ANNUAL REPORT AND ACCOUNTS 2022-23

WICS Economic regulation for Scotland's water

CONTENTS

SG/2023/298 For the period 1 April 2022 to 31 March 2023

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

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 2022-23, the second year of a 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 we to achieve and our objectives. It 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 2023
- Statement of financial position at 31 March 2023
- Statement of cashflows for the year to 31 March 2023
- Statement of changes in equity for the year ended 31 March 2023
- Notes to the financial statements.

1. Performance report

1.1 Performance overview

This performance overview provides a summary of our purpose, the outcomes we aim to achieve, and the key challenges and risks that we face.

STATEMENT FROM THE CHAIR

I am pleased to present our annual report for 2022-23, the second year of the 2021-27 regulatory control period. The final determination of charges for the 2021-27 period set out the charges necessary to protect current and future generations of customers' access to high quality, resilient water services. The determination allowed for further investment by Scottish Water to adapt to climate change as it moves towards its 2040 net zero emissions target.

Last year, in the backdrop of the challenging economic environment, we began working with Scottish Water to understand how it plans to manage costs, revenue and charges during the remainder of the regulatory control period and likely impact on current and future customers. This important work will continue into the remainder of 2023 and will impact the way we monitor and report on Scottish Water's performance moving forward.

During the year we continued work to develop our approach for the next strategic review of charges, learning lessons from our experience during the 2021-27 Strategic Review of Charges and these first years of the regulatory control period.

This year, in our work to support the Scottish Government's Hydro Nation initiative, we have supported colleagues in New Zealand as they embark on a journey to reform their own water industry. Our employees benefited hugely from the learning and experience gained working in New Zealand and with a wide range of international partners.

Collaboration is an important aspect of the Scottish water industry and as such, I look forward to building on our already productive relationships with stakeholders both at home and abroad.

On behalf of WICS' Board, I would like to thank the Chief Executive and staff for their commitment this year; it has been a great pleasure to work together. Finally, I would like to welcome Alex Plant to his new role as Chief Executive of Scottish Water. We look forward to working with Alex as he leads Scottish Water in its transformation to secure a sustainable future for the industry.

Professor Donald MacRae OBE FRSE
Chairman
December 2023

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 2022-23. 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 second year covered by our final determination for the 2021-27 regulatory control period, which was published in December 2020. The determination considered the Ministers' final objectives for the industry and their Principles of Charging. It allowed for the investment necessary to improve water quality and the environment and to support economic growth. The determination outlined the need for a long-term, sustainable and innovative approach to replacing Scottish Water's assets.

In SRC 21-27 we recognised that levels of investment would have to increase significantly over the next two decades if the industry were to replace its aging assets and maintain levels of service in the face of climate change. As such, we set out our expectation that Scottish Water take ownership of a clear, well-defined strategy that covers what it plans to achieve in the short, medium and long term. Specifically, we expected Scottish Water to provide a clear picture of the future investment that could be required and an assessment of the likelihood and timing of this investment.

Throughout the SRC21 process, the industry recognised that addressing future challenges would involve a significant transformation of Scottish Water's business including taking early steps to develop the required organisational capabilities to prepare its strategy. This year, we have continued to work with Scottish Water as it begins to take some of the initial steps to transform its business.

Our final determination allowed for an average annual price change of 2% in real terms each year to facilitate Scottish Water's transformation. It has become clear that the cumulative price increase over the 2021-27 regulatory control period will not now be realisable. We have asked Scottish Water to prepare financial scenarios based on different combinations of price profiles, borrowing levels and time horizons. In August 2022, we received an initial information submission from Scottish Water and further work is ongoing to provide clarity over what can and cannot be delivered during the remainder of this regulatory control period.

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 its investment appraisals. This approach will help ensure best value for money for current and future customers.

Towards the end of the financial year, we published our report of Scottish Water's performance for 2021-22, the first year of the new regulatory control period. The report noted that whilst Scottish Water has broadly maintained its performance, there does appear to be some slippage in the delivery of its investment programme.

Alongside our report of Scottish Water's performance, we published a letter highlighting our concerns about the quality and completeness of Scottish Water's reporting. We highlighted slower than expected progress in providing appropriate visibility of future investment needs and progressing work on asset replacement. Scottish Water has committed to improving its progress across these areas and we will continue to monitor this carefully.

We are increasingly focused on making sure that the information we collect from Scottish Water, and its reporting to us and other stakeholders remains fit for purpose. This year, we have made some important changes and clarifications to the information we ask of Scottish Water. In addition to requiring a significant improvement in the quality of reporting included in Scottish Water's annual return, we further defined our expectations around how Scottish Water reports the revenue and costs of its core business and its reporting of potential future investment needs.

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.

During the year we have continued our work with the New Zealand Government's Department of Internal Affairs (DIA) as they prepare for the introduction of economic regulation and water reform. We participated in a small project to support New Zealand's Ministry of Transport which involved examining regulatory models and their application to New Zealand's state highway network.

Other projects included supporting the Romanian regulator (ANRSC) as part of a consortium with the consultancy BDO and working with Romanian operator Apa Vital to develop its business plans and supporting regulatory information.

More widely we have continued to build our relationships 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. This year we trialled a hybrid arrangement, based on part home working and the use of flexible office and meeting space. Our employees have continued to work effectively from home but have benefitted from meeting regularly with colleagues and stakeholders in central locations.

This year we held our first in-person assessment centre since before the pandemic and welcomed two new analytical staff to the team. We have continued to develop and improve our recruitment approach which now benefits from efficient online tools and face-to-face interactions with candidates.

We are pleased to have made progress this year in relation to our equality and diversity commitments. We have focused on offering mental health first aid training to all employees and now have 3 mental health first aiders in the organisation.

2022-23 has been a busy and challenging year. The office has risen well to the challenges. I would like to thank each and every member of the team for their continuing commitment to our work in driving improvements for Scotland's water and sewerage customers. The office is well placed for the remainder of this regulatory control period.

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 ensure that we contribute fully to the delivery of the water sector 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 25 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 Officer (CEO). 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.

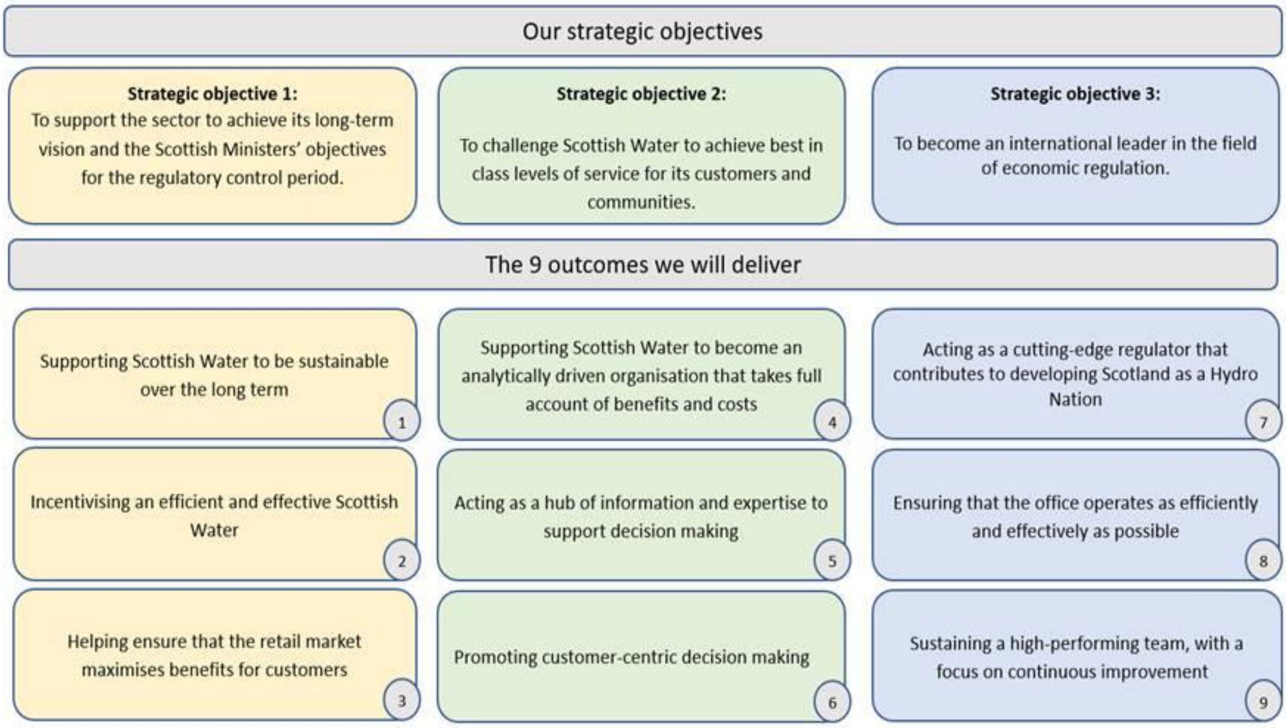
OUR OPERATING ENVIRONMENT

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 promote the interests of both current and future customers by making sure that: • 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 Agency (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.
Consumer Scotland	Consumer Scotland is the statutory, independent voice for consumers in Scotland. Its Board commenced their responsibilities in April 2022 and will take on the water consumer functions previously delivered by Citizens Advice Scotland.
Central Market Agency (CMA)	The CMA administers the competitive non-household retail market. It is a separate organisation from the Competition and Markets Authority, a UK body, that ensures markets deliver appropriately for consumers.
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 have continued to manage our risks which are reviewed by our Board and Audit and Risk Committee and are discussed on a regular basis by an operational board.

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

- Ensuring we are 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 further training and developing our leaders to ensure we have a capable team to take the organisation into the future. We will embark upon a review of roles and priorities for all employees and build upon our training and development programmes to ensure our staff have the skills required to support the needs of the organisation.

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

We 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 oversees 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 has been on developing our approach for the next Strategic Review of Charges. We have been working with economics consultancy Oxera to develop the key areas of focus for our methodology and discussing these options with our Board.

Our methodology will take account of Scottish Water's progress on its transformation journey and aim to ensure that the industry continues towards a more sustainable future. We have been considering with stakeholders, the most appropriate timeline for the next price review in light of the change in revenue profile away from that set out in the 2021-27 final determination.

During the year Scottish Water begun work to develop a long-term strategy and investment baseline for the remainder of the regulatory control period. Scottish Water's August information submission to us represents a first step in understanding how it will manage costs and revenues to deliver the required investment. However, significant further work is required to inform 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

We are continuing to work with Scottish Water on the development of its reporting mechanisms for the 2021-27 regulatory control period and beyond. This includes the information request noted above and the annual return to ensure that regulatory reporting remains fit for purpose.

This year, we made specific changes to the regulatory framework. We have requested additional information from Scottish Water on the revenue and costs of its core business and its reporting of potential future investment needs. A key feature of the regulatory information framework is now establishing a robust investment baseline for the remainder of the regulatory control period and developing a full picture of potential future investment needs.

We published our report of Scottish Water's 2021-22 performance in March 2023. This covered the first year of the new regulatory control period and concluded that Scottish Water broadly maintained its performance. The report does show some slippage in the delivery of Scottish Water's investment programme which is evident when comparing reported expenditure to that allowed for in the final determination. Together with other stakeholders, we have requested increased visibility of the investment programme in Scottish Water's reporting of both current and future investment requirements.

Scottish Water's progress in these areas will be critical and inform our overall approach and methodology for the next price review.

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

Following the pandemic, we initiated a process to review the financial resilience of retailers to protect the integrity of the market and make sure that it is sufficiently resilient to any future shocks. The failure of energy retailers demonstrated subsequently how important ensuring the financial resilience of market participants can be. During the year we concluded this important work with all active retailers now signed up to an additional licence condition. Scottish Water has now issued its methodology for how it will assess the financial strength of retailers moving forward.

We have taken further steps to introduce a 'market health check' process. Once established, this process will allow retailers to demonstrate they are operating in line with the principles of Ethical Business Practice. During the year, the industry stakeholder group appointed an interim Market Health Checker who proposed a practical set of options for the implementation of the process. Future work will develop a code of practice and a full methodology for the market health check.

During the reporting year, Scottish Water has embarked upon a strategic review of Business Stream and its governance arrangements. We are continuing to engage with Scottish Water and Business Stream on the future governance structure and the implications for the Governance Code. Further work will be required during the remainder of 2023.

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

In SRC21-27 we adapted the regulatory framework to move away from a fixed six-year investment programme. This change allows greater flexibility for Scottish Water to plan and prioritise its investment programme in a more dynamic way, thereby ensuring maximum long-term value. A key driver for this change in approach was to enable Scottish Water to address the investment challenges of climate change and asset replacement.

During the year we have continued to encourage the work of Professor Dr Bryan Adey of ETH Zurich as he assists Scottish Water in developing its Asset Management Transformation Plan (AMTR). We welcome the initial work that Scottish Water has embarked on to develop the capacity and capability to better manage its infrastructure on behalf of customers. However, we are concerned with the relatively slow progress in this area given the significance of the asset replacement challenge the organisation faces.

We expect Scottish Water to set out in a consistent and transparent way, what choices are being made, the implications of these choices and the evidence to support these decisions.

This year, we began further work to understand the sustainable level of long-term asset replacement, repair and refurbishment investment across different countries (Australia, England, New Zealand and Scotland). This analysis which included Northumbrian Water, Scottish Water, Sydney Water and Watercare in New Zealand ensured that the interactions and potential overlap of future enhancement, growth and asset replacement investment were being recognised and considered. The output of this work will contribute to Scottish Water's future reporting of asset replacement requirements and our thinking on asset replacement for the next Strategic Review of Charges.

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.

This year we have continued to share knowledge and expertise with other regulatory organisations and regulated companies at home and abroad. This activity helps us to remain at the forefront of regulatory best practice and achieve better outcomes for customers and the environment in the water sector in Scotland. We have continued to build our relationships with a wide network of leading practitioners, academics and policy makers. We have attended workshops, discussion forums and other events sharing our experience with others.

Our CEO delivered training for a programme developed by InterAmerican Development Bank, the Lisbon International Centre for Water (LIS-Water) and the Association of water and sanitation regulators of Americas. The programme included more than 200 participants from regulators and policy makers from over 20 countries in Latin America and the Caribbean.

Outcome 6: Promoting customer-centric decision making

In the final determination we welcomed Scottish Water's commitment to carry out a 'world leading' national engagement programme with customer and communities. It is important that Scottish Water considers the kind of water industry that customers and society want and the impact of these options on future investment levels and performance over time.

Further work is required from Scottish Water to evidence that customers and communities' views have been considered in their assessment and prioritisation of current and future investment. We will consider Scottish Water's progress in determining our approach for the next strategic review of charges.

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

We support the Scottish Government's Hydro Nation initiative by building partnerships with others and sharing our regulatory expertise. This year, we have continued to support the DIA in New Zealand in preparing for the introduction of economic regulation and water sector reform. This involved providing advice and analysis to the DIA and Ministers on important considerations for water reform based on our experience in Scotland including the need for a properly managed transition.

Our international work provides useful opportunities for our employees to build knowledge and skills in interesting new areas and to train others in regulation – in turn contributing to their own development and progression. Our analysts benefitted from spending time living and working in Auckland to support Watercare to prepare its business plan and associated regulatory information tables.

We have participated in a series of workshops and events to strengthen our network of international project partners. This year, our CEO and Director visited Romania to build on existing relationships and explore future project opportunities. We met with BDO, Ministry Departments, ANRSC, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB) and travelled to the three regional operating companies we worked with during our previous European Commission Structural Reform Support project – Suceava, Iasi and Cluj. As part of this, we hosted a one-day training workshop for Romanian colleagues in Edinburgh.

More widely we have continued to extend our links with other overseas regulators and organisations such as the European Water Regulators (WAREG), the Organisation for Economic Cooperation and Development's (OECD) Network of Economic Regulators, and development banks such as the EBRD. We continue to seek new opportunities for business development by building partnerships with international stakeholders and exploring links with potential contractors. This helps ensure that we can contribute to the Scottish Government's Hydro Nation strategy.

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

As a public body we are very conscious of our obligations to deliver value for money. This year, we have taken further steps to review the way we deliver our objectives to ensure our spending is as efficient as possible. We have begun work to review our operations, structure and roles to demonstrate we are operating as effectively as possible. We are working with the Scottish Government and others in the public sector to review the scope for further synergies including making use of shared services and increasing revenue generating activity through our international work.

We are continuing to benefit significantly from the reduced costs associated with moving to more flexible working arrangements. Our employees have been operating very effectively in a hybrid remote model which has removed the need for a large permanent office space.

During the year we have taken further steps to ensure appropriate technical security controls are in place to strengthen our defences in line with the Scottish Government's cyber resilience framework and Cyber Essentials Plus standards. This work has included continually training our employees, reviewing our business continuity arrangements, and appointing a cyber incident response specialist.

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

In line with our graduate recruitment strategy, we are continuing our efforts to recruit a diverse range of individuals for our analytical team. To support our efforts, we are pleased to have been granted a visa sponsorship licence which will allow us to employ a wider pool of candidates with a range of nationalities.

This year we recruited two successful analytical graduates to our team and welcomed a summer intern who joined us as part of the Economic Futures programme. To further raise the profile of WICS as a graduate employer, we have increased our engagement with universities and plan to run a series of seminars on economic regulation for students across Scotland.

Our international work in New Zealand has provided an excellent learning opportunity for our employees with a number of staff having spent some time living and working abroad this year. We are committed to training and developing our employees. A key focus of training during the year related to 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 2022-23
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 as it begins to transform its business to support the new regulatory framework. We have reiterated our requirements and expectations in a series of regulatory letters to Scottish Water.
1-3	By December 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 assessment of Scottish Water's 2021-22 performance was published in March 2023. The delay to the publication was largely a result of Scottish Water's request to extend the annual return process.
4-6	Our annual reports on Scottish Water's overall performance will include an assessment of its progress in ensuring 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.	We have published our report of Scottish Water's 2021-22 performance. Alongside this report, we published a letter highlighting that further work is required to support the planning and prioritisation of investment.
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.	Whilst the 2021-22 performance report focused on information and reporting, we have reiterated that Scottish Water has committed to deliver the requirements set out in the Strategic Review of Charges 2021-27, including in relation to holding a 'national conversation'.
7	We will report annually on requests for regulatory advice and information and	We have responded to requests from international partners to provide advice

Outcome(s)	KPI	Performance during 2022-23
	expertise from industry stakeholders and international partners, and on the nature of support we have provided.	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 and the New Zealand Ministry of Transport. We received a net contribution to income from these activities, excluding remuneration costs and overheads, of £817k.
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 2022-23 work plan was approved by the Board in April 2022. 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.
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.	We delivered our priorities in 2022-23 in line with the corporate plan and budget. For more information on the financial results for the year, see the section on financial performance.
9	We will achieve the desired structure for the office by 2025 and ensure that progress remains on track in the interim.	Recruitment efforts this year have resulted in two further analytical appointments. The focus during 2023-24 is to review our operations, structure and roles to demonstrate we are operating as effectively as possible.

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, 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.

Last year, we completed a succession planning exercise for our senior leadership team. We are continuing to support our leaders through individual and team coaching to ensure they have the skills to support the needs of the organisation now and into the future. We have begun work to review the roles and priority areas for each member of staff including a review of the development path for our analysts.

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.

Throughout the year we have maintained regular stakeholder liaison, including through our participation in a range of industry forums such as the Stakeholder Advisory Group (SAG), the Delivery Assurance Group (DAG) and the Investment Planning and Prioritisation Group (IPPG) and retail market forums.

We have worked closely with Scottish Water and the Scottish Government to progress the 2021-27 regulatory control period and options for the next strategic review, to further achievement of the industry vision.

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. 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, we reviewed our business continuity arrangements and updated our business continuity plan. The Cyber and Fraud Centre - Scotland reviewed our updated plan and provided assurance that our arrangements are in line with industry best practice.

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 2022-23

As set out in the financial statements, there was a net surplus for the year of £1,264,866 (2021-22: £610,268) before any adjustments for actuarial gains or losses. The use of surplus funds is outlined in our corporate plan for the period 2021-27.

Total income received for the year was £5,287,598 (2021-22: £4,480,585). Income received from Scottish Water and the licensed providers was in line with the corporate plan.

We received income of £1,185,029 (2021-22: £479,455) in relation to our work delivering projects in support of the Scottish Government's Hydro Nation initiative. The majority of this was received from the DIA in New Zealand, being a continuation of earlier work we carried out in support of water reform in the country.

We also received £105,551 (2021-22: £71,966) in relation to rent and service charge costs relating to the sub-lease of the corporate office.

Expenditure for the financial year 2022-23 was £4,036,890 (2021-22: £3,870,560). The main reason for this increase in expenditure of £166k (4%) was the additional travel, and associated costs, required for the project in New Zealand. This expenditure was reimbursed by the DIA and is included in the increased income.

The internal budget agreed at the start of the financial year by the Board was a net income position of £404,204. International projects resulted in additional net income of £447,813 compared to budgeted expectations. Excluding the IAS 19 adjustment to remuneration costs[1], remuneration costs were over £200k lower than the budget. These savings were the result of three employees leaving during the year who were not replaced. Further savings were made

[1] 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 our share of pension benefits accruing over the period, as calculated by the actuary.

against the budget in travel and expenses. As the majority of the travel during the year related to the project in New Zealand, the cost of which was reimbursed by the DIA, less travel costs were required for other activities.

The Reserve balance as at 31 March 2023 was an asset of £3,592,251 (2021-22: liability of £149,407). The main contributors to the improvement of this position are:

- The movement of the net pension liability from a liability of £2,201,000 at the end of 2021-22, to a liability of £34,000. The actuarial valuation of our pension obligations, at 31 March 2023, has decreased by £4.5m (33%). This change was driven by the assumption of the discount rate used to value the pension obligations. The corporate bond yield (upon which the discount rate is derived) has risen over the period which has led to an increase in discount rate from 2.75% to 4.75%. However, to comply with IFRIC 14 and IAS 19 the pension asset is restricted to reflect the amount the employer is entitled to as an unconditional refund of the surplus or reduction in future contributions to the pension fund. Actuarial advice was sought in relation to the benefit to us in the form of reduced future contributions. IAS 19 defined this to be the present value of future service costs, less the present value of projected future contributions (in respect of benefit accrual). As this was a negative figure, the net pension asset was restricted to zero. However, unfunded pension benefits of £34,000 are included as a liability at the end of the year.

- As a result of the work carried out in New Zealand, our cash balance has increased by over £1m and the year-end debtor balance by £473k, comprised of amounts due (and paid soon after the financial year-end) from the DIA.

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 2022-23 was 4 days (2021-22: 7 days).

The Public Services Reform (Scotland) Act 2010

The Public Services Reform (Scotland) Act 2010 imposed duties on the Scottish Government and on public bodies such as WICS to publish specific information about their expenditure. The Act requires us to publish two statements outlining the steps we have taken to promote and increase sustainable growth and to improve efficiency, effectiveness and economy. The duties to publish this information are intended to promote greater openness and transparency. We publish a report 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.

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 maintain a gifts and hospitality register.

No frauds were detected in 2022-23.

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.

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.

We did not receive any whistleblowing cases during this reporting period.

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 (2021-22: nil).

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 adaption; 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 remotely, without the need to commute daily. We are continuing to sublease our office space from 1 July 2021 to 30 September 2024 with the option to extend this until March 2026.

Following the Covid-19 pandemic we resumed international travel in February 2022. However, our experience of remote working has allowed us to carry out much of our work for international partners from home. Overseas travel is sometimes required to support our international projects and some of our employees spent time working abroad in New Zealand during the year. We off-set our carbon footprint from international travel by funding tree planting in Scotland.

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

	2022-23[2]		2021-22	
Area	**Non-financial information**	**Financial information**	**Non-financial information**	**Financial information**
Energy	Electricity: n/a Gas: n/a **Total carbon from energy:** **n/a**	Electricity: - Gas: -	Electricity: 0.3 tonnes CO_2 Gas: 0.2 tonnes CO_2 **Total carbon from energy:** **0.5 tonnes CO_2**	Electricity: £195 Gas: £374
Waste	Waste to landfill: negligible Total carbon from waste: **negligible**	-	Waste to landfill: negligible Total carbon from waste: **negligible**	£203
Water	**n/a**	-	**0.01 tonnes CO_2**	£344
Transport and travel	**14.2 tonnes CO_2**	£244,686	**5.2 tonnes CO_2**	£9,826

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 Alan Sutherland
Chief Executive Officer 07 December 2023

[2] We have transitioned to remote working therefore all energy, waste and water usage is inapplicable for 2022-23. We have not assessed the impact of home working.

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 CEO, 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	-	30/06/2024
Robin McGill	Member	01/01/2020	-	31/12/2024

*Appointed as Chair on 1 May 2018

Directors

Alan Sutherland was the only Director equivalent during the financial year. As well as being the CEO and Accountable Officer, Alan Sutherland is also an executive member of our Board.

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 by the Auditor General for Scotland. Audit Scotland has been appointed as our external auditors for a five-year period from 2022-23 to 2026-27.

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 2022-23 are £18,200 (2021-22: £13,940).

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 2023, 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 us 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 our state of affairs and our 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 CEO 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 our 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

We are a non-departmental public body. The broad framework in which we operate is set out in a Framework Document, which defines key roles and responsibilities which underpin the relationship between us 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, processes, culture and values which govern our activities and behaviours. 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 for the full year ended 31 March 2023 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 we fulfils our 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 2022-23 held five 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 five 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. 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 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 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 our Audit and Risk Committee (ARC) on a quarterly basis. The Accountable Officer 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 our employees. The internal and external auditors may attend all meetings of the ARC and 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 two 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 our control systems and financial reporting processes to measure and manage the risk inherent in the delivery of the organisation's objectives. The report reiterated the findings from Audit Scotland's 2022-23 audit in relation to the wider control issues identified as part of the annual audit. The report outlined the remedial actions agreed by the senior management team and the ARC has reprioritised future internal audit reviews to ensure the issues identified are addressed. The ARC also noted that it will monitor the action plan agreed with Audit Scotland. In light of this and based on the assurance provided by the Internal Auditor's Annual Report, the ARC recommended that the Board approve this annual report and financial statements.

Internal audit

Internal audit has been provided by Grant Thornton since April 2018. At the start of each financial year, a programme of work is agreed with the internal audit team 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 our overall governance framework. However, during the year, some weaknesses were identified in relation to our travel and expenses policy. Following a revision of the policy in January 2023, the Accountable Officer is committed to building on the changes made to the policy and strengthening further our expenditure in this area.

There were two items of expenditure identified that required retrospective approval by the Scottish Government. Again the Accountable Officer is taking action to address the weaknesses that led to the oversight of appropriate approval.

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.

2.2 Remuneration and staff report

REMUNERATION POLICY

The Board and CEO'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 Chair and members, as well as approving the CEO's remuneration package.

Board Members contribute at least one day per week in support of our' activities. The Chair devotes at least two days per week in support of our 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 2022-23 in accordance with the Scottish Government pay policy.

DIRECTORS' SALARY AND PENSION ENTITLEMENTS

The overall remuneration of the CEO in the year was £178,283 (2021-22: £183,240). The only other director of the organisation was Ian Tait, the Deputy Chief Executive, who retired on 2 May 2022. The total remuneration of the Directors, including accrued pension benefits was as follows:

AUDITED INFORMATION	2022-23 Gross salary £(000)	2022-23 Pension benefits £(000)	2022-23 Total £(000)	2021-22* Gross salary £(000)	2021-22* Pension benefits £(000)	2021-22* Total £(000)
Alan Sutherland, CEO	165 - 170	5 - 10	**175 - 180**	180 - 185	-	**180 - 185**
Ian Tait, Deputy Chief Executive	10 - 15	-	**10 - 15**	120 - 125	-	**120 - 125**

*The 2021-22 gross salary for Alan Sutherland included a payment of £14k in relation to untaken annual leave.

The 2022-23 CEO pension benefits disclosed in the table above relates to pension contributions paid in prior years that now count towards the pension benefits figure, due to the changes to Pension Lifetime Allowance announced in the March 2023 UK Government budget.

Both the CEO and the Deputy Chief Executive were ordinary members of the Falkirk Council Pension Scheme. The CEO withdrew from the Scheme on 31 March 2017 and the Deputy Chief Executive retired on 2 May 2022. Therefore, no payments were made to the scheme by or on behalf of the CEO during the year and only for the Deputy Chief Executive up until the date of retirement.

The accrued pension benefits in the table above 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. Retirement benefits of the Directors are as follows:

AUDITED INFORMATION				Cash equivalent transfer value**		
	Accrued pension as at 31 March 2023 and related lump sum £(000)	Accrued pension as at 31 March 2022 and related lump sum £(000)	Change in pension net of inflation and related lump sum £(000)	At 31 March 2023 £(000)	At 31 March 2022 £(000)	Increase net of members' contributions £(000)
Alan Sutherland	35 – 40 plus lump sum of 30 – 35	30 – 35 plus lump sum of 30 – 35	0 – 2.5 plus lump sum of 0 – 2.5	676	601	22
Ian Tait	-	40 – 45 plus lump sum of 30 – 35	-	-	692	-

**The cash equivalent transfer value (CETV) is the actuarially assessed value of the retirement scheme benefits accrued by a member at a point in time. The increase shown is the difference between the CETV value calculated at 31 March 2023 and 31 March 2022. As Alan Sutherland is a deferred pensioner, no contributions were paid during the year. There was no CETV to disclose for Ian Tait as at 31 March 2023 due to his retirement during the year.

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 other benefits to which the Directors would become entitled on early retirement.

No bonus payments or benefits in kind were paid to the CEO during 2022-23 (2021-22: £nil). The total remuneration of the CEO and other Director was £190k - £195k (2021-22: £300k - £305k). This decrease is due to the retirement of the other Director in May 2022. The Director was not replaced directly.

BOARD REMUNERATION

The remuneration of the Board Members, other than the CEO , was as follows:

AUDITED INFORMATION	2022-23 Total £(000)	2021-22 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.

NON-SALARY REWARDS (AUDITED INFORMATION)

Each staff member received a £100 gift voucher during 2022-23, which is treated as a taxable benefit. The total amount paid directly to employees was £2,600 (2021-22: £2,900). The tax and national insurance payments due on this benefit, £1,133 (2021-22: £1,299) was paid on behalf of the employees by WICS.

FAIR PAY DISCLOSURE (AUDITED INFORMATION)

The range of staff remuneration is £25k-30k to £165k-£170k (2021-22: £20-25k to £180-£155k). Our highest paid director is the CEO at £165k-£170k (2021-22: £180k - £185k), a decrease of 7% from the previous year. The average salary for all employees, excluding the CEO, is £70k -£75k (2021-22: £65k -£70k), representing a 5% increase from the previous year.

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and other employees. Total remuneration of the CEO, the highest earner in the organisation, has decreased from the previous year. Together with the general increase of salaries of other employees, this has resulted in the ratio between employees at all salary ranges and the CEO to be lower compared to the previous year. This is demonstrated in the table below.

AUDITED INFORMATION	2022-23 £(000)	2021-22 £(000)
Highest paid Director's total remuneration (£)	165k – 170k	180k – 185k
Salary: 25th percentile (£)	34,682	32,004
25th percentile pay ratio	4.9	5.7
Salary: 50th percentile (£)	42,268	42,038
50th percentile pay ratio	4.0	4.3
Salary: 75th percentile (£)	96,835	98,555
75th percentile pay ratio	1.8	1.9

AVERAGE NUMBER OF PERSONS EMPLOYED

The average number of full-time equivalent persons employed during the year was 26 (2021-22: 28), including the CEO. These were employed in the following areas:

AUDITED INFORMATION	Year ended 31 March 2023	Year ended 31 March 2022
CEO and Directors	1	2
Other employees	25	26

Staff composition

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

	Male	Female	Total
Directors	1	-	1
Other employees	12	12	24

Total staff costs for the year were £2,691,278 (2021-22: £2,946,372). Staff costs are outlined in more detail in note 3.5.4 of the financial statements. All employees hold permanent (UK) employment contracts, with the exception of the equivalent of 0.5 FTE relating to agency staff. The cost during the financial year of agency staff was £26,649 (2021-22: £35,167).

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 focused our attention on raising awareness by offering equality, diversity and inclusion training to all our employees. We held an in-person session in September 2022, supported by external professionals. The session generated a lot of good conversation and engagement between employees. We have been working on the outputs from the session and will continue doing so throughout the next year. We are continuing to promote flexible working and have started to take steps to consider the ‘right to disconnect’ and what more can be done to support our staff in their employment.

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 we conduct our business. We acknowledge that, as a business, we have a responsibility to suppliers and other stakeholders in relation to health and safety matters. Our health and safety policy outlines the responsibilities we have toward employees and provides guidance on health and safety issues.

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 1 day (2021-22: 4.7 days). We have found that employee sickness rates have reduced significantly since the office moved to a home working model. This will be considered when looking at the future model for the working environment.

Staff turnover in the year was 20% (2021-22: 3.6%). Due to the low number of employees in the organisation, turnover can vary considerably. There was little staff turnover during COVID-19. Of the five leavers during 2022-23, one related to a retirement and another a fixed term contract.

EXIT PACKAGES

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

2.3 Parliamentary Accountability Report

FUNDING

We have 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, we are 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. 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 (2021-22: £nil).

GIFTS

A gift of £100 was made to each employee during the year. The total value of the benefit was £2,600 (2021-22: £2,900).

CONTINGENT LIABILITIES

At the time of signing the report and financial statements, we were in the process of dealing with the Inland Revenue Department in New Zealand in relation to taxation obligations arising from the work being carried out on the Three Waters Reform Programme in New Zealand. Although no liabilities are expected to arise from this work, the work with the IRD was not concluded. More information on this work can be found in note 3.5.12 (iii) Contingent liabilities.

Alan Sutherland

Alan D A Sutherland
Accountable Officer
07 December 2023

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 2023 under the Water Industry (Scotland) Act 2002, as amended by the Water Services (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, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2023 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 2022/23 FReM; and
- have been prepared in accordance with the requirements of the Water Industry (Scotland) Act 2002, as amended by the Water Services (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 2 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. 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 my 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 Chief Executive, as 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 they determine 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 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:

- using my understanding of the central government sector to identify that the Water Industry (Scotland) Act 2002, as amended by the Water Services (Scotland) Act 2005, and directions made thereunder by the Scottish Ministers are significant in the context of the body;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;

- discussions among my audit team on 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 parts 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 parts of the Remuneration and Staff Report have 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 parts 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 108 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.

Richard Smith

Richard Smith CPFA
Senior Audit Manager
Audit Scotland
4th Floor, 8 Nelson Mandela Place
Glasgow, G2 1BT

07 December 2023

3. Financial statements

3.1 Statement of comprehensive net expenditure for the year ended 31 March 2023

The notes on pages 47 - 71 form part of these financial statements	Notes	31 March 2023 £	31 March 2022 (Restated) £
Income			
Income from activities	3.5.2	5,287,598	4,480,585
Expenditure			
Staff costs	3.5.4	(2,691,278)	(2,946,372)
Depreciation	3.5.6	(12,576)	(24,364)
Other expenditure	3.5.5	(1,333,036)	(899,824)
		(4,036,890)	(3,870,560)
Operating surplus		1,250,708	610,025
Interest receivable		14,158	243
Net surplus for the year after interest		**1,264,866**	**610,268**
Corporation tax payable		(1,208)	(1,447)
Other comprehensive net income			
Actuarial gain	3.5.13	2,478,000	2,185,000
Total comprehensive net income		**3,741,658**	**2,793,820**

All income and expenditure relates to continuing activities.

3.2 Statement of financial position as at 31 March 2023

The notes on pages 47 - 71 form part of these financial statements	Notes	31 March 2023 £	31 March 2022 (Restated) £
Non-current assets			
Property, plant, and equipment	3.5.6	25,841	22,745
Property lease	3.5.7	158,728	-
Long term lease payments receivable	3.5.7	58,509	-
Total non-current assets		**243,078**	**22,745**
Current assets			
Other receivables	3.5.8	647,964	72,107
Cash and cash equivalent		3,457,039	2,451,590
Total current assets		**4,105,003**	**2,523,697**
Current liabilities			
Trade payables and other current liabilities	3.5.9	(388,127)	(420,881)
Total current liabilities		**(388,127)**	**(420,881)**
Non-current liabilities			
Provisions	3.5.10	(114,793)	(73,968)
Long term lease payments payable		(218,910)	-
Total net assets, excluding pension liabilities		**3,626,251**	**2,051,593**
Pension scheme liability	3.5.13	(34,000)	(2,201,000)
Net assets		**3,592,251**	**(149,407)**
General reserve		3,626,251	2,051,593
Pension reserve		(34,000)	(2,201,000)
Total equity		**3,592,251**	**(149,407)**

The financial statements were approved by the Board on 7 December 2023.
The Accountable Officer authorised these financial statements for issue on 7 December 2023.

Alan D A Sutherland
Accountable Officer

Alan Sutherland

07 December 2023

3.3 Statement of cashflows for the year to 31 March 2023

The notes on pages 47 – 71 form part of these financial statements	Notes	31 March 2023	31 March 2022 (Restated)
Cash flows from operating activities		**£**	**£**
Operating surplus		1,250,708	610,025
Adjustments for non-cash items			
Difference in pension costs compared to contributions	3.5.13	247,000	380,000
Depreciation on tangible non-current assets	3.5.6	12,576	24,364
Finance costs		64,000	85,000
Gain on disposal of fixed assets	3.5.6	-	6,011
Increase in provision	3.5.10	40,825	4,268
Movements in working capital			
(Increase)/Decrease in other receivables	3.5.8	(634,366)	71,960
Increase/(Decrease) in trade payables and other liabilities	3.5.9	186,156	(1,242,482)
Net cash inflow/(outflow) from operating activities		**1,166,899**	**(60,854)**
Cash flows from investing activities			
Purchase of property, plant, and equipment	3.5.6	(15,671)	(11,910)
Recognition of lease asset	3.5.7	(158,728)	-
Net cash outflow from investing activities		**(174,399)**	**(11,910)**
Cash flows from financing activities			
Interest received		14,158	243
Corporation tax payable		(1,208)	(1,447)
Net inflow/(outflow) from financing activities		**12,950**	**(1,204)**
Net increase/(decrease) in cash and cash equivalents		**1,005,449**	**(73,969)**
Cash as at 1 April		2,451,590	2,525,559
Cash as at 31 March		3,457,039	2,451,590
Net increase/(decrease) in cash and cash equivalents		**1,005,449**	**(73,969)**

3.4 Statement of changes in equity for the year ended 31 March 2023

The general reserve is analysed in note 11	£
Balance at 1 April 2021 (restated)	**(2,943,227)**
Total comprehensive net expenditure for the year 2021-22 (restated)	2,793,820
Balance as at 31 March 2022 (restated)	**(149,407)**
Total comprehensive net income for the year 2022-23	3,741,658
Balance as at 31 March 2023	**3,592,251**

The notes on pages **47 – 71** form part of these financial statements.

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 our circumstances 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 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 2023-24, including the statutory contribution from Scottish Water and Licensed Provider levies, and consider that we have 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. We make 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.

Pension

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. We are ultimately responsible for the financial and demographic accounting assumptions adopted, based on actuarial advice. We determine 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, we consider 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 3.5.13.

(iii) Prior year adjustment

During the current year's financial statement preparation, an error was identified in the financial statements relating to the incorrect recognition of income from Zero Waste Scotland for the purchase of office furniture.

The sum received was £6,000 and was classified as “other income”. This amount should have been recognised within accumulated depreciation. Another small amount of £174 was adjusted in relation to a historic error within fixed assets which was adjusted through reserves.

As a result, the financial statements for the prior year have been restated to correct this error. The impact of the restatement on the opening balances of equity and the comparative figures for the prior year are as follows:

Impacted area	2021-22 restated (£)	2021-22 as previously reported (£)	Difference (£)
Income from activities	4,480,585	4,486,585	6,000
Property, plant and equipment	22,919	28,919	6,000

This adjustment has been classified as an overhead cost for the purposes of note *3.5.3 Analysis of net expenditure by segment.*

The restatement has been applied retrospectively, with adjustments made to the affected line items in the financial statements. This correction has been made to ensure the accuracy and reliability of the comparative information and to provide users with a corrected financial picture.

(iv) Newly adopted IFRS - Leases

IFRS 16, “Leases”, 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.

IFRS16 Leases became effective for periods beginning on or after 1 January 2019, however the FReM deferred adoption until 2021. The cumulative catch-up method has been mandated by the FReM. Consequently, the comparatives for 2021-22 reflect the requirements of IAS17.

Under IFRS 16, lessees and lessors 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, we have elected to utilise the capitalisation threshold of £500 to determine the assets to be disclosed.

All existing operating leases fall within the scope of IFRS 16 under the ‘grandfathering’ rules mandated in the FReM for the initial transition to IFRS 16. 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 value of lease payments will generally be assumed to be a fair proxy for the economic benefits that will be derived from the related right-of-use asset and used to depreciate the asset over the life of the lease.

Upon transition, the accounting policy choice to apply IFRS 16 retrospectively to each prior period presented in accordance with IAS 8 has been withdrawn under the FReM. The cumulative effects of initially applying IFRS 16 are recognised at the date of initial application as an adjustment to the opening reserves balance.

(v) Adopted IFRS not yet applied

In these financial statements, there are no adopted IFRSs which have not yet been applied.

(vi) 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 calculated monthly and 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.

We consider 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.

(vii) Financial assets

Classification

We classify financial assets as 'loans and receivables.' We do 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 we have transferred 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 we 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.

(viii) Financial liabilities

Classification

We classify 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. Our 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.

(ix) Cash and cash equivalents

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

(x) Provisions

Provisions are recognised when we have 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 the passage of time is recognised as an interest expense.

(xi) 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 us in relation to Hydro Nation activities.

From 1 July 2021, we sub-leased our premises in Stirling. Rental income from the property is 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.

(xii) Value added tax

Most of our activities are outside the scope of Value Added Tax (VAT) and, in general, we are not required to declare output tax to HMRC on the income that it receives. Correspondingly, we are 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.

(xiii) Corporation tax

Similarly, most of our activities are outside the scope of Corporation Tax. However, Corporation tax is payable on bank interest received from cash deposits held. We submit a corporation tax return to HMRC each year to declare this tax obligation. Income received and expenditure incurred relating to the sub-lease of the main office is included in the tax return. However, no taxation was due on this activity in 2022-23.

(xiv) Employee benefits

Our employees 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 Employee Benefits (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 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 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 we have 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.

(xv) 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. We recognise 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.

(xvi) 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

	31 March 2023	31 March 2022 (Re-stated)
	£	**£**
Scottish Water statutory contribution	2,279,005	2,256,440
Levy on licensed providers	1,718,013	1,672,724
Hydro Nation income	1,185,029	479,455
Rental income	88,533	-
Other income	17,018	71,966
Total income	**5,287,598**	**4,480,585**

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	31 March 2023	31 March 2022 Restated
	£	**£**
Network Regulation	1,175,339	1,156,148
Retail	1,384,631	1,440,003
Hydro Nation	352,874	173,308
Total contribution to overheads	**2,912,844**	**2,769,459**
Overheads	(1,662,136)	(2,159,434)
Net surplus for the year before interest and taxation	**1,250,708**	**610,025**

3.5.4 STAFF RELATED COSTS

	31 March 2023	31 March 2022
	£	£
Wages and salaries	2,031,370	1,898,545
Social security costs	224,269	218,446
Pension costs	435,639	829,381
Staff costs per statement of comprehensive net expenditure	**2,691,278**	**2,946,372**

The cash contributions made to the pension scheme are disclosed in note 3.5.13.

3.5.5 OTHER EXPENDITURE

	31 March 2023	31 March 2022
	£	£
Travel and subsistence	372,488	16,572
Office accommodation	(74,125)	101,404
Payment of lease liabilities	88,549	-
General operating costs	313,712	248,587
Regulation and licensing costs	412,874	285,927
Recruitment	34,992	8,172
Information technology	103,307	154,503
Finance charges	81,239	84,659
	1,333,036	**899,824**

The operating costs for the year are stated after charging the external audit fee of £18,200 (2021-22: £13,940). Payment of lease liabilities represents the rent payments made during the year for office space at Moray House in Stirling. For full details of lease disclosures, see note 3.5.7. Other accommodation expenditure relates to service charge payments and provision for office dilapidations. As a result of the adoption of IFRS 16, rental costs are no longer accrued on a straight-line basis. Therefore, the rent accrual was reversed, creating a credit within office accommodation.

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

Finance charges principally relate to the net interest cost of the pension scheme for the year (see note 3.5.13).

3.5.6 PROPERTY, PLANT AND EQUIPMENT

	Information technology	Furniture and fittings	Total
Cost	**£**	**£**	**£**
At 31 March 2022	116,404	171,084	287,487
Additions	15,671	-	15,671
Disposals	(324)	-	(324)
At 31 March 2023	131,751	171,084	302,835
Depreciation			
At 31 March 2022	94,534	170,035	264,569
Charge for the year	11,528	1,048	12,576
Eliminated on disposals	(151)	-	(151)
At 31 March 2023	105,910	171,084	276,994
Net book value at 31 March 2023	**25,841**	**-**	**25,841**
Net book value at 31 March 2022	21,870	1,048	22,919

	Information technology (Restated)	Furniture and fittings (Restated)	Total (Restated)
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	287,488
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)	97,090	(109,658)
At 31 March 2022	94,533	170,035	264,568
Net book value at 31 March 2022	**21,870**	**1,049**	**22,920**
Net book value at 31 March 2021	32,713	8,497	41,210

3.5.7 LEASES

Right-of-use asset

We have one lease for an office building. The lease is reflected on the statement of financial position as a right-of-use asset. At 1 April 2022, the asset is valued as the amount due to the landlord, Stirling Council, until the expiry of the lease (13 March 2026). The amounts due are recorded on the statement of financial position as a lease liability.

Payments made to the landlord during the year reduces both the value of the asset and the lease creditor. Payments we make to Stirling Council will decrease the lease creditor to zero over the life of the lease agreement.

Sub-lease of right-of-use asset

Since 1 July, we have sub-let the office to Zero Waste Scotland (ZWS). The lease agreement is for the term to 30 September 2024, with the option to extend to 13 March 2026. This sub-lease reduces the value of the right-of-use asset on the statement of financial position by the value of the amounts due in relation to rent by ZWS to the end of the current lease term (30 September 2024) to reflect the economic benefits from the right-of-use asset that are transferred from us to ZWS.

Payments due by ZWS are recorded on the statement of financial position as a lease debtor. Payments made to us from ZWS will decrease the lease debtor to zero over the life of the sub-lease agreement.

Depreciation of right-of-use asset

Deprecation will not be charged on the right-of-use asset during the period of the sub-lease agreement as the economic benefits have already been written down for that period to reflect the transfer of the asset to ZWS.

For the period beyond the sub-lease agreement, the value of the lease payments to Stirling Council will be used as a fair proxy for the economic benefits that will be derived from the related right-of-use asset and used to depreciate the asset over the life of the lease.

If ZWS take up the option to extend the lease to 13 March 2026 at the end of the current sub-lease agreement, then we will be required to write down the right-of-use asset to zero in its 2023-24 financial statements and recognise a lease debtor for the value of lease payments due from ZWS over that period.

Right-of-use asset	Note	Property £
Cost at 1 April 2022		-
Recognition of lease asset		408,703
Write down to reflect transfer of asset to ZWS		(249,975)
Cost at 31 March 2023		158,728
Depreciation at 1 April 2022		-
Depreciation at 31 March 2023		-
Carrying amount at 31 March 2023		**158,728**
Carrying amount at 1 April 2022		-

Total future lease payments due under the office building are outlined in the table below.

Payments due by WICS, as lessee	**Year ended 31 March 2023**
	£
Not later than one year	101,244
Later than one year and not later than five	218,910
Total	**320,154**

Total future lease payments receivable from ZWS are outlined in the table below.

Payments receivable by WICS, from lessor	**Year ended 31 March 2023**
	£
Not later than one year	102,917
Later than one year and not later than five	58,509
Total	**161,426**

3.5.8 OTHER RECEIVABLES

Current receivables	31 March 2023	31 March 2022
By category:	**£**	**£**
Prepayments	61,774	61,520
Lease payments due < 1 year	102,917	-
Other receivables	483,273	10,587
Total other receivables	**647,964**	**72,107**

The increase in other receivables from the previous year is largely as a result of invoices due from the Department of Internal Affairs, New Zealand of £461k which were settled soon after the end of the financial year 2022-23.

Intra-government receivables	31 March 2023	31 March 2022
	£	**£**
Central Government	-	7,498
Local Authorities	14,713	13,601
Bodies external to government	633,251	51,008
Total other receivables	**647,964**	**72,107**

3.5.9 CURRENT LIABILITIES

Current payables	31 March 2023	31 March 2022
By category	**£**	**£**
Trade payables	45,360	85,399
Taxation and Social Security	58,911	57,848
Accruals	137,810	227,450
Lease payments due < 1 year	101,244	-
Pension	44,802	50,184
Total current liabilities	**388,127**	**420,881**

Intra-government payables	31 March 2023	31 March 2022
	£	**£**
Local Authorities	164,759	67,964
Central Government	79,255	51,024
Bodies external to government	144,113	301,893
Total current liabilities	**388,127**	**420,881**

3.5.10 PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2023	31 March 2022
	£	£
Balance at 1 April 2022	73,968	69,700
Provided in the year	40,825	4,268
Balance at 31 March 2023	**114,793**	**73,968**

The provision for dilapidation costs relates to our 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 end of the financial year. The estimation of costs was reassessed to account for increasing inflation and other cost increases. However, the valuation of potential dilapidations will be reviewed in 2023-24 to ensure they are of a reasonable valuation.

3.5.11 NOTE TO STATEMENT OF CHANGE IN EQUITY

	Note	General reserve	Pension reserve	Re-stated total reserve
		£	£	£
Balance at 1 April 2021		977,773	(3,921,000)	(2,943,227)
Changes in reserves 2021-22				
Actuarial gains		-	974,000	974,000
Change in assumptions underlying the present value of the scheme liabilities		-	1,211,000	1,211,000
Net surplus/(deficit) for the year		1,073,820	(465,000)	608,820
Balance as at 31 March 2022		2,051,593	(2,201,000)	(149,407)
Changes in reserves 2022-23				
Actuarial gains	3.5.13	-	(3,017,000)	(3,017,000)
Change in assumptions underlying the present value of the scheme liabilities	3.5.13	-	5,495,000	5,495,000
Net surplus/(deficit) for the year		1,574,658	(311,000)	1,263,658
Balance as at 31 March 2023		**3,626,251**	**(34,000)**	**3,592,251**

3.5.12 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

There were no capital commitments at 31 March 2023 (2021-22: £nil).

(ii) Contingent liabilities

We entered a contract with the DIA in New Zealand to provide services relating to the Three Waters Reform Programme. The contract activity was performed both physically in New Zealand and remotely from the United Kingdom. As a result of our extended presence in New Zealand, it was decided to make a voluntary disclosure to the Inland Revenue Department (IRD) to ensure all taxation obligations arising from the project were met. As a statutory body, we do not undertake projects with an intention to make profit and instead budgets project activity to reach a break-even position.

From the 1 June 2023, we registered as an employer in New Zealand (IRD No. 139-863-402). On the basis that there was no intention to make a profit on the activities in New Zealand, the IRD provided us with a Special Tax Rate Certificate confirming that no corporation tax would be due.

The services we provide to the DIA would likely be liable to Goods and Services Tax at a rate of 15%. As the DIA is able to reclaim GST paid, there would be no financial gain for any parties in charging GST on invoices from us to the DIA. Therefore, we submitted a voluntary disclosure to the IRD on the basis that GST is technically required to be charged, but that there would be no benefit to filing returns. This approach has been accepted by the IRD and all income from the DIA included in these financial statements exclude GST.

There are no other contingent liabilities to disclose in the year.

3.5.13 PENSION

(i) Background

Most of our employees, and some former employees, are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme.

In the period we paid contributions totalling £440k (2021-22: £466k) 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 2023-24 will be 29.4% (2021-22: 29.4%).

In accordance with IAS 19 we 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 2023 based on several financial assumptions.

The main financial assumptions used included:

Financial assumptions	Year ended 31 March 2023 % p.a.	Year ended 31 March 2022 % p.a.
Pension Increase Rate (CPI)	2.95	3.15
Salary Increase Rate	3.55	3.75
Discount rate	4.75	2.75

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

Financial assumptions	Males	Females
Current pensioners (years)	20.0	22.7
Future pensioners (years)	21.2	24.7

(ii) Change in the fair value of plan assets, defined benefit obligation and net liability for the year ended 31 March 2023 (continued on next page)

	Assets	Obligations	Net (liability)/ asset
	£(000)	**£(000)**	**£(000)**
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)
Opening position as at 31 March 2022	**11,271**	**13,472**	**(2,201)**
Current service cost	-	687	(687)
Total service cost	**-**	**687**	**(687)**
Net interest			
Interest income on plan assets	315	-	315
Interest cost on defined benefit obligation	-	379	(379)
Total net interest	**315**	**379**	**(64)**
Total defined benefit cost recognised in profit	**315**	**1,066**	**(751)**
Cashflows			

	Assets	Obligations	Net (liability)/ asset
Participants' contributions	125	125	-
Employer contributions	437	-	437
Estimated benefits paid	(148)	(148)	-
Estimated unfunded benefits paid	(3)	(3)	-
Estimated contributions in respect of unfunded benefits paid	3	-	3
Expected closing position	**12,000**	**14,512**	**(2,512)**
Re-measurements			
Asset ceiling adjustment	(2,802)	-	(2,802)
Change in financial assumptions	-	(6,250)	6,250
Change in demographic assumptions	-	(89)	89
Other experience	-	844	(844)
Return on assets excluding amounts included in net interest	(215)	-	(215)
Total re-measurements recognised in Other Comprehensive Income (OCI)	**(3,017)**	**(5,495)**	**2,478**
Fair value of employer assets	**9,017**	-	9,017
Present value of funded liabilities	-	9,017	(9,017)
Present value of unfunded liabilities	-	34	(34)
Closing position as at 31 March 2023	**9,017**	**9,051**	**(34)**

Pension assets and liabilities recognised in the statement of financial position

The amount included in the statement of financial position arising from our obligation in respect of the pension scheme is normally the net liability represented by the present value of the defined benefit obligation and the fair value of the plan assets. However, for 2023, the actuarial gains arising from changes in the financial assumptions have resulted in a net asset position.

IAS 19 requires that the net defined benefit asset recognised in the statement of financial position is measured at the lower of the net asset position in the defined benefit fund and the asset ceiling. The asset ceiling is defined as “the present value of any economic benefits available in the form of refunds from the plan, or reductions in future contributions to the plan”. As a result, the net pension asset to be recognised in the statement of financial position has been revised to reflect the asset ceiling adjustment advised by our actuaries, Hyman Robertson.

	2022-23	2021-22
	£(000)	**£(000)**
Present value of the defined benefit obligation	(9,017)	(13,472)
Fair value of plan assets	11,785	11,271
Asset ceiling adjustment	(2,802)	-
Net liability arising from defined benefit obligation	**(34)**	**(2,201)**

The liability of £34,000 represents the present value of unfunded pension liabilities as at 31 March 2023.

Asset ceiling adjustment

In accordance with IAS 19 and the guidance issued under the International Financial Reporting Interpretations Commission – Interpretation 14 (IFRIC 14), the asset ceiling has been determined as follows:

	2022-23	2021-22
	£(000)	**£(000)**
Net present value of estimated future service costs	2,391	n/a
Net present value of future contributions	(4,283)	n/a
	(1,892)	**n/a**

As the present value of future contributions are greater than the present value of future service costs, the net asset is restricted zero at 31 March 2023. However, the present value of unfunded pension liabilities are required to be disclosed at the end of the financial year, totalling £34k, as disclosed above.

(iii) 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)**
Current service cost	-	846	(846)
Total service cost	**-**	**846**	**(846)**
Net interest			
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)**
Cashflows			
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)**
Re-measurements			
Change in financial assumptions	-	(1,179)	1,179
Change in demographic assumptions	-	(70)	(70)
Other experience	-	38	(38)

	Assets	Obligations	Net (liability)/ asset
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)**

(iv) Fair value of plan assets for the period ended 31 March 2023

The below asset values are at bid value as required under IAS 19

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Equity securities:				
Consumer	719.6	-	719.6	6%
Manufacturing	631.2	-	631.2	5%
Energy and utilities	410.5	-	410.5	3%
Financial institutions	857.1	-	857.1	7%
Health and care	385.7	-	385.7	3%
Information technology	955.0	-	955.0	8%
Other	115.2	-	115.2	1%
Debt securities:				
UK Government	482.4	-	482.4	4%
Other	219.9	-	219.9	2%
Private equity:				
All	-	142.0	142.0	1%
Real estate:				
UK property	-	730.0	730.0	6%
Overseas property	-	1.0	1.0	0%
Investment funds and unit trusts:				
Equities	3,042.6	-	3,042.6	26%
Bonds	626.3	-	626.3	5%
Infrastructure	-	1,281.4	1,281.4	11%
Other	456.6	242.8	699.4	6%
Cash and cash equivalents:				
All	485.7	-	485.7	4%
Totals	**9,388**	**2,397**	**11,785**	**100%**

The asset value, at bid value, for the period ended **31 March 2022** 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	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%**

(v) Projected defined benefit cost for the period to 31 March 2024

The table below provides an analysis of the projected amount to be charged to operating profit for the period to 31 March 2024.

	Assets	Obligations	Net (liability)/ asset	% of pay
Projected current service cost	-	244	(244)	(16.4%)
Total service cost	**-**	**244**	**(244)**	**(16.4%)**
Interest income on plan assets	569	-	569	38.3%
Interest cost on defined benefit obligation	-	433	(433)	(29.1%)
Total net interest cost	**569**	**433**	**136**	**9.2%**
Total included in income statement	**569**	**677**	**(108)**	**(7.2%)**

Employer’s contributions for the period to 31 March 204 will be approximately £437,000.

(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 2023	Approximate % increase to employer	Approximate monetary amount £(000)
0.1% decrease in Real Discount Rate	2%	210
0.1% increase in the Salary Increase Rate	0%	14
0.1% increase in the Pension Increase Rate (CPI)	2%	199
1 year increase in member life expectancy	4%	361

3.5.13 RELATED PARTY TRANSACTIONS

As we are 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 us and the Scottish Government.

We have 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 we carry out. Business Stream is a licensed provider and provided us with water and wastewater services up to 30 June 2021. Therefore Business Stream is considered a related party.

All Board Members and Directors complete and update a register of interests on an annual basis. During the year 202-23, no Board Member, Director or other related party has undertaken any material transactions with us.

4. Accounts Direction

WATER INDUSTRY COMMISSION FOR SCOTLAND
DIRECTIONS BY THE SCOTTISH MINISTERS

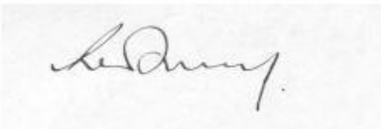
1. The Scottish Ministers give the following directions to the Water Industry Commission for Scotland ("WICS") in exercise of powers conferred by section 1(3) of the Water Industry (Scotland) Act 2002 (the "2002 Act"), as amended by section 1(1) of the Water Services etc. (Scotland) Act 2005. In accordance 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