M Tables – Regulatory Accounts Commentary

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1. Overview

The financial performance of Scottish Water's regulated activities is measured on a regulatory accounting basis, which includes items subject to a long-term normative charge (LTNC)[1]. The following tables and commentary have therefore been presented on that basis. Reconciliations to Scottish Water's performance on a statutory accounting basis is set out in Table M3 (Tier 1 statement to statutory P&L) tables.

The Regulated Income & Expenditure Statement and Capital Investment for the year to 31 March 2024 compared to the Final Determination (FD)[2] is presented below.

SW Regulated Income & Expenditure Statement	Actual 2023/24 £m	WICS financial model underpinning FD 2023-24 £m	Inc/(dec) 2023/24 £m	Cumulative inc/(dec) 2021-24 £m
Total revenue	**1462**	**1,608**	**(146)**	**(185)**
Regulatory operating costs	(459)	(637)	18	32
PFI costs	(160)			
Interest charges	(133)	(185)	52	107
Costs before items subject to LTNC	**(752)**	**(822)**	**70**	**139**
Total available to support investment before LTNC items	**710**	**786**	**(76)**	**(46)**
Responsive repair & refurbishment costs	(225)	(276)	51	106
Developer contributions	(30)	(35)	5	9
Tax paid	(1)	(5)	4	13
Total LTNC Items	**(256)**	**(316)**	**60**	**128**
Surplus after charging LTNC items	**454**	**470**	**(16)**	**82**

Revenue

[1] LTNC Items - Responsive repair and refurbishment costs, developer contributions and tax.

[2] Updated for outturn inflation and realignment of operating expenditure. After the Final Determination was published, Scottish Water realigned operating expenditure to reflect improvements to its systems of cost capture. This change has the effect of reducing the allowed for operating expenditure by c. £50m per year and increasing the allowed costs for responsive repair and refurbishment expenditure by c. £50m per year.

Revenue for the year at £1,462m, was £146m lower than anticipated in the Final Determination. Charges in the FD were based on CPI inflation plus 2% per annum but charge increases for 2023/24 were held to 5%, 6.1% lower than the October 2022 CPI inflation of 11.1%. Cumulatively, for the first three years of the regulatory period, charges were 4.4% below CPI inflation and 10.5% below the charge path anticipated in the FD. Consequently, revenue, on a cumulative basis since the start of the regulatory period was £185m lower than that anticipated in the FD.

Operating Costs, PFI and Interest charges

Costs before items subject to LTNC for the year at £752m, were £70m lower than anticipated in the FD, driven by lower interest charges of £52m and lower operating and PFI costs of £18m.

Year-on-year, operating costs increased by £43m or 10% to £459m (2023: £416m) due to higher employee costs, increased bad debt charges and higher energy costs. However, these increases were partly offset by a £25m refund of rates charges following the successful appeal of the 2017 Water Undertaking revaluation.

In 2023/24, 53% of electricity costs were exposed to market prices. Before the start of the 2022/23 financial year Scottish Water forward purchased its electricity requirements. Given the electricity market conditions prior to the 2023/24 financial year, which were heavily influenced by the war in Ukraine, Scottish Water changed its electricity procurement strategy by moving to a combination of month ahead and day ahead purchases. As a consequence, electricity costs were significantly lower than would have been the case if they had been forward purchased at the start of the year. However, electricity costs were still approximately a third higher than in 2022/23 at £78m (2023: £56m).

PFI costs decreased by £17m or 10%, to £160m (2023: £177m) reflecting a full year benefit from the absorption of the former North-East Scotland PFI activities into Scottish Water's wastewater operations in October 2022 and reductions in PFI costs indexed to gas prices.

Interest charges in the year decreased by £3m to £133m (2023: £136m). This was mainly driven by higher interest income from funds on deposit.

Costs before items subject to LTNC, on a cumulative basis for the first three years of the regulatory period, were £139m lower than anticipated in the Final Determination.

Long-Term Normative Charge Items (LTNC)

Responsive repair and refurbishment expenditure is difficult to predict over a short-term time horizon as there can be significant variability in the annual level of expenditure associated with, for example, significant water main bursts or collapsed sewers. A LTNC has been applied to remove variability with the expectation that the long-term normative charges will balance with actual expenditure incurred over the 2021-27 period..

Responsive repairs and refurbishment expenditure were £236m compared to the LTNC charge for the year of £225m[3], which itself was £51m lower than the FD assumption of £276m. Cumulatively, the LTNC for responsive repairs and refurbishment was £106m lower than the level assumed in the FD. Over the remainder of the 2021-27 regulatory period the business expects to experience increases to responsive repair and refurbishment costs as assets continue to age.

Developer contributions and taxation also experience significant annual variability and hence we have adopted a similar normative charge approach for these with normative charges of £30m per annum for developer contributions and £1m per annum for tax paid. Consequently, Tier 1 cost performance relative to the Final Determination, is focussed on costs before items subject to LTNC.

The normative charge for taxation has reduced by £29m per annum to reflect the UK autumn statement announcement of enhanced capital allowances being made permanent from 1 April 2023.

[3] the LTNC for responsive repair and refurbishment has increased to £225m (previously was £215m), reflecting a higher forecast of responsive repair and refurbishment over the regulatory period.

The tax reduction reflects the new 100% first year capital allowance applying to expenditure on new plant and machinery and the new 50% first year special rate allowance on long-life assets.

In the year actual expenditure for developer contributions and taxation was £33m and zero respectively. Consequently, total actual expenditure on LTNC items in the year was £269m, £13m higher than the LTNC.

Over the 2024 - 27 period further rebasing of LTNCs may be required to reflect actual expenditure trends and up-to-date forecasts.

Surplus to support planned investment

The total surplus available to support planned investment, after charging for LTNC items, for the year was £454m. This was £16m lower than that anticipated in the FD for the year reflecting the performance highlighted above. Cumulatively, since the start of the regulatory period, the surplus to support planned investment was £82m higher.

Capital Investment

Our gross planned investment, on a regulatory accounting basis, in the year was £789m, which was £117m or c. 17% higher than the FD. When combined with responsive repair and refurbishment costs, total regulated investment was £1,025m in the year. The table below compares performance to the investment expectations in the FD.

Investment on a regulatory accounting basis	Actual 2023/24 £m	Final Determination 2023/24 £m	Inc/(dec) 2023/24 £m	Cumulative inc/(dec) 2021-24 £m
Planned investment	789	672	117	86[4]
Responsive repair & refurbishment costs	236	276	(40)	(201)[5]
Total	1,025	948	77	(115)

Prospects for 2024/25

We remain committed to delivering our Strategic Plan, increasing investment to replace our ageing assets, achieving our net zero ambitions and taking all possible steps to drive for further efficiency to reduce our expenditure, targeting at least a 1% year-on-year real reduction (CPI-1%) in costs in line with the challenging target set in the FD.

The planned regulated income & expenditure for the year to March 2025 compared to the Final Determination is presented below.

SW Regulated Income & Expenditure Statement	Plan 2024/25 £m	WICS financial model	Inc/(dec) 2024/25 £m	Cumulative Inc/(dec)

[4] In 2021/22 planned investment (excluding completion) was £505 million, £31 million lower than the Final Determination Level. Completion investment in 2021/22 was £118 million, £173 million lower than the Final Determination level. In 2022/23 planned investment (including completion) was £694 million, £173 million higher than the Final Determination level.

[5] Cumulatively to 2022/23 responsive repair & refurbishment costs were £344 million, £161 million lower than the Final Determination level.

		underpinning FD 2024/25 £m		
Total revenue	**1,587**	**1,728**	**(141)**	**(326)**
Regulatory operating costs	(500)	(646)	(23)	9
PFI operating costs	(169)			
Interest charges	(146)	(188)	42	149
Costs before items subject to LTNC	**(815)**	**(834)**	**19**	**158**
Total available to support investment before LTNC items	**772**	**894**	**(122)**	**(168)**
Responsive repair & refurbishment costs	(225)	(279)	54	160
Developer contributions	(30)	(36)	6	15
Tax paid	(1)	(6)	5	18
Total LTNC Items	**(256)**	**(321)**	**65**	**193**
Surplus after charging LTNC items	**516**	**573**	**(57)**	**25**

Customer charges for 2024/25 have increased by 8.8% reflecting our current and future investment needs to protect services and to recover revenue lost over the past two years when charges were set at lower levels in recognition of the Covid 19 pandemic and the cost-of-living crisis. Despite this increase, charges still remain slightly below CPI since the start of the regulatory period and c. 8.7% below the charge path outlined in the FD.

However, due to the profile of charge increases, over the regulatory period revenue will be at least c £0.5 billion lower than the FD as shown in the chart below.

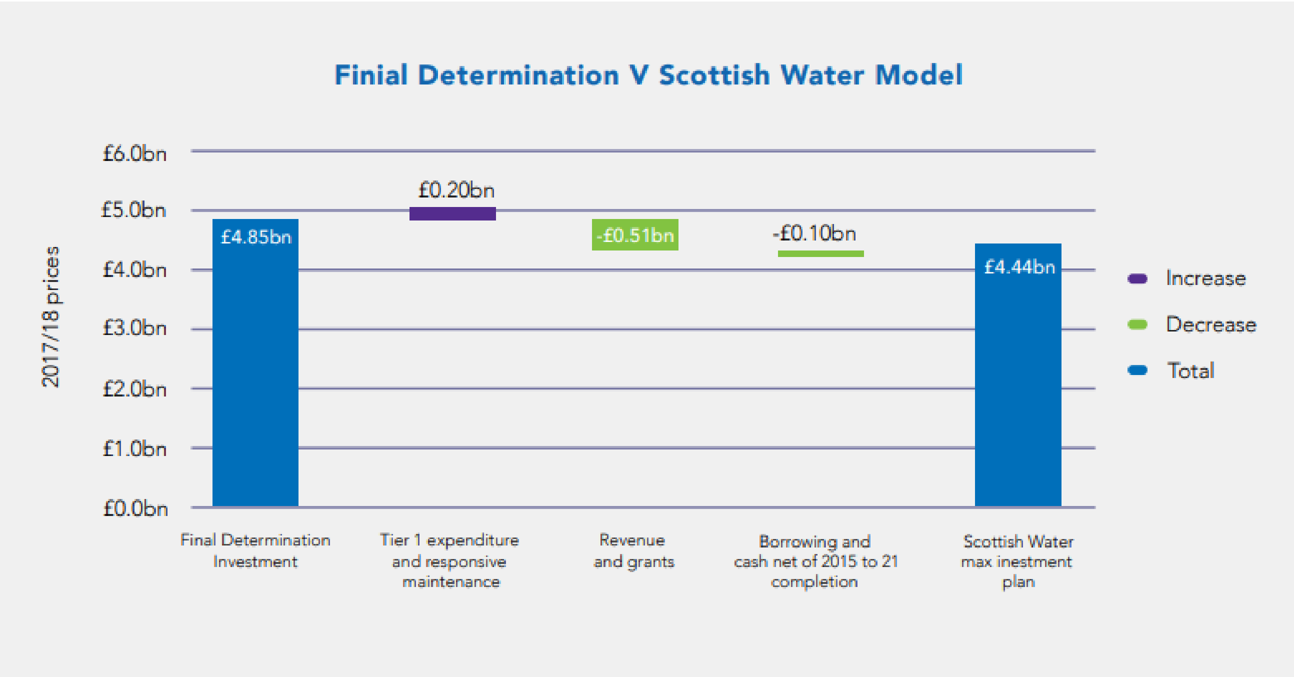
Costs for 2024/25, before items subject to LTNC, reflect business plans to out-perform the FD by £19m. Headline operating and PFI costs will increase in 2024/25, mainly reflecting the one-off successful appeal of the 2017 Water Undertaking revaluation in 2023/24 and continued inflationary pressures. However, relative to the FD, these pressures should be offset by lower net interest charges and further efficiency improvements supported by our Transformation programme.

Over the 2021-27 regulatory period, our expectation is that our costs before LTNC items, will be c. £0.2 billion lower than the FD.

Net new borrowing from the Scottish Government in 2024/25 is planned to be £170m. Planned investment combined with responsive repair and refurbishment costs are forecast in a range of £1,040m to £1,100m, the expected cash balance at the end of 2024/25 is within a range of £120m to £200m, the lower end being in-line with the risk appetite for a minimum cash balance available to deal with unexpected shocks.

Currently, Scottish Water's investment plan of £4.44 billion[6] assumes that charges over the 2021-2027 regulatory period will align with the FD level of CPI+ 12.6% but this is £0.4 billion less than the FD level as shown in the waterfall diagram below. If charges for 2025/26 and 2026/27 were set at a level of CPI + 2% then the amount of investment would fall by a further £0.15 billion[7].

[6] In 2017/18 prices
[7] In 2017/18 prices



2. Introduction

SW produces statutory consolidated accounts incorporating the results of all subsidiary companies. The consolidated statements also include the income statement, balance sheet and cash flow (and relevant notes) for SW only ('company'). Reconciliations between the statutory accounts and the regulatory tables are detailed in Table M3 and Appendix 1 to this document.

M Table financial information is for SW company only (i.e. excluding all subsidiaries) and is analysed between Core and Non-Core where required. The exceptions to this are tables M18W and M18WW with this explained in Section 5.

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.

3 Commentary – Tables M1 to M31

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 are self-explanatory.

<u>Table M1 – Tier 1 Income and Cost Statement</u>

Table M1 represents the Tier 1 income and cost statement, consistent with the financial reporting to the Scottish Water Board and as reported in the financial commentary of Scottish Water's Performance and Prospects Report for 2023/24.

Tier 1 revenue excluding infrastructure charges income and disposal proceeds (line M1.4) increased £81m or 5.9% to £1,446m (2022-23: £1,365m). This mainly reflects the charge increase in the year of 5% and new connections to services.

Disposal proceeds (line 1.6) increased £1.9m to £2.6m (2022-23: £0.7m) mainly reflecting the disposal of the former head office site during the year.

Net new borrowing (line M1.8) increased £71m to £196m (2022-23: £125m). The net new borrowing in the year reflects the borrowing per the original Final Determination of £170m plus the recovery of debt associated with the former North-East Scotland PFI.

Tier 1 operating costs before interest and tax (line M1.14) increased £69m or 8% to £888m. Each of the key lines and variances are explained in further detail below:

- Operating expenditure (line M1.10) increased £42m or 10% to £458m (2022-23: £416m) due to higher employee costs, increased bad debt charges and higher energy costs. However, these increases were partly offset by a £25m refund of rates charges following the successful appeal of the 2017 Water Undertaking revaluation.
- PPP costs (Line M1.11) decreased by £17m or 10%, to £160m (2023: £177m) reflecting a full year benefit from the absorption of the former North-East Scotland PFI activities into Scottish Water's wastewater operations in October 2022 and reductions in PFI costs indexed to gas prices.
- Responsive repair and refurbishment (Line M1.12) increased by £43m or 23% to £236m (2022-23: £192m) due to increased volumes which were influenced by increased disruptions to the network including Storm Babet in October 2023 and ageing treated water storage assets, and inflationary pressure on market prices.
- Developer contributions (Line M1.13) remained broadly constant at £33m.

Net interest charges (line M1.15) reduced £3m or 2% to £133m (2022-23: £136m) resulting from increased interest income from funds on deposit and a small reduction in weighted average interest cost of 0.1% to 3.1%.

Tax paid remained at nil, consistent with the previous year.

Memo lines 1.22 to 1.24 provide a like-for-like comparison of Operating costs with line M1.23 showing the amount of expenditure, which prior to 2021-22, will have been recognised as operating expenditure.

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

<u>Table M3 – Tier 1 Income and Cost Statement – Reconciliation to Statutory Accounts</u>

Table M3 reconciles the regulatory Tier 1 income and costs (Table M1) to the statutory income statement presentation shown in Table M4 Stat and SW's statutory income statement. 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), PFI costs (IFRIC 12) and the tax charge, including deferred tax.

An additional column was added in Table M3 in 2022/23 to recognise the reallocation of the loss from the absorption of the North-East PFI activities into the wastewater operations of Scottish Water. This column has been removed in 2023/24 as it is no longer required.

<u>Table M4 and M4b – Regulatory Accounts Income and Expenditure</u>

Table M4 is a regulatory accounting P&L that reflects regulatory accounting information with current cost depreciation based on Modern Equivalent Asset Values (MEAV) (rather than based on historic cost), with responsive and planned repair costs (line 4.4) aligned to presentation within the statutory income statement but excludes the majority of IFRS adjustments.

The majority of lines are populated from information presented in Table M1 and M3. All current cost adjustments have been calculated on a MEAV basis as agreed with WICS.

Lines M4.1, M4.2, M4.3 and M4.11 have been explained earlier in the commentary under Table M1. The remaining lines are explained in turn below:

Responsive and planned repairs (line M4.4) increased £88m to £318m (2022-23: £230m) due to higher volumes of repairs, driven by the ageing asset base (particularly treated water storage assets), the increasing impacts of extreme weather, and inflationary pressures on costs. £44m of the increase was associated with repairs to several treated water service reservoirs. Line M3.9 on Table M3 reconciles the responsive repair and refurbishment expenditure in M1.

Current cost depreciation (Line M4.5) has been calculated using MEAV. The MEAV adjustment in 2023-24 increases depreciation charges of £341m shown in lines M3.11 to M3.13 by £447m to £787m. The increase in the year of £114m reflects the increase in the MEAV.

Profit or loss on disposal (line M4.9) represents the disposal proceeds shown in Table M1 (line M1.6) less the cost of disposal.

Taxation shown in lines M4.13 and M4.14 shows the split of the tax charge shown on Table M3 excluding adjustments to tax relating to IFRS pension adjustments (line M3.19) between current and deferred tax.

Other gains and losses (Line 4b.4) shows the movement in 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

Table M5 is a regulatory accounting Balance Sheet that reflects regulatory accounting information using MEAV rather than historic cost with responsive and planned repair costs aligned to statutory accounting presentation but excludes the majority of IFRS adjustments

Tangible Assets (Line 5.1) and Current cost reserve (Line 5.23), represent MEAV adjusted values as explained in the M4 commentary above.

Working Capital and other creditors (line M5.2 and M5.14) are linked to Table M11. Commentary for M11 below highlights any significant movements when compared to prior year.

Cash balances (M5.3 and M5.4) decreased £110m to £280m (2022-23: £390m).The reduction in cash reflects a net cash outflow of £306m, due mainly to the growth in the investment programme, partially offset by net new borrowing from the Scottish Government of £196m.

Income and expenditure (Line 5.22) has increased £27m to £1,781m (2022-23: £1,754) reflecting the profit retained in line M4.19 of negative £419m and adding back the MEAV adjustment to depreciation of £447m outlined in the M4 and M4b commentary above.

The current cost reserve (line 5.23) has increased £25,459m reflecting the other gains and losses reported in line M4b.4 less the MEAV adjustment to depreciation outlined above.

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

Table M6 is a regulatory cash flow that aligns to the regulatory current cost P&L (Table M4) and the regulatory current cost Balance Sheet (Table M5). It includes a reconciliation to the 'Net cash flow from operating activities' (line 6.8) from the operating profit in M4.8.

Interest paid (line 6.10) of £146m includes intercompany interest paid to Business Stream of £2.5m and £1.6m to 3rd party LPs in relation to the settlement of wholesale billing and reconciliation process. The interest paid has been offset by interest income of £13m reflecting increased interest income from funds on deposit due to higher interest rates.

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:

		M Table / line ref	2022/23 £m	2023/24 £m
Opening short term capital creditor		M11.10	105.3	131.7
Add:	Capital investment (net of contributions)		908.8	1,054.9
Add:	Group asset purchase - SW Grampian		1.5	-
Less:	Responsive and planned repairs		(230.5)	(318.2)
	Closing short term capital creditor	M11.10	(131.7)	(138.4)
=>				
	Capital expenditure		**653.4**	**730.0**
Analysed:				
	Capital enhancement and growth expenditure	M6.14	283.1	334.3
	Asset replacement expenditure	M6.15	281.6	299.4
	Asset refurbishment expenditure (Tier 1a excluding responsive and planned repairs)	M6.16	71.1	74.8
	Developer Contributions	M6.17	17.6	21.5
	Capital expenditure (total)		**653.4**	**730.0**

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

		2022/23 £m	2023/24 £m
	Responsive repair and refurbishment (line M1.12)	192.4	235.8
	Tier 2 investment (Per M8 commetary below)	693.8	788.9
	Developer contributions (Line M1.13)	32.7	33.1
Less:	PFI investment	-	-
	Contributions	(3.4)	(3.0)
	Insurance recovery	(6.7)	-
	Capital investment (net of contributions)	**908.8**	**1,054.9**

<u>Table M6R – Regulatory Accounts – Ratio information</u>

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.

<u>Table M7 – Analysis of Turnover and Operating Income</u>

Table M7 analyses regulatory income between water and wastewater.

Turnover from services supplied to household customers increased by £59m or 6% to £1049m (2022-23: £990m) (line M7.1) reflecting the increase in household charges of 5% for both water and wastewater services, effective from 1 April 2023, and the net increase in properties connected to the network. The additional lines (lines M7.17 – M7.20) provide detail on the movements in household revenue.

Turnover from wholesale services provided to Licensed Providers increased by £23m or 6% to £382m (2022-23: £359m) (line M7.3) reflecting tariff increase of 5% (shown in M7.21) for both water and wastewater services and additional revenue generated from GAP sites. The additional lines (lines M7.21 – M7.26) provide a further analysis of the year-on-year movements in wholesale revenue.

Turnover from other sales reduced £1m or 7% to £14m (2022-23: £15m) (line M7.7).

Cash receipts in respect of infrastructure charges income reduced by £6m to £13m (Line M7.10) reflecting the downturn in the housing sector and the ability of developers to partly connect developments, rather than have to pay for the total site completion from the first connection. Disposal proceeds were up £2m to £3m as explained in M1 commentary above (line M7.11).

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 movements from the closing Final Determination cash position to the closing actual cash position of Scottish Water at 31 March 2024.

The Final Determination model has been updated consistent with prior year and reflects:
- the 2020-21 closing position for household, wholesale and other revenue;
- the 2020-21 closing position for cash (less SR15 completion);
- CPI inflation of 5.67% for 2023/24; and
- price increase of 5.0% based on a preceding October CPI of 11.1% for 2023/24.

The updated Final Determination model has then been compared to actual reported Tier 1 performance (as per Table M1), planned investment (Tier 2) performance (as set out in the Overview Commentary in section 1 above) and net new borrowing (as per Table M29) in 2023-24. 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 £94m, being £429m reported 2020-21 closing cash position, less £291m of SR15 completion costs, less £44m of cash utilisation as per the Final Determination model.
- Scottish Water closing cash is reported as £218m, being £280m closing cash reported on Table M5, lines M5.3 and M5.4, less remaining SR15 completion costs of £62m.
- Tier 2 investment in the year was £789m including completion costs of £50m. So, excluding completion Tier 2 investment was £739m compared to modelled FD Tier 2 investment of £672m for 2023-24.

Our updated Final Determination model and working file is included as part of our annual return submission and is summarised in the table in the overview section.

Working capital movements reflect the difference between the Tier 1 statement, Tier 2 investment, and the total cash movement in the year. It should be noted that the working capital movement in table M8 is not equivalent to the working capital movement in M11. This is because M8 compares the Tier 1 and Tier 2 movements on an accruals basis against the Final Determination which is on a purely cash basis. M11 however, compares the movement in balance sheet balances from 2022-23 to 2023-24. The basis of the calculation used is consistent with prior years. The Working capital movement of £38.5m mainly reflects the change to wholesale prepayment terms.

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 and are combined with any prior period adjustments when the LTNC level changes to reflect the latest forecast view. This is summarised in the table below and reflect the values presented in the overview in section 1:

LTNC item	LTNC	Actual	Timing	Prior Years Adj	Total Timing adj
Responsive repair and refurbishment	225	235.8	10.8	(20)	(9.2)
Developer contributions	30	33.1	3.1	-	3.1
Tax paid	1	0	(1)	53	52

The borrowing timing adjustment is calculated as the difference between the borrowing received in the year compared to the borrowing levels outlined in the Final Determination financial model. The increased borrowing in the year is explained in the M1 commentary above.

The Tier 2 investment timing adjustment is calculated as total Tier 2 investment of £789m less SR15 completion costs in the year of £50m, giving £739m of SR21 Tier 2 investment. When compared to Tier 2 investment per the updated Final Determination of £672m the timing impact equates to £67m.

Table M11 – Regulatory Accounts Working capital (Core)

Table M11 sets out the movements in working capital. All of the balances presented in Table M11 are on a regulatory accounting basis except for lines 11.18 and 11.19. Appendix 1.2 shows the reallocation of working capital reported in M11.15 and M11.16 (shown as Line 5.2 and 5.14 on appendix 1.2) to the reported statutory IFRS company balance sheet.

Table M18W and M18WW commentary – see Section 4 below

Table M21 – Taxation analysis

Table M21 provides a taxation analysis,

The 2022/23 data has been updated to reflect the actual 2022/23 tax computation submitted to HMRC.

Tables M27a and M28a – Consolidated IFRS Income Statement and 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 to arrive at the presentation within the Performance and Prospects report. The core column is linked to tables M4 and M5.

The core column in M27a is populated with the values from Table M4 with current cost items being removed in the core IFRS adjustment column (Lines M27.5 and M27b.4) The consolidated column allows for a direct comparison to the published total comprehensive income for the year.

The core column in M28a is populated with the values from Table M5 with current cost items being removed in the core IFRS adjustment column (lines M28a.1 and M28a.23).

The significant movements in tables M27a and M28a are explained in the sections below:

Table M27a – Consolidated IFRS Income Statement

The core IFRS adjustments, excluding the current cost adjustments explained above, are:

- M27.2 - The operating expense adjustment reflects the accounting treatment of Cloud software service costs as presented in Table M3.7.

- M27.3 - This expense adjustment reflects the adjustments associated with PFI finance lease costs under IFRIC 12 to separate the costs into a liability repayment and an interest cost as shown in line M27.11.
- M27b.2 - Is the net actuarial gain at March 2023 calculated from changes in actuarial assumptions and expected return on assets set at the beginning of the year. The actuarial assumptions and valuation of the defined benefit pension scheme calculation are provided by independent qualified actuaries.
- M27b.3 - This represents the actuarial service cost and interest expense of the defined benefit pension scheme, net of actual cost of contributions paid to the pension funds as per IAS19.

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, and Scottish Water Services (Grampian) (SWSG).

Table M28a – Consolidated Historic Cost Balance Sheet

The core IFRS adjustments, excluding the current cost adjustments explained above, are:

- M28a.2 - This entry primarily relates to the timing of pension fund contribution payments reflected in M28.17.
- M28a.17 - This represents the net pension liability required under IAS19 at the end of the period. This is independently calculated and is audited as part of our year end audit to ensure compliance with the standard. Actuarial assumption changes result in the pension liability being presented as an asset for 2023/24. Additional information can be obtained from note 22 to the Financials in our Performance & Prospects report for 2023-24.
- M28a.18 - This entry is reducing the unfunded pension benefit provision already included in post-employment asset / liabilities, line M28.17.
- M28a.24 – This value represents the remaining liability under IFRIC 12 for all PFI contracts.

The Non-core / non licensed column includes the remaining non regulatory business within SW and the balance sheets of SWBSH, SWHH, SWH, and SWSG.

Table M29 – Interest

Table M29 reconciles the movement in net interest expense presented on Table M4 (line M4.11).

Line M29.11 adjusts the calculation in line M29.7 for timing differences. This is required as a reconciling item as line M29.7 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.

Interest income increased £9m (line M 29.9) reflecting increased interest rates throughout the year from cash on deposit.

Prepaid wholesale charges interest (line M29.10) increased £3m to £4m reflecting an increase in the average number of months prepayment required from Licenced Providers.

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 £137m of loans repaid during 2023/24.

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 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.

(Increase)/decrease in costs			£m	*Note ref.*
	Loss before tax per table M4 (line M4.12)		**(409.7)**	
IAS38	Cloud software expenditure	(22.3)		*1.*
IFRIC 12	PFI costs - depreciation & lease liability	10.2		*2.*
	Current cost depreciation	446.6		
Scottish Water - net decrease in costs			**434.5**	
	Profit before tax on table M4 stat (line M4Stat.12)		**24.8**	

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 £22m and are included within line M4Stat.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 M4Stat.3 'PPP costs' consists of the operating costs totalling £128m in 2023-24. The total depreciation charges of £12m are in line 4.5, the finance costs of £10m 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	2023/24 £m
Total PPP costs in Table M4	M4.3	**160.2**
IFRS adjustments:		
Less: Depreciation charges - PPP leased assets		(12.1)
Less: Finance lease obligation - to balance sheet		(20.6)
Total PPP costs in Table M4 Stat	M4.3 stat	**127.5**

Table M4b Stat – Regulatory Accounts – Statement of comprehensive income

This table has been completed on a consistent basis with prior years 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 M4bStat.1) is the Core retained profit from Table M4 Stat (line M4Stat.19).

The actuarial gains/losses on post-employment plans (line M4bStat.2), net of related deferred taxation, are as reported in the statutory results for Scottish Water.

The post-employment plans (non-cash), net of tax (line M4bStat.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 M4.2). The net adjustment of £11.3m is analysed as follows:

	SW £m
Pension service cost adjustments	10.9
Interest on pension scheme net liabilities	0.6
Deferred tax on IAS 19 adjustments	(0.2)
	11.3

There were no other gains or losses (line M4bStat.4).

Table M5 stat – Regulatory Accounts Balance Sheet

Tangible assets balance (line M5Stat.1) equals the Property, plant & equipment and Intangible asset balance per the IFRS accounts.

PFI assets form part of the Property, plant & equipment balance, and totalled £182m 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 M5Stat.23. 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			163.0
	Owned assets	*(reclassification)*		19.2
			M5, line 5.1	**182.2**
Other loans & borrowings				
	Finance lease liability	< 1 year		23.6
		> 1 year		130.0
		total	**M5, line 5.23**	**153.6**

Other creditors due after one year (line M5Stat.14) consists of payments received in advance of £68m and deferred income of £13m.

Post-employment asset / (liability) (line M5Stat.17) shows the retirement benefit asset under IAS 19, net of the related deferred tax balance, as described in the M4 Stat commentary above and detailed below.

Balance sheet		
Retirement benefit obligations (Post employment liabilities)		(20.8)
Deferred taxation on retirement benefit obligations		5.2
Retirement benefit obligations - net	**M5, line 5.17**	**(15.6)**

The other provisions total of £27m (line M5Stat.18), reflect an increase of £3m compared to 2022-23, and represents the wholesale income uncertainty provision. This provision relates to uncertainty around the wholesale/non-domestic income relating to expected credits being applied to estimated bills as part of the CMA process.

Retained earnings (line M5Stat.23) consists of the total of the reserve brought forward from 31 March 2023 and the retained profit for 2023/24 (Table M4 stat, line M4bStat.5), as detailed below.

		£m
Retained earnings reconciliation as per table M5 stat		
Retained earnings as at 31 March 2023	**M5 stat, line 5.23**	1,683.1
Prior year restatement in respect of cloud software (IAS 38)		-
Total comprehensive income for the year	**M4 stat, line4b.5**	(7.9)
Retained earnings carried forward at 31 March 2024	**M5 stat, line 5.23**	**1,675.2**

4. Commentary– Tables M18W & M18WW

Introduction

The M18 tables are produced for Scottish Water regulated and non-regulated activity (including non-regulated activities within Scottish Water Horizons), prepared on a historic cost basis and excluding IFRS adjustments.

To aid comparison, the table below reconciles Scottish Water's Tier 1 operating costs, as per Table M1, to cost data included in the M18 tables of the Regulatory Accounts.

	Table ref	£m				
Tier 1 operating costs	M1.10	458.4				
Add: Repair and refurbishment expenditure previously expensed as operating expenditure in SR15	M1.23	61.4				
Less: directly capitalised tier 1a spend previosuly expensed as operating expenditure in SR15	M18W.44, M18WW.45	(12.0)				
SW regulated operating costs		**507.8**				
SW Non-reg operating costs		3.0			**M18W/WW Tables**	
SW Horizons operating costs		13.1	**Diff**	**Total**	**M18W**	**M18WW**
Operating costs		**523.9**	**(6.9)**	**517.0**	274.2	242.8
PFI costs	M1.11	160.2				
PFI Costs		**160.2**	**7.1**	167.3	0.0	167.3
Total operating expenditure	M18W.43, M18WW.44	**684.1**	**0.2**	**684.3**	**274.2**	**410.1**
Explained by charges to SWBS and others for support			**(0.2)**			
* Table References - lines:					[M18W.43]	[M18WW.44]

The line differences in the table above are explained as follows:

- £7.1m difference in the above reconciliation to the M18 Tables re. PFI costs represents costs incurred by SW in relation to PFI activities;
- The expenditure totals differ slightly due to charges to SWBS for support being excluded in the preparation of the M18 tables.

Cost analysis in Tables M18 W and M18 WW was prepared using reports from SW's 2022-23 Activity Based Management (ABM) process updated with 2023-24 general ledger costs. The simplified ABM methodology used in 2023/24 did not differ materially from the methodology in 2022/23 and was audited as part of the Binnies audit in May 2024. A detailed explanation of the methodology has been provided in Appendix 2 to this commentary.

Commentary

For 2023/24, the operating expenditure sections of the M18 tables have been populated using SW's ABM model on a basis consistent with 2022/23. Rows M18.43 (W) and M18.44 (WW) show total regulated operating costs including responsive repairs and refurbishment costs of £49.4m.

Additional 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 the M1 table.

Tier 1a Reconcillaition	2023/24 £m
Tier 1a spend reported within Total operating expenditure	49.4
Water M18.44 Repair and refurbishment previously expensed as operating expenditure in SR15 (Tier 1a)	6.1
Wastewater M18.45 Repair and refurbishment previously expensed as operating expenditure in SR15 (Tier 1a)	5.9
M1 table line 1.23 - Repair and refurbishment expenditure previously expensed as operating expenditure in SR15	**61.4**
Water M18.45 Remaining responsive repair and refurbishment expenditure (Tier 1a)	89.2
Wastewater M18.46 Remaining responsive repair and refurbishment expenditure (Tier 1a)	85.2
M1 table line 1.12 - Responsive repair and refurbishment	**235.8**

Total operating costs increased by £22.2m (3.3%) to £684.3m.

Total Operating Costs	**2023/24** £m	**2022/23** £m	**Variance** £m
Operating expenditure - Water M18w.43	274.157	272.153	(2.004)
Operating expenditure - Waste M18ww.44	410.132	389.956	(20.176)
	684.289	**662.109**	**(22.180)**

Analysis by activity:

	2023/24 £m	**2022/23** £m	**Variance** £m
Wholesale	604.665	592.252	(12.413)
Retail	63.401	56.146	(7.255)
Non Regulated	16.224	13.711	(2.513)
	684.289	**662.109**	**(22.180)**

Wholesale activity costs increased by £12.4m (2.1%) from 2022/23 to £604.7m reflecting the following key movements at line level:

- An increase in direct employment costs of £10.2m (including £1.2m relating to former PFI sites) mainly relating to pay inflation;
- An increase in direct power costs of £23.7m (including £1.5m relating to former PFI sites), primarily due to wholesale price increases;
- An increase in hired and contracted services of £2.9m, driven by inclusion of former PFI assets for a full year adding £1.5m, contractor price increases of £0.8m, leakage recovery works of £0.4m, additional tank cleaning costs of £1.8m, and additional sludge costs of £0.3m relating mainly to new operating costs linked to asset investment, partially offset mainly by reduced reinstatement costs of £1.7m;
- A decrease in PFI costs of £13.8m, primarily due to the transfer of NE & Highland schemes into SW's direct cost base for a full year;
- Materials and consumables costs increased by £3.3m (including £0.4m relating to former PFI sites), due primarily to higher chemical costs linked to unit price increases and, to a lesser extent,

bulk purchases to combat algal bloom across multiple sites and to ensure wastewater compliance;

- Other direct costs decreased by £6.5m due to lower tanker hire costs to maintain water supplies during periods of water shortage, lower insurance claims, and lower fuel costs due to price decreases and an incorrect classification as other direct costs in 2022-23;
- General and support costs increased by £13.8m, primarily due to pay progression, additional unfunded pension accruals following further valuation work, CPI price inflation across digital contracts and the progression of new digital projects;
- Costs associated with scientific services increased by £3.1m, reflecting pay and general inflation; and
- Local authority rates costs decreased by £25.7, primarily reflecting the rates refund of £25m associated with the appeal of the 2017 valuation of the Water Undertaking.

Retail activity costs increased by £7.3m (12.9%) to £63.4m primarily driven by an increase in employment costs and an increase in bad debt charges.

Non-Regulated costs have increased by £2.5m (18.3%) mainly reflecting increased employment costs and an increase in developer projects.

Scottish Water
Year ended 31 March 2024
Reconciliation of Regulatory Accounts Income Statement (Table M4) to IFRS Regulatory Income Statement (Table M4 stat) & Statement of Comprehensive Income (Table M4b stat)

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	£m		
4.1	Turnover	1,446.357						1,446.357	4.1	Turnover
4.2	Operating expenditure	(458.419)			(22.250)			(480.669)	4.2	Operating expenditure
4.3	PPP costs	(160.176)				32.674		(127.502)	4.3	PPP costs (excluding PPP interest costs)
4.4	Responsive and planned repairs	(318.177)						(318.177)	4.4	Responsive and planned repairs
4.5	Current Cost Depreciation	(787.413)	446.553			(12.125)		(352.985)	4.5	Depreciation charge
								-		
4.6	Amortisation of deferred income	1.954						1.954	4.6	Amortisation of deferred income
4.7	Operating income	-						-	4.7	Operating income
4.9	Profit or loss on disposal of fixed assets	(0.658)				-		(0.658)	4.9	Profit or loss on disposal of fixed assets
4.10	Other income	-						-		
4.11	Net interest receivable less payable	(133.133)				(10.358)		(143.491)	4.11	Net interest receivable less payable
								-		
								-		
4.12	Profit on ordinary activities before taxation	(409.665)	446.553	-	(22.250)	10.191	-	24.829	4.12	Profit before taxation
4.13	Taxation - current	-						-	4.13	Taxation - current
4.14	Taxation - deferred	(9.516)						(9.516)	4.14	Taxation - deferred
4.19	Retained profit for year	(419.181)	446.553	-	(22.250)	10.191	-	**15.313**	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		
4b.1	Profit for the year	**(419.181)**						**15.313**	19.1	Profit for the year
4b.2	Actuarial gains/losses on post employment plans	-	(34.520)	-	-	-	-	(34.520)	19.2	Actuarial gains/losses on post employment plans
4b.3	Post emp. plans non cash IAS19 adjs, net of tax	-	-	-	10.857	0.573	(0.165)	11.265	19.3	Post emp. plans non cash IAS19 adjs, net of tax
4b.4	Other gains and losses	25,905.404	-	(25,905.404)	-	-	-	-	19.4	Other gains and losses
4b.5	Total comprehensive income for the year	**25,486.223**	(34.520)	(25,905.404)	10.857	0.573	(0.165)	**(7.942)**	19.5	Total comprehensive income for the year

Scottish Water
Year ended 31 March 2024
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:					TABLE M5 Stat				Reallocations		Statutory Accounts (IFRS)	
			IAS19	CCA	IFRIC12	IAS38	Reallocate								
			Pension /	Fixed assets /	PFI assets/	Cloud									
Line	Description	Core	holiday pay	reserves	finance lease	Software	reserves		Line	Description	Non core	Various		Company	Description
		£m (3dp)						£m (1dp)						£m (1dp)	
	Fixed Assets									*Fixed Assets*					*Fixed Assets*
5.1	Tangible Assets	109,105.094		(101,730.6)	163.0	(83.2)		7,454.2	5.1	Tangible Assets		(12.0)	(i)	7,442.2	Property, plant and equipment
												12.0	(i)	12.0	Intangible assets
								-				37.6	(iv)	37.6	Investments
												55.6	(vii)	55.6	Retirement benefit asset
	Total fixed assets	109,105.094						7,454.2							
												4.4	(iv)	4.4	Inventories
	Other Operating Assets and liabilities											133.0	(iv)	133.0	Trade and other receivables
5.2	Working capital	(278.132)	(29.0)					(307.1)	5.2	Working capital	7.8	315.8	(iv)	16.5	Current tax asset
5.3	Cash at bank and in hand	100.365						100.4	5.3	Cash		(100.4)	(ii)	-	
5.4	Short term deposits	179.800						179.8	5.4	Short term deposits		100.4	(ii)	280.2	Cash and cash equivalents
5.5	Overdrafts	-						-	5.5	Overdrafts				-	
5.6	*Net operating assets*	109,107.127						7,427.3	5.6	*Net operating assets*				7,981.5	*Total Assets*
	Non-operating assets and liabilities														
5.7	Borrowings (excl. govt. loans)	-						-	5.7	Borrowings (excl. govt. loans)		(436.9)	(iv)	(436.9)	Trade and other payables
5.8	Investment - loan to group company	-						-	5.8	Investment - loan to group company		(23.6)	(v)	(23.6)	Other loans and borrowings
5.9	Investment - Other	37.638						37.6	5.9	Investment - Other		(37.6)	(iv)	-	
5.10	Corporation tax payable	16.478						16.5	5.10	Corporation tax payable		(16.5)	(iv)	-	
5.11	Dividends payable	-						-	5.11	Dividends payable					
5.12	Total non-operating assets and liabilities	54.116						54.1	5.12	Total non-operating assets and liabilities					
												(16.0)	(vi)	(16.0)	Provisions for liabilities
	Creditors - amounts falling due after more than one year													(476.5)	*Current Liabilities*
5.13	Borrowings (excl. govt. loans)	-						-	5.13	Borrowings (excl. govt. loans)				-	
5.14	*Other Creditors*	(81.800)						(81.8)	5.14	*Other Creditors*				(81.8)	Trade and other payables
5.15	Total Creditors falling due after more than one year	(81.800)						(81.8)	5.15	Total Creditors falling due after more than one year					
												(130.0)	(v)	(130.0)	Other loans and borrowings
	Provision for liabilities & charges														
5.16	Deferred tax provision	(690.694)						(690.7)	5.16	Deferred tax provision	(1.2)	5.3	(vii)	(686.6)	Deferred tax liabilities
5.17	Post employment asset / (liabilities)	-	(15.6)					(15.6)	5.17	Post employment asset / (liabilities)		(60.8)	(vii)	(76.4)	Retirement benefit obligations
5.18	Other provisions	(39.402)	12.8					(26.6)	5.18	Other provisions		16.0	(vi)	(10.6)	Provisions for liabilities
5.19	Total provisions	(730.096)						(732.9)	5.19	Total provisions					
5.20	*Net assets employed*	108,349.347	(31.8)	(101,730.6)	163.0	(83.2)	-	6,666.7	5.20	*Net assets employed*	6.6	(153.7)		6,519.6	*Net assets*
	Capital and reserves									*Capital & reserves*					*Capital & reserves*
5.21	Government Loans	4,704.432						4,704.4	5.21	Government Loans				4,704.4	Government loans
5.22	Income and expenditure account	1,780.836	(31.8)		163.0	(83.2)	(1,675.2)	153.6	5.22	PPP debt / lease		(153.6)	(v)	-	
5.23	Current cost reserve	101,730.649		(101,730.6)			1,675.2	1,675.2	5.23	Income and expenditure account	6.6			1,681.8	Retained earnings
5.24	Other reserves	133.430						133.4	5.24	Other reserves				133.4	Other reserves
5.25	*Total capital & reserves*	108,349.347	(31.8)	(101,730.6)	163.0	(83.2)	-	6,666.7	5.25	*Total capital & reserves*	6.6	(153.6)		6,519.6	*Equity*

Appendix 2

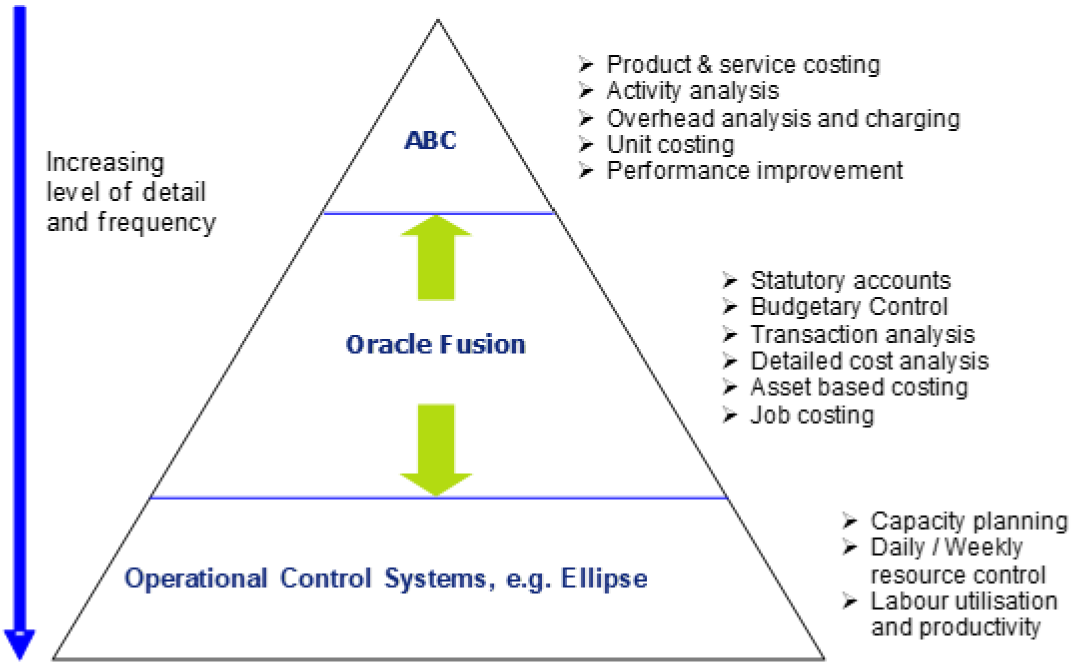
Methodology for Scottish Water's Activity Based Management (ABM) process

Cost analysis in the M18 Tables (M18W and M18WW) was prepared using reports from Scottish Water's 2022/23 Activity Based Management (ABM) model, updated for 2023/24 general ledger costs, and on a historic cost basis excluding IFRS adjustments. The explanation below describes the 2022-23 allocation calculations.

ABM provides analysis of the costs of key activities and processes and seeks to link these to the factors that cause or drive our level of cost. This allows us to develop an understanding of the full cost of providing services, either internally within Scottish Water, or to our external customers.

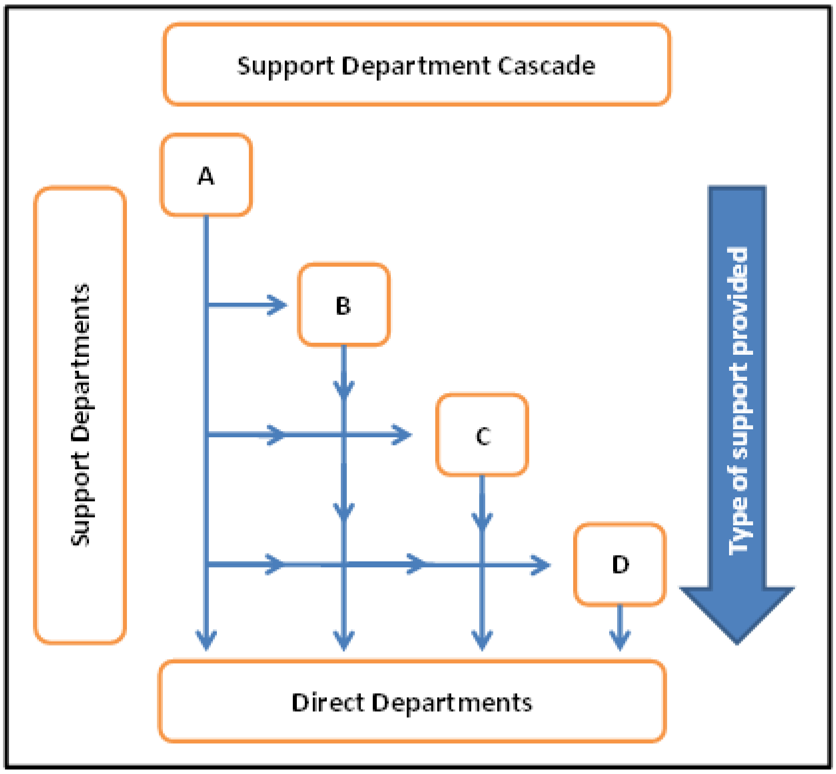
Scottish Water has built an ABM toolkit founded upon consistent principles which apply across some key core systems and processes.

Activity Based Management data (financial and non financial) is captured in various corporate sources. The key systems which provide ABM analysis for the M18 Tables are:



System	ABM Process Overview
Ellipse Works & Asset Management System	Ellipse is used to hold Scottish Water's Asset Inventory and to manage operational activity by individual job (work order), activity and asset. Time spent working on work orders is captured in Ellipse via timesheets, integrated mobile devices or laptops. Material issued to jobs from stock is also captured by work order. Time and materials are then costed and interfaced to the Oracle Fusion Financial System on a daily basis. See overview diagram below.

Oracle Fusion Financial & Procurement System	Oracle Fusion is Scottish Water's primary financial and procurement system. The key modules utilised by Scottish Water are Procurement, Accounts Payable, Projects, Timesheets, Billing, Accounts Receivable, General Ledger & Fixed Assets. Accounting separation within the Scottish Water group of companies has been enabled within Oracle Fusion. Business Units are the highest level entity in Oracle Fusion and are used to securely separate data whilst providing access to data and processes. Business units have been used to separate all subsidiary companies from Scottish Water. Cross-business unit transactions can only be made via inter-company invoicing. This ensures there is sufficient governance surrounding any inter-company transactions. Within Scottish Water capture of activity based information within Oracle Fusion has been enabled through the set up of our coding structure, systems and processes. Cost codes have been set up within Oracle Fusion to capture and sub-analyse costs by: • Individual work order; • Individual asset; • Each project; • Each support department; and • Expense subjective (account). All costs are held in Oracle Fusion and allocated either directly through Oracle Fusion Procurement or operational costing through the Ellipse-Oracle Fusion interface. Oracle Fusion, therefore, provides comprehensive costing analysis, on a monthly basis, of the costs directly attributable (including some key support activity recharges) to each team, asset, zone, project, service and job.
Excel (ABC) Activity Allocation Model	The ABC calculations are carried out in a model using excel spreadsheets to give transparency of cost allocations and optimise processing time. The overall cost allocation method is broadly unchanged from the earlier Hyperion Profitability & Cost Management (HPCM) model and uses the same cost inputs, cost drivers and processing logic. The process allocates support department costs against support activities in a 'cascade' in order of the nature of support provided, those departments providing the most support to other support departments first, and then cascades costs in one direction only, as shown in the diagram below.

	 The ABC allocation model is structured around Scottish Water's key (c.250) activities and is run annually to cover all profit and loss expenditure. Oracle Fusion feeds total expenditure directly into the modelling process. Where activity splits have already been captured, e.g. Ellipse effort by activity / asset, these are also fed directly into the model process. Costs are analysed by activity and for each activity a non financial driver is captured. The non financial driver is the measurable factor which is judged to drive activity cost, or the level of resource consumption. In the model these drivers are used to allocate activity costs to services. The non financial driver data is collected from a variety of sources. Output from the ABM model is an estimate of the full cost of services, by activity, which feed into the E & M Table classifications.
Non-financial Driver Data Sources	Examples of systems and drivers are: • LIMS – Lab tests processed and samples taken; • Oracle CRM – Customer calls and written contacts; • Gemini – Waste movements; • Ellipse – Number of jobs, man hours, stores issues, etc; and • Oracle Fusion – Number of invoices, purchase orders, customer bills, man hours.

Ellipse / Oracle Fusion Integration