage targets. Use of contractors in water operations has normalised in 2019-20. In wastewater operations, additional costs have been incurred to tanker and dispose of sludge to maintain environmental compliance;
- A headline increase in PPP costs of £15.5m. However, after excluding the benefit received in 2018/19 of the settlement of a commercial claim, the underlying increase was due primarily to annual contract indexation;
- Other direct costs decreased by £1.4m (15.0%) primarily due to lower levels of insurance claims across water activities;
- General and support costs decreased by £9.7m (15.2%). In 2018-19, one-off costs were incurred associated with (i) transitioning to new Digital partners (£6.3m), and (ii) hiring vehicles and plant in order to maintain water supplies through a prolonged period of dry weather (£1.6m);
- Costs associated with scientific services increased by £0.9m (5.0%), primarily due to higher employment costs associated with increased sampling of chloraminated water supply systems, lead monitoring at schools and PFI waste sampling;
- Local authority rates costs increased by £1.1m (1.7%) due to the inflation increase in the uniform business rate;
- Infrastructure renewals expenditure increased by £3.2m (2.5%) largely due to increased asset maintenance as a result of increased capacity in our network to support new connections; and
- Non-infrastructure depreciation charges increased by £9.5m (3.9%) reflecting the value of project completions achieving beneficial use.

Retail activity costs decreased by £0.9m (1.7%) to £53.4m reflecting:

- A reduction of £1.1m (6.1%) in the bad debt charge;
- A reduction of £0.3m (6.9%) in general and support costs reflecting the normalisation of IT cost in 2019-20 following transition to new Digital partners; partially offset by
- An increase of £0.3m (5.1%) in the cost of handling customer operational calls, primarily driven by pay progression; and

- An increase in the cost of managing billing data of £0.4m (23.0%), due mainly to additional resources employed to manage higher volumes of 'gap site' requests from Licence Providers linked to the 'Gap Incentive Scheme'.

Non-Regulated costs decreased by £0.6m (3.7%) due mainly to a reduction in the rechargeable cost associated with reduced damage to Scottish Water assets by third parties. Scottish Water Horizons costs were broadly in line with 2018-19.

5. Reconciliation of cash balances from Final Determination to actual results 2019

The comparison of actual closing cash balances to the Final Determination has been included within the 'performance against the regulatory contract' section within Scottish Water's Annual Report and Accounts 2019/20: Performance and Prospects.

In the year the regulated business generated additional cash of £105.2 million compared to the Final Determination. After adjusting for timing differences this provided a further £82.9 million to support the capital investment programme for customers. The out-performance in the year was driven primarily by additional revenue of £50.4 million, which was mainly attributable to the success of the GAPS project to maximise wholesale revenue collection and a £32.5 million decrease to interest costs. The decrease in interest cost reflected a sustained period of low interest rates compared to that assumed within the Final Determination.

The table below summarises the actual results for 2019/20.

	Cash generated during 2019/20	Timing Impacts				Residual contribution to additional investment
		Working Capital	Capex	Government Borrowing	Indexation etc.	
	£m	£m	£m	£m	£m	£m
Revenue	50.4					50.4
Opex & PFI (excl. rates & new legislative costs)	10.7					10.7
Asset Disposals	0.4					0.4
Interest	32.6					32.6
Rates Reduction net of new legislative costs	(0.4)					(0.4)
Tax paid	(10.8)					(10.8)
Working Capital etc.	(3.8)	3.8				-
Customer Contributions	8.2		(8.2)			-
Capex	(88.2)		88.2			-
Government Borrowing	99.3			(99.3)		-
Indexation etc.	6.8				(6.8)	-
2019/20 total	105.2	3.8	80.0	(99.3)	(6.8)	82.9
Brought forward at 1 April 2019	216.2	(67.0)	(14.6)	234.7	(53.1)	316.2
Cumulative total carried forward at 31 March 2020	321.4	(63.2)	65.4	135.4	(59.9)	399.1

The net wholesale revenue position for 2019/20 was £30.7m greater than anticipated in the Final Determination. The cumulative net benefit in pursuing additional wholesale revenue, relative to the Final Determination is summarised below:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Additional revenue generated	10.7	18.6	25.0	22.3	30.8	107.4
Opex costs incurred	-2.6	-2.7	-3.3	-0.2	-0.1	-8.9
Capex costs incurred	-1.6	-1.6	0.0	0.0	0.0	-3.2
Net additional cash	6.5	14.3	21.7	22.1	30.7	95.3

Scottish Water

Year ended 31 March 2020

Reconciliation of Historic Accounts Income Statement (Table M1) to IFRS Regulatory Income Statement (Table M4) & Statement of Comprehensive Income (Table M19)

TABLE M1			IFRS adjustments				Table M4	
Line	Description	Core	IAS 16	IFRIC 12	Category	Core	Line Description	
		£m	£m	£m	reallocation	£m		
					£m			
1.1	Turnover	1,254.388				1,254.388	4.1 Turnover	
1.2	Operating expenditure	(420.445)			36.470	(383.975)	4.2 Operating expenditure	
1.3	PPP costs	(166.264)		40.840		(125.424)	4.3 PPP costs (excluding PPP interest costs)	
					(0.605)	(0.605)	4.4 SW internal costs re PPP contracts	
					(35.865)	(35.865)	4.5 Pension contributions (ongoing contribution)	
1.4	Historical Cost Depreciation	(253.438)				(253.438)	4.7 Depreciation charges - non infra assets	
			(19.400)			(19.400)	4.8 Depreciation charges - infra assets	
1.5	Infrastructure Renewals charge	(131.400)	5.100			(126.300)	4.10 Capital maintenance charge (infra t/f from AUC)	
1.6	Amortisation of PFI assets	(4.086)		(15.300)		(19.386)	4.9 Depreciation charges - PPP assets	
1.7	Amortisation of deferred income	0.986				0.986	4.11 Amortisation of deferred income	
1.8	Operating income	1.219				1.219	4.14 Profit on disposal of fixed assets	
1.11	Net interest receivable less payable	(146.302)		(17.900)		(146.302)	4.16 Net interest receivable less payable	
						(17.900)	4.17 PPP interest payable	
						-	4.18 Net pension financing income/expense	
1.12	Profit on ordinary activities before taxation	134.658	-	(14.300)	7.640	-	4.19 Profit before taxation	
1.13	Taxation - current	(12.170)				(12.170)	4.20 Taxation - current	
1.14	Taxation - deferred	(61.776)				(61.776)	4.21 Taxation - deferred	
1.19	Retained profit for year	60.712	-	(14.300)	7.640	-	4.26 Profit retained	
						54.052		
			IFRS adjustments - IAS 19 Pension adjs				Table M19	
			Actuarial	Service	Interest	Tax	Core	Line Description
		£m	losses	costs adj	£m	£m	£m	
			£m	£m	£m	£m		
							54.052	19.1 Profit for the year
		47.052					47.052	19.2 Actuarial gains/losses on post employment plans
				(24.680)	(6.301)	7.920	(23.061)	19.3 Post emp. plans non cash IAS19 adjs, net of tax
							-	19.4 Other gains and losses
							-	19.5 Total comprehensive income for the year
			47.052	(24.680)	(6.301)	7.920	78.043	

Scottish Water

Year ended 31 March 2020

Reconciliation of Historic Accounts Balance Sheet (Table M2) to IFRS Regulatory Balance Sheet (Table M5) to Company Statutory Balance Sheet

TABLE M2			IFRS adjustments:			Reallocations /		TABLE M5			Reallocations		Statutory Accounts (IFRS)	
Line	Description	Core	IAS19 Pension / holiday pay	IAS16 Infrastructure assets/deprn	IFRIC12 PFI assets/ finance lease	Reclassifications:		Line	Description	Non core	Various	Company	Description	
		£m (3dp)				Various								£m (1dp)
	<i>Fixed Assets</i>								<i>Fixed Assets</i>				<i>Fixed Assets</i>	
2.1	Tangible Assets	6,470.766		(174.9)		(191.4)		6,104.5	5.1 Tangible Assets	290.5	(i)	6,395.0	Property, plant and equipment	
					290.5			290.5	5.2 PPP assets (IFRS)	(290.5)	(i)	-		
								-	5.3 Third party contributions	37.6	(iii)	37.6	Investments	
2.3	Investment - Other	37.643				(37.6)	(ii)							
2.4	Total fixed assets	6,508.409												
2.5	Stocks	3.264				(3.3)	(iii)			3.3	(iv)	3.3	Inventories	
2.6	Debtors	131.835	(33.0)			(98.8)	(iii)			98.9	(iv)	98.9	Trade and other receivables	
2.7	Cash at bank and in hand	116.643				(305.4)	(iii)	(305.4)	5.4 Working capital	7.6	(iv)	298.8	1.0 Current tax asset	
2.8	Short term deposits	274.800						116.6	5.5 Cash	(116.6)	(ii)	-		
2.10	Assets transferred to PPP contractors	37.289						274.8	5.6 Short term deposits	116.6	(ii)	391.4	Cash and cash equivalents	
2.12	Total current assets	563.831			(37.3)			6,481.0	5.9 Net operating assets			6,927.2	Total Assets	
2.14	Infrastructure Renewals accrual	(191.438)				191.4				(399.9)	(iv)	(399.9)	Trade and other payables	
2.15	Creditors	(393.976)	(2.5)			396.5	(iii)			(23.1)	(v)	(23.1)	Other loans and borrowings	
								37.6	(ii)	37.6	(vi)	(16.4)	Provisions for liabilities	
2.17	Corporation tax payable	1.050						1.1	5.12 Investment - other	(37.6)	(iii)	-		
2.19	Total creditors	(584.364)						38.7	5.13 Corporation tax payable	(1.1)	(iv)	-		
2.20	Net current assets	(20.533)							5.15 Non-operating assets & liabilities			(439.4)	Current Liabilities	
2.21	Total assets less current liabilities	6,487.876												
2.22	Borrowings (excl. Govt. loans)	(0.500)						(0.5)	5.16 Borrowings	0.5	(v)	-		
2.23	Other creditors	(61.100)						(61.1)	5.17 Other creditors			(61.1)	Trade and other payables	
2.24	Total creditors	(61.600)						(61.6)	5.18 Creditors > 1 year			(256.6)	Other loans and borrowings	
	<i>Provision for liabilities & charges</i>													
2.25	Deferred tax provision	(466.236)						(466.2)	5.19 Deferred tax provision	(1.1)	(vii)	(426.2)	Deferred tax liabilities	
2.26	Deferred income - grants and contributions	(10.975)				11.0	(iii)			41.2	(vii)	(426.2)	Deferred tax liabilities	
2.27	Post employment assets / (liabilities)	-	(175.9)					(175.9)	5.20 Post employment assets / (liabilities)	(41.2)	(vii)	(217.1)	Retirement benefit obligations	
2.28	Other provisions	(46.146)	14.5					(31.6)	5.21 Other provisions	16.4	(vi)	(15.2)	Provisions for liabilities	
2.29	Net Assets employed	5,902.919	(196.9)	(174.9)	253.2	(0.0)		5,784.3	5.23 Net assets	6.5		5,511.6	Net assets	
	<i>Capital and reserves</i>													
2.30	Govt. loans	3,928.372						3,928.4	5.24 Government loans			3,928.4	Government loans	
								279.2	5.25 PPP debt/lease (IFRS)	(279.2)	(v)	-		
2.31	Income and Expenditure account	1,841.117	(196.9)	(174.9)	(26.0)			1,443.3	5.26 Retained earnings	6.5		1,449.8	Retained earnings	
2.32	Other reserves	133.430						133.4	5.27 Other reserves			133.4	Other reserves	
2.33	Capital & reserves	5,902.919	(196.9)	(174.9)	253.2	-		5,784.3	5.28 Capital & reserves	6.5		5,511.6	Equity	

Year ended 31 March 2020
Reconciliation of Working Capital between M Tables

TABLE M2				IFRS		Table		
Line Description	Total	Non Core	Core	Adjs	Expand categories	M 11	Line	Description
	£m	£m	£m	£m	£m	£m		
2.5 Stocks	3.3	-	3.3			3.3	11.1	Stocks
2.6 Debtors	131.8	-	131.8	(33.0)	(98.8)			
					41.4	41.4	11.2	Trade debtors - household
					19.3	19.3	11.4	Other trade debtors
					38.1	38.1	11.6	Prepayments & other short term debtors
2.15 Creditors	(386.4)	7.6	(394.0)	(2.5)	457.6			
					(24.1)	(24.1)	11.7	Trade creditors
					(59.4)	(59.4)	11.8	Wholesale income prepayment
					(124.1)	(124.1)	11.10	Short-term capital creditors
					(34.9)	(34.9)	11.11	Credit note provisions
					(215.1)	(215.1)	11.12	Accruals & other creditors
2.23 Other creditors	(61.1)	-	(61.1)					
2.26 Deferred income - grants and contributions	(11.0)	-	(11.0)			(11.0)	11.14	Third party contributions (deferred income - grants)
	(323.4)	7.6	(331.0)	(35.5)	-	(366.5)		

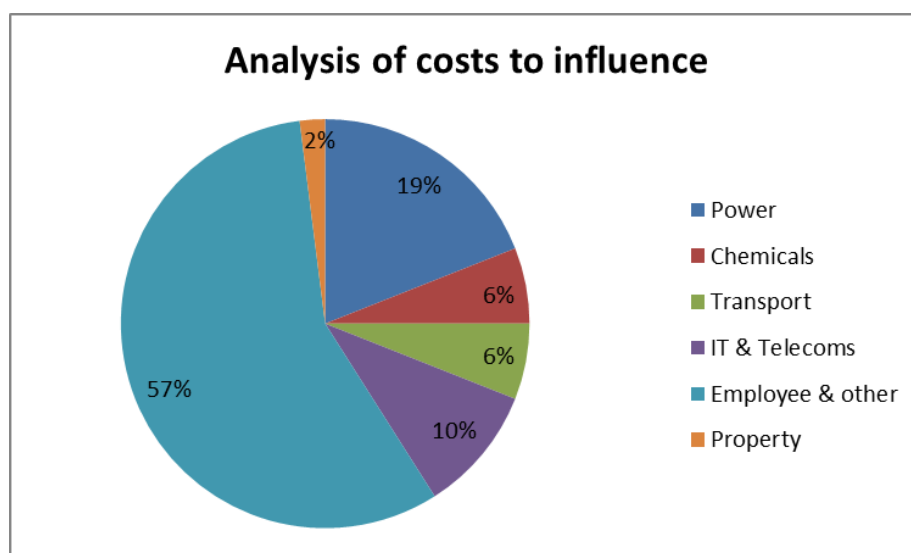
Extracts from Scottish Water's Annual Report & Accounts 2019/20: Performance and Prospects.

Operating Costs

Operating costs decreased by £8.3 million, or 1.9%, to £419.8 million (2019: £428.1 million). However, after adjusting for specific cost movements and the impact of RPI inflation, like-for-like operating costs reduced in real terms by £6.0 million or 1.5% as listed below.

	2019/20 £m	2018/19 £m	Inc/(dec) £m	Inc/(dec) %
SW headline operating costs	419.8	428.1	(8.3)	-1.9%
Digital transition costs	-	(5.7)	5.7	
Brexit preparation costs	(0.3)	(1.7)	1.4	
Power price increases above inflation	(4.2)	-	(4.2)	
New legislative costs	(7.2)	(7.7)	0.5	
Incident and weather related costs	(1.4)	(10.7)	9.3	
Bad debt charges	(17.0)	(18.4)	1.4	
New operating costs	(1.9)	-	(1.9)	
Like-for-like controllable costs	387.8	383.9	3.9	1.0%
Average RPI inflation at 2.59%	-	9.9	(9.9)	
Like-for-like real costs reduction	387.8	393.8	(6.0)	-1.5%

Scottish Water is unable to influence approximately one third of its operating costs over the short-term. These include costs such as local authority rates, insurance and legislative costs. The chart below illustrates the key operating cost components that Scottish Water is able to influence in the short-term. The diagram highlights that of those costs which Scottish Water is able to influence in the short-term, employment costs make up over 50%.



Regulated Cash Performance

Within the regulated financial framework, Scottish Water aims to out-perform the targets set out in its Delivery Plan and the WICS' Final Determination for the 2015-21 regulatory period.

The closing cash balance forecast in the Final Determination for 31 March 2020 was £70.0 million. The actual cash balance at 31 March 2020 was £391.4 million. The £321.4 million increase in cash to the end of the financial year, compared to the Final Determination, is summarised in the table below.

Closing cash	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Final Determination 2014	265.0	216.3	165.0	114.1	94.7	70.0	
Actual results	345.4	368.6	235.3	270.6	310.9	391.4	
Difference	80.4	152.3	70.3	156.5	216.2	321.4	
Generated/(utilised) in prior years	-	80.4	152.3	70.3	156.5	216.2	
Generated/(utilised) in year	80.4	71.9	(82.0)	86.2	59.7	105.2	321.4
Timing differences	50.5	9.3	(150.8)	2.8	(11.8)	22.3	(77.7)
Available to support investment	29.9	62.6	68.8	83.4	71.5	82.9	399.1
	80.4	71.9	(82.0)	86.2	59.7	105.2	321.4