

## **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. IFRS adjustments are 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 1 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 2020/21 did not differ from the methodology in 2019/20 and was audited as part of the WICS audit in May 2021. A detailed explanation of the methodology was provided in Appendix 3 in the 2018/19 regulatory accounts commentary.

Forecast values for 2021/22 have been excluded from the tables due to the new format of regulatory reporting (based on Tier 1 and Tier 2 cost categories) that will apply from 2021/22 onwards.

### **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.

#### **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 2020/21 at the standard Corporation Tax rate of 19% (2020: 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 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 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 2020/21: 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 £16.8m (2020: £73.9m) (lines 1.13 to 1.14). The decrease in SW's total tax charge is attributable to the cancellation of the reduction in corporation tax rate from 19% to 17% during 2019/20. Closing deferred tax assets and liabilities were revalued at the end 2019/20 to take into account the cancellation of the proposed reduction in the rate of corporation tax. This resulted in an increase to the net UK deferred tax liability. The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end.

#### **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 reduced to £74.8m as at 31 March 2021. However, this is offset by the infrastructure maintenance expenditure identified within assets under construction of £99.9m, 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 £11.5m to £34.7m due to a decrease in the wholesale income uncertainty provision. The final settlement runs for 2018/19, including some adjustments in respect of earlier years, were agreed and processed during 2020/21 with the relevant releases from the income uncertainty 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	(37.7)	1.
IFRIC 12	PFI costs - depreciation & lease liability	7.3	2.
<b>Scottish Water - net increase in costs</b>		<b><u>(30.4)</u></b>	

### 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 2020/21, the infrastructure expenditure charged to the income statement was £151.1m (line 4.10) and the depreciation charge was £20.8m (line 4.8). These charges were partially offset by the reversal of the infrastructure renewals charge of £134.2m in Table M1 (line 1.5). Therefore, the net increase to costs was £37.7m. The £23.4m increase, compared to last year, is due to the timing and mix of capital projects completed in year but also reflects the output from the project completion analysis exercise to reduce WIP balances and improve project closure processes. Across the SR15 period we have incurred an additional £20m, circa 3%, in base infrastructure expenditure than was originally forecast.

### 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 £130.6m in 2020/21. The total depreciation charges of £19.5m are in line 4.9, the finance costs of £16.5m 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 £167.3m whereas the total in Table M1 is £174.6m (lines 1.3 & 1.6). The net reduction to costs of £7.3m 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.

	<b>M Table / line ref</b>	<b>2020/21 £m</b>
PPP costs	M1.3	170.4
Amortisation of PPP assets	M1.6	4.2
<b>Total PPP costs in Table M1</b>		<b><u>174.6</u></b>
<b>IFRS adjustments:</b>		
Add: Depreciation charges - PPP leased assets		15.3
Less: Finance lease obligation - to balance sheet		(22.6)
<b>Total PPP costs in Table M4</b>	M4.3, 4.4, 4.9 & 4.17	<b><u><u>167.3</u></u></b>

### 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 £8.0m to £209.1m (£169.4m net after deferred tax). The increase in scheme liabilities of £302.2m, primarily due to a change in financial assumptions, was offset by higher than expected returns on scheme assets of £339.2m. Together, these represent the gross actuarial gain of £37.0m which, net of deferred tax, forms the £30.0m 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 £24.2m is analysed as follows:

	<b>SW</b> £m
Pension service cost adjustments	(23.9)
Interest on pension scheme net liabilities	(5.8)
Deferred tax on IAS 19 adjustments	5.5
	<u><b>(24.2)</b></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 £271.1 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 1.2)*

Property, plant & equipment			
Leased assets			237.9
Owned assets	<i>(reclassification)</i>		33.2
		<b>M5, line 5.2</b>	<u><b>271.1</b></u>
Other loans & borrowings			
Finance lease liability	< 1 year		(23.3)
	> 1 year		(233.3)
	total	<b>M5, line 5.25</b>	<u><b>(256.6)</b></u>

Other creditors due after one year (line 5.17) consists of payments received in advance of £50.1m, (of which £25.4m relates to Reasonable Cost Contributions and £14.0m infrastructure income) and deferred income of £11.2m of which £8.7m relates to capital grants received.

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)	(209.1)
Deferred taxation on retirement benefit obligations	39.7
<b>Retirement benefit obligations - net</b>	<b>M5, line 5.20 (169.4)</b>

The other provisions total of £21.8m (line 5.21), reflect a decrease of £9.8m compared to 2019/20, and includes the income uncertainty of £21.5m.

*Income uncertainty:* This provision relates to uncertainty around the wholesale/non-domestic income. The balance of £21.5m represents the balance associated with Business Stream and 3<sup>rd</sup> party licenced providers (LPs).

Retained earnings (line 5.26) consists of the total of the reserve brought forward from 31 March 2020 and the retained profit for 2020/21 (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 £144.1m includes intercompany interest paid to Business Stream of £0.4m and £0.4m to 3<sup>rd</sup> party LPs in relation to the settlement of wholesale billing and reconciliation process. Loan interest payments in respect of Government and other borrowings totalled £143.3m.

On the IFRS basis, £22.6m 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).

	<b>M Table / line ref</b>	<b>2020/21 £m</b>
Opening short term capital creditor	M11.10 (19/20)	124.1
Add: Capital investment (net of contributions)		603.0
Less: Closing short term capital creditor	M11.10 (20/21)	(105.3)
<b>=&gt; Capital expenditure</b>		<b>621.8</b>
Analysed:		
Capital enhancement expenditure	M6.24	279.5
Capital maintenance expenditure	M6.25	342.3
Capital expenditure (total)		<b>621.8</b>

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

	<b>2020/21</b>
	<b>£m</b>
Capital investment (gross Q&S) on a regulatory basis	611.5
Add: PFI investment	0.1
<b>Total capital investment</b>	<b>611.6</b>
Less: Contributions	(8.6)
<b>Capital investment (net of contributions)</b>	<b>603.0</b>

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 £17.3m to £920.9m (line 7.1) reflecting the increase in household charges of 0.9%, effective from 1 April 2020 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 decreased by £5.5m to £332.8m (line 7.3) reflecting reduced consumption as a consequence of the Covid-19 pandemic (shown in line 7.18), partly offset by the average tariff increase of 2.0% (shown in 7.17) and changes in the income uncertainty provision (£8.8m within line 7.19). 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 were in line with the previous year at £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 2021 into the regulatory IFRS working capital (Table M11). Additional lines have been added to include third party contributions (lines 11.14 and 11.15).

Other trade debtors (line 11.4) relate to wholesale and sundry billing. The decrease of £7.7m to £11.6m reflects the timing of the Scottish public service contract transfer to Business Stream which resulted in a higher trade debtor balance in 2019/20.

Wholesale charge prepayment (line 11.8) has reduced by £58.9m to £0.5m. This reduction is due to the temporary suspension of the wholesale prepayment charge in response to the Covid-19 pandemic.

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 2019/20 data has been updated to reflect the actual 2019/20 tax computation submitted. The 2018/19 year has also been restated to reflect the correct values within lines M21.38, M21.39 and M21.43.

#### **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 £373.2m (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 was 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 2020/21.

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 was 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 2020/21.

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 c£135m of loans repaid during 2020/21 (lines 6 to 26).

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 and other subsidiaries. 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.

<b>SW Group Statutory Accounts</b>		£m	£m
	Cost of Sales	1,273.7	
	Admin Expenses	<u>194.5</u>	
<b>SW Group Expenditure</b>			<b>1,468.2</b>
Less	Business Stream		(399.3)
	AES/SWSG costs		(16.8)
	AES/SWSG elimination with SW PFI		20.8
	Horizons Holdings		(0.9)
	Business Stream Holdings		(0.7)
	IFRS adjustments		<u>(37.8)</u>
<b>Expenditure included in M18 Tables</b>			<b><u>1,033.5</u></b>
<b>Represented by</b>			
	SW Regulated		1,016.2
	Non Regulated (incl. SW Horizons)		17.3

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	221.1		462.0	263.8	198.2
Other	242.7				
<b>Opex</b>	<b>463.8</b>	<b>(1.8)</b>	<b>462.0</b>	<b>263.8</b>	<b>198.2</b>
PFI	170.4	2.0	172.4	0.0	172.4
Infrastructure depreciation	134.2	(1.6)	132.6	88.3	44.4
Depreciation charges	264.5		268.1	135.7	132.4
Grant amortisation	(1.4)		(1.4)	(1.1)	(0.3)
Amortisation of PFI assets	4.2	1.6			
Gain on sale of assets	(2.2)				
<b>Expenditure *</b>	<b>1,033.5</b>	<b>0.2</b>	<b>1,033.7</b>	<b>486.7</b>	<b>547.0</b>
Explained by					
Charges to SWBS and other for support		(0.2)			

\* Table References - lines:

[M18W.55] [M18WW.56]

The line differences are table presentation differences are explained as follows:

- £2.0m difference between the SW Board report and the M18 Tables re. PFI costs which represents costs incurred in providing SW support to PFI activities;
- The expenditure totals differ slightly due to charges to SWBS for support being excluded in the preparation of the M18 tables.

For detailed commentary on the M18 table methodology and cost allocation see Appendix 3.

## Commentary

Total operating costs increased by £43.5m (4.4%) to £1,033.7m.

Total Operating Costs	2020/21 £m	2019/20 £m	Variance £m
Operating expenditure - Water M18w.43	263.818	241.750	(22.068)
Capital maintenance - Water M18w.54	222.918	216.856	(6.062)
Operating expenditure - Waste M18ww.44	370.600	360.704	(9.896)
Capital maintenance - Waste M18ww.55	176.411	170.949	(5.462)
<b>1,033.747</b>	<b>990.259</b>	<b>(43.488)</b>	

Operating expenditure for water operations increased 9% relative to the prior year primarily due to additional costs of operating under Covid-19 restrictions and responding to winter weather related incidents. Further detail covering year-on-year variances is set out below.

## Activity Analysis

	2020/21 £m	2019/20 £m	Variance £m
Wholesale	953.283	920.312	(32.971)
Retail	63.120	53.428	(9.692)
Non Regulated	17.344	16.519	(0.825)
	<b>1,033.747</b>	<b>990.259</b>	<b>(43.488)</b>

**Wholesale** activity costs increased by £33.0m (4%) from 2019/20 to £953.3m reflecting the following key movements:

- An increase in direct employment costs of £1.2m (2.5%), primarily relating to pay progression and additional overtime costs associated with Covid-19 disruption, partially offset by lower travel costs;
- An increase in power costs of £4.2m (7.3%), primarily driven by tariff increases. Year-on-year energy consumption increased by £0.3m (0.7%);
- An increase in hired and contracted services of £6.8m (20.7%) due to (i) the cost of operating in line with Covid-19 restrictions and securing contractor resources when required to maintain service levels and (ii) responding to high volumes of water mains bursts and the associated cost of repairs, reinstatements and managing leakage levels following the winter weather disruption in Q4;
- An increase in PPP costs of £4.0m (2.4%) due primarily to indexation of contract service fees;
- Other direct costs increased by £0.7m (7.2%) due to higher levels of insurance claims across wastewater activities;
- General and support costs increased by £3.3m (6.1%) due to (i) pay progression across support departments (£0.6m), (ii) an increase in digital costs associated with new applications and additional security costs (£1.5m), (iii) costs of tankering water to maintain supplies during the winter weather disruption in the final quarter (£0.9m) and (iv) higher costs of vehicle maintenance under the current management contract operated by ARI (decision taken to manage in-house in 2021-22) (£0.6m), all partially offset by lower fuel costs;
- Costs associated with scientific services increased by £1.0m (5.0%), primarily due to the impact of Covid-19 on employment costs, including shift pattern changes and agency costs to backfill employees who were shielding, and additional PPE requirements, partially offset by lower travel costs;
- Local authority rates costs decreased by £1.2m (1.9%) due to the appeal of revaluations associated with wastewater asset rateable values;
- Infrastructure renewals expenditure increased by £2.8m (2.2%) largely due to increased asset maintenance on a growing network and non-complex capital interventions; and
- Non-infrastructure depreciation charges increased by £10.2m (4.1%), due primarily to increased capitalisation of higher value projects towards the end of the regulatory period when such projects are achieving beneficial use.

**Retail** activity costs increased by £9.7m (18%) to £63.1m reflecting:

- An increase of £9.0m (52.9%) in the bad debt charge primarily due to the impact of the Covid-19 pandemic on expected collection levels;
- An increase of £0.5m (9.2%) in the cost of handling customer operational calls, driven by higher call volumes and pay progression;
- An increase in the cost of managing billing data of £0.5m (22%), due to additional project resources to manage 'gap site' requests from Licence Providers and verify premises currently registered in the market for water charges only.

**Non-Regulated** costs have increased by £0.8m (5%) due mainly to an increase in Scottish Water Horizons operating costs associated with increased contractor costs in Developer Projects to assist with recovery of delays due to Covid-19 restrictions.

## 5. Reconciliation of cash balances from Final Determination to actual results 2021

The comparison of actual closing cash balances to the Final Determination has been included within the Financial Sustainability section (see performance against the regulatory contract)' of Scottish Water's Annual Report and Accounts 2020/21: Performance and Prospects.

In the year the regulated business generated additional cash of £66.9 million compared to the Final Determination, bringing the total cash generated over the 2015-21 period to £388.3 million. The additional cash in the year was driven primarily by additional revenue of £39.7 million and a £39.7 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.

Further detail on the overall SR15 cash outperformance is included within the Annual Return summary.

The table below summarises the actual results for 2020/21.

	Cash generated during 2020/21 (£m)
Revenue	39.7
Opex and PFI (excluding rates, new legislative costs and Covid-19 costs)	(1.0)
Net Covid-19 costs	(14.6)
Asset Disposals	1.4
Interest	39.7
Rates reduction net of new legislative costs	1.6
Tax paid	(9.5)
Market wholesale prepayment change (Covid-19)	(59)
Working capital and indexation	(22.4)
Grants received	3.7
Customer Contributions	8.1
Capex	(20.4)
Government Borrowing	99.6
<b>Total in 2020/21</b>	<b>66.9</b>
Brought forward at 1 April 2020	321.4
<b>Cumulative total at 31 March 2021</b>	<b>388.3</b>

Scottish Water

Year ended 31 March 2021

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

TABLE M1			IFRS adjustments					Table M4	
Line	Description	Core	IAS 19 Holiday pay	IAS 16 Infra costs	IFRIC 12 PFI	Category reallocation	Core	Line Description	
		£m	£m	£m	£m	£m	£m		
1.1	Turnover	1,266.235					1,266.235	4.1 Turnover	
1.2	Operating expenditure	(447.865)				36.930	(410.935)	4.2 Operating expenditure	
1.3	PPP costs	(170.439)			39.188	0.637	(130.614)	4.3 PPP costs (excluding PPP interest costs)	
						(0.637)	(0.637)	4.4 SW internal costs re PPP contracts	
						(36.930)	(36.930)	4.5 Pension contributions (ongoing contribution)	
1.4	Historical Cost Depreciation	(263.069)		(20.759)			(263.069)	4.7 Depreciation charges - non infra assets	
				(16.955)			(20.759)	4.8 Depreciation charges - infra assets	
1.5	Infrastructure Renewals charge	(134.200)					(151.155)	4.10 Capital maintenance charge (infra t/f from AUC)	
1.6	Amortisation of PFI assets	(4.186)			(15.300)		(19.486)	4.9 Depreciation charges - PPP assets	
1.7	Amortisation of deferred income	1.218					1.218	4.11 Amortisation of deferred income	
1.8	Operating income	2.320					2.320	4.14 Profit on disposal of fixed assets	
1.11	Net interest receivable less payable	(142.830)					(142.830)	4.16 Net interest receivable less payable	
						(16.540)	(16.540)	4.17 PPP interest payable	
							-	4.18 Net pension financing income/expense	
1.12	Profit on ordinary activities before taxation	107.184	-	-	(37.714)	7.348	-	4.19 Profit before taxation	
1.13	Taxation - current	(8.261)					(8.261)	4.20 Taxation - current	
1.14	Taxation - deferred	(8.563)					(8.563)	4.21 Taxation - deferred	
1.19	Retained profit for year	90.360	-	-	(37.714)	7.348	-	4.26 Profit retained	
							59.994		
			IFRS adjustments - IAS 19 Pension adjs				Table M19		
			Actuarial losses	Service costs adj	Interest	Tax	Core	Line Description	
		£m	£m	£m	£m	£m	£m		
		29.998					29.998	19.1 Profit for the year	
				(23.970)	(5.781)	5.512	(24.239)	19.2 Actuarial gains/losses on post employment plans	
								19.3 Post emp. plans non cash IAS19 adjs, net of tax	
								19.4 Other gains and losses	
		29.998		(23.970)	(5.781)	5.512	65.753	19.5 Total comprehensive income for the year	

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

TABLE M2			IFRS adjustments:			Reclassification		TABLE M5			Reallocations		Statutory Accounts (IFRS)	
Line	Description	Core	IAS19 Pension / holiday pay	IAS16 Infrastructure assets/depm	IFRIC12 PFI assets/ finance lease	s: Various		Line	Description	Non core	Various	Company Description		
£m (3dp)								£m (1dp)			£m (1dp)			
	<i>Fixed Assets</i>								<i>Fixed Assets</i>				<i>Fixed Assets</i>	
2.1	Tangible Assets	6,540.919		(212.5)		(74.8)		5.1	Tangible Assets		271.1	(i)	6,524.7	Property, plant and equipment
					271.1			5.2	PPP assets (IFRS)		(271.1)	(i)	-	
								5.3	Third party contributions		37.6	(iii)	37.6	Investments
2.3	Investment - Other	37.643				(37.6)	(ii)							
2.4	<i>Total fixed assets</i>	<u>6,578.562</u>												
2.5	Stocks	3.455				(3.5)	(iii)				3.5	(iv)	3.5	Inventories
2.6	Debtors	139.698	(32.1)			(107.6)	(iii)				107.6	(iv)	107.6	Trade and other receivables
						(219.3)	(iii)	5.4	Working capital	7.6	214.8	(iv)	3.1	Current tax asset
2.7	Cash at bank and in hand	28.906						5.5	Cash		(28.9)	(ii)	-	
2.8	Short term deposits	399.800						5.6	Short term deposits		28.9	(ii)	428.7	Cash and cash equivalents
2.10	Assets transferred to PPP contractors	33.232			(33.2)									
2.12	<i>Total current assets</i>	<u>605.091</u>						5.9	<i>Net operating assets</i>				<u>7,105.2</u>	<i>Total Assets</i>
2.14	Infrastructure Renewals accrual	(74.776)				74.8					(322.8)	(iv)	(322.8)	Trade and other payables
2.15	Creditors	(315.617)	(2.6)			318.2	(iii)				(23.3)	(v)	(23.3)	Other loans and borrowings
											(11.6)	(vi)	(11.6)	Provisions for liabilities
2.17	Corporation tax payable	3.117				37.6	(ii)	5.12	Investment - other		(37.6)	(iii)	-	
2.19	<i>Total creditors</i>	<u>(387.276)</u>						5.13	Corporation tax payable		(3.1)	(iv)	-	
2.20	Net current assets	217.815						5.15	<i>Non-operating assets &amp; liabilities</i>				<u>(357.7)</u>	<i>Current Liabilities</i>
2.21	<i>Total assets less current liabilities</i>	<u>6,796.377</u>												
2.22	Borrowings (excl. Govt. loans)	-						5.16	Borrowings		-	(v)	-	
2.23	Other creditors	(61.300)						5.17	Other creditors				(61.3)	Trade and other payables
2.24	<i>Total creditors</i>	<u>(61.300)</u>						5.18	<i>Creditors &gt; 1 year</i>					
											(233.3)	(v)	(233.3)	Other loans and borrowings
	<i>Provision for liabilities &amp; charges</i>													
2.25	Deferred tax provision	(474.799)						5.19	Deferred tax provision	(1.1)	39.7	(vii)	(436.2)	Deferred tax liabilities
2.26	Deferred income - grants and contributions	(12.267)				12.2	(iii)							
2.27	Post employment assets / (liabilities)	-	(169.4)			(169.4)		5.20	Post employment assets / (liabilities)		(39.7)	(vii)	(209.1)	Retirement benefit obligations
2.28	Other provisions	(34.677)	12.9			(21.8)		5.21	Other provisions		11.6	(vi)	(10.2)	Provisions for liabilities
2.29	<i>Net Assets employed</i>	<u>6,213.334</u>	(191.2)	(212.5)	237.9	(0.0)		5.23	<i>Net assets</i>	6.5	(256.6)		<u>5,797.4</u>	<i>Net assets</i>
	<i>Capital and reserves</i>								<i>Capital &amp; reserves</i>				<i>Capital &amp; reserves</i>	
2.30	Govt. loans	4,148.427						5.24	Government loans				4,148.4	Government loans
					256.6			5.25	PPP debt/lease (IFRS)		(256.6)	(v)	-	
2.31	Income and Expenditure account	1,931.477	(191.2)	(212.5)	(18.7)			5.26	Retained earnings	6.5			1,515.6	Retained earnings
2.32	Other reserves	133.430						5.27	Other reserves				133.4	Other reserves
2.33	<i>Capital &amp; reserves</i>	<u>6,213.334</u>	(191.2)	(212.5)	237.9	-		5.28	<i>Capital &amp; reserves</i>	6.5	(256.6)		<u>5,797.4</u>	<i>Equity</i>

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Reconciliation of Working Capital between M Tables

<b>TABLE M2</b>				<b>IFRS</b>	<b>Expand</b>	<b>Table</b>		
<b>Line Description</b>	<b>Total</b>	<b>Non Core</b>	<b>Core</b>	<b>Adjs</b>	<b>categories</b>	<b>M11</b>	<b>Line</b>	<b>Description</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>		
2.5 Stocks	3.5	-	3.5			3.5	11.1	Stocks
2.6 Debtors	139.7	-	139.7	(32.1)	(107.6)			
					55.2	55.2	11.2	Trade debtors - household
					11.6	11.6	11.4	Other trade debtors
					40.8	40.8	11.6	Prepayments & other short term debtors
2.15 Creditors	(308.0)	7.6	(315.6)	(2.6)	379.5			
					(19.1)	(19.1)	11.7	Trade creditors
					(0.5)	(0.5)	11.8	Wholesale income prepayment
					(105.3)	(105.3)	11.10	Short-term capital creditors
					(34.3)	(34.3)	11.11	Credit note provisions
					(220.3)	(220.3)	11.12	Accruals & other creditors
2.23 Other creditors	(61.3)	-	(61.3)					
2.26 Deferred income - grants and contribu	(12.3)	-	(12.3)			(12.3)	11.14	Third party contributions (deferred income - grants)
	(238.4)	7.6	(246.0)	(34.7)	-	(280.7)		

