

## **M Tables – Regulatory Accounts Commentary**

The sections in this document are:

1. General comments
  2. Basis of preparation
  3. Assumptions
  - 4.1 Commentary – M tables 1-31
  - 4.2 Commentary – M tables 18 W & 18 WW
- Appendices

### **1. General Comments**

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

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

An overview of the tables is provided in Appendix 2.

### **2. Basis of preparation**

SW produces statutory consolidated accounts incorporating the results of all subsidiary companies. The consolidated statements also include the balance sheet (and relevant notes) for SW only ('company'). Reconciliations between the statutory accounts and the regulatory tables are detailed in Appendix 1 to this document.

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

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

Regulated and Non-Regulated activities have been accounted for separately in SW's general ledger system enabling the production of profit & loss accounts and balance sheets for them. These accounts form the basis for the historical cost figures and the analysis in Tables M4 & M5.

Cost analysis in Tables M18 W and M18 WW was prepared using reports from SW's Activity Based Management (ABM) system. The ABM methodology used in 2021/22 did not differ from the methodology in 2020/21 and was audited as part of the Binnies audit in June 2022. A detailed explanation of the methodology was provided in Appendix 3 in the 2018/19 regulatory accounts commentary.

### 3. Assumptions

#### **M Table completion**

The M Tables have been updated for the presentation changes agreed in June 2022 to incorporate the new Tier 1 and Tier 2 regulatory reporting format. The prior year (2020-21) has not been restated to the new regulatory reporting format but has been populated where practical to do so, as previously agreed. Therefore, the M Tables have been completed using the historical cost information, except for the addition of current cost non-current assets and current cost depreciation charge within tables M4 and M5, and IFRS based information where applicable.

#### **IFRS**

Tables M3, M4 Stat, M4b Stat, M5 Stat, M11, M27a and M28a have been completed with IFRS based information. There are no IFRS adjustments in respect of turnover. Consequently, turnover in Table M7 aligns with turnover in Tables M1, M4 and M4 Stat.

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

Additional tables are provided, either within the commentary or as appendices, to aid the reconciliation between the regulatory tables (Tables M4 and M5) and the statutory accounts.

#### **Ratios**

Table M6R, ratio information has been modified to align to the new regulatory framework and includes asset replacement, repair and refurbishment expenditure for the calculation of cash interest cover [2] in line 6-R.20. This table provides all the information for, and calculation of, the basic ratios in one place. The ratios calculated in Table M6R are the clean calculation using the actual financial information, with all figures referenced from the relevant M Tables.

#### **4.1 Commentary – Tables M1 to M31**

This section supplements the narrative in the Strategic Report section of the Annual Report and Accounts 2021/22: Performance and Prospects. The commentary provided in this section for individual tables explains significant year-on-year movements or provides additional guidance on how the information was obtained and/or calculated. There are no comments on the tables which we think appear self-explanatory.

#### **Table M1 – Tier 1 Income and Cost Statement**

The information for 2020-21 has been populated using available information. Line 1.12 – responsive repair and refurbishment costs have been populated for 2020-21 using table G7 from the 2020-21 annual return (lines G7.01 – G7.03 and lines G7.06 – G7.08). The reduction in Operating expenditure (line 1.10) is due to improved cost capture which has resulted in the reallocation of £53m of responsive repair and refurbishment costs, which would have in previous years been included within Operating costs. Further commentary on movements in operating and PFI costs is provided at page 11. Memo lines 1.22 to 1.24 provide a like-for-like comparison of Operating costs.

A reconciliation to the statutory income statement is presented in table M3.

#### **Table M3 – Tier 1 Income and Cost Statement – Reconciliation to Statutory Accounts**

Table M3 reconciles the regulatory Tier 1 income and costs (table M1) to the statutory income statement presentation shown in table M4 Stat. The adjustments in table M3 reflect:

- the inclusion of depreciation charges (line 3.11 to 3.13);
- the removal of balance sheet and cash flow items generally associated with capital investment in lines 3.4, 3.5, and 3.10;

- the capitalisation of refurbishment expenditure and the expensing of planned repair costs (line 3.9);
- IFRS adjustments relating to Cloud service costs, pension costs (IAS 19) and PFI costs (IFRIC 12); and
- The increase in deferred tax to reflect the UK Budget 2021 announcements on 3 March 2021, substantively enacted on the 24 May 2021, which included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023.

#### **Table M4 and M4b – Regulatory Accounts Income and Expenditure**

The information for 2020-21 ties to the previously reported M1 table. This has not been restated to reflect the new format presented in the 2021-22 column. Significant changes in the 2021-22 column include:-

- The inclusion of line 4.4 which shows responsive and planned repair costs. This is consistent with the statutory accounting presentation where all repair costs are expensed through the Income Statement.
- Line 4.5 – current cost depreciation has been calculated using Market Equivalent Asset Values (MEAV). The MEAV adjustment in 2021-22 increases depreciation charges by £301.2m to £585.5m.
- Line 4.14 – taxation – deferred, reflects The UK Budget 2021 announcements on 3 March 2021, substantively enacted on the 24 May 2021, included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023.
- Line 4b.4 – other gains and losses, shows the MEAV adjustment to Tangible Assets presented in table M5. This has been presented within other comprehensive income to be consistent with revaluation gains and losses under IFRS accounting to create a current cost reserve in table M5. However, this adjustment should not be confused with revaluation.

Appendix 1.1 shows a reconciliation of the M4 regulatory income and expenditure account to the Table M4 Stat IFRS income and expenditure account.

#### **Table M5 – Regulatory Accounts Balance Sheet**

As mentioned above the 2020-21 column has not been amended. Line 5.1 – Tangible assets and Line 5.23 – Current cost reserve, represent MEAV adjusted values for the 2021-22 column. The reduction in line 5.22 income and expenditure account represents the cumulative catch up of presenting responsive and planned repairs in table M4.

Appendix 1.2 reconciles the regulatory accounts balance sheet to the Table M5 Stat IFRS balance sheet and SW's statutory accounts balance sheet.

#### **Table M6 – Regulatory Income and Expenditure and Cash Flow**

Interest paid (line 6.10) of £142.2m includes intercompany interest paid to Business Stream of £0.5m and £0.4m to 3<sup>rd</sup> party LPs in relation to the settlement of wholesale billing and reconciliation process. Loan interest in respect of Government and other borrowings totalled £140.6m.

The total capital expenditure has been separated into component parts across lines 6.14 to 6.17. The tables below provide the detail and the reconciliation of the total capital investment to lines 6.14 to 6.17:

	<b>M Table / line ref</b>	<b>2021/22 £m</b>
Opening short term capital creditor	M11.10 (20/21)	105.3
Add: Capital investment (net of contributions)		786.3
Less: Responsive and planned repairs		(169.7)
Closing short term capital creditor	M11.10 (21/22)	(105.3)
<b>=&gt;</b>		
<b>Capital expenditure</b>		<b>616.6</b>
Analysed:		
Capital enhancement and growth expenditure	M6.14	330.9
Asset replacement expenditure	M6.15	217.5
Asset refurbishment expenditure (Tier 1a excluding responsive and planned repairs)	M6.16	49.8
Developer Contributions	M6.17	18.4
Capital expenditure (total)		<b>616.6</b>

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

	<b>2021/22 £m</b>
Capital investment (gross Q&S) on a regulatory basis	799.4
Less: PFI investment	(2.5)
Contributions	(10.2)
Insurance recovery	(0.4)
<b>Capital investment (net of contributions)</b>	<b>786.3</b>

PFI investment in the year is negative due to the PFI Dalmuir claim and has been included in the capital enhancement total within the cash flow as shown in the table above.

### **Table M6R – Regulatory Accounts – Ratio information**

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

### **Table M7 – Analysis of Turnover and Operating Income**

Turnover from services supplied to household customers increased by £18.3m to £939.3m (line 7.1) reflecting the increase in household charges of 2.5%, effective from 1 April 2021, and the net increase in properties connected to the network. This was partially offset by the expansion of the Water Charge Reduction Scheme which increased from a 25% reduction to 35%. The additional lines (lines 7.17 – 7.20) provide detail on the movements in household revenue.

Turnover from wholesale services provided to Licensed Providers increased by £0.7m to £333.5m (line 7.3) reflecting increased consumption as a result of the easing of the Covid-19 pandemic restrictions (shown in line 7.22), tariff increase of 2.5% (shown in 7.21) partially offset by changes in the income uncertainty provision (£11.2m within line 7.23). The additional lines (lines 7.21 – 7.26) provide a further analysis of the year-on-year movements in wholesale revenue.

Turnover from other sales was in line with the previous year at £12.5m (line 7.7).

Cash receipts in respect of infrastructure charges income and disposal proceeds were up £3.6m to £22.9m (line 7.12).

### **Table M8 – Movements in Cash Balance**

Table M8 compares the financial flows delivered in the year to those in the Final Determination updated for inflation (and the closing position in 2020-21) and reconciles these movements in cash from the closing Final Determination cash position to the closing actual cash position of Scottish Water at 31 March 2022.

The Final Determination model has been updated to reflect:

- the 2020-21 closing position for household, wholesale and other revenue,
- the 2020-21 closing position for cash (less SR15 completion),
- 2021-22 CPI inflation of 3.98%, and
- a total price increase of 2.5% (preceding Oct CPI of 0.70% plus a k-factor of 1.80%).

The updated Final Determination model has then been compared to actual reported Tier 1 performance (as per Table M1), gross Tier 2 performance (as per P&P) and net new borrowing (as per Table M29) in 2021-22. Closing cash per the updated Final Determination model, closing cash and Tier 2 expenditure have been reported excluding completion to allow for a like-for-like comparison to the Final Determination:

- Closing cash per the Final Determination is reported as £123.4m, being £428.7m reported 2020-21 closing cash position less £290.6m of SR15 completion less £14.7m of cash utilisation as per the Final Determination model.
- Scottish Water closing cash is reported as £343.3m, being £515.9m closing cash position reported on table M5, lines M5.3 and M5.4, less remaining SR15 completion of £172.6m.
- Tier 2 performance in the year was £622.9m including completion of £118.0m compared to modelled FD Tier 2 investment of £514.1m for 2021-22.

Our updated Final Determination model and working file is attached.

The wholesale deferral scheme was in operation at the end of 2020-21. Consequently, the reduction in cash this created was reflected in the closing cash position of that year and hence reflected in the opening cash position of the Final Determination model. As the scheme ended during 2021-22, this resulted in an additional cash inflow of £60.0m compared to the updated Final Determination model.

Working capital movements reflect the difference between the Tier 1 statement, Tier 2 investment, and the total cash movement in the year.

Timing Impacts (cols G to J) arise where cash inflows/outflows are expected to be utilised/recovered during a future year of the regulatory period relative to the updated Final Determination model. Timing differences for LTNC items are shown as the expected LTNC level less the actual performance in the year.

### **Table M11 – Regulatory Accounts Working capital (Core)**

All of the balances presented in Table M11 for 2021-22 are on a regulatory accounting basis except for lines 11.18 and 11.19. In previous years, M11 was prepared on an IFRS basis. Appendix 1.2 shows the reallocation of working capital reported in M11 to the reported statutory IFRS company balance sheet.

### **Table M18W and M18WW commentary – see Section 4.2 below**

### **Table M21 – Taxation analysis**

The 2020/21 data has been updated to reflect the actual 2020/21 tax computation submitted.

### **Table M27a – Consolidated IFRS Income Statement**

The intercompany items being visibly eliminated (in col 5) on this table are the intercompany wholesale income in SW and the intercompany cost of sales in Business Stream. The intercompany interest between SW and Business Stream already eliminates across line 27.11.

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

#### **Table M28a – Consolidated Historic Cost Balance Sheet**

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

#### **Table M29 – Interest**

Line 29.11 adjusts the calculation in 29.7 for timing differences. This is required as a reconciling item as line 29.7 assumes all new borrowing and borrowing repaid takes place at the start of the year. Table M30 provides more detail on the drawdown and repayment dates.

#### **Tables M30 & M31 – Inventory of loans**

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

Table M30 details the principal value of the loans due for repayment in full by their maturity dates. The listing includes details of the £139.7m of loans repaid during 2021/22.

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

#### **Table M4 Stat – IFRS Statutory Accounts Income & Expenditure**

Table M4a provides the results of Scottish Water Core on the IFRS Regulatory Accounting basis. The non-cash pension adjustments, as calculated under IAS 19, have all been included in Table M4b Stat.

The reconciliation of the results shown in Table M4 (regulatory accounts income & expenditure) to the results in Tables M4 Stat is provided in Appendix 1.1. The reconciling items are purely the IFRS entries in respect of PFI costs and cloud software expenditure, and the removal of fixed asset current cost adjustments. The net impact on the profit before tax is summarised below.

<i>(Increase)/decrease in costs</i>		<i>£m</i>	<i>Note ref.</i>
IA38	Cloud software expenditure	(23.8)	1.
IFRIC 12	PFI costs - depreciation & lease liability	7.9	2.
	Current cost depreciation	301.2	
<b>Scottish Water - net decrease in costs</b>		<b>285.3</b>	

#### *1. IAS 38 'Intangible assets'*

In April 2021 the IFRS Interpretations Committee (IFRIC) published an agenda decision in relation to the application of IAS 38 Intangible Assets to configuration or customisation costs in a cloud computing arrangement. The agenda decision provides new guidance specific to cloud computing arrangements and provides a framework for the accounting treatment of 'implementation costs.

Scottish Water previously accounted for all implementation costs as Property, plant and equipment and these were subject to depreciation on a straight-line basis over the useful lives of the assets. The new guidance states that implementation costs should be recognised as

an intangible asset if costs incurred meet the definition of an intangible asset under IAS 38. If it is not possible to identify an asset, then the costs should be expensed in the year in which they occur. If the costs incurred are for a service that is distinguishable from the core software service and over the life of the contract with the supplier if the service is not distinguishable from the core software service.

Cloud software costs identified and expensed during the year amounted to £23.8m and are included within line 4.2.

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

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

In Table M4 stat, line 4.3 'PPP costs' consists of the operating costs totalling £133.0m in 2021/22. The total depreciation charges of £19.3m are in line 4.5, the finance costs of £15.2m are in line 4.11 and Scottish Water internal costs are included in line 4.3.

The table below provides the reconciliation from Table M4 to Table M4 stat.

	M Table / line ref	2021/22 £m
<b>Total PPP costs in Table M4</b>	M4.3	<b>171.4</b>
<b>IFRS adjustments:</b>		
Less: Depreciation charges - PPP leased assets		(15.3)
Less: Finance lease obligation - to balance sheet		(23.2)
<b>Total PPP costs in Table M4</b>	M4.3 stat	<b><u>132.9</u></b>

## Table M4b Stat – Regulatory Accounts – Statement of comprehensive income

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

The profit for the year (line 4b.1) is the Core retained profit from Table M4 Stat (line 4.19).

The actuarial gains/losses on post-employment plans (line 4b.2), net of related deferred taxation, are as reported in the statutory results for Scottish Water. The gross pension liability decreased £166.2m to £42.9m (£32.2m net after deferred tax). The decrease in scheme liabilities of £119.3m, primarily due to a change in financial assumptions, was in addition to higher-than-expected returns on scheme assets of £93.4m. Together, these represent the gross actuarial gain of £212.7m which, net of deferred tax, forms the £158.4m credit in 4b stat.

The post-employment plans (non-cash), net of tax (line 4b.3) consists of the total service cost and the net financing expense as calculated under IAS 19 which replace the 'normal management' operating costs as charged in tables M1 and M4 (line 4.2). The net adjustment of £20.3m is analysed as follows:

	SW £m
Pension service cost adjustments	(41.0)
Interest on pension scheme net liabilities	(4.6)
Deferred tax on IAS 19 adjustments	<u>25.3</u>
	<b><u>(20.3)</u></b>

There were no other gains or losses (line 4b.4).

### Table M5 stat – Regulatory Accounts Balance Sheet

Tangible assets balance (line 5.1) equals the Property, plant & equipment and Intangible asset balance per the IFRS statutory accounts.

PFI assets form part of the Property, plant & equipment balance, and totalled £249.3m and consists of the SW owned assets and the assets treated as leased under the IFRS basis. The related finance lease liability is shown in line 5.22. The following tables provide additional analysis and reconciliation to the presentation in the statutory accounts.

#### Balance sheet (see Appendix 1.2)

Property, plant & equipment			
	Leased assets		222.6
	Owned assets	(reclassification)	26.7
		<b>M5, line 5.1</b>	<b><u>249.3</u></b>
Other loans & borrowings			
	Finance lease liability	< 1 year	(24.6)
		> 1 year	(208.7)
		total	<b>M5, line 5.22</b> <b><u>(233.3)</u></b>

Other creditors due after one year (line 5.14) consists of payments received in advance of £55.9m, (of which £29.5m relates to Reasonable Cost Contributions and £18.8m infrastructure income) and deferred income of £10.0m, of which £8.7m relates to capital grants received.

Post-employment asset / (liability) (line 5.17) shows the retirement benefit obligation under IAS 19, net of the related deferred tax balance, as detailed below.

#### Balance sheet

Retirement benefit obligations (Post employment liabilities)	(42.9)
Deferred taxation on retirement benefit obligations	10.7
<b>Retirement benefit obligations - net</b>	<b>M5, line 5.17</b> <b><u>(32.2)</u></b>

The other provisions total of £25.1m (line 5.18), reflect an increase of £3.2m compared to 2020/21, and includes wholesale income uncertainty of £24.7m.

*Income uncertainty:* This provision relates to uncertainty around the wholesale/non-domestic income. The balance of £24.7m represents the balance associated with Business Stream and 3<sup>rd</sup> party licenced providers (LPs).

Retained earnings (line 5.23) consists of the total of the reserve brought forward from 31 March 2021 adjusted to reflect a prior year adjustment in respect of cloud software (IAS38 'Intangible assets') of £20.2m and the retained profit for 2021/22 (Table M4 stat, line 4b.5), as detailed below.

		£m
<i>Retained earnings reconciliation as per table M5 stat</i>		
Retained earnings as at 31 March 2021	<b>M5 stat, line 5.23</b>	1,509.1
Prior year restatement in respect of cloud software (IAS 38)		(20.2)
Total comprehensive income for the year	<b>M4 stat, line 4b.5</b>	78.1
Retained earnings carried forward at 31 March 2022	<b>M5 stat, line 5.23</b>	<b><u>1,567.0</u></b>



## 4.2 Commentary & Reconciliation – Tables M18W & M18WW

### Trading Results & Reconciliation

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

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

<b>SW Group Statutory Accounts</b>		£m	£m
	Cost of Sales	1,303.1	
	Admin Expenses	178.4	
<b>SW Group Expenditure</b>			<b>1,481.5</b>
Less	Business Stream		(418.2)
	AES/SWSG costs		(17.2)
	AES/SWSG elimination with SW PFI		20.8
	Horizons Holdings		0.0
	Business Stream Holdings		(0.1)
	IFRS adjustments		(211.4)
	Depreciation and amortisation		(280.9)
	Responsive repairs and refurbishment		46.3
<b>Expenditure included in M18 Tables</b>			<b>620.9</b>
<b>Represented by</b>			
	SW Regulated		606.5
	Non Regulated (incl. SW Horizons)		14.4

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

(£m)	SW Regulated and Non-Regulated	Diff	M18W/WW Tables		
			SW Stat - M18	Total	M18 W
Employment	220.1		443.9	256.2	187.7
Other	229.2				
<b>Opex</b>	<b>449.3</b>	<b>(5.4)</b>	<b>443.9</b>	<b>256.2</b>	<b>187.7</b>
PFI	171	5.6	177.0	0.0	177.0
<b>Expenditure *</b>	<b>620.7</b>	<b>0.2</b>	<b>620.9</b>	<b>256.2</b>	<b>364.7</b>
Explained by					
	Charges to SWBS and other for support	(0.2)			

\* Table References - lines:

[M18W.55] [M18WW.56]

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

- £5.6m difference between the SW Board report and the M18 Tables re. PFI costs represents costs incurred in providing SW support to PFI activities;
- The expenditure totals differ slightly due to charges to SWBS for support being excluded in the preparation of the M18 tables.

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

## Commentary

For 2021/22, the operating expenditure sections of the M18 tables have been populated using SW's ABM model on a basis consistent with 2020/21. Rows M18.43 (W) and M18.44 (WW) show total regulated operating costs including responsive repair and refurbishment costs of £46.3m.

The balance of Tier 1a costs, previously reported as operating expenditure, is shown in rows M18.44 (W) and M18.45 (WW). The table below shows a reconciliation to values included within M1 table.

<b>Tier 1a Reconciliation</b>	<b>2021/22</b>
	£m
Tier 1a spend reported within Total operating expenditure	46.3
Water M18.44 Repair and refurbishment previously expensed as operating expenditure in SR15 (Tier 1a)	4.4
Wastewater M18.45 Repair and refurbishment previously expensed as operating expenditure in SR15 (Tier 1a)	2.3
<b>M1 table line 1.12 - Repair and refurbishment expenditure previously expensed as operating expenditure in SR15</b>	<b>53.0</b>
Water M18.45 Remaining responsive repair and refurbishment expenditure (Tier 1a)	64.8
Wastewater M18.46 Remaining responsive repair and refurbishment expenditure (Tier 1a)	34.1
<b>M1 table line 1.23 - Responsive repair and refurbishment</b>	<b>151.9</b>

Total operating costs decreased by £13.5m (2.1%) to £620.9m.

<b>Total Operating Costs</b>	<b>2021/22</b>	<b>2020/21</b>	<b>Variance</b>
	£m	£m	£m
Operating expenditure - Water M18w.43	256.159	263.818	+7.659
Operating expenditure - Waste M18ww.44	364.715	370.600	+5.885
	<b>620.874</b>	<b>634.418</b>	<b>+13.544</b>

Analysis by activity:

	<b>2021/22</b>	<b>2020/21</b>	<b>Variance</b>
	£m	£m	£m
Wholesale	542.358	555.094	+12.736
Retail	64.133	63.021	(1.112)
Non Regulated	14.384	16.303	+1.919
	<b>620.874</b>	<b>634.418</b>	<b>+13.544</b>

**Wholesale** activity costs decreased by £12.7m (2.3%) from 2020/21 to £542.4m reflecting the following key movements:

- A decrease in direct employment costs of £5.4m (7%), primarily driven by lower pension costs and lower levels of resource allocated to direct activities, partially offset by pay progression;
- A decrease in power costs of £7.9m (13%), due to lower unit prices secured through advance purchase contracts and lower consumption across wastewater operations due to relatively low average rainfall;
- An increase in hired and contracted services of £1.6m (4%) driven by higher contractor resources needed for sewer repairs and choke clearing activities partly offset by the lower cost impact of maintaining service under COVID restrictions and a lower level of bursts on the water network;
- An increase in PFI costs of £4.5m (3%) due primarily to indexation of contract service fees;
- Materials and consumables costs increased by £2.3m (10%) due primarily to higher chemical costs driven by unit price increases and higher usage to maintain compliance;
- Other direct costs increased by £0.7m (8%) due to higher insurance claims and equipment hire costs to maintain compliance;
- General and support costs decreased by £5.6m (10%) due primarily to lower digital costs linked to decommissioning of applications and lower mobile phone usage, lower pension costs in support departments and lower property rental costs;
- Costs associated with scientific services decreased by £1.0m (6%), due to the lesser impact of COVID on employment and equipment costs;
- Local authority rates costs decreased by £1.9m (3%) due to the revaluation of wastewater asset rateable values.

**Retail** activity costs increased by £1.1m (1.8%) to £64.1m primarily driven by an increase in bad debt charges of £1.3m (5%).

**Non-Regulated** costs have decreased by £1.9m (11.8%) due mainly to a decrease in Scottish Water Horizons operating costs associated with a reduction in the number of developer projects undertaken.

## Scottish Water

Year ended 31 March 2022

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

TABLE M4			IFRS adjustments					Table M4 stat	
Line	Description	Core	CCA Dep'n	IAS 19 Holiday pay	IAS38 Cloud	IFRIC 12 PFI	Category reallocation	Core	Line Description
		£m	£m	£m	£m	£m		£m	
4.1	Turnover	1,285.313						1,285.313	4.1 Turnover
4.2	Operating expenditure	(388.583)			(23.841)			(412.424)	4.2 Operating expenditure
4.3	PPP costs	(171.435)				38.462		(132.973)	4.3 PPP costs (excluding PPP interest costs)
4.4	Responsive and planned repairs	(169.724)						(169.724)	4.4 Responsive and planned repairs
4.5	Current Cost Depreciation	(585.456)	301.165			(15.300)		(299.591)	4.5 Depreciation charge
4.6	Amortisation of deferred income	1.533						-	4.6 Amortisation of deferred income
4.7	Operating income	-						1.533	4.7 Operating income
4.9	Profit or loss on disposal of fixed assets	3.410						-	4.9 Profit or loss on disposal of fixed assets
4.10	Other income	-						3.410	4.10 Other income
4.11	Net interest receivable less payable	(141.611)				(15.218)		-	4.11 Net interest receivable less payable
								(156.829)	
								-	
4.12	Profit on ordinary activities before taxation	(166.553)	301.165	-	(23.841)	7.944	-	118.715	4.12 Profit before taxation
4.13	Taxation - current	(3.730)						(3.730)	4.13 Taxation - current
4.14	Taxation - deferred	(175.022)						(175.022)	4.14 Taxation - deferred
4.19	Retained profit for year	(345.305)	301.165	-	(23.841)	7.944	-	(60.037)	4.19 Profit retained

  

Table M4b stat			IFRS adjustments - IAS 19 Pension adjs and CCA adjustments					Table M4b stat	
Line	Description	Core	Actuarial losses	CCA reversal	Service costs adj	Interest	Tax	Core	Line Description
		£m	£m	£m	£m	£m	£m	£m	
4b.1	Profit for the year	(345.305)						(60.037)	19.1 Profit for the year
4b.2	Actuarial gains/losses on post employment plans	-	158.412	-	-	-	-	158.412	19.2 Actuarial gains/losses on post employment plans
4b.3	Post emp. plans non cash IAS19 adjs, net of tax	-	-	-	(41.004)	(4.590)	25.334	(20.260)	19.3 Post emp. plans non cash IAS19 adjs, net of tax
4b.4	Other gains and losses	67124.540	-	(67,124.540)	-	-	-	-	19.4 Other gains and losses
4b.5	Total comprehensive income for the year	66,779.235	158.412	(67,124.540)	(41.004)	(4.590)	25.334	78.115	19.5 Total comprehensive income for the year

## Scottish Water

Year ended 31 March 2022

## Reconciliation of Regulatory Accounts Balance Sheet (Table M5) to IFRS Regulatory Balance Sheet (Table M5 stat) to Company Statutory Balance Sheet

TABLE M5		IFRS adjustments:					Reallocat	TABLE M5 Stat		Reallocations		Statutory Accounts (IFRS)	
Line	Description	Core	IAS19 Pension / holiday pay	CCA Fixed assets / reserves	IFRIC12 PFI assets / finance lease	IAS38 Cloud Software	reserves	Line	Description	Non core	Various	Company Description	
		£m (3dp)						£m (1dp)			£m (1dp)		
	<i>Fixed Assets</i>								<i>Fixed Assets</i>			<i>Fixed Assets</i>	
5.1	Tangible Assets	73,410.304		(66,803.2)	222.6	(44.0)		5.1	Tangible Assets			6,773.1 Property, plant and equipment	
										(12.6)	(i)	12.6 Intangible assets	
										37.6	(iv)	37.6 Investments	
	<i>Total fixed assets</i>	<u>73,410.304</u>											
	<i>Other Operating Assets and liabilities</i>									3.8	(iv)	3.8 Inventories	
5.2	Working capital	(228.810)	(31.8)					5.2	Working capital	7.8	264.5	99.9 Trade and other receivables	
										99.9	(iv)	11.7 Current tax asset	
5.3	Cash at bank and in hand	21.096						5.3	Cash	(21.1)	(ii)	-	
5.4	Short term deposits	494.800						5.4	Short term deposits	21.1	(ii)	515.9 Cash and cash equivalents	
5.5	Overdrafts	-						5.5	Overdrafts			-	
5.6	<i>Net operating assets</i>	<u>73,697.390</u>						5.6	<i>Net operating assets</i>			<u>7,454.6</u> <i>Total Assets</i>	
	<i>Non-operating assets and liabilities</i>												
5.7	Borrowings (excl. govt. loans)	-						5.7	Borrowings (excl. govt. loans)	(356.5)	(iv)	(356.5) Trade and other payables	
5.8	Investment - loan to group company	-						5.8	Investment - loan to group company	(24.6)	(v)	(24.6) Other loans and borrowings	
5.9	Investment - Other	37.638						5.9	Investment - Other	(37.6)	(iv)	-	
5.10	Corporation tax payable	11.684						5.10	Corporation tax payable	(11.7)	(iv)	-	
5.11	Dividends payable	-						5.11	Dividends payable			-	
5.12	<i>Total non-operating assets and liabilities</i>	<u>49.322</u>						5.12	<i>Total non-operating assets and liabilities</i>				
	<i>Creditors - amounts falling due after more than one year</i>									(14.4)	(vi)	(14.4) Provisions for liabilities	
5.13	Borrowings (excl. govt. loans)	-						5.13	Borrowings (excl. govt. loans)			(395.5) <i>Current Liabilities</i>	
5.14	<i>Other Creditors</i>	<u>(65.900)</u>						5.14	<i>Other Creditors</i>			(65.9) Trade and other payables	
5.15	<i>Total Creditors falling due after more than one year</i>	<u>(65.900)</u>						5.15	<i>Total Creditors falling due after more than one year</i>				
	<i>Provision for liabilities &amp; charges</i>									(208.7)	(v)	(208.7) Other loans and borrowings	
5.16	Deferred tax provision	(649.822)						5.16	Deferred tax provision	(1.2)	10.7	(640.3) Deferred tax liabilities	
5.17	Post employment asset / (liabilities)	-	(32.2)					5.17	Post employment asset / (liabilities)	(10.7)	(vii)	(42.9) Retirement benefit obligations	
5.18	Other provisions	(36.055)	11.0					5.18	Other provisions	14.4	(vi)	(10.7) Provisions for liabilities	
5.19	<i>Total provisions</i>	<u>(685.877)</u>						5.19	<i>Total provisions</i>				
5.20	<i>Net assets employed</i>	<u>72,994.935</u>	(53.0)	(66,803.2)	222.6	(44.0)	-	5.20	<i>Net assets employed</i>	6.6	(233.3)	<u>6,090.6</u> <i>Net assets</i>	
	<i>Capital and reserves</i>											<i>Capital &amp; reserves</i>	
5.21	Government Loans	4,383.587						5.21	Government Loans			4,383.6 Government loans	
5.22	Income and expenditure account	1,674.743	(53.0)		222.6	(44.0)	(1,567.0)	5.22	PPP debt / lease	(233.3)	(v)	0.0	
5.23	Current cost reserve	66,803.175		(66,803.2)			1,567.0	5.23	Income and expenditure account	6.6		1,573.6 Retained earnings	
5.24	Other reserves	133.430						5.24	Other reserves			133.4 Other reserves	
5.25	<i>Total capital &amp; reserves</i>	<u>72,994.935</u>	(53.0)	(66,803.2)	222.6	(44.0)	-	5.25	<i>Total capital &amp; reserves</i>	6.6	(233.3)	<u>6,090.6</u> <i>Equity</i>	

## Table Overviews and Changes

### Table M1 – Tier 1 Income and Cost Statement

The Core information is from the general ledger reports for the Regulated business. The results in this table follow the new regulatory reporting format and basis for internal management reporting to the Board. Consequently, it is not consistent with the information presented in Table M1 in previous years.

The new Table M1 format includes the income and recurring costs required by SW to maintain day to day operations, including Tier1a (responsive repair and refurbishment costs) and therefore does not follow the statutory income and expenditure format.

### Table M4 and M4b – Regulatory Accounts Income and Expenditure

Table M4 reflects regulatory accounting information using current cost depreciation based on MEAV and excludes the majority of IFRS adjustments with responsive and planned repair costs (line 4.4) aligned to presentation within the statutory income statement.

The majority of lines are populated from information presented in table M1 and M3. The significant change to table M4 is the adjustment for current cost depreciation charges (line 4.5) and the current cost adjustment for non-current assets (line 4b.5) to reflect the cumulative catch up from a historic cost accounting basis. All current cost adjustments have been calculated on a MEAV basis as agreed with WICS.

### Table M5 – Regulatory Accounts Balance Sheet

Table M5 reflects regulatory accounting information using MEAV and excludes the majority of IFRS adjustments with responsive and planned repair costs aligned to statutory accounting presentation

### Table M6 – Regulatory Income and Expenditure and Cash Flow

Table M6 has been modified in line with the modifications to tables M4 and M5 detailed above and includes a reconciliation to the 'Net cash flow from operating activities' (line 6.8).

### Table M6R – Regulatory Accounts – Ratio information

Table M6R provides financial ratio information for:

- funds from operations to net debt;
- cash interest cover [1]; and
- cash interest cover [2], i.e. after deduction of capital maintenance expenditure (responsive repair and refurbishment, planned repair and refurbishment, and asset replacement investment).

### Tables M27a and M28a – Consolidated IFRS Income Statement and Consolidated Historic Cost Balance Sheet

The consolidation tables – M27a and M28a – include the results of Scottish Water and all its subsidiaries. Business Stream's results are included in the Licensed column and all other subsidiaries have been added to the non-core non-licensed column. IFRS adjustments are included within M27a and M28a with Scottish Water linked to tables M4 and M5.

Table M27a has been modified to improve visibility and understandability of the impact of IFRS adjustments. The core column continues to be populated with the values from table M4 with current cost items being removed in the core IFRS adjustment column. The consolidated column allows for a direct comparison to the published statutory results of 2021/22.

Table M28a has been modified to improve visibility and understandability of IFRS adjustments. The main change to the table is the inclusion of the IFRS adjustments. The core column continues to be populated with the values from table M5 with current cost items being removed in the core IFRS

adjustment column. The consolidated column allows for a direct comparison to the published statutory results of 2021/22.

**Table M29 – Interest**

Table M29 has been added for the 2021/22 annual return and reconciles the movement in net interest expense presented on table M4 (line 4.11). Additional lines have been added to the original template provided to provide further transparency.