

ANNUAL REPORT AND ACCOUNTS 2021-22

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Introduction

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

This report outlines our work in 2021-22, the first year of a new six-year regulatory control period. It is presented in three parts:

1. The performance report consisting of:

- The overview section, which explains our purpose, the outcomes WICS aims to achieve and our objectives. It also provides a summary of our performance against delivering those outcomes and objectives and both the impact of and management of key risks.
- A performance analysis, providing a detailed review of our performance in the period.

2. The accountability report consisting of:

- The corporate governance report
- A remuneration and staff report
- A Parliamentary accountability report
- The independent auditor's report

3. The financial statements consisting of:

- Statement of comprehensive net expenditure for the year to 31 March 2022
- Statement of financial position at 31 March 2022
- Statement of cashflows for the year to 31 March 2022
- Statement of changes in equity for the year ended 31 March 2022
- Notes to the financial statements.

1. Performance report

1.1 Performance overview

This performance overview provides a summary of WICS's purpose, the outcomes it aims to achieve, and the key challenges and risks that we face.

STATEMENT FROM THE CHAIR

I am pleased to present our annual report for 2021-22, the first year of the 2021-27 regulatory control period.

The final determination of charges which concluded the Strategic Review of Charges 2021-27 (SRC21-27) process set out the changes necessary so that future generations may experience the same high-quality, resilient services that we do today. The determination allowed for significant further investment by Scottish Water to support the business to adapt to climate change and as it moves towards its net zero emissions target by 2040.

Shortly after the determination was published many individuals and households in Scotland began feeling the impacts of the challenging inflationary economic environment. Cognisant of these difficult conditions, Scottish Water opted to raise less revenue through charges in 2021-22 than was set in the final determination. Since that time we have been working with Scottish Water to understand how it will manage its costs and revenues during the remainder of the regulatory control period.

The final determination set out our expectations in relation to the transformation Scottish Water will need to make to secure a sustainable future for the industry. During the year we have monitored Scottish Water's progress, providing support and challenge where appropriate.

Collaboration is an important aspect of the Scottish water sector. As such, I look forward to building on our already productive relationships with the new body Consumer Scotland, and with Scottish Water's Independent Customer Group. We all have an important role in helping Scottish Water bring customer and community views into its decision-making processes.

To close, I would like to thank our Chief Executive, Alan Sutherland, and all of the WICS staff for their commitment this year. Although we have worked largely remotely again, I am pleased that there have been more opportunities to meet face to face. These opportunities are very welcome, particularly for our new graduate joiners who in many cases are meeting colleagues for the first time.

I would also like to pay tribute to Douglas Millican, CEO of Scottish Water, who is retiring after 10 years as Chief Executive and 20 years on its board and executive team. The progress Scottish

Water has made in that time is testament to Douglas's leadership. And last but certainly not least, I would like to say a personal thank you to Ian Tait, our Deputy Chief Executive, who retired from WICS in April 2022 after a period of almost 20 years. His contribution was invaluable.

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

Professor Donald MacRae OBE FRSE
Chairman
December 2022

SUMMARY PERFORMANCE STATEMENT FROM THE CHIEF EXECUTIVE AND ACCOUNTABLE OFFICER

I am pleased to present our annual report and to provide a summary of our performance for 2021-22.

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

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

SUPPORTING THE SECTOR VISION AND MINISTERIAL OBJECTIVES

Our first strategic objective is to support the sector to achieve its long-term vision and to deliver the [Scottish Ministers' Objectives for Scottish Water](#).

This year was the first year covered by our final determination for the 2021-27 regulatory control period, which was published in December 2020. It considered the Ministers' final objectives for the industry and their Principles of Charging and allowed for the investment necessary to improve water quality and the environment further, and to support economic growth. The determination also outlined the need for a long-term, sustainable and innovative approach to replacing Scottish Water's assets.

In the determination we set out our expectations in terms of the transformation that Scottish Water will need to undergo over the coming years. This included the need for Scottish Water to have a clear, well-defined strategy that covers what it plans to achieve in the short, medium and long term.

We have worked with Scottish Water during the year as it has planned its transformation. As part of this we emphasised our expectation that Scottish Water should establish the required organisational capacity and capabilities to prepare the strategy and to support the business on an enduring basis.

We have also engaged with Scottish Water in relation to the level of future annual average investment likely to be required by 2040 if it is to manage and optimise its asset base and operate in a manner consistent with a net zero position for both operational and embodied greenhouse gases.

Our final determination assumed that Scottish Water would achieve the transition in investment through an average annual price change of 2% in real terms each year. It has since become clear, however, that the cumulative price increase over the 2021-27 regulatory control period will be different to that assumption. To have visibility of the impact of this change we asked Scottish Water to prepare financial scenarios based on different combinations of price profiles, borrowing levels and time horizons.

We recognise that we are operating in extremely uncertain times. This makes it even more important that there is clarity over what can and can't be delivered in this regulatory control period and the impacts that this will have on future customers.

BEST IN CLASS LEVELS OF SERVICES

Our second strategic objective is to challenge Scottish Water to achieve best in class levels of service for its customers and communities. It is important that Scottish Water maintains a 'laser like' focus on its strategic prioritisation of investment and is able to take full account of the benefits and costs over the long-term when it undertakes option appraisals and decisions. This approach will help ensure best value for money for current and future customers.

We have worked with Scottish Water this year as it sought to develop its investment strategy. A long-term strategic approach is particularly important given the scale of the investment programme from now to 2045 and the challenges that lie ahead. It is also important that Scottish Water has the information and tools in place to enable candid and evidenced-based discussions with stakeholders, including the quality regulators, about how the business is prioritising its investment and the trade-offs that will need to be made.

During the reporting year we published our annual performance report for 2020-21. This considered Scottish Water's investment and service performance in the final year of the SRC2015-21 period. The report noted that while Scottish Water was continuing to perform well overall in terms of customer service and the customer experience measure, there was evidence of an output delivery challenge for completing the remaining elements of the investment programme for the regulatory period. Early evidence indicates that the output delivery challenge is continuing into the new regulatory period. We will comment further on Scottish Water's performance in the first year of the new regulatory control in our performance report which we will publish towards the end of this year.

We are increasingly focused on making sure that the information we collect from Scottish Water, and its reporting to us and other stakeholders is fit for purpose. We are continuing to work with Scottish Water on the development of its reporting mechanisms for the 2021-27 regulatory control period to ensure that we can continue to hold the organisation to account for its operational and investment performance. In addition to the information request outlined above, our work in this area included supporting Scottish Water to develop its annual return.

INTERNATIONAL LEADERSHIP

Our third strategic objective is to become international leaders in the field of economic regulation, as part of our commitment to supporting the Scottish Government's Hydro Nation initiative. Our involvement helps ensure that we stay at the forefront of regulatory best practice while sharing our own expertise in water sector regulation with other countries. Our input brings a direct financial benefit by reducing the levy that we would charge Scottish Water. Furthermore these international opportunities provide valuable learning experiences for our staff, thereby supporting our employee recruitment and retention.

Our international work has gone from strength to strength this year. During the year we continued to work with the New Zealand Government's Department of Internal Affairs (DIA) as it progresses the Three Waters Reform programme.

We also continued to work with Watercare, the Auckland-based water services provider, to develop their processes and information, to build their regulatory capacity in preparing for the introduction of economic regulation in New Zealand. Other projects included working with Wellington Water and supporting the Romanian regulator (ANRSC) as part of a consortium with the consultancy BDO.

More widely we have continued to extend our links with other overseas regulators, including through presenting at international conferences and by working with international organisations.

INTERNAL OPERATIONS

In relation to our working arrangements, like many other organisations we have been considering options for our future as we emerge from the pandemic. Following extensive consultation with staff we are now trialling a hybrid arrangement, based on part home working and the use of flexible office space.

We are pleased to have made further progress this year in relation to our commitment to promoting diversity and equality for employees and stakeholders. Our equality mainstreaming report, published in June 2021, set out the progress we would make in this area. We have since become a Disability Confident Committed employer, a scheme that provides us with the

knowledge and skills we need to attract, recruit, retain and develop disabled people in the workplace. We are also taking steps to support good mental health, including through mental health first aid training.

To close, I would like to thank all of our staff for their continuing commitment to our work in driving improvements for Scotland's water and sewerage customers. I would also like to pay tribute to my colleague Ian Tait who retired this year after 20 years of working at WICS. He was an excellent Deputy CEO, and it was a pleasure to work alongside him for all those years.

OUR PURPOSE AND STRATEGY

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

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

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

Our Corporate Plan is focused on ensuring that we continue to meet our statutory obligations to current and future customers. It will also ensure that we contribute fully to the delivery of the [water industry vision](#). This is particularly important given the need for Scottish Water to achieve net zero emissions by 2040 (on both an operational and an embodied basis) and to maintain service levels by repairing, refurbishing and replacing the industry's assets in a timely way. Climate change will often mean that there is too much water where we do not want it and too little in the places that we do. Scottish Water will have a crucial role in managing how we adapt to our changing climate.

We report our progress against the objectives set out in the Corporate Plan each year in our annual report.

OUR ORGANISATIONAL MODEL

We have 28 employees and are sponsored by the Scottish Government's Directorate for Environment, Climate Change and Land Reform.

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

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

OUR OPERATING ENVIRONMENT

We work closely with many stakeholders, and these relationships are summarised below.

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

Stakeholder	Interaction with our work
	responsibilities in April 2022 and will take on the water consumer functions previously delivered by CAS.
Central Market Agency (CMA)	The CMA administers the competitive non-household retail market.
Scottish Public Services Ombudsman (SPSO)	With responsibility for complaints and dispute resolution in the water sector, the SPSO provides insights into levels of trust and confidence among consumers.

OUR KEY ACTIVITIES AND PRIORITIES

The three strategic objectives that were identified in our Corporate Plan 2021 are each underpinned by three outcomes. The objectives and outcomes are set out below. Each year we prepare an annual work plan which sets out the areas of focus and specific activities we will undertake during the year, to help us deliver our objectives.



OUR KEY CHALLENGES AND RISKS

The strategic risks the organisation faces were determined as part of the corporate planning process for the regulatory period.

Our principal strategic risk is around our failure to deliver our statutory duties. This would severely damage our credibility within the sector and impact our ability to regulate.

We strive to limit any exposure to a loss of reputation and aim to be respected across the industry both nationally and internationally. Our reputation provides a robust platform that is critical to our ability to engage in dialogue with diverse stakeholders and to further our Hydro Nation activities.

This risk is actively managed by adhering to public body governance best practice, including Board oversight of governance policies, independent internal and external audit, and organisation reporting requirements.

During the year, we approved a new risk management strategy. The strategy is reviewed by our Board and Audit and Risk Committee and is discussed on a regular basis by an operational board.

Underpinning the principal risk are three strategic risks which focus on:

- Ensuring that WICS is resourced appropriately and that succession plans are in place.
- Staying attuned to the external landscape of the water industry and the strategies of our stakeholders in order to respond to changes.
- Remaining compliant with all relevant laws, regulations and policies and demonstrating the standards expected of a non-departmental public body in Scotland.

The steps we have taken this year towards minimising the risks include performing a succession planning exercise, so we have a capable leadership team to take the organisation into the future.

By engaging regularly with our key stakeholders and undertaking horizon-scanning activities we stay abreast of external developments in the sector.

We also ensure compliance with legislation and policies by having policies and procedures for our operational functions in place, of a standard expected of a non-departmental public body. We ensure that our governance processes are up to date, in line with Scottish Government's good practice, by retaining legal support and a strong relationship with our Sponsor Team.

Finally, our Audit and Risk Committee oversee the production and ongoing review of our compliance report and associated actions.

More information on our key risks and the impact these have on delivering our outcomes can be found in the [risk section](#) of the performance analysis.

1.2 Performance analysis

PERFORMANCE AGAINST KEY OUTCOMES

The progress we have made against the nine outcomes is summarised below.

Outcome 1: Supporting Scottish Water to become sustainable over the long term

This year our focus was on closing down the Strategic Review of Charges 2021-27 project. This included supporting the delivery of the report by OECD peers into our approach and lessons learned.

In November 2021 the report findings were formally presented to the OECD's Network of Economic Regulators (NER), and the report itself was published by the OECD in October 2022. The report 'Innovation and collaboration: Scotland's approach to regulating water charges' sets out key insights and recommendations from peer reviewers to inform future regulatory approaches. It also includes an analysis of the opportunities for overcoming key regulatory challenges. We will ensure that we take the lessons into account as we look ahead to the next Strategic Review of Charges (SRC27).

During the year we started initial discussions about the high-level timeline for SRC27, including how and when our methodology would be developed. We began to identify key themes and areas to develop with the Board during 2022 and are putting plans in place at the current time to take these discussion areas forward. Our approach to SRC27 will reflect the extent to which we have confidence in Scottish Water's progress on its transformation journey. In particular, we will seek to ensure that Scottish Water maintains a clear focus on the business's strategic direction and has the capacity and capabilities necessary to support the development and enduring implementation of its strategy.

During the year we engaged with Scottish Water on its progress on analysing funding, financing and costs, in light of the change in the revenue profile away from that set out in the final determination. In an information request, we are identifying the information that would be essential in understanding how Scottish Water would manage its costs and revenues. This analysis will be key to discussions among industry stakeholders about what can be achieved within the financial envelope that is available.

Outcome 2: Incentivising an efficient and effective Scottish Water

As part of its transformation Scottish Water is changing the way it reports on its own prospects and performance. We are continuing to work with Scottish Water on the development of its reporting mechanisms for the 2021-27 regulatory control period, including the information request noted above and the annual return to ensure that any changes made satisfy our requirements as its economic regulator.

We published our report on Scottish Water's performance in 2020-21 in December 2021. This covered the final year of the six-year regulatory period 2015-21. The report noted that while Scottish Water was continuing to perform well overall in terms of customer service and the customer experience measure, there was evidence of an output delivery challenge for completing the remaining elements of the investment programme for the regulatory period. There is already early evidence that the output delivery challenge is continuing into the new regulatory period. For example, Scottish Water had expected to have delivered 68 of the 86 completion projects that carried forward from the previous regulatory period by March 2022. However, Scottish Water had only delivered 47 by this date. We will comment further on Scottish Water's performance in the first year of the new regulatory control in our performance report which we will publish towards the end of the year.

Outcome 3: Helping to ensure the retail market maximises benefits for customers

Our focus this year was to support businesses with the transition away from measures that had been put in place during the Covid-19 pandemic. At the same time we initiated a process to review the financial resilience of retailers, with specific consideration given to introducing further measures to protect the integrity of the market by making sure that retailers are sufficiently resilient to future shocks. Recent failures of energy suppliers have shown how important it was to launch the initiative.

This review process, which we consulted widely on, led to the introduction of a new voluntary licence condition on financial resilience. All active retailers agreed to sign up to that additional licence requirement. Scottish Water is now working to finalise its methodology for assessing retailers' financial strength. We expect a final financial resilience framework to go live by 2023, in line with our Corporate Plan.

During the reporting year we also sought to develop our initial thinking on how to engage retailers on the types of behaviours that align with the theoretical principles provided by the Ethical Business Practice framework. In this regard we have worked on introducing a market-wide process – a 'market health check' process – that would allow retailers to demonstrate such behaviours. The market health check process will allow retailers to demonstrate they have adopted the principles of EBP and are operating in the spirit and the letter of their licence. We have recently appointed a 'market health checker' who will take forwards this work, working closely with the retailers and with other stakeholders in the retail market.

Outcome 4: Supporting Scottish Water to become an analytically driven organisation that takes full account of benefit and costs in its option appraisals and decisions

At the last Strategic Review we adapted the regulatory framework to move away from a fixed investment programme for the regulatory period. This change enables Scottish Water to plan and to prioritise its investment programme in a more dynamic way, thereby ensuring maximum long-

term value. Alongside this change was a commitment by Scottish Water to develop an Asset Management Transformation Plan, a component if not the key component of its transformation.

This year, we continued to engage with and encourage the work of Professor Dr Bryan Adey of ETH Zurich as he assists Scottish Water in its Asset Management Transformation Plan (AMTR). As part of this work it will be important that Scottish Water is able to develop a framework that quantifies, in a clear way, the consequences and impacts of each of its decisions and in particular its decisions to repair, refurbish and replace its vast network of water and wastewater infrastructure. We are concerned with the relatively slow progress in this area given the significance of the asset replacement challenge the organisation faces. The AMTR framework should also help enable Scottish Water to have candid and evidenced-based discussions with stakeholders, including the quality regulators, about how the business is prioritising its investment and the trade-offs that will need to be made.

Outcome 5: Acting as a hub of information and expertise to support decision making

An important element of our commenting on Scottish Water's performance is for us to have a wide and detailed understanding of regulatory frameworks and approaches in other countries and jurisdictions. This enables us to identify areas of best practice or innovation in asset-intensive industries, which we can then draw on in our work with Scottish Water.

The expertise we have developed over more than 20 years of regulation means we can support other regulatory organisations and regulated companies at home and abroad. Such activity ultimately secures better outcomes for customers and the environment in the water sector in Scotland.

We undertake future horizon-scanning on an ongoing basis, with key developments raised and discussed by the senior team and build and maintain good relationships with a wide network of leading-edge practitioners, academics and policy makers.

We also seek out opportunities to work with others on areas of shared interest. This year, for example, we joined with Northumbrian Water, Scottish Water, Sydney Water and Watercare in New Zealand in a project to understand future asset replacement requirements in different countries and jurisdictions. The output of this work will inform Scottish Water's future reporting of asset replacement requirements and our thinking on asset replacement for the next Strategic Review of Charges.

We attend and contribute to diverse workshops, discussion forums and other events, sharing our expertise and helping us stay abreast of developments and innovations elsewhere. Many requests come from international partners seeking insights into the regulatory journey of the Scottish water industry. This year such contributions have included speaking at a workshop held by IPART the independent economic regulator for New South Wales and providing the keynote presentation at

the Vic Water Connect Conference. We share best practice through organisations such as the OECD and academic institutions. Our CEO spoke, for example at an OECD workshop on practices that are conducive to improved water services and contributed to a webinar hosted by the Florence School of Regulation and WAREG. Our Chief Operating Officer chaired a session of the WWT Wastewater 2022 conference and, along with the CEO, took part in a peer-to-peer learning webinar hosted by the World Bank for the Water and Sanitation Regulatory Commission of Colombia.

Our international work provides useful opportunities for our graduate employees to conduct analysis in interesting areas and to train others in regulatory processes and information – in turn contributing to their own development and progression. This year for example we undertook analysis for Watercare (Auckland’s water and wastewater company), supported the company in preparing its Annual Return information, and delivered training on regulatory frameworks and information requirements. Other training we have delivered includes to participants of Professor Dr Bryan Adey’s ‘Infrastructure management course’ at ETH Zurich.

Outcome 6: Promoting customer-centric decision making

As Scottish Water works through the detail of its transformation plan, it is important that the business can demonstrate that the customer and community voice has been embedded and their views considered in Scottish Water’s decision making.

In the final determination we welcomed Scottish Water’s commitment to carry out a national engagement programme with customers and communities. More recently, in its Strategic Plan, Scottish Water committed to making this a ‘world leading’ engagement programme. We welcome this commitment on the basis that there needs to be a collective understanding of the challenges that the industry faces and an appropriate response to meeting future funding challenges. It will be important, for example, to understand what sort of water industry customers and society want and the consequences of those options on future investment levels, future performance and the required levels of funding and financing over time.

We will publish an annual report on Scottish Water’s overall performance later this year. The report will include an assessment of its progress in ensuring that customers and communities are involved in decision making. This will encompass assessing the extent to which customers could reasonably have confidence that their views are being heard and acted on.

Outcome 7: Acting as a cutting-edge regulator that contributes to developing Scotland as a Hydro Nation

As part of our work to support the Scottish Government’s Hydro Nation initiative, we continued to work with the DIA as it progresses the Three Waters Reform programme in New Zealand. Our final report, submitted in May 2021, was an important part of the evidence base that informed the

Government's decision-making. We provided additional support to help the DIA engage with councils as part of the reform process.

We also helped Watercare develop their processes and information, to build their regulatory capacity in preparing for the introduction of economic regulation in New Zealand. And as part of a consortium with the consultancy BDO we completed a project for Wellington Water and supported the Romanian regulator (ANRSC). Some of our new analysts have worked with Apa Vital in Romania to help them develop a business plan.

More widely we have continued to extend our links with other overseas regulators and organisations such as WAREG, the OECD's Network of Economic Regulators, and the World Bank. We continue to seek new opportunities for business development by building partnerships with international stakeholders and exploring links with potential contractors. This allows us to develop a pipeline of suitable projects to pursue in line with our Hydro Nation strategy.

Outcome 8: Ensuring that the office operates as efficiently and effectively as possible

A key area of in our 2021-27 corporate plan is to improve the way we communicate. To help deliver this objective we launched a new corporate website and brand in August 2021.

The new website allows us to communicate our work clearly and accessibly using engaging content that is more reflective of our organisation and key messages; to better manage our public facing information and enquiries from members of the public; to support our recruitment efforts; and to publish content that reflects good practice and accessibility standards. In this regard we were pleased that the website was awarded the Digital First Scotland Standard, an assessment designed to ensure that government products and services provide the best possible user experiences and are secure to use. Our work on the website will also ensure that we have the right tools in place for future communications and engagement activities.

During the year we have continued to ensure that we provide stable, secure and flexible IT services to support the delivery of our strategic outcomes. As part of this work we have made sure that our systems are cyber resilient by strengthening our defences in line with the Scottish Government's Cyber Resilience Framework and Cyber Essentials Plus standards.

Outcome 9: Sustaining a high-performance team, with a focus on continuous improvement

During the year we focussed on developing succession planning for the office and on developing our senior team, in addition to exploring options for future operating models which support our strategic objectives and outcomes. We completed our succession planning review, and a new executive team is now in place.

In line with our graduate recruitment strategy, we continued our drive to recruit trainee analysts from a variety of backgrounds and nationalities. Unfortunately, we were unable to identify

suitable analytical candidates in 2021, however more recent recruitment efforts have been successful. Two graduates have been appointed this year with plans in place for further recruitment rounds later in the year and early into next year. In addition, we welcomed two analytical interns during the summer of 2021 who spent three months with us gaining experience across a range of regulatory areas and working on our international projects.

This year our staff have also been committed to training and development with many of our staff, senior leaders and Board completing further training in cyber security and awareness.

KEY PERFORMANCE INDICATORS

Our Corporate Plan identified 11 key performance indicators (KPIs) against which we are measuring the success of delivering our nine outcomes over the regulatory control period. We identified the key KPIs for this financial year and our performance against each is described in detail in this section.

The KPIs that were identified for this financial year are outlined in the table below, with an analysis of how we performed against those indicators.

Outcome(s)	KPI	Performance during 2021-22
1-3	We will implement a regulatory framework that enables and supports Scottish Water to take full ownership of its relationship with customers and its decision making. We will report annually to the Board, and in our statutory annual report and accounts, on progress.	We have worked with Scottish Water this year as it has started to address the transformation that will be required to meet future challenges.
1-3	By November of each year we will publish our annual reports on Scottish Water's overall performance in delivering the requirements set out in the 2021-27 final determination and identify any gaps that have the potential to impact on the level of trust among its stakeholders.	Our 2020-21 assessment of Scottish Water's performance is complete. Work is ongoing to develop the performance reporting arrangements for the 2021-27 regulatory control period.
4-6	Our annual reports on Scottish Water's overall performance will include an assessment of its progress in ensuring	We have published our report of Scottish Water's performance for the

Outcome(s)	KPI	Performance during 2021-22
	that project appraisals encompass a full assessment of the economic costs and benefits of investment. This assessment should include aspects such as the carbon impact, and of natural and social capital.	final year of the 2015-21 regulatory control period. We are working with Scottish Water on the ongoing development of its reporting mechanisms for the SR21 period, including its annual return and the performance and prospects report.
4-6	Our annual reports on Scottish Water's overall performance will include an assessment of its progress in ensuring that customers and communities are involved in decision making. This will encompass assessing the extent to which customers could reasonably have confidence that their views are being heard and acted upon.	We have encouraged Scottish Water to deliver on its commitments, particularly in relation to holding a 'national conversation'. We will publish a report later this year on Scottish Water's performance.
7	We will report annually on requests for regulatory advice and information and expertise from industry stakeholders and international partners, and on the nature of support we have provided.	We have responded to a large number of requests from international partners to provide advice and information this year. The contributions we have made are summarised in this report.
7	We will support the Scottish Government's Hydro Nation initiative by delivering projects and assistance, providing a minimum annual net contribution to our income from this work of £300,000.	We delivered ongoing projects with the DIA, Watercare and Wellington Water. We also completed a collaborative project with BDO in Romania to support the Romanian regulator ANRSC. We received a net contribution, excluding remuneration costs, to our income from these activities of £479k.
8	Each year of the Corporate Plan period, we will set out in an annual workplan the activities which we will undertake during the year. In the following year our Annual Report will include information on progress against our workplan.	Our 2021-22 work plan was approved by the board in March 2021. Regular updates against the work plan are provided to the board at each board meeting. These updates have informed the summary of performance in this annual report.

Outcome(s)	KPI	Performance during 2021-22
8	We will ensure that our income and costs remain within budget targets over the regulatory control period and will report our financial performance on a regular basis to the Board.	<p>We delivered our priorities in 2021-22 in line with the corporate plan and budget. For more information on the financial results for the year, see the section on Financial performance.</p> <p>Our board received financial updates at every meeting.</p>
9	We will achieve the desired structure for the office by 2025 and ensure that progress remains on track in the interim.	We completed our succession planning review and now have a new executive team in place. Although recruitment efforts were not as expected during the year, we will continue our programme of recruitment of analytical employees during 2022-23.

KEY RISKS

Underpinning the principal risk of the overall failure of our statutory duties are three strategic risks. Operational risks are managed at a business area level, and these operational risks are linked to the three strategic risks.

Strategic risk 1

If we do not properly plan for the succession of key roles or adequately manage our resources and the retention of staff, then the organisation might lose focus and direction, causing significant business interruption.

As a small office, we need to make sure that we are able to attract and retain the best talent, we ensure succession of senior roles, and that all employees have the skills, training and expertise they need. We will focus on ensuring that we have the resources, skills and experience in place to deliver the overall strategy and objectives now and in future.

During the year, we completed a succession planning exercise, with a focus on ensuring continuity in respect of the planned retirement of the Deputy CEO. This work has been supported by individual and team coaching of the senior team. All of our employees are provided with development opportunities, supported by a performance management process.

Strategic risk 2

If we are not attuned to the external landscape and the strategies of our stakeholders, there is a risk that we are unable to respond adequately to political, legislative or stakeholder driven changes within the industry.

We participate in a number of joint industry stakeholder forums, including the Stakeholder Advisory Group (SAG), the Delivery Assurance Group (DAG), the Investment Planning and Prioritisation Group (IPPG) and retail market forums. We also maintain ongoing liaison with key stakeholders, with regular dialogue maintained with our Scottish Government sponsor team and officials.

Our regulatory approach, in line with EBR principles, operates at the innovative end of the risk spectrum. This provides both Scottish Water and the retailers the time and space they need to engage and listen to customers and communities. We will continue to make sure that, as the industry moves towards an approach founded on candour and transparency (in line with the principles encompassed by EBP) and takes ownership of its decisions, this is done in a way that is in the best interests of customers.

We maintain contact with leading thinkers within the sector to ensure an innovative approach is maintained. This is developed through regular external engagement sessions with leading edge practitioners, academics and policy makers. In addition, our Hydro Nation and horizon scanning activities provide a useful source of engagement, external benchmarking and assurance.

Strategic risk 3

If we are unable to act appropriately and proportionately within the expectations of public bodies as set out, from time to time, by the Scottish Government, in compliance with all relevant laws, regulations and policies then there is a risk that our activities are significantly disrupted, and reputation undermined.

We adopt the appropriate standards of corporate governance and put in place measures to ensure compliance. The policies and procedures of all operational functions of the organisation will be driven by applicable laws and regulations and the standards expected of a non-departmental public body.

Our governance processes are up to date, in line with Scottish Government's good practice and reviewed regularly internally and by internal audit. During the year, the Code of Conduct for board members was updated to reflect the revised guidance from the Scottish Government. Our board members received training on the new guidance.

FINANCIAL PERFORMANCE

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

Financial performance 2021-22

As set out in the [financial statements](#), there was a net surplus for the year of £614,994 before any adjustments for actuarial gains or losses (2020-21: deficit of £577,200). The use of surplus funds is outlined in our corporate plan for the period 2021-27.

Total income received for the year was £4,486,585 (2020-21: £3,423,460). Income received from Scottish Water and the licensed providers was in line with the corporate plan.

We also received £479k in relation to international activities. The majority of this was received in relation to the work with Watercare in New Zealand and was greater than expected in the corporate plan. Last year we provided support to the Department of Internal Affairs in New Zealand, which brought in the majority of international income in 2020-21 and was completed during that year.

We also received £78k in relation to rent and service charge costs relating to the sub-lease of the corporate office from 1 July 2021.

Expenditure for the financial year 2021-22 was £3,870,386 (2020-21: £4,003,025). At the end of the financial year, an adjustment is made to replace actual employer contributions paid to the pension scheme with the current service cost, and associated interest. Current service costs represent WICS's share of pension benefits accruing over the period, as calculated by the actuary.

Excluding the pension adjustment, expenditure for the financial year would be £3,405,386 (2020-21: £4,258,025). Therefore, expenditure is £853k (20%) lower than the previous financial year. This reduction can be attributed to the following:

- Consultancy expenditure in 2021-22 was £432,097 less than the previous year.
- At the end of 2020-21 a one-off lump sum of £309,000 was paid to the pension scheme.
- Other savings made compared to the previous year include savings made from not having a physical office.

Excluding the aforementioned pension adjustment, expenditure for 2021-22 was almost £300k below the annual budget of £3,703k. The continuing COVID-19 restrictions impacted the timing of some activities of the office. Consultancy costs were £249k below budget as preparatory work for the SRC27 was delayed so that it could be carried out face to face. Costs relating to other activities that require in-person interaction, such as training, were put on hold, resulting in lower expenditure. Some, but not all, of these reductions will be sustained.

The balance on the General Reserve as at 31 March 2022 was a liability of £143,233 (2020-21: £2,943,227). The two main contributors to the improvement of this position are:

- A repayment to Scottish Water and the licensed providers of £1.3m in total, in relation to the previous regulatory period, was included within current liabilities at 31 March 2021. This was repaid during the financial year and the balance was clear at 31 March 2022.
- The pension liability¹ has decreased by £1,720,000 from the previous year. The total investment return achieved by the Fund over the accounting period was higher than expected which led to a gain of around £970,000. In addition, the corporate bond yield (upon which the discount rate is derived) has risen over the period, which has led to a 0.7% increase in this assumption. This has served to reduce further WICS' pension obligations.

Supplier payment policy

It is our policy to pay all supplier invoices that are not in dispute within the terms of the relevant contract and as soon as possible following receipt of an invoice. In line with the Scottish Government's guidance, we aspire to a 10-working day target for paying bills to businesses in Scotland. Paying supplier bills promptly is seen as a key objective, and an important expression of our commitment to supporting business. The average time taken to pay suppliers in 2021-22 was 7 days (2020-21: 5 days).

The Public Services Reform (Scotland) Act 2010

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

SOCIAL MATTERS

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

¹ The actuarial assumptions adopted by the LGPS for funding purposes are different to those prescribed for the preparation of accounting disclosures. In particular, the funding discount rate (future investment return) assumption is currently higher than the discount rate adopted for accounting purposes. All else being equal, this places a higher value on pension obligations when using the accounting assumptions compared to the funding assumptions. This means that, for the average LGPS employer, their accounting balance sheet will be worse than their funding position (and accounting service costs higher than cash contributions). Cash contribution requirements are set by the Fund with reference to the Employer's funding position only; the accounting position does not affect the cash contributions the Employer needs to pay to the LGPS.

ANTI-BRIBERY AND CORRUPTION

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

No frauds were detected in 2021-22.

We take malpractice very seriously and are committed to conducting our business with honesty and integrity. We encourage open communication from all those who work for us, and we want everyone to feel secure about raising concerns. Our internal whistleblowing policy is in place to encourage and enable employees to raise concerns on a confidential basis. All staff are protected under whistleblowing laws if they raise concerns in the correct way.

In addition to this we have an external whistleblowing policy which aims to assist contractors and the general public should they need to raise concerns about the water industry in Scotland.

During the reporting period we received one case of whistleblowing relating to Scottish Water. The details are included in the table below:

Date	Issues raised	WICS action	Outcome
18/05/21	Failings within the Ayr South treatment works team. Including allegations of: <ul style="list-style-type: none">• Bullying and harassment• Favouritism• Dishonesty• Fraud• Deception	Forwarded to Scottish Water requesting investigation.	Scottish Water initiated a fact-finding exercise into the allegations. WICS followed up to understand outcome and actions required. Scottish Water provided an update on 10 August which concluded no evidence found. However, discrepancies required monitoring. Update shared with senior team within WICS, and case closed on 12 August 2021.

TRANSPARENCY OF INFORMATION

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

COMPLAINTS

We value and recognise the learning that complaints can generate, and we use complaints information to help us improve the services we provide. During the year we did not receive any complaints (2020-21: 2 complaints received).

OUR SUSTAINABILITY PERFORMANCE

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

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

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

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

Working from home has provided an opportunity to carry out our functions remotely², without the need to travel. We are reviewing our future working arrangements and we sub-leased our office space from 1 July 2021 to 30 September 2023. This will significantly reduce our environmental impact for the future.

Employees undertook negligible travel during the year due to the continued restrictions associated with COVID-19. Travel did resume in February 2022. Overseas travel is sometimes required as part of our contribution to the Hydro Nation initiative. We off-set our carbon footprint from international travel by funding tree planting in Scotland.

² We have not assessed the carbon impact of home working.

Details of our carbon footprint is provided in the following table.

	2021-22		2020-21	
Area	Non-financial information	Financial information	Non-financial information	Financial information
Energy	Electricity: 0.3 tonnes CO ₂	Electricity: £195	Electricity: 8.0 tonnes CO ₂	Electricity: £4,979
	Gas: 0.2 tonnes CO ₂	Gas: £374	Gas: 8.5 tonnes CO ₂	Gas: £1,429
	Total carbon from energy: 0.5 tonnes CO₂		Total carbon from energy: 16.5 tonnes CO₂	
Waste	Waste to landfill: negligible	£203	Waste to landfill: 0.1 tonnes CO ₂	£634
	Total carbon from waste: negligible		Total carbon from waste: 0.1 tonnes CO₂	
Water	0.01 tonnes CO₂	£344	0.04 tonnes CO₂	£1,740
Transport and travel	5.2 tonnes CO₂	£9,826	0.2 tonnes CO₂	£283

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

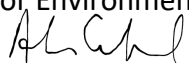
Energy: all information based on actual usage as reported on gas and electricity invoices.

Waste: financial information taken from actual invoices received in relation to waste collection and shredding services.

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

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

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



Alan D A Sutherland

Chief Executive

09 December 2022

2.Accountability report

2.1 Corporate governance report

2.1.1 DIRECTOR'S REPORT

The Board

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

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

Name	Position	Initial appointment date	Re-appointment date	End date
Donald MacRae	Chair	01/07/2016*	01/05/2022	30/04/2026
Jo Armstrong	Member	01/07/2016	01/07/2020	30/06/2024
Ann Allen	Member	01/07/2020	-	30/06/2025
Robin McGill	Member	01/01/2020	-	31/12/2024

*Appointed as Chair on 1 May 2018

Directors

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

Interests held by the Board

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

Auditors

Under the Public Finance and Accountability (Scotland) Act 2000, our independent auditors are appointed for the Auditor General by Audit Scotland. Audit Scotland has been appointed as WICS' external auditors for a five-year period from 2016-17 to 2020-21. As a result of the significant disruption resulting from Covid-19, the Auditor General for Scotland and the Accounts Commission have extended the current audit appointment by one year.

The appointment is undertaken in accordance with the Code of Audit Practice approved by the Auditor General.

The fees paid to Audit Scotland in respect of the independent statutory audit for the financial year 2021-22 are £13,940 (2020-21: £13,670).

All relevant audit information has been made available to our auditors, and the Accountable Officer has taken steps to ensure that the auditors are aware of any relevant audit information.

Other information

In the year to 31 March 2022, we did not have any notifications of data breaches to the Information Commissioner's Office.

Significant events since the end of the financial year

There are no significant events to report after the end of the financial year.

2.1.2 STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

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

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

- Observe the Accounts Direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.

- State whether applicable accounting standards, as set out in FReM, have been followed, and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on a going concern basis.

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

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

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

2.1.3 GOVERNANCE STATEMENT

The Governance Framework

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

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

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

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

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

The purpose of the governance framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at WICS for the year ended 31 March 2022 and up to the date of approval of the annual report and accounts.

The Board

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

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

The Board meets regularly and during 2021-22 held seven formal meetings. At each formal meeting the Board has a mandate to focus on strategic issues relating to monitoring Scottish Water's performance, the SRC and developments in the retail market. The Board held three further informal meetings to discuss current issues and matters arising.

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

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

Corporate Plan

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

Risk management

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

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

Risks are assessed in terms of the likelihood of them occurring, the impact they would have if they did occur, and their proximity (how soon they are likely to occur).

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

As part of the Corporate Plan for 2021-27, we have identified the risks associated with the delivery of the objectives set out in the Plan. During the year, the Board monitored the strategic risk register and the action plans set out by management to address the risks.

Audit and Risk Committee (ARC)

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

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

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

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

Internal audit

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

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

The overall audit opinion for the year was that "reasonable assurance can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Significant governance issues

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

Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. My review of the effectiveness of these systems is informed by the work of the internal auditors and the executive managers within the organisation. The executive managers have responsibility for the development and maintenance of the internal control framework. I also rely on the comments made by the external auditors in their management letter and other reports. I have been advised on the effectiveness of the systems by the ARC. The ARC has kept me informed of plans to address any weaknesses discovered in internal control systems.

2.2 Remuneration and staff report

REMUNERATION POLICY

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

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

There is no separate remuneration committee and remuneration related issues are brought to the attention of the Board as they arise. No performance payments were made in 2021-22 in accordance with the Scottish Government pay policy.

The rest of this remuneration and staff report is subject to audit.

DIRECTORS' SALARY AND PENSION ENTITLEMENTS

The gross salary of the Chief Executive in the year was £183,240 (2020-21: £171,502). This includes payments of £14,060 in relation to accumulated leave. The total remuneration of the directors, including pension benefits, was as follows:

	2021-22			2020-21		
	Gross salary £(000)	Pension benefits £(000)	Total £(000)	Gross salary £(000)	Pension benefits £(000)	Total £(000)
Alan Sutherland, Chief Executive	180 - 185	-	180 - 185	170 - 175	8	180 - 185
Ian Tait, Director	120 - 125	-	120 - 125	115 - 120	57	175 - 180

The accrued pension benefits have been calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights. The real decrease experienced in 2021-22 is due to a higher level of inflation than in previous years, with the increase in the value of the pension not keeping pace.

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

No bonus payments or benefits in kind were paid to the Chief Executive or Director during 2021-22 (2020-21: £nil). The total remuneration of the Chief Executive and other Director was £300k-£305k (2020-21: £355k-£360k). The Director is also an ordinary member of the Falkirk Council Pension Scheme. The Chief Executive withdrew from the Scheme on 31 March 2017.

Retirement benefits of the Directors are as follows:

Cash equivalent transfer value*						
	Accrued pension as at 31 March 2022 and related lump sum £(000)	Accrued pension as at 31 March 2021 and related lump sum £(000)	Change in pension net of inflation and related lump sum £(000)	At 31 March 2022 £(000)	At March 2021 £(000)	Increase net of members' contributions £(000)
Alan Sutherland	30 – 35 plus, lump sum of 30 – 35	30 – 35 plus, lump sum of 30 – 35	-2.5 – 0 plus, lump sum of -2.5 – 0	601	570	-4
Ian Tait	40 – 45 plus, lump sum of 30 – 35	35 – 40 plus, lump sum of 30 – 35	0 – 2.5 plus, lump sum of -2.5 – 0	692	633	6

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

BOARD REMUNERATION

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

	2021-22 Total £(000)	2020-21 Total £(000)
Donald MacRae	35 – 40	35 – 40
Jo Armstrong	15 – 20	15 – 20
Robin McGill	15 – 20	15 – 20
Ann Allen	15 – 20	15 – 20

Board Members are not members of the pension scheme. No benefits in kind were paid in the year.

FAIR PAY DISCLOSURE

The range of staff remuneration within WICS is £20k-25k to £180k-£185k (2020-21: £20-25k to £170-£175k). The highest paid director of WICS is the Chief Executive at £180k-£185k (2020-21: £170k - £175k). The average salary for all employees, excluding the Chief Executive, is £65k -£70k (2020-21: £65k -£70k).

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation as follows:

	2021-22	2020-21
Highest paid Director's total remuneration (£)	180k – 185k	170k – 175k
Salary: 25 th percentile (£)	32,004	28,431
25 th percentile pay ratio	5.7	6.1
Salary: 50 th percentile (£)	42,038	40,414
50 th percentile pay ratio	4.3	4.3
Salary: 75 th percentile (£)	98,555	102,225
75 th percentile pay ratio	1.9	1.7

Movement in ratios is consistent with the Scottish Government’s pay policy to focus pay increases on lower paid employees.

AVERAGE NUMBER OF PERSONS EMPLOYED

The average number of full-time equivalent persons employed during the year was 28 (2020-21: 25), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2022	Year ended 31 March 2021
Chief Executive and Directors	2	2
Other employees	26	23

Staff composition

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

	Male	Female	Total
Directors	2	-	2
Other employees	13	13	26

Staff costs are outlined in [note 3.5.4](#) of the financial statements. All employees hold permanent (UK) employment contracts, with the exception of the equivalent of 0.6 FTE relating to agency staff. The cost during the financial year of agency staff was £35,167 (2020-21: £nil).

EQUALITY AND DIVERSITY IN OUR WORKPLACE

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

Our performance and activities in the area of mainstreaming equality are set out in the [Equality Mainstreaming Report 2019-21](#) on our website. This year we have made progress against many of the actions set out in the report. For example we were pleased to become a Disability Confident Committed employer and, when recruiting we now make it clear, where appropriate, that we are ‘Happy to talk flexible working’. This scheme that is designed to encourage employers to think

about job design, and the kind of flexibility that would work in the role, before undertaking recruitment.

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

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

HEALTH, SAFETY AND WELL-BEING

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

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

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

SICKNESS ABSENCE AND STAFF TURNOVER

The average length of time that each employee was absent due to sickness was 4.7 days (2020-21: 2.6 days).

Staff turnover in the year was 3.6% (2020-21: 4.0%).

EXIT PACKAGES

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

2.3 Parliamentary Accountability Report

FUNDING

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

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

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

LOSSES AND SPECIAL PAYMENTS

There were no losses or special payments in the year (2020-21: £nil).

GIFTS

No gifts were made during the year.

CONTINGENT LIABILITIES

There are no contingent liabilities to disclose for the financial year 2021-22.

In 2018-19, WICS received grant income from the European Commission (EC) in relation to a project with the Romanian Public Services Regulatory Authority (ANRSC), totalling £905,645. As at 31 March 2021, the EC had undertaken an audit of WICS' expenditure on the project and had requested supplementary evidence for approximately £135k worth of WICS' staff costs. WICS provided the EC with additional evidence which resulted in a request for repayment of €20,561.76 relating to staff costs. This amount is included as an accrual at the end of the financial year.



Alan D A Sutherland
Accountable Officer

09 December 2022

2.4 Independent Auditor's Report

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

REPORTING ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Water Industry Commission for Scotland for the year ended 31 March 2022 under the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, interpreted and adapted by the 2021-22 Government Financial Reporting Manual (the 2021-22 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2022 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021-22 FReM; and
- have been prepared in accordance with the requirements of the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, I report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

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

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- obtaining an understanding of the applicable legal and regulatory framework and how the body is complying with that framework;

- identifying which laws and regulations are significant in the context of the body;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

REPORTING ON REGULARITY OF EXPENDITURE AND INCOME

Opinion on regularity

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

Responsibilities for regularity

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

REPORTING ON OTHER REQUIREMENTS

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

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

Other information

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

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

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

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

USE OF MY REPORT

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

Stephen O'Hagan

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

09 December 2022

3. Financial statements

3.1 Statement of comprehensive net expenditure for the year ended 31 March 2022

The notes on pages 48 - 69 form part of these financial statements	Notes	Year ended 31 March 2022 £	Year ended 31 March 2021 £
Income			
Income from activities	3.5.2	4,486,585	3,423,460
Expenditure			
Staff costs	3.5.4	(2,946,372)	(2,489,919)
Depreciation	3.5.6	(24,364)	(29,162)
Other expenditure	3.5.5	(899,650)	(1,483,944)
		(3,870,386)	(4,003,025)
Operating surplus/(deficit)		616,199	(579,565)
Interest receivable		243	1,171
Net surplus/(deficit) for the year after interest		616,442	(578,394)
Corporation tax (payable)/receivable		(1,448)	1,194
Other comprehensive net income			
Actuarial gain/(loss)	3.5.12	2,185,000	(3,513,000)
Total comprehensive net income/(expenditure for the year)		2,799,994	(4,090,200)

All income and expenditure relates to continuing activities.

3.2 Statement of financial position as at 31 March 2022

The notes on pages 48 - 69 form part of these financial statements	Notes	Year ended 31 March 2022 £	Year ended 31 March 2021 £
Non-current assets			
Property, plant, and equipment	3.5.6	28,919	41,210
Total non-current assets		28,919	41,210
Current assets			
Other receivables	3.5.7	72,107	144,067
Cash and cash equivalent		2,451,590	2,525,559
Total current assets		2,523,697	2,669,626
Current liabilities			
Trade payables and other current liabilities	3.5.8	(420,881)	(1,663,363)
Total current liabilities		(420,881)	(1,663,363)
Non-current liabilities			
Provisions	3.5.9	(73,968)	(69,700)
Total net assets, excluding pension liabilities		2,057,767	977,773
Pension scheme liability	3.5.12	(2,201,000)	(3,921,000)
Net liabilities		(143,233)	(2,943,227)
Equity			
General reserve		(143,233)	(2,943,227)



Alan D A Sutherland
Accountable Officer

09 December 2022

3.3 Statement of cashflows for the year to 31 March 2022

The notes on pages 48 – 69 form part of these financial statements	Notes	Year ended 31 March 2022	Year ended 31 March 2021
Cash flows from operating activities		£	£
Operating surplus/(deficit)		616,199	(579,565)
<i>Adjustments for non-cash items</i>			
Difference in pension costs compared to contributions	3.5.12	380,000	(267,000)
Depreciation on tangible non-current assets	3.5.6	24,364	29,162
Finance costs		85,000	12,000
(Gain)/loss on disposal of fixed assets	3.5.6	(163)	2,179
Increase in provision	3.5.9	4,268	6,970
<i>Movements in working capital</i>			
Decrease in other receivables	3.5.7	71,960	246,007
(Decrease)/increase in trade payables and other current liabilities	3.5.8	(1,242,482)	1,391,189
Net cash (outflow)/inflow from operating activities		(60,854)	840,942
Cash flows from investing activities			
Purchase of property, plant, and equipment	3.5.6	(11,910)	(9,596)
Net cash outflow from investing activities		(11,910)	(9,596)
Cash flows from financing activities			
Interest received		243	1,171
Corporation tax (payable)/receivable		(1,448)	1,194
Net (outflow)/inflow from financing activities		(1,205)	2,365
Net (decrease)/increase in cash and cash equivalents		(73,969)	833,711
Cash as at 1 April		2,525,559	1,691,848
Cash as at 31 March		2,451,590	2,525,559
Net (decrease)/increase in cash and cash equivalents		(73,969)	833,711

3.4 Statement of changes in equity for the year ended 31 March 2022

The general reserve is analysed in note 10	£
Balance at 1 April 2020	1,146,973
Total comprehensive net expenditure for the year 2020-21	(4,090,200)
Balance as at 31 March 2021	(2,943,227)
Total comprehensive net income for the year 2021-22	2,799,994
Balance as at 31 March 2022	(143,233)

The notes on pages **48 – 69** form part of these financial statements.

The financial statements were approved by the Board on 9 December 2022.

The Accountable Officer authorised these financial statements for issue on 9 December 2022.

3.5 Notes to the financial statements

3.5.1 ACCOUNTING POLICIES

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

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

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

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

The Board and Accountable Officer have considered the budget for 2022-23, including the statutory contribution from Scottish Water and Licensed Provider levies, and consider that WICS has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

(i) Accounting Convention

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

(ii) Critical accounting estimates and key judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. WICS makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

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

WICS is ultimately responsible for the financial and demographic accounting assumptions adopted, based on actuarial advice. WICS determines the appropriate discount rate at the end of each year, considering information provided by actuaries. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, WICS considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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

(iii) Newly Adopted IFRS

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

(iv) Adopted IFRS not yet applied

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

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

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

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

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

The impact of the initial application of the standard as adopted by the FReM in relation to the office lease as at 31 March 2022 is:

	£
Initial costs of asset, represented as full lease cost over 15 years	888,460
Accumulated depreciation to 31 March 2022 (on a straight-line basis)	(651,536)
Closing value of asset at 31 March 2022	236,924
Liability represented as lease payment obligations from 01/04/2022	236,924

Therefore, there would be no impact to the financial statements other than the disclosures above.

(v) Furniture and fittings and information technology

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

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

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

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

(vi) Financial assets

Classification

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

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

Recognition and measurement

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

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that WICS will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan and receivable is impaired. The carrying amount of the asset is reduced using a provision account and the amount of the loss is recognised in the comprehensive statement of income and expenditure. When a loan or receivable is uncollectible it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited in the comprehensive statement of income and expenditure.

(vii) Financial liabilities

Classification

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

Recognition and measurement

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

(viii) Cash and cash equivalents

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

(ix) Provisions

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

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

(x) Income and expenditure

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

From 1 July 2021, WICS sub-leased its premises in Stirling. Rental income from the property are recorded as other income.

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

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

(xi) Value added tax

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

(xii) Operating Leases

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

(xiii) Employee benefits

Employees of WICS are members of the Local Government Pension Scheme (the Scheme) administered by Falkirk Council. The Scheme is a tax approved, defined benefit occupational pension scheme and the scheme regulations are made under the Public Service Pension Schemes Act 2013 and, in the case of the Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014, under the Superannuation Act 1972. The Scheme is contracted out of the State Second Pension scheme and meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008.

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

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

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

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

(xiv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. WICS recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(xv) Segmental reporting

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

3.5.2 INCOME

	Year ended 31 March 2022	Year ended 31 March 2021
	£	£
Scottish Water statutory contribution	2,256,440	1,234,100
Levy on licensed providers	1,672,724	1,314,642
Hydro Nation income	479,455	874,718
Other income	77,966	-
Total income	4,486,585	3,423,460

3.5.3 ANALYSIS OF NET EXPENDITURE BY SEGMENT

The purpose of activity reporting is to analyse costs by income stream, allowing for a better understanding of how (and against which activities) resources are being deployed. A summary of the full year report is detailed below.

Contribution to overheads by activity	Year ended 31 March 2022	Year ended 31 March 2021
	£	£
Network Regulation	1,156,148	(275,640)
Retail	1,440,003	1,017,789
Hydro Nation	173,308	391,679
Total contribution to overheads	2,769,459	1,133,828
Overheads	(2,154,465)	(1,711,028)
Net surplus/(deficit) for the year after interest	614,994	(577,200)

3.5.4 STAFF RELATED COSTS

	Year ended 31 March 2022	Year ended 31 March 2021
	£	£
Wages and salaries	1,898,545	1,807,968
Social security costs	218,446	211,925
Pension costs	829,381	470,026
Staff costs per statement of comprehensive net expenditure	2,946,372	2,489,919

The cash contributions made to the pension scheme are disclosed in note [3.5.12](#).

3.5.5 OTHER EXPENDITURE

	Year ended 31 March 2022	Year ended 31 March 2021
	£	£
Travel and subsistence	16,572	283
Office accommodation	101,404	192,929
General operating costs	248,413	353,621
Regulation and licensing costs	285,927	687,268
Recruitment	8,172	28,491
Information technology	154,503	198,087
Finance charges	84,659	23,265
	899,650	1,483,944

The operating costs for the year are stated after charging the external audit fee of £13,940 (2020-21: £13,670) and, within office accommodation, an operating lease rental of £70,243 (2020-21: £139,650).

The office accommodation lease arrived at the ten-year break point on 14 March 2021. The break option was not invoked and WICS is now obligated to fulfil the full term of the lease – a further 5 years to 14 March 2026. WICS has sub-let the office accommodation to Zero Waste Scotland for the period 1 July 2021 to 30 September 2023 on a cost recovery basis.

Finance charges principally relate to the net interest cost of the pension scheme for the year (see note [3.5.12](#)).

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

3.5.6 PROPERTY, PLANT AND EQUIPMENT

	Information technology	Furniture and fittings	Total
Cost	£	£	£
At 31 March 2021	117,061	274,011	391,072
Additions	11,910	-	11,910
Disposals	(12,568)	(102,927)	(115,495)
At 31 March 2022	116,403	171,084	287,487
Depreciation			
At 31 March 2021	84,348	265,514	349,862
Charge for the year	22,753	1,611	24,364
Eliminated on disposals	(12,568)	(103,090)	(115,658)
At 31 March 2022	94,533	164,035	258,568
Net book value at 31 March 2022	21,870	7,049	28,919
Net book value at 31 March 2021	32,713	8,497	41,210

	Information technology	Furniture and fittings	Total
Cost	£	£	£
At 31 March 2020	179,665	274,011	453,676
Additions	9,595	-	9,595
Disposals	(72,199)	-	(72,199)
At 31 March 2021	117,061	274,011	391,072
Depreciation			
At 31 March 2020	128,510	262,211	390,721
Charge for the year	25,859	3,303	29,162
Eliminated on disposals	(70,021)	-	(70,021)
At 31 March 2021	84,348	265,514	349,862
Net book value at 31 March 2021	32,713	8,497	41,210
Net book value at 31 March 2020	51,155	11,800	62,955

3.5.7 OTHER RECEIVABLES

	Year ended 31 March 2022	Year ended 31 March 2021
Current receivables	£	£
Prepayments	61,520	12,682
Other receivables	10,587	131,385
Total other receivables	72,107	144,067

	Year ended 31 March 2022	Year ended 31 March 2021
Intra-government receivables	£	£
Central Government	7,498	1,143
Local Authorities	13,601	-
Bodies external to government	51,008	142,924
Total other receivables	72,107	144,067

3.5.8 CURRENT LIABILITIES

	Year ended 31 March 2022	Year ended 31 March 2021
Current payables	£	£
Trade payables	85,399	27,747
Taxation and Social Security	57,848	59,768
Accruals	227,450	1,530,781
Pension	50,184	45,067
Total current liabilities	420,881	1,663,363

	Year ended 31 March 2022	Year ended 31 March 2021
Intra-government payables	£	£
Local Authorities	67,964	60,658
Central Government	51,024	59,837
Bodies external to government	301,893	1,542,868
Total current liabilities	420,881	1,663,363

3.5.9 PROVISIONS FOR LIABILITIES AND CHARGES

	Year ended 31 March 2022	Year ended 31 March 2021
	£	£
Balance at 1 April 2021	69,700	62,730
Provided in the year	4,268	6,970
Balance at 31 March 2022	73,968	69,700

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

3.5.10 NOTE TO STATEMENT OF CHANGE IN EQUITY

	Note	Operations	Pension	General Reserve
		£	£	£
Balance at 1 April 2020		1,809,973	(663,000)	1,146,973
<i>Changes in reserves 2020-21</i>				
Actuarial gains		-	1,616,000	1,616,000
Change in assumptions underlying the present value of the scheme liabilities		-	(5,129,000)	(5,129,000)
Net surplus/(deficit) for the year		(832,200)	255,000	(577,200)
Balance as at 31 March 2021		977,773	(3,921,000)	(2,943,227)
<i>Changes in reserves 2021-22</i>				
Actuarial gains	3.5.12	-	974,000	974,000
Change in assumptions underlying the present value of the scheme liabilities	3.5.12	-	1,211,000	1,211,000
Net surplus/(deficit) for the year		1,079,994	(465,000)	614,994
Balance as at 31 March 2022		2,057,767	(2,201,000)	(143,233)

3.5.11 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

There were no capital commitments at 31 March 2022 (2020-21: £nil).

(ii) Commitments under operating leases

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

	Year ended 31 March 2022	Year ended 31 March 2021
	£	£
Not later than one year	81,605	20,441
Later than one year and not later than 5	276,411	340,110
Total	358,016	360,551

The lease ends on 13 March 2026.

(iii) Contingent liabilities

There are no contingent liabilities to disclose in the year.

3.5.12 PENSION

(i) Background

Some employees and former employees of WICS are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme. In the period WICS paid contributions totalling £466k (2020-21: £717k) 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 2022-23 will be 29.4% (2020-21: 29.4%).

In accordance with IAS 19 WICS commissioned the Fund's actuaries to undertake a valuation as at 31 March 2021. This calculation was based on rolling forward valuation data at 31 March 2020 (the last formal valuation) to 31 March 2022 based on several financial assumptions.

The main financial assumptions used included:

Financial assumptions	Year ended 31 March 2022 %	Year ended 31 March 2021 %
Pension Increase Rate (CPI)	3.15	2.80
Salary Increase Rate	3.75	3.40
Discount rate	2.75	2.05

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

Financial assumptions	Males	Females
Current pensioners (years)	20.4	23.0
Future pensioners (years)	21.6	25.0

(ii) Change in the fair value of plan assets, defined benefit obligation and net liability for the year ended 31 March 2022 (continued on next page)

	Assets	Obligations	Net (liability)/ asset
	£(000)	£(000)	£(000)
Fair value of employer assets	9,660	-	9,660
Present value of funded liabilities	-	13,539	(13,539)
Present value of unfunded liabilities	-	42	(42)
Opening position as at 31 March 2021	9,660	13,581	(3,921)
<i>Current service cost</i>	-	846	(846)
Total service cost	-	846	(846)
<i>Net interest</i>			
Interest income on plan assets	202	-	202
Interest cost on defined benefit obligation	-	287	(287)
Total net interest	202	287	(85)
Total defined benefit cost recognised in deficit	202	1,133	(931)
<i>Cashflows</i>			
Participants' contributions	132	132	-
Employer contributions	463	-	463
Estimated benefits paid	(160)	(160)	-
Estimated unfunded benefits paid	(3)	(3)	-
Estimated contributions in respect of unfunded benefits paid	3	-	3
Expected closing position	10,297	14,683	(4,386)
<i>Re-measurements</i>			
Change in financial assumptions	-	(1,179)	1,179

	Assets	Obligations	Net (liability)/ asset
Change in demographic assumptions	-	(70)	(70)
Other experience	-	38	(38)
Return on assets excluding amounts included in net interest	974	-	974
Total re-measurements recognised in Other Comprehensive Income (OCI)	974	(1,211)	2,185
Fair value of employer assets	11,271	-	11,271
Present value of funded liabilities	-	13,432	(13,432)
Present value of unfunded liabilities	-	40	(40)
Closing position as at 31 March 2022	11,271	13,472	(2,201)

(iii) Change in the fair value of plan assets, defined benefit obligation and net liability for the year ended 31 March 2021 (continued on next page)

	Assets	Obligations	Net (liability)/ asset
	£(000)	£(000)	£(000)
Fair value of employer assets	7,187	-	7,187
Present value of funded liabilities	-	7,810	(7,810)
Present value of unfunded liabilities	-	40	(40)
Opening position as at 31 March 2020	7,187	7,850	(663)
<i>Current service cost</i>	-	450	(450)
Total service cost	-	450	(450)
<i>Net interest</i>			
Interest income on plan assets	173	-	173
Interest cost on defined benefit obligation	-	185	(185)
Total net interest	173	185	(12)

	Assets	Obligations	Net (liability)/ asset
Total defined benefit cost recognised in deficit	173	635	(462)
<i>Cashflows</i>			
Participants' contributions	117	117	-
Employer contributions	714	-	714
Estimated benefits paid	(147)	(147)	-
Estimated unfunded benefits paid	(3)	(3)	-
Estimated contributions in respect of unfunded benefits paid	3	-	3
Expected closing position	8,044	8,452	(408)
<i>Re-measurements</i>			
Change in financial assumptions	-	3,426	(3,426)
Change in demographic assumptions	-	87	(87)
Other experience	110	1,616	(1,506)
Return on assets excluding amounts included in net interest	1,506	-	1,506
Total re-measurements recognised in Other Comprehensive Income (OCI)	1,616	5,129	(3,513)
Fair value of employer assets	9,660	-	9,660
Present value of funded liabilities	-	13,539	(13,539)
Present value of unfunded liabilities	-	42	(42)
Closing position as at 31 March 2021	9,660	13,581	(3,921)

(iv) Fair value of plan assets for the period ended 31 March 2022

The below asset values are at bid value as required under IAS19

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Equity securities:				
Consumer	841.6	-	841.6	7%
Manufacturing	605.8	-	605.8	5%
Energy and utilities	399.1	-	399.1	4%
Financial institutions	936.4	-	936.4	8%
Health and care	309.7	-	309.7	3%
Information technology	1,033.7	-	1,033.7	9%
Other	59.5	-	59.5	1%
Debt securities:				
UK Government	158.4	-	158.4	1%
Private equity:				
All	-	164.3	164.3	1%
Real estate:				
UK property	-	623.9	623.9	6%
Overseas property	-	1.0	1.0	0%
Investment funds and unit trusts:				
Equities	2,777.9	-	2,777.9	25%
Bonds	706.9	-	706.9	6%
Infrastructure	-	1,100.2	1,100.2	10%
Other	1,038.0	253.3	1,291.3	11%
Cash and cash equivalents:				
All	261.3	-	261.3	2%
Totals	9,128	2,143	11,271	100%

The asset value, at bid value, for the period ended **31 March 2021** are outlined in the table below.

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Equity securities:				
Consumer	721.3	-	721.3	7%
Manufacturing	519.2	-	519.2	5%
Energy and utilities	342.1	-	342.1	4%
Financial institutions	802.5	-	802.5	8%
Health and care	265.4	-	265.4	3%
Information technology	886.0	-	886.0	9%
Other	51.0	-	51.0	1%
Debt securities:				
UK Government	135.8	-	135.8	1%
Private equity:				
All	-	140.8	140.8	1%
Real estate:				
UK property	-	534.7	534.7	6%
Overseas property	-	0.8	0.8	0%
Investment funds and unit trusts:				
Equities	2,380.9	-	2,380.9	25%
Bonds	605.8	-	605.8	6%
Infrastructure	-	943.0	943.0	10%
Other	889.7	217.1	1,106.8	11%
Cash and cash equivalents:				
All	223.9	-	223.9	2%
Totals	7,824	1,836	9,660	100%

(v) Projected defined benefit cost for the period to 31 March 2023

	Assets	Obligations	Net (liability)/ asset	% of pay
Projected current service cost	-	728	(728)	(46.2%)
Total service cost	-	728	(728)	(46.2%)
Interest income on plan assets	316	-	316	20.1%
Interest cost on defined benefit obligation	-	380	(380)	(24.1%)
Total net interest cost	316	380	(64)	(4.0%)
Total included in income statement	316	1,108	(792)	(50.2%)

Employer's contributions for the period to 31 March 2023 will be approximately £463,000.

(vi) Sensitivity analysis

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

Change in assumptions at 31 March 2022	Approximate % increase to employer	Approximate monetary amount £(000)
0.1% decrease in Real Discount rate	2%	321
0.1% increase in the Salary Increase rate	0%	24
0.1% increase in the Pension Increase rate (CPI)	2%	295
1 year increase in member life expectancy	4%	539

3.5.13 RELATED PARTY TRANSACTIONS

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

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

A levy is received from each licensed provider to fund any licensing activity carried out by WICS. Business Stream is a licensed provider and provided WICS with water and wastewater services up to 30 June 2021. Therefore Business Stream is considered a related party.

Related party	Income (£)	Expenditure (£)	Year-end receivable (£)	Year-end payable (£)
Scottish Water Business Stream	923,802	344	-	-

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

4. Accounts Direction

WATER INDUSTRY COMMISSION FOR SCOTLAND DIRECTIONS BY THE SCOTTISH MINISTERS

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



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



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WICS Economic
regulation for
Scotland's water

