ANNUAL REPORT AND ACCOUNTS 2023-24

WICS Economic regulation for Scotland's water

CONTENTS

SG/2024/281 For the period 1 April 2023 to 31 March 2024

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

Introduction

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

This report outlines our work in 2023-24, the third year of a six-year regulatory control period. It is presented in three parts:

1. The performance report consisting of:

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

2. The accountability report consisting of:

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

3. The financial statements consisting of:

- Statement of comprehensive net expenditure for the year to 31 March 2024
- Statement of financial position at 31 March 2024
- Statement of cashflows for the year to 31 March 2024
- Statement of changes in equity for the year ended 31 March 2024
- Notes to the financial statements.

1. Performance report

1.1 Performance Overview

This performance overview summarises our purpose, the outcomes we aim to achieve, and the key challenges and risks we face.

STATEMENT FROM THE CHAIR

I am pleased to present our annual report for 2023-24, marking the third year of our current regulatory control period. This report highlights WICS' achievements and openly addresses the challenges we have faced, reaffirming our essential role in regulating Scotland's water industry.

REFLECTING ON OUR ACHIEVEMENTS

Over the past year, WICS has played a pivotal role in regulating Scottish Water amidst a challenging economic landscape. We have worked diligently to ensure Scottish Water continues to improve its performance, delivering the best possible value to customers. We have strengthened our regulatory framework and begun reviewing our regulatory approach to prepare for setting charges for the 2027-33 period.

Internationally, the recognition of Scotland's publicly owned water industry model continues to grow, creating more opportunities for WICS to collaborate with countries seeking to replicate our approach. These key achievements reflect our ambition to continually strive for excellence, developing and improving our regulatory approach to benefit the people of Scotland.

ADDRESSING THE CHALLENGES

This year has also been a particularly challenging period for WICS. In December 2023, the Auditor General issued a Section 22 report[1] on WICS' 2022-23 Annual Report and Accounts, highlighting governance and financial management weaknesses that raised concerns about our focus on value for money. Since then, we have taken decisive action to strengthen our governance and financial controls. We are engaging fully with the Public Audit Committee and other review bodies to ensure we learn from the past and apply those lessons as we move forward.

While these changes have undoubtedly placed WICS in a stronger position, we recognise that meaningful transformation takes time. We are committed to regaining trust and reaffirming our role as an economic regulator that upholds the highest standards in our regulatory approach and how we manage our resources. We will continue to be transparent, reporting on our action plans and holding ourselves accountable for successfully delivering these improvements.

[1] Section 22 reports are prepared by the Auditor General if any specific concerns or issues have been raised in the audit of one of the public bodies for which he is responsible. This is done under Section 22 of the Public Finance and Accountability (Scotland) Act 2000.

THE IMPORTANCE OF OUR ROLE

Scotland has benefitted significantly from a model where Scottish Water is publicly owned, commercially run, and subject to rigorous economic regulation. This model has kept water charges in Scotland among the lowest in the UK while enabling Scottish Water to make significant investments and improvements in service levels.

The success of our industry underscores the significant impact that robust economic regulation can have—not only in driving operational efficiency but also in ensuring that customers receive high-quality services at a fair price. By carefully setting price caps and closely monitoring financial and operational performance, WICS' role is fundamental in ensuring that customers pay no more than necessary for essential water and wastewater services.

Economic regulation is also vital to create an environment where innovation can thrive, enabling Scottish Water to adapt to the changing needs of customers and the environment. As we face the challenges of climate change, ageing infrastructure and evolving customer expectations, our regulatory framework is critical to incentivise efficiency, encourage long-term planning, and promote the responsible use of resources.

Economic regulation has clear benefits for customers: It ensures that water services are delivered at the lowest reasonable cost while maintaining high standards of customer care. It also provides the transparency and accountability necessary for the public to trust that their water services are managed efficiently and effectively.

LOOKING AHEAD

Looking ahead, we will maintain our focus on delivering best value for customers, working closely with Scottish Water and other stakeholders to ensure our regulatory framework remains fit for purpose. We are committed to promoting customers' interests, driving efficiency, and supporting the sustainable development of Scotland's water industry.

I am grateful to our employees and stakeholders for their commitment and engagement as we navigate this period of change and improvement. I look forward to working together to maintain a robust, sustainable water industry that reflects the needs and aspirations of the people we serve.

Ronnie Hinds
Chair
November 2024

SUMMARY PERFORMANCE STATEMENT FROM THE INTERIM CHIEF EXECUTIVE AND ACCOUNTABLE OFFICER

WICS was established in 2005 to ensure that Scottish Water delivers high-quality service while keeping costs fair for customers. This year, one of the most challenging in our history, has tested our resolve and underscored our commitment to this mission. As Interim Chief Executive, I want to reflect on the challenges we have faced, our progress, and our unwavering focus on delivering value for Scotland.

STRENGTHENING GOVERNANCE AND CULTURE

In December 2023, the Auditor General issued a Section 22 report on WICS' 2022-23 Annual Report and Accounts, highlighting governance and financial management weaknesses that raised concerns about our focus on value for money. Following the departure of our CEO at the end of the year, the Leadership Team and I acted swiftly to address these issues. Guided by the insights from the report, we have overhauled our governance and controls including revising our expenses policy, reinstating an approval panel to scrutinise expenditures rigorously, and significantly strengthening our internal reporting processes. These actions help to ensure robust oversight and informed decision-making at all levels of WICS.

Our review of all transactions from the 2022-23 financial year and the first nine months of 2023-24 was crucial in fully understanding the issues raised. This comprehensive approach provided further insights into areas for improvement and has allowed us to support Audit Scotland's external audit of the Annual Report and Accounts, which we present here. Moving forward, we are fully committed to supporting all reviews, including those by the Public Audit Committee and the Scottish Government, to ensure that lessons from our experiences are shared and contribute to stronger governance across the public sector.

PLANNED CHANGES FOR 2024-25

Despite the challenges we have faced, our focus on delivering our strategic objectives remains resolute. Since my appointment as Interim CEO in March 2024, I have engaged closely with employees, the Leadership Team, the Board, and stakeholders to develop a robust organisational change programme. Our efforts are centred on clarifying roles, responsibilities, and budgets, which will further embed a culture of value for money within WICS. We also recognise the need to strengthen key functional areas such as human resources, risk, assurance and communications.

Our decision to re-establish a physical office presence and adopt a hybrid working model is a significant step in fostering better collaboration and cohesiveness within and across teams. This move will provide our teams with greater opportunities for in-person interaction while retaining the flexibility of remote work. These early steps begin a broader reform journey, paving the way for wider organisational change within WICS.

DELIVERING FOR CUSTOMERS WITH A COMMITMENT TO IMPROVEMENT

Despite our organisation's challenges, we have continued to fulfil our core responsibilities while taking important steps to strengthen WICS and better serve customers, communities and the environment.

Our first strategic objective—**supporting the sector vision and ministerial objectives**—has been a priority. We refined our regulatory framework to remain robust and adaptable, enabling Scottish Water to meet the Scottish Ministers' objectives. Additionally, we laid the groundwork for the upcoming Strategic Review of Charges 2027-33, ensuring our approach is informed by lessons learned and stakeholder engagement.

The second objective—**challenging Scottish Water to achieve best-in-class service levels**—drove us to enhance oversight and data collection. We made significant progress in refining Scottish Water's reporting mechanisms, which are vital for setting future price limits and monitoring performance. Our 2022-23 performance report highlighted key improvements, and we implemented crucial changes to ensure continued progress.

For our third objective—**international leadership in economic regulation**—we aligned with the Scottish Government's Hydro Nation initiative. Although we paused international project work in 2024 to reassess our approach, we completed significant collaborations, like our work with the New Zealand government. These efforts provided valuable development opportunities for our staff and reinforced our leadership in global water regulation.

A PERSONAL COMMITMENT TO THE FUTURE

As we continue to implement these changes, I am personally committed to rebuilding trust in how we manage ourselves as a public body. The challenges we have faced this year have underscored the importance of transparency, accountability, and continuous improvement—principles we demand of Scottish Water and are equally committed to embedding within WICS. I have every confidence in the strength and dedication of our team, and I am certain that, with our continued focus, we will overcome these challenges and continue to deliver effectively for Scottish customers. Together, we will make WICS a resilient and effective force, consistently providing benefits to customers, communities, and the environment and helping to realise the vision for the water industry in Scotland.

OUR PURPOSE AND STRATEGY

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

We published our Corporate Plan for 2021-27 in December 2020. The plan, which was agreed with Scottish Ministers, explains:

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

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

In our annual report, we report on our progress each year against the objectives set out in the Corporate Plan.

OUR ORGANISATIONAL MODEL

WICS is sponsored by the Scottish Government's Directorate for Energy and Climate Change.

Our Board comprises four non-executive members (including the Chair) and the Chief Executive Officer (CEO). The Board is responsible for overall governance. Following the departure of the former CEO in December 2023, an interim CEO was appointed in March 2024. In February 2024, we accepted the resignation of one of our Board members. Two interim Board members were appointed on 15 July for a period of 12 months. The governance statement within the Accountability Report covers further information about our Board Members and the role of our Audit and Risk Committee (ARC).

We are funded through a levy on Scottish Water and the retailers participating in the competitive non-household market. Scottish Ministers set the size of these levies in light of the objectives, and key targets agreed through the corporate planning process. Where resources allow, we seek to supplement that income with income derived from the external projects we undertake as part of our international work. However, we have temporarily paused our revenue-generating international activity and continue to engage with the Scottish Government regarding WICS' future role in supporting the Hydro Nation initiative.

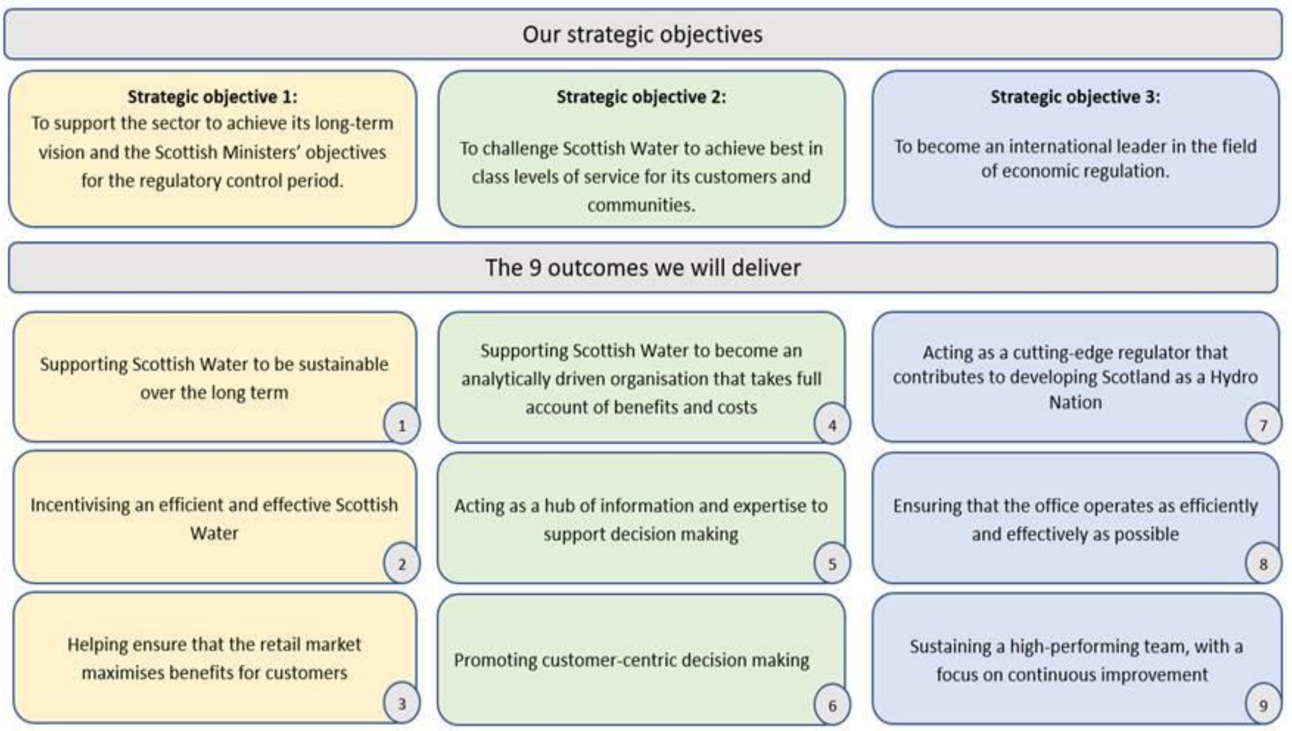
OUR OPERATING ENVIRONMENT

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

Stakeholder	Interaction with our work
Scottish Parliament	We are accountable to the Scottish Parliament through Scottish Ministers.
Scottish Government	The Scottish Government sets the overall objectives and principles of charging for the water industry in Scotland.
Scottish Water	We have a duty to promote the interests of both current and future customers by making sure that: • Scottish Water is sustainably funded long-term and delivers value for money. • Scottish Water is as efficient and effective as possible so that customers pay no more than is necessary.
Scottish Environment Protection Agency (SEPA)	SEPA regulates Scottish Water's performance in terms of compliance with environmental standards and investment in improvements.
Drinking Water Quality Regulator (DWQR)	The DWQR regulates Scottish Water's compliance with drinking water quality and investment to protect public health.
Consumer Scotland	Consumer Scotland is the statutory, independent voice for consumers in Scotland. Its Board commenced their responsibilities in April 2022 and will take on the water consumer functions previously delivered by Citizens Advice Scotland.
Central Market Agency (CMA)	The CMA administers the competitive non-household retail market. It is a separate organisation from the Competition and Markets Authority, a UK body, that ensures markets deliver appropriately for consumers.
Scottish Public Services Ombudsman (SPSO)	With responsibility for complaints and dispute resolution in the water sector, the SPSO provides insights into levels of trust and confidence among consumers.

OUR KEY ACTIVITIES AND PRIORITIES

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



OUR KEY CHALLENGES AND RISKS

The strategic risks identified during the corporate planning process for the 2021-2027 regulatory period were shaped by the context at that time. However, with significant developments since 2021—including challenges such as COVID-19, high inflation, and the findings from the Section 22 report—we recognise the need to reassess these risks. As part of our ongoing organisational change programme, we plan to review these risks during the 2024-25 period comprehensively.

Our principal strategic risk focuses on a potential failure to deliver our statutory duties. Underpinning the principal risk are three strategic risks which focus on:

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

This year's events have underscored the critical importance of effective risk management. Addressing strategic risks will be essential in restoring and maintaining trust in our role as an economic regulator and responsible public body.

To manage risk effectively, we are implementing an organisation change programme which includes:

- Adhering to public body governance best practices and ensuring robust Board oversight of governance policies with assurance provided by independent internal and external audits.
- Developing and maintaining policies and procedures that meet the standards expected for a non-departmental public body, supported by legal advice and strong relationships with our Scottish Government sponsor team.
- Regular compliance and action reporting overseen by our ARC.
- Encouraging risk identification and risk management is embedded throughout the full organisation to ensure that all voices are heard, and all risks managed.

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

1.2 Performance analysis

PERFORMANCE AGAINST KEY OUTCOMES

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

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

This year, our primary focus has been shaping our approach for the next Strategic Review of Charges. Building on the lessons learned from the SRC21 process and insights gained from the first three years of the 2021-27 regulatory period, we have initiated a consultative process to draft our methodology for the 2027-33 period. We collaborated with our core stakeholders during the drafting process and will hold a wider public consultation to capture broader views on our proposals from August to October 2024. We aim to publish the final methodology document by December 2024.

During 2023-24, the Scottish Government has consulted on the guiding principles for the water industry as it addresses longer-term challenges, including climate change adaptation and mitigation. These principles focus on equipping the water industry with the necessary tools and legislation to ensure that essential water, wastewater and drainage services can continue to be provided in a changing climate.

We continue to work closely with the Scottish Government and other industry stakeholders to support this policy development work through a 'Team Scotland' approach, including through providing supporting analysis. We will also ensure that our approach to the Strategic Review of Charges can adapt to any changes proposed through the policy development work.

This year also marked a significant transition for Scottish Water with the appointment of new Chief Executive Alex Plant. We have worked to establish a strong working relationship with Alex and the rest of the leadership team at Scottish Water, reinforcing our shared commitment to the principles of Ethical Business Practice and Regulation.

Outcome 2: Incentivising an efficient and effective Scottish Water

We continue to work with Scottish Water on developing its reporting mechanisms for the 2021-27 regulatory control period and beyond. This includes requesting an investment baseline from Scottish Water and improving the annual return to ensure that reporting and information remain fit for purpose. We received an interim submission of Scottish Water's investment forecasts in January 2024 ahead of receiving further information in June 2024. We continue to work closely with Scottish Water to understand Scottish Water's future investment requirements, including through our participation in the Scottish Government Investment Group (SGIG).

We published our report of Scottish Water's 2022-23 performance in March 2024. The report found that Scottish Water continued to maintain its performance in line with past performance and welcomed that Scottish Water:

- recovered some of the slippage in capital investment expenditure;
- spent less than the allowed for operating expenditure and expenditure related to legacy Private Finance Initiative (PFI) contracts;[2] and
- maintained performance on key levels of service measures.

The report also noted that there are still signs that Scottish Water is experiencing delays in completing projects that were planned to be delivered in the previous regulatory control period covering 2015-21. These delays mean that customers are not yet receiving the full benefits of the investment that they have already paid for. WICS and other industry stakeholders are monitoring performance in these areas closely through the SGIG.

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

This year we continued working on implementing a new standard licence condition on financial resilience. The new licence condition (SLC B4) came into effect in April 2023 alongside the modifications to the wholesale service agreement to allow Scottish Water to make the necessary changes to wholesale payment arrangements based on licensed providers' financial creditworthiness.

This year, we have continued working alongside stakeholders to encourage licensed providers to take ownership of the development and adoption of a Code of Practice. To this end, we have set up a Steering Group with Consumer Scotland and the Central Market Agency to support the development of a Code of Practice and its assurance process.

During the reporting year, we have started reviewing Business Stream's Governance Code arrangements to ensure they remain robust and fit for purpose.

We have also reopened the licence application process following our temporary suspension of applications pending the development of an assurance process for new entrants.

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

We continue to focus on ensuring that Scottish Water takes full account of the benefits and costs in its option appraisals and decisions. For example, in developing our methodology for the Strategic Review of Charges 2027-33, a key theme relates to Scottish Water producing the

[2] PFI expenditure relates to the payments that Scottish Water makes to third parties for the provision of wastewater treatment and the subsequent treatment, recovery and/or disposal of the solids, known as sludge, that remain from the wastewater treatment process (which are a valuable resource that can be used to generate renewable energy).

evidence and analysis on how it plans to meet Scottish Ministers' Statement of Objectives in the context of the water sector vision. We also expect Scottish Water to provide a range of options for investment, including innovative and nature-based solutions which demonstrate best value for customers. We expect that these options should consider non-financial costs and benefits such as the carbon impact (both operational and embodied carbon) and natural and social capital.[3]
To assist with this objective, we are also planning as part of our methodology for SRC27 to expand the suite of measurements and targets that Scottish Water report to WICS and engage further with other industry stakeholders to obtain a better understanding of Scottish Water's costs and performance to place in better context its investment decision making.

Outcome 5: Acting as a hub of information and expertise to support decision-making
We collect information from Scottish Water through an annual information submission called the Annual Return. The Annual Return is the primary source of information that we use to monitor Scottish Water's performance against the requirements of the final determination. The Annual Return is also a key source of information for individuals or organisations with an interest in the Scottish water industry. As such, we publish this information on our website and also respond to enquiries requesting information on the Scottish water industry. We have now published this information on our website for the financial year 2022-23.[4]

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

This year, we have continued to share knowledge and expertise with other regulatory organisations and regulated companies at home and abroad. This activity helps us remain at the forefront of regulatory best practices and achieve better outcomes for customers and investment in the water sector in Scotland.

Our Chief Operating Officer has spoken at several key industry events this year, including the Global Leakage, Institute of Water and the British Water conferences.

Furthermore, the OECD invited our former CEO to serve as a peer reviewer for Brazil's Water and Sanitation Agency (ANA) in early September. He also provided evidence at the Scottish Parliament's Net Zero, Energy and Transport Committee meeting in October.

[3] Natural and social capital are two capitals that form the six capitals approach. The six capitals approach covers financial, manufactured, intellectual, human, social and relationships and natural capital. See Association of Chartered Certified Accountants, '*Integrated reporting and performance management*', webpage.
[4] Available at: Annual Return & Regulatory Accounts | WICS.

We have also engaged with international water sector representatives, meeting with Singapore's Public Utilities Board in London to discuss industry challenges and climate change impact.

Outcome 6: Promoting customer-centric decision making

This year, we have reviewed different models of customer involvement in developing our approach for SRC27. We have worked closely with Scottish Water and Consumer Scotland to ensure a strong customer and community voice at the heart of SRC27 and are working towards establishing a tri-partite agreement to underpin the customer engagement approach to SRC27. This approach will ensure that the outcome of the Strategic Review of Charges aligns with what customers value most and is a good example of how WICS will fulfil its consumer duty, a statutory duty that comes into force on 1st April 2024, going forward.

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

We support the Scottish Government's Hydro Nation initiative by building partnerships with others and sharing our regulatory expertise. Although international project work has been on hold since January 2024, this does not diminish the success of our previous international projects. We have already achieved our commitment outlined in our corporate plan by delivering projects and providing assistance, leading to a net income[5] of £1.6m since the start of this regulatory control period.

We have participated in several workshops and events to enhance our network of international project partners. This year, our Director of Price Review visited Romania to conduct a two-day training workshop on the role of economic regulation and information for the staff of ANRSC, the economic regulator of the Romanian water industry and also spoke at ExpoApa. Additionally, we met with representatives from the Singapore Water Agency (PUB) to discuss the challenges faced in the water industry and the impact of climate change. This helps us remain focused on ensuring that we continue contributing to the Scottish Government's Hydro Nation strategy.

Our international work provides useful opportunities for our employees to build knowledge and skills in interesting new areas and train others in regulation, contributing to their development and progression. Our analysts delivered training to the Fair Trade Commission of Barbados this year when they visited Scotland.

More broadly, we have continued to extend our links with other overseas regulators and organisations, such as the European Water Regulators (WAREG), the Organisation for Economic Cooperation and Development's (OECD) Network of Economic Regulators, and development banks, such as the EBRD.

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[5] Net income incorporates total income less direct costs, such as travel. It does not include remuneration costs or overheads.

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

As a public body, we are very conscious of our obligations to deliver value for money, and we recognise that this has not been demonstrated sufficiently in the past. Following the Section 22 report this year, we have taken several important steps to improve our governance and controls to better demonstrate value for money in using public funds.

In addition to initial changes to improve our governance and controls, we are embarking on a wider organisational change programme that includes clarifying roles and responsibilities and improving key functions such as human resources and communication. Following our evidence session in March 2024, we have continued our engagement with the Public Audit Committee, Scottish Government and Audit Scotland.

This year we have also begun exploring options to embed a hybrid working model further to strengthen the positive changes within WICS following the Section 22 report and departure of the former CEO.

During the year we have continued to ensure appropriate technical security controls are in place to strengthen our defences in line with the Scottish Government's cyber resilience framework and Cyber Essentials Plus standards. This work has included continually training employees and updating business continuity arrangements.

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

This period has been a very challenging year. However, the team have remained committed and focused on the role of WICS. As we progress through organisational change, we are improving our processes and procedures and providing additional training to staff. Key initiatives include:

- Value for Money training: We have implemented targeted training to ensure the most effective use of resources.
- Diversity, Equality, and Inclusion training: We are committed to developing a more inclusive workplace, and our staff participated in training during 2023-24.
- Bullying and harassment awareness training: We have reinforced our focus on creating a safe work environment with dedicated training on these critical issues.
- Health and wellbeing: We are prioritising staff wellbeing and have increased the number of mental health first aiders across the organisation.

In addition, we held two focused sessions on wellbeing for staff in February and March 2024. These sessions have been incredibly helpful in raising awareness about the importance of wellbeing and developing an overall culture of support. As part of this engagement, we asked staff to participate in a Health and Safety Executive survey on stress management standards: demands, control, support, relationships, roles and change.

KEY PERFORMANCE INDICATORS

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

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

Outcome(s)	KPI	Performance during 2023-24
1-3	We will implement a regulatory framework that enables and supports Scottish Water to take full ownership of its relationship with customers and its decision-making. We will report annually to the Board and in our statutory annual report and accounts on progress.	This year, we have begun developing our methodology for SRC27, working with Scottish Water and other key stakeholders.
1-3	By December of each year, we will publish our annual reports on Scottish Water's overall performance in delivering the requirements set out in the 2021-27 final determination and identify any gaps that could impact the level of trust among its stakeholders.	Our assessment of Scottish Water's 2022-23 performance was published in March 2024. The delay was due to several factors, including Scottish Water's request for further commentary on some elements of the annual return and the additional time we required to review the information.
4-6	Our annual reports on Scottish Water's overall performance will include an assessment of its progress in ensuring that project appraisals fully assess the economic costs and benefits of investment. This assessment should include aspects such as the carbon impact and natural and social capital.	We have published our report on Scottish Water's 2022-23 performance.

Outcome(s)	KPI	Performance during 2023-24
4-6	Our annual reports on Scottish Water's overall performance will include an assessment of its progress in ensuring that customers and communities are involved in decision-making. This will encompass assessing the extent to which customers could reasonably have confidence that their views are being heard and acted upon.	Whilst the 2022-23 performance report focused on information and reporting, we have set out our expectations on the approach to customer engagement as part of SRC27.
7	We will report annually on requests for regulatory advice, information, and expertise from industry stakeholders and international partners and on the nature of our support.	This year, we have responded to requests from international partners to provide advice and information. This includes finalising the work with the Department of Internal Affairs (DIA) in New Zealand and providing training to the Fair Trade Commission from Barbados during a visit to Scotland.
7	We will support the Scottish Government's Hydro Nation initiative by delivering projects and assistance, providing a minimum annual net contribution to our income from this work of £300,000.	We concluded our project work in New Zealand and received a net income contribution of £1m, excluding remuneration costs and overheads.
8	Each year of the Corporate Plan period, we will set out in an annual work plan the activities we will undertake during the year. In the following year, our Annual Report will include information on progress against our work plan.	Our 2023-24 work plan was approved by the Board in April 2023. Regular updates on the work plan are provided to the Board at each board meeting. These updates have informed the summary of performance in this annual report.
8	We will ensure that our income and costs remain within budget targets over the regulatory control period and will regularly report our financial performance to the Board.	In line with the corporate plan and budget, we delivered our priorities in 2023-24. For more information on the financial results for the year, see the section on financial performance.

Outcome(s)	KPI	Performance during 2023-24
9	We will achieve the office's desired structure by 2025 and ensure that progress remains on track in the interim.	During 2024-25, the focus is on our organisational change programme to review our operations, structure and roles to demonstrate we are operating as effectively as possible.

KEY RISKS

Three strategic risks are underpinning the principal risk of our statutory duties' overall failure. Operational risks are managed at a business area level and are linked to the three strategic risks.

Strategic risk 1

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

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

We continue to support our leaders through individual and team coaching to ensure they have the skills to meet the organisation's needs now and in the future. We have begun reviewing the roles and priority areas for each leadership team member and staff member.

Strategic risk 2

If we are not attuned to the external landscape and the strategies of our stakeholders, we may not be able to respond adequately to political, legislative, or stakeholder-driven changes within the industry.

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

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

Strategic risk 3

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

The Section 22 report issued in relation to WICS' 2022-23 Annual Report and Accounts has brought this risk into sharp focus. We are now actively responding to this risk as an 'issue' and have taken key steps to improve our governance and controls to demonstrate value for money better using public funds. In addition to revising our expenses policy and introducing an internal approval panel to provide greater scrutiny of expenditure, we have also continued to review our wider policies and procedures to ensure they meet best practices.

In response to the Section 22 report, we have prioritised strengthening our relationship with the Scottish Government sponsor team and officials. This effort ensures clear communication on both sides and enables us to address the issues identified in the report effectively.

FINANCIAL PERFORMANCE

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

Financial performance 2023-24

As set out in the financial statements, the net surplus for the year was £1,226,199 (2022-23: £1,264,866) before corporation tax payable and any adjustments for actuarial gains or losses. The corporate plan for the period 2021-27 outlines how surplus funds will be used.

The total income received for the year was £4,519,241 (2022-23: £5,287,598). The income received from Scottish Water and the licensed providers aligned with the corporate plan.

We received an income of £379,419 (2022-23: £1,185,029) related to the work delivering projects supporting the Scottish Government's Hydro Nation initiative. Most of this was received from the DIA in New Zealand, a continuation of earlier work we carried out in support of water reform in the country.

We also received £120,014 (2022-23: £105,551) in rent and service charges related to the corporate office's sublease.

The financial year 2023-24 expenditure was £3,377,674 (2022-23: £4,036,890). The main reason for the decrease of £659,216 (16%) was the reduction in travel and associated costs required for the project in New Zealand, which was completed in 2023. The DIA reimbursed this expenditure, which is included in the increased cash balance.

Staff costs have decreased by £312,312 (12%). However, excluding the IAS 19 adjustments[6] actual expenditure on staffing costs has increased by 5.8%, which includes a basic award of 2.25%, as approved by the Scottish government, and progression/promotion.

The internal budget agreed by the board at the start of the financial year was a net income position of £580,673. Excluding non-cash items, the actual operating surplus for the year was £898,553. Actual expenditure was below the internal budget in all areas. Analytical vacancies resulted in lower-than-anticipated remuneration costs, and projects requiring consultancy expenditure were pushed back as we worked to respond to the issues raised in the section 22 report.

The Reserve balance as of 31 March 2024 was an asset of £4,595,524 (2022-23: £3,592,251). The most significant difference from the previous year is the income received in relation to the project in New Zealand. Total cash received in the year was £817,606. An additional £70,474 was received in bank interest on cash deposits compared to the previous year. Surplus cash is deposited in a higher interest-earning treasury deposit account.

Supplier payment policy

Our policy is to pay all supplier invoices not in dispute within the terms of the relevant contract and as soon as possible following receipt of an invoice. In line with the Scottish Government's guidance, we aspire to a 10-working day target for paying bills to businesses in Scotland. Paying supplier bills promptly is a key objective and an important expression of our commitment to supporting business. The average time to pay suppliers in 2023-24 was 6 days (2022-23: 4 days).

The Public Services Reform (Scotland) Act 2010

The Public Services Reform (Scotland) Act 2010 imposed duties on the Scottish Government and public bodies such as WICS to publish specific information about their expenditure. The Act requires us to publish two statements outlining our steps to promote and increase sustainable growth and improve efficiency, effectiveness and economy. The duties of publishing this

[6] At the end of the financial year, an adjustment is made to replace actual employer contributions paid to the pension scheme with the current service costs and associated interest. Current service costs represent our share of pension benefits accruing over the period, as calculated by the actuary.

information are intended to promote greater openness and transparency. We publish a report on our website setting out our response to the requirements of the Act.

SOCIAL MATTERS

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

ANTI-BRIBERY AND CORRUPTION

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

No frauds were detected in 2023-24.

We take malpractice very seriously and are committed to conducting our business honestly. We encourage open communication from all those who work for us and want everyone to feel secure about raising concerns. Our internal whistleblowing policy encourages and enables employees to raise concerns confidentially. All staff are protected under whistleblowing laws if they raise concerns in the correct way.

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

We received one external whistleblowing report concerning Scottish Water during this reporting period. We promptly requested additional information to support our investigation but did not receive a response. We remain prepared to investigate further if additional details become available. We continue to be alert to instances of whistleblowing and will continue to ensure they are handled appropriately and in full compliance with our obligations.

TRANSPARENCY OF INFORMATION

We aim to be open in everything we do. Our default approach is to publish information on our activities on our website whenever possible. We frequently dialogue with industry stakeholders and present our approach and decisions in published papers.

COMPLAINTS

We value and recognise the learning that complaints can generate and use complaint information to help us improve our services. During the 2023-24 period, we received a complaint concerning the competitive retail market and WICS' handling of related enquiries over a three-year span. After investigating the issues raised, we determined that all relevant guidance had been provided in line with our duties to promote customer interests and ensure the orderly functioning of the retail market. The complaint was successfully resolved and closed within 20 working days.

OUR SUSTAINABILITY PERFORMANCE

Scotland has some of the world's most ambitious greenhouse gas reduction targets, and we wish to contribute as much as we can to help deliver this world-leading climate change action. Public Bodies in Scotland are bound by the Climate Change Public Bodies Duties set out in Part 4 of the Climate Change (Scotland) Act 2009. These duties require public bodies, in exercising their functions, to:

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

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

Our employees currently work from home, with external meeting spaces used for collaborative work. The carbon impact of home working has not been assessed, nor has the carbon impact of the venues used for meetings. However, the carbon impact of staff travel is outlined in the table below.

	2023-24		2022-23	
Area	**Estimated carbon emissions**	**Expenditure (£)**	**Estimated carbon emissions**	**Expenditure (£)**
Transport and travel	**0.6 tonnes CO_2**	97,488	**14.2 tonnes CO_2**	244,686

The information in this table is based on our best estimates. All conversions to carbon consumption are calculated using data available from the Department for Environment, Food and Rural Affairs.

David Satti

David Satti
Interim Chief Executive Officer
21 November 2024

2.Accountability report

2.1 Corporate governance report

2.1.1 DIRECTOR'S REPORT

The Board

The Board is responsible for our overall direction and performance, including its efficiency and effectiveness as a public body. Members come from various business backgrounds and bring a wealth of knowledge and expertise.

During the year the Board was chaired by Donald MacRae. During the financial year, there were three other members - Robin McGill (also chair of the ARC), Ann Allen and Jo Armstrong. Jo Armstrong resigned from the board due to a conflict of interest with her new role as chair of the Accounts Commission for Scotland, which she started on 1 February 2024. Two interim Board members, Ronnie Hinds and Morag Sheppard, were appointed on 15 July for a term of 12 months. Ronnie Hinds was appointed as the interim Chair following Donald MacRae's resignation on 21 October 2024.

Scottish Ministers appoint members of the Board. The length of appointments may vary to ensure continuity of membership, but they are usually three or four years. A further term is possible, subject to evidence of effective performance and satisfying the skills, knowledge, and personal qualities required on the Board at the time of re-appointment.

A summary of the membership during 2023-24 is detailed below.

Name	Position	Initial appointment date	Re-appointment date	End date
Donald MacRae	Chair	01/07/2016*	01/05/2022	30/04/2026
Jo Armstrong	Member	01/07/2016	01/07/2020	14/02/2024
Ann Allen	Member	01/07/2020	01/07/2024	30/06/2028
Robin McGill	Member	01/01/2020	01/01/2024	31/12/2027

*Appointed as Chair on 1 May 2018

The CEO of WICS is also a Member of the Board. Alan Sutherland was the CEO of WICS until his resignation, effective 31 December 2023. The Board appointed David Satti as Interim Chief Executive, effective 20 March 2024. Prior to this appointment, David Satti was the Director of Governance and Strategy at WICS. This position was not backfilled following this appointment.

Directors

With David Satti's appointment as Interim Chief Executive, one vacant director position remains. The other three directors of the organisation are Donna Very, Director of International and Corporate Affairs; Colin McNaughton, Director of Analysis; and Andrea Mancini, Director of Price Reviews.

Interests held by the Board

Our Board Members and Directors are asked to complete a declaration of interest, and we publish a register of interests on our website. During the year, neither the Board Members nor Directors held interests in other bodies with which WICS has dealings.

Auditors

Under the Public Finance and Accountability (Scotland) Act 2000, our independent auditors are appointed by the Auditor General for Scotland. Audit Scotland has been appointed as our external auditors for a five-year period from 2022-23 to 2026-27. The appointment is undertaken in accordance with the Code of Audit Practice approved by the Auditor General.

The fees paid to Audit Scotland for the independent statutory audit for the financial year 2022-23 are £22,460 (2022-23: £18,200).

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

Other information

In the year to 31 March 2024, we did not have any notifications of data breaches to the Information Commissioner’s Office.

Significant events since the end of the financial year

Ronnie Hinds was appointed as the interim Chair of WICS following Donald MacRae’s resignation. The resignation and new appointment were effective from 21 October 2024.

2.1.2 STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

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

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

- Observe the Accounts Direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards have been followed, as set out in FReM, and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on a going-concern basis.

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

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

The Accountable Officer confirms that the annual report and accounts are fair, balanced, and understandable and that he takes personal responsibility for them and the judgments required to determine whether they are fair, balanced, and understandable.

2.1.3 GOVERNANCE STATEMENT

The Governance Framework

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

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

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

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

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

The purpose of the governance framework

The governance framework comprises the systems, processes, culture, and values that govern our activities and behaviours. It enables us to monitor the achievement of our strategic objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place for the full year ended 31 March 2024 and up to the approval date of the annual report and accounts.

The Board

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

Board Members are responsible for ensuring that we fulfil our statutory duties and any targets agreed with Scottish Ministers and for promoting efficient and effective use of staff and other resources per Best Value principles.

The Board's Scheme of Delegation details its role and responsibilities in full. Board Members are required to comply with the Code of Conduct for Board Members. They discharge their duties per the guidance set out in appointment letters and On Board: A Guide for Members of Statutory Boards.

The Board meets regularly and held eight formal meetings during 2023-24. At each formal meeting, the Board was mandated to focus on strategic issues relating to monitoring Scottish Water's performance, the Strategic Review of Charges, and developments in the retail market. The Board held six further informal update meetings to discuss current issues and matters arising between formal meetings.

Members have participated fully in Board business by attending and contributing to Board and ARC meetings.

Name	Position	Formal Board meetings	Board update meetings	ARC meetings
Donald MacRae	Chair	8/8	6/6	-
Jo Armstrong	Member	7/8	6/6	3/4
Ann Allen	Member	6/8	5/6	-
Robin McGill	Member	7/8	5/6	4/4

The ARC had an external, independent member who attended all four meetings during the year. This member resigned in April 2024.

In addition to attending Board meetings and strategy meetings, Board Members engage with stakeholders non-executively. Reports of engagement activity are provided at each subsequent

Board meeting to ensure that the activity is noted and to allow members and management to discuss issues arising from this activity.

The gender representation[7] of WICS' Board during the period 1 April 2023 to 31 March 2024 was:

Total	Female	% female
4	2	50%

Corporate Plan

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

Risk management

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

Our risk management strategy clearly outlines the roles and responsibilities for achieving an effective control framework. The strategy's focus is a risk register that identifies potential or actual risks to achieving the objectives set out in our Corporate Plan.

Risks are assessed based on their likelihood, the impact they would have if they did occur, and their proximity (how soon they are likely to occur).

The Board is responsible for defining the organisation's risk appetite. The risk register is populated by contributions from all employees, and each risk is scored and set a realistic target to reduce the level of the risk. The action plans in place to reduce risk ratings are subject to continual review. They are monitored by staff internally and reviewed by our ARC on a quarterly basis. The

[7] The Gender Representation on Public Boards (Scotland) Act 2018 was introduced to help address the historic and persistent underrepresentation of women in public life. Section 1 of the Act sets the "gender representation objective" for a public board that 50% of non- executive members are women.

Accountable Officer reviews the register before its submission to the ARC. The Board is informed of significant changes to the register or new risks.

As part of the Corporate Plan for 2021-27, we have identified the risks associated with delivering the objectives set out in the Plan. During the year, the Board monitored the strategic risk register and the action plans set out by management to address the risks. A review of the risk strategy and appetite was carried out by the Board in November 2023.

Audit and Risk Committee (ARC)

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

The ARC meets to receive reports from internal and external auditors and our employees. The internal and external auditors may attend all ARC meetings and contact the Chair of the ARC at any time to express specific concerns identified during audit work.

The ARC meets at least four times a year. During the year, Robin McGill chaired the ARC. Members are appointed by the Board based on the breadth of skill, knowledge, and experience they can bring to the ARC.

The ARC operates independently and reports to the Board. The ARC presented the annual report of the ARC to the November 2024 Board meeting, which outlined the work undertaken by the ARC to review our control systems and financial reporting processes to measure and manage the risk inherent in the delivery of the organisation's objectives.

The ARC report acknowledged that the 2023-24 financial year presented significant challenges for WICS, particularly in light of issues identified by Audit Scotland and the subsequent Section 22 report. Recognising its role in overseeing WICS, the ARC reinforced its commitment to learning from these experiences and to strengthen its role and prevent similar issues in the future.

Looking forward, the ARC is fully committed to an active and rigorous role in WICS' recovery, with a clear focus on rebuilding trust and ensuring sustained improvements. The ARC acknowledged that it, too, must change to better serve WICS, recognising that effective oversight is critical to the organisation's integrity and performance. The ARC noted in its report that it is committed to providing robust support and constructive challenge to ensure that the reforms are embedded throughout the organisation.

Internal audit

Grant Thornton has provided internal audit services to WICS since April 2018. At the start of each financial year, the internal audit team agrees on a programme of work to assure that key risks are being managed effectively and value for money is being achieved. This plan is risk-based, considering our risk management framework, our strategic objectives and priorities, and the views of senior managers and members of the ARC.

The ARC discussed the Internal Audit Plan for 2023-24 in August 2023. An initial plan was developed through meetings with the CEO, Director of Strategy and Governance, senior managers and ARC Committee members.

The initial 2023-24 Annual Internal Audit Plan was for three reviews, which were determined based on the size of the organisation to provide sufficient internal audit coverage in the year. Scoping work was underway for these reviews; however, in December 2023, Audit Scotland issued a Section 22 report on the 2022-23 audit of WICS. Audit Scotland issued an unqualified opinion on the financial statements. Nevertheless, the Section 22 report highlighted governance and financial management weaknesses. This led to a full review of internal transactions by the organisation to highlight and quantify the full extent of the weaknesses.

As a result, internal audit activity was re-prioritised, and a detailed review of governance and financial management arrangements was undertaken, specifically the review of transactions conducted by management. This review was split across two reports and covered several areas, including observing the controls in place around financial transactions and testing a sample of transactions across the 2023-24 financial year to ensure these controls were operating effectively and appropriate approvals had been sought in advance of expenditure being occurred.

From this review, we received numerous recommendations to help address weaknesses in the design and operation of controls and to highlight opportunities to improve the performance of our processes. Subsequently, we developed an action plan to ensure all actions are monitored, and progress against each is tracked to completion.

In considering the overall opinion for the year, the internal audit team considered the work we have undertaken during 2023-24 to address the findings from Audit Scotland, including the amendments to policies and procedures.

The report we received from the Head of Internal Audit noted improvements in the operation of the controls in place specific to expenses in the last quarter of the year and positive amendments to relevant financial procedures to address previous omissions or clarify ambiguity. The report noted that the policies were designed appropriately but did not operate as intended during the year.

The overall opinion provided by the Head of Internal Audit is set out below:

> *"Our opinion for the period 1 April 2023 to 31 December 2023 is that based on the scope of reviews undertaken and the sample tests completed during the period, that no assurance can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.*
>
> *Our view on part two of internal audit work is that we can give reasonable assurance over the adequacy of the design of controls as they relate to the framework of governance, risk management, and control, alongside limited assurance on the operation of control, in part due to the need for controls to be further embedded.*
>
> *As required by IA standards we are required to give an overall opinion for the year. Therefore, whilst noting the positive developments and improvements in the last quarter, the opinion for the year is no assurance.*
>
> *Overall, we have therefore concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.*
>
> *Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review."*

Our key focus is now the forward look into 2024-25. A detailed action plan has been established, and it is important that we have the opportunity to work through that plan in the priority allocated to improvements. Management is aware of the need to ensure the day-to-day running of the organisation is not impacted and that business-as-usual activities continue. This will continue to, therefore, involve a step back to ensure the revisions to the control environment remain fit for purpose relative to the risk the organisation is seeking to mitigate.

In October 2024, WICS appointed a new internal auditor – Azets Technology Solutions. The ARC will work with the internal audit team to ensure the recommendations from the previous audit reports are followed through and future internal audit work focuses on the key risks of the organisation.

Significant governance issues

The Section 22 report issued by the Auditor General on WICS' 2022-23 financial statements was released nine months into the 2023-24 financial year. As such, the report highlighted several issues that affected both the 2022-23 period and continued into 2023-24. In response, we conducted a thorough review of our internal transactions. The main findings of this review are outlined below.

Inadequate proof of purchases
During the first nine months of the financial year, 12% of transactions (equating to 0.88% of total expenditure) did not have adequate proof of purchase, with receipts either missing or non-itemised receipts provided.

Inappropriate expenditure
A review of subsistence claims was carried out for the period, focusing on meals exceeding £50 per head. The review identified 7 items of expenditure where the per head cost was over £50, totalling £2,269 on meals, including alcohol.

Insufficient approval
A single tender purchase over £20,000 was approved internally but Scottish Government approval was not sought. Ultimately, the expenditure did not exceed the threshold requiring Scottish Government approval. However, this breach was highlighted in our internal report to ensure future compliance with this limit. In addition, a gift of £120 was purchased without receiving the required approval from the Scottish Government.

Based on these findings, we have implemented significant changes to our governance and financial controls, including mandatory production of detailed receipts and prohibiting alcohol claims. These changes have been supported by staff training on changes to the policy and expectations of employees when incurring expenditures in the course of their duties at WICS. These enhancements are designed to strengthen our processes, ensure greater oversight and alignment with best practices, and prevent similar issues from arising in the future.

Another internal review was carried out in the last quarter of the financial year of financial transactions for the period and a significant improvement in employees adhering to the financial policies was noted. This review did identify areas where further training would benefit employees. The action plan[8] that we have committed to during 2024-25 will further strengthen our employee's confidence and skills in ensuring the best value is attained when incurring costs on behalf of WICS.

External audit findings and planned actions

The 2023-24 external audit identified several areas of non-compliance with the SPFM and other internal controls, leading to a regularity qualification on the accounts. Key issues included expenditures that did not meet SPFM guidelines on authorisation, documentation, and oversight.

[8] Following receipt of the internal audit report, an action plan was developed to address the recommendations.

Specifically, these findings highlighted weaknesses in the management of travel, subsistence, and staff expenses, where controls did not fully prevent unauthorised or unsupported expenditures.

To address these issues and ensure compliance moving forward, management has implemented significant enhancements to financial controls and procedures, including:

- Strengthened internal audit functions to monitor expenditure and compliance rigorously.
- Revised expense policies and re-established approval protocols.
- Ongoing training and guidance to staff on the SPFM requirements.

These measures are intended to restore compliance with SPFM guidelines and mitigate the risk of future control lapses, supporting WICS' commitment to uphold the highest standards in governance.

Review of effectiveness

As the Accountable Officer of WICS, I have the responsibility for reviewing the effectiveness of the systems of internal control. My review of the effectiveness of these systems is informed by the work of the internal auditors and the executive managers within the organisation. The executive managers are responsible for developing and maintaining the internal control framework. I also rely on the comments made by the external auditors in their management letter and other reports. I have also been advised on the effectiveness of the systems by the ARC.

It is clear that the systems of internal control did not operate effectively during the first nine months of 2023-24. Significant action was taken to address the issues identified in the Section 22 report to ensure those issues did not continue in the final 3 months of the year. WICS continues to build on those changes made to ensure that the organisation operates effectively and delivers value for money in the years ahead.

2.2 Remuneration and staff report

REMUNERATION POLICY

The Board and CEO's remuneration packages are agreed upon within the parameters set by the Scottish Government's pay policy. The Scottish Government approves the daily fee to be paid to the Chair and members and the CEO's remuneration package.

Board Members contribute at least one day per week to supporting WICS' activities, and the Chair at least two days per week.

There is no separate remuneration committee, and remuneration-related issues are brought to the attention of the Board as they arise. No performance payments were made in 2023-24 in accordance with the Scottish Government pay policy.

DIRECTORS' SALARY AND PENSION ENTITLEMENTS

The total overall remuneration of the CEO and interim CEO in the year was £218,784 (2022-23: £178,283). This is split by individual as follows:

	£
Alan Sutherland, for the period 1 April 2023 to 31 December 2023	128,410
Alan Sutherland, payment of notice period (6 months)	84,800
Alan Sutherland - unused holiday pay (2.25 days)	1,468
Total for Alan Sutherland	**214,678**
David Satti for the period 20 March 2024 – 31 March 2024	4,106
Total payments relating to the CEO position for the full year	**218,784**

The former CEO was an ordinary member of the Falkirk Council Pension Scheme. He withdrew from the Scheme on 31 March 2017. Therefore, no payments were made to the scheme by or on behalf of the former CEO during the year.

The interim CEO and other Directors are active members in the Falkirk Council Pension Scheme. The table below outlines the total remuneration of all the Directors, including accrued pension benefits:

AUDITED INFORMATION	2023-24 Gross salary £(000)	2023-24 Pension benefits[9] £(000)	2023-24 Total £(000)	2022-23 Gross salary £(000)	2022-23 Pension benefits £(000)	2022-23 Total £(000)
Alan Sutherland, CEO[10]	210 - 215	15 - 20[11]	**230 - 235**	165 - 170	5 - 10	**175 - 180**
David Satti Interim CEO[12]/Director of Strategy and Governance	125 -130	25 - 30	**155 – 160**	115 - 120	30 - 35	**145 - 150**
Colin McNaughton Director of Analysis	125 -130	30 – 35	**155 - 160**	115 - 120	30 - 35	**150 - 155**
Andrea Mancini[13] Director of Price Reviews	125 -130	25 – 30	**155 – 160**	110 - 115	-	**110 - 115**
Donna Very Director of International and Corporate Affairs	125 -130	10 - 15	**140 - 145**	115 - 120	60 - 65	**180 - 185**
Ian Tait[14] Deputy Chief Executive	-	-	**-**	10 - 15	-	10 - 15

[9] The accrued pension benefits have been calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increase or decrease due to a transfer of pension rights.
[10] Resigned as CEO on 31 December 2023
[11] The 2022-23 CEO pension benefits disclosed in the table above relate to pension contributions paid in prior years that now count towards the pension benefits figure due to the changes to Pension Lifetime Allowance announced in the March 2023 UK Government budget.
[12] Appointed as Interim CEO on 20 March 2024
[13] Promoted to Director in September 2022. As this was mid-year, pension benefit figures are not available.
[14] The Deputy Chief Executive retired on 2 May 2022

The retirement benefits of the Directors are as follows:

AUDITED INFORMATION

	Accrued pension as at 31 March 2024 and related lump sum £(000)	Accrued pension as at 31 March 2023 and related lump sum £(000)	Change in pension net of inflation and related lump sum £(000)	Cash equivalent transfer value** At 31 March 2024 £(000)	At 31 March 2023 £(000)	Increase net of members' contributions £(000)
Alan Sutherland	40 – 45 plus lump sum of 30 – 35	35 – 40 plus lump sum of 30 – 35	0 – 2.5 plus lump sum of -5 – 2.5	706	676	4
Andrea Mancini	20 – 25 -	15 – 20 -	0 – 5 -	229	156	55
Colin McNaughton	10 – 15 -	10 – 15 -	0 – 5 -	164	107	40
David Satti	15 – 20 -	10 – 15 -	0 - 5	181	121	54
Donna Very	30 – 35 plus lump sum of 0 - 5	25 – 30 plus lump sum of 0 - 5	0 - 5 plus lump sum of 0 - 5	517	386	104

**The cash equivalent transfer value (CETV) is the actuarially assessed value of the retirement scheme benefits accrued by a member at a point in time. The increase shown is the difference between the CETV value calculated at 31 March 2024 and 31 March 2023. As Alan Sutherland is a deferred pensioner, no contributions were paid during the year. There was no CETV to disclose for Ian Tait as at 31 March 2023 due to his retirement during the year.

The Directors' normal retirement age is 67 for members born before April 1977 and 68 otherwise. This is the earliest date at which the member can take full benefits without consent and without reduction. The Directors would not become entitled to any other benefits on early retirement.

BOARD REMUNERATION

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

AUDITED INFORMATION	2023-24 Total £(000)	2022-23 Total £(000)
Donald MacRae	35 – 40	35 – 40
Jo Armstrong[15]	10 - 15	15 – 20
Robin McGill	15 – 20	15 – 20
Ann Allen	15 – 20	15 – 20

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

NON-SALARY REWARDS (AUDITED INFORMATION)

The following taxable benefits were made to employees (2022-23): gifts—£207 (£3,293); entertaining—£519 (£33); homeworking—£704 (£863); and eyecare—£690 (£388). WICS paid the tax and national insurance payments due on these benefits, £1,718 (2022-23: £3,384), on behalf of the employees.

FAIR PAY DISCLOSURE (AUDITED INFORMATION)

The range of staff remuneration is £25k-30k to £210k-£215k (2022-23: £25k-30k to £165k-£170k). The highest-paid director is the former CEO at £210k-£215k (2022-23: £165k—£170k). The overall increase of 20% from the previous year is impacted by the payment of notice pay made to the former CEO, partially offset by the absence of a CEO from January to March 2024.

The average salary for all employees, excluding the CEO, is £60k -£65k (2022-23: £70k -£75k), a decrease of 11%. Although most employee salaries have increased from the previous year, the impact of two senior employees leaving the organisation without being replaced is that the overall average has decreased.

Reporting bodies must disclose the relationship between the remuneration of the highest-paid director in their organisation and other employees. The CEO's total remuneration, the organisation's highest earner, has increased due to the inclusion of six-month notice pay and unpaid annual leave. Therefore, as demonstrated in the table below, the ratio between the highest-paid director and other employees has increased compared to last year.

[15] Jo Armstrong resigned on 14 February 2024

AUDITED INFORMATION	2023-24 £(000)	2022-23 £(000)
Highest paid Director's total remuneration (£)	210k – 215k	165k – 170k
Salary: 25th percentile (£)	42,897	34,682
25th percentile pay ratio	5.0	4.9
Salary: 50th percentile (£)	43,818	42,268
50th percentile pay ratio	4.9	4.0
Salary: 75th percentile (£)	101,515	96,835
75th percentile pay ratio	2.11	1.8

AVERAGE NUMBER OF PERSONS EMPLOYED

The average number of full-time equivalent persons employed during the year was 25 (2022-23: 26), including the CEO. These were employed in the following areas:

AUDITED INFORMATION	Year ended 31 March 2024	Year ended 31 March 2023
CEO and Directors	5	6
Other employees	20	20

Staff composition

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

	Male	Female	Total
Directors	3	1	4
Other employees	9	10	19

Total staff costs for the year were £2,378,966 (2022-23: £2,691,278). Staff costs are outlined in more detail in note 3.5.4 of the financial statements. All employees hold permanent (UK) employment contracts.

EQUALITY AND DIVERSITY IN OUR WORKPLACE

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

The Equality Mainstreaming Report 2019-21 on our website sets out our performance and activities in mainstreaming equality. This year, we have focused on raising awareness by offering all our employees equality, diversity, and inclusion training.

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

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

SICKNESS ABSENCE AND STAFF TURNOVER

The average length of time that each employee was absent due to sickness was 4 working days (2022-23: 1 day). This is lower than the Scottish Government's average staff sickness levels of 8.4 days. Staff turnover in the year was 17% (2022-23: 20%). Due to the low number of employees in the organisation, turnover can vary considerably.

HEALTH, SAFETY AND WELL-BEING

Our policy is to safeguard all employees' health, safety and welfare by providing healthy and safe working conditions. We consider a positive health and safety culture an essential part of how we conduct our business. We acknowledge that, as a business, we are responsible to suppliers and other stakeholders in relation to health and safety matters. Our health and safety policy outlines the responsibilities it has toward employees and provides guidance on health and safety issues.

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

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

EXIT PACKAGES

The former Chief Executive was paid 6 months in lieu of notice following his resignation, effective 31 December 2023. The total payment was £84,800, with a further payment of £1,468 for 2.25 days of untaken leave.

2.3 Parliamentary Accountability Report

FUNDING

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

Under the 2002 Act, as amended by the 2005 Act, WICS is funded by a levy paid by Scottish Water. Following approval by Scottish Ministers of the corporate plan, the Sponsor Directorate instructs Scottish Water to pay the amount determined to WICS on a monthly basis. Fees are payable by licensed providers on a cost-recoverable basis, sufficient to meet the costs WICS incurs in exercising its functions relating to water services and sewerage services.

The corporate plan, or elements thereof, is updated between Strategic Reviews as and when necessary, and a copy is provided to the sponsoring unit before the Strategic Review period starts.

LOSSES AND SPECIAL PAYMENTS

There were no losses or special payments in the year (2022-23: £nil).

GIFTS

Gifts were purchased for members of a visiting international delegation. The total value of the gifts was £192. A gift of £100 was made to each employee during the year 2022-23. The total value of the benefit was £2,600.

CONTINGENT LIABILITIES

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

David Satti

David Satti
Accountable Officer
21 November 2024

2.4 Independent Auditor’s Report

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

REPORTING ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Water Industry Commission for Scotland for the year ended 31 March 2024 under the Water Industry (Scotland) Act 2002, as amended by the Water Services (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual (the 2023/24 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of the body’s affairs as at 31 March 2024 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 FReM; and
- have been prepared in accordance with the requirements of the Water Industry (Scotland) Act 2002, as amended by the Water Services (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 2 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council’s Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

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

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

Risks of material misstatement

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

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- using my understanding of the central government sector to identify that the Water Industry (Scotland) Act 2002, as amended by the Water Services (Scotland) Act 2005, and directions made thereunder by the Scottish Ministers are significant in the context of the body;

- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;

- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

REPORTING ON REGULARITY OF EXPENDITURE AND INCOME

Responsibilities for regularity

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

Qualified opinion on regularity

In my opinion, except for the effects of the matters described in the basis for qualified opinion on regularity paragraph, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Basis for qualified opinion on regularity

My audit identified expenditure for the year ended 31 March 2024 included in the Statement of Comprehensive Net Expenditure of £74,832 which was not in accordance with guidance from the Scottish Ministers. This expenditure included:

- £43,604 which did not meet the requirements of the Scottish Public Finance Manual on delegated authority limits

- £23,774 incurred on travel and subsistence expenses which were not incurred in accordance with the requirements set out in Commission's Financial Policies and Guidelines, and did not meet the requirements for authorisation of expenditure set out in the expenditure and payments section of the Scottish Public Finance Manual.

- £7,454 of staff expenses for which no itemised receipts or other proof of purchase were provided, which did not meet the requirements for proof of payment set out in the expenditure and payments section of the Scottish Public Finance Manual.

I consider this level of expenditure to be material to my opinion on regularity. I have therefore qualified my opinion on regularity because the expenditure was not incurred in accordance with the applicable guidance from the Scottish Ministers.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

REPORTING ON OTHER REQUIREMENTS

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

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

Other information

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

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

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

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

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

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

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

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or

- the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or

- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

USE OF MY REPORT

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Richard Smith

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

21 November 2024

3. Financial statements

3.1 Statement of comprehensive net expenditure for the year ended 31 March 2024

The notes on pages 52 - 76 form part of these financial statements	Notes	2023-24 £	2022-23 £
Income			
Income from activities	3.5.2	4,519,241	5,287,598
Expenditure			
Staff costs	3.5.4	(2,378,966)	(2,691,278)
Depreciation	3.5.6	(13,782)	(12,576)
Other expenditure	3.5.5	(984,926)	(1,333,036)
		(3,377,674)	(4,036,890)
Operating surplus		1,141,567	1,250,708
Interest receivable		84,632	14,158
Net surplus for the year after interest		**1,226,199**	**1,264,866**
Corporation tax payable		(14,924)	(1,208)
Other comprehensive net income			
Actuarial (loss)/gain	3.5.13	(208,002)	2,478,000
Total comprehensive net income		**1,003,273**	**3,741,658**

All income and expenditure related to continuing activities.

3.2 Statement of financial position as at 31 March 2024

The notes on pages 52 - 76 form part of these financial statements	Notes	2023-24 £	2022-23 £
Non-current assets			
Property, plant, and equipment	3.5.6	20,389	25,841
Property lease	3.5.7	50,629	158,728
Long-term lease payments receivable	3.5.7	58,948	58,509
Total non-current assets		**129,966**	**243,078**
Current assets			
Other receivables	3.5.8	178,363	647,964
Cash and cash equivalent		4,938,033	3,457,039
Total current assets		**5,116,396**	**4,105,003**
Current liabilities			
Trade payables and other current liabilities	3.5.9	(441,261)	(388,127)
Total current liabilities		**(441,261)**	**(388,127)**
Non-current liabilities			
Provisions	3.5.10	(67,000)	(114,793)
Long-term lease payments payable		(109,577)	(218,910)
Total net assets, excluding pension liabilities		**4,628,524**	**3,626,251**
Pension scheme liability	3.5.13	(33,000)	(34,000)
Net assets		**4,595,524**	**3,592,251**
General reserve		4,628,524	3,626,251
Pension reserve		(33,000)	(34,000)
Total equity		**4,595,524**	**3,592,251**

The financial statements were approved by the Board on 21 November 2024.
The Accountable Officer authorised these financial statements for issue on 21 November 2024.

David Satti

David Satti
Accountable Officer
21 November 2024

3.3 Statement of cashflows for the year to 31 March 2024

The notes on pages 52 – 76 form part of these financial statements	Notes	2023-24	2022-23
Cash flows from operating activities		**£**	**£**
Operating surplus		1,141,567	1,250,708
Adjustments for non-cash items			
Difference in pension costs compared to contributions	3.5.13	(206,000)	247,000
Depreciation on tangible non-current assets	3.5.6	13,782	12,576
Finance (costs)/income		(3,000)	64,000
(Decrease)/Increase in provision	3.5.10	(47,797)	40,825
Movements in working capital			
Decrease/(Increase) in other receivables	3.5.8	577,261	(634,366)
Increase/(decrease) in trade payables and other liabilities	3.5.9	(56,199)	186,156
Net cash inflow from operating activities		**1,419,614**	**1,166,899**
Cash flows from investing activities			
Purchase of property, plant, and equipment	3.5.6	(8,328)	(15,671)
Recognition of lease asset		-	(158,728)
Net cash outflow from investing activities		**(8,328)**	**(174,399)**
Cash flows from financing activities			
Interest received		84,632	14,158
Corporation tax payable		(14,924)	(1,208)
Net inflow from financing activities		**69,708**	**12,950**
Net increase in cash and cash equivalents		**1,480,994**	**1,005,449**
Cash as at 1 April		3,457,039	2,451,590
Cash as at 31 March		4,938,033	3,457,039
Net increase in cash and cash equivalents		**1,480,994**	**1,005,449**

3.4 Statement of changes in equity for the year ended 31 March 2024

The general reserve is analysed in note 11	**£**
Balance at 1 April 2022	**(149,407)**
Total comprehensive net expenditure for the year 2022-23	3,741,658
Balance as at 31 March 2023	**3,592,251**
Total comprehensive net income for the year 2023-24	1,003,273
Balance as at 31 March 2024	**4,595,524**

The notes on pages **52 – 76** form part of these financial statements.

3.5 Notes to the financial statements

3.5.1 ACCOUNTING POLICIES

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

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

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

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

The Board and Accountable Officer have considered the budget for 2024-25, including the statutory contribution from Scottish Water and Licensed Provider levies, and consider that WICS has adequate resources to continue operating for the foreseeable future. The financial statements are, therefore, prepared on a going concern basis.

(i) Accounting Convention

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

(ii) Critical accounting estimates and key judgements

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

Pension

The present value of the pension obligations depends on several factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. WICS is ultimately responsible for the financial and demographic accounting assumptions adopted, based on actuarial advice. WICS determines the appropriate discount rate at the end of each year, considering information provided by actuaries. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, WICS considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 3.5.13.

Dilapidation provision

The provision for dilapidations is based on an estimate provided by a property management company, covering the anticipated costs of restoring the leased property to its original condition as required by the lease agreement. This estimate is reviewed periodically to ensure it remains reasonable under current market conditions.

Estimating the dilapidation provision involves judgment about the likely scope and cost of future remedial work at the end of lease terms. Changes in these assumptions or costs may result in adjustments to the provision within the next financial year. Information on the dilapidation provision can be found in note 3.5.10.

(iii) Newly adopted IFRS

No newly adopted IFRS' have been applied to these financial statements.

(iv) Standards, amendments and interpretation issued but not adopted this year

IFRS 17 – Insurance Contracts

IFRS 17, which establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts, will be effective for WICS from 1 April 2025. Based on our current assessment, IFRS 17 is not expected to have a material impact on WICS's financial statements, as WICS does not engage in significant insurance contract activities.

(v) Leases

Under IFRS 16, lessees and lessors are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. While no standard definition of 'low value' has been mandated, WICS has elected to utilise the capitalisation threshold of £500 to determine the assets to be disclosed.

All existing operating leases fall within the scope of IFRS 16 under the 'grandfathering' rules mandated in the FReM for the initial transition to IFRS 16. New contracts and contract renegotiations will be reviewed for consideration under IFRS 16 as implicitly identified right-of-use assets. Assets recognised under IFRS 16 will be held on the Statement of Financial Position as (i) right of-use assets which represent the Board's right to use the underlying leased assets; and (ii) lease liabilities which represent the obligation to make lease payments.

The value of lease payments will generally be assumed to be a fair proxy for the economic benefits that will be derived from the related right-of-use asset and used to depreciate the asset over the life of the lease.

(vi) Furniture and fittings and information technology

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

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

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

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

(vii) Financial assets

Classification

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

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

Recognition and measurement

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

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

(viii) Financial liabilities

Classification

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

Recognition and measurement

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

(ix) Cash and cash equivalents

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

(x) Provisions

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

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

(xi) Income and expenditure

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

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

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

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

(xii) Value added tax

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

(xiii) Corporation tax

Similarly, most of WICS' activities are outside the scope of corporation tax. However, corporation tax is payable on bank interest received from cash deposits held and profits made from rental income. WICS submits a corporation tax return to HMRC each year to declare this tax obligation.

(xiv) Employee benefits

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

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

The expected cost of providing staff pensions to employees contributing to the Scheme is recognised in the statement of comprehensive expenditure on a systematic basis over the expected average remaining lives of members of the funds in accordance with IAS 19 and recognises retirement benefits as the benefits are earned and not when they are due to be paid.

The statement of comprehensive expenditure includes the net impact of returns on the Scheme's assets and interest on the Scheme's liabilities, which is disclosed (net) as other finance income or interest payable. A pension scheme asset is recognised on the balance sheet only to the extent the surplus may be recovered by reduced further contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent that we have a legal or constructive obligation to settle the liability.

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

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

(xv) Termination benefits

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

(xvi) Segmental reporting

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

3.5.2 INCOME

	2023-24	2022-23
	£	£
Scottish Water statutory contribution	2,301,795	2,279,005
Levy on licensed providers	1,718,013	1,718,013
Hydro Nation income	379,419	1,185,029
Rental income	100,657	88,533
Other income	19,357	17,018
Total income	**4,519,241**	**5,287,598**

3.5.3 ANALYSIS OF NET EXPENDITURE BY SEGMENT

Activity reporting analyses costs by income stream, allowing for a better understanding of how (and against which activities) resources are being deployed. Below is a summary of the full-year report.

Contribution to overheads by activity	2023-24	2022-23
	£	£
Network Regulation	997,740	1,175,339
Retail	1,316,890	1,384,631
Hydro Nation	(82,013)	352,874
Total contribution to overheads	**2,232,617**	**2,912,844**
Overheads	(1,091,050)	(1,662,136)
Net surplus for the year before interest and taxation	**1,141,567**	**1,250,708**

The loss on Hydro Nation activities relates to activities that were carried out without charge. This includes the provision of training to the Fair Trade Commission of Barbados during a visit in Scotland and additional support provided to Taumata Arowai, the water regulator for Aotearoa New Zealand. WICS was able to provide these services using ring-fenced funds from the previous regulatory control period, as outlined in the Corporate Plan 2021-27.

3.5.4 STAFF RELATED COSTS

	2023-24	2022-23
	£	£
Wages and salaries	1,895,922	2,031,370
Social security costs	227,790	224,269
Pension costs	255,254	435,639
Staff costs per statement of comprehensive net expenditure	**2,378,966**	**2,691,278**

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

3.5.5 OTHER EXPENDITURE

	2023-24	2022-23
	£	**£**
Travel and subsistence	159,555	372,488
Office accommodation	(25,975)	(74,125)
Payment of lease liabilities	101,244	88,549
General operating costs	231,929	313,712
Regulation and licensing costs	348,726	412,874
Recruitment	35,349	34,992
Information technology	109,388	103,307
Finance charges	24,710	81,239
	984,926	**1,333,036**

The operating costs for the year are stated after charging the external audit fee of £22,460 (2022-23: £18,200). Payment of lease liabilities represents the rent payments made for office space at Moray House in Stirling during the year. For full details of lease disclosures, see note 3.5.7. Other accommodation expenditure relates to service charge payments and provision for office dilapidations. After receiving a dilapidation estimate from a property management company, the dilapidation provision for the office building was reduced by £47,793. Services categorised under regulation and licensing costs are provided by external consultants. Finance charges principally relate to currency losses arising from unfavourable exchange rate fluctuations between the time an invoice is raised and the time payment is received.

3.5.6 PROPERTY, PLANT AND EQUIPMENT

	Information technology	Furniture and fittings	Total
Cost	**£**	**£**	**£**
At 31 March 2023	131,751	171,084	302,835
Additions	8,328	-	8,328
Disposals	-	-	-
At 31 March 2024	140,080	171,084	311,164
Depreciation			
At 31 March 2023	105,910	171,084	276,994
Charge for the year	13,782	-	13,782
Eliminated on disposals	-	-	-
At 31 March 2024	119,692	171,084	290,776
Net book value at 31 March 2024	**20,388**	**-**	**20,388**
Net book value at 31 March 2023	**25,841**	**-**	**25,841**

	Information technology	Furniture and fittings	Total
Cost	**£**	**£**	**£**
At 31 March 2022	116,404	171,084	287,488
Additions	15,671	-	15,671
Disposals	(324)	-	(324)
At 31 March 2023	131,751	171,084	302,835
Depreciation			
At 31 March 2022	94,534	170,035	264,569
Charge for the year	11,528	1,048	12,576
Eliminated on disposals	(151)	-	(151)
At 31 March 2023	105,910	171,084	276,994
Net book value at 31 March 2023	**25,841**	**-**	**25,841**
Net book value at 31 March 2022	**21,870**	**1,048**	**22,919**

3.5.7 LEASES

Right-of-use asset

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

Payments made to the landlord during the year reduce the asset's value and the lease creditor. Payments WICS makes to Stirling Council will decrease the lease creditor to zero over the life of the lease agreement.

Sub-lease of right-of-use asset

Since 1 July, WICS has sub-let the office to Zero Waste Scotland (ZWS). The lease agreement is for the term to 30 September 2025, with the option to extend to 13 March 2026. This sub-lease reduces the value of the right-of-use asset on the statement of financial position by the value of the amounts due in relation to rent by ZWS to the end of the current lease term (30 September 2025) to reflect the economic benefits from the right-of-use asset that are transferred from WICS to ZWS.

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

Depreciation of right-of-use asset

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

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

If ZWS take up the option to extend the lease to 13 March 2026 at the end of the current sub-lease agreement, then WICS will be required to write down the right-of-use asset to zero in its 2024-25 financial statements and recognise a lease debtor for the value of lease payments due from ZWS over that period.

Right-of-use asset	Note	Property £
Cost at 1 April 2023		158,728
Write down to reflect the transfer of asset to ZWS		(108,099)
Cost at 31 March 2024		50,629
Depreciation at 1 April 2023		-
Depreciation at 31 March 2024		-
Carrying amount at 31 March 2024		50,629
Carrying amount at 1 April 2023		158,728

The table below outlines the total future lease payments due under the office building.

Payments due by WICS, as lessee	Year ended 31 March 2024	Year ended 31 March 2023
	£	**£**
Not later than one year	109,333	101,244
Later than one year and not later than five	109,577	218,910
Total	**218,910**	**320,154**

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

Payments receivable by WICS, from lessor	Year ended 31 March 2024	Year ended 31 March 2023
	£	**£**
Not later than one year	109,333	102,917
Later than one year and not later than five	58,948	58,509
Total	**168,281**	**161,426**

3.5.8 OTHER RECEIVABLES

Current receivables	31 March 2024	31 March 2023
By category:	**£**	**£**
Prepayments	27,092	61,774
Lease payments due < 1 year	109,333	102,917
Other receivables	41,938	483,273
Total other receivables	**178,363**	**647,964**

The decrease in other receivables from the previous year is largely due to outstanding invoices due from the Department of Internal Affairs, New Zealand of £441,036k being settled in June 2023.

Intra-government receivables	31 March 2024	31 March 2023
	£	**£**
Central Government	6,001	-
Local Authorities	-	14,713
Bodies external to government	172,362	633,251
Total other receivables	**178,363**	**647,964**

3.5.9 CURRENT LIABILITIES

Current payables	31 March 2024	31 March 2023
By category	**£**	**£**
Trade payables	10,636	45,360
Taxation and Social Security	121,032	58,911
Accruals	152,513	137,810
Lease payments due < 1 year	109,333	101,244
Pension	47,747	44,802
Total current liabilities	**441,261**	**388,127**

Intra-government payables	31 March 2024	31 March 2023
	£	**£**
Local Authorities	146,831	164,759
Central Government	158,303	79,255
Bodies external to government	136,127	144,113
Total current liabilities	**441,261**	**388,127**

3.5.10 PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2024	31 March 2023
	£	**£**
Balance at 1 April 2023	114,793	73,968
Provided in the year	(47,793)	40,825
Balance at 31 March 2024	**67,000**	**114,793**

The provision for dilapidation costs relates to WICS' contractual duty to repair leasehold property upon termination of the lease. Provision is made for the estimated costs of fully repairing leasehold properties at the end of the financial year. During the year, WICS received a dilapidation estimate from a property management company. The provision was adjusted to reflect this estimate.

3.5.11 NOTE TO STATEMENT OF CHANGE IN EQUITY

	Note	General reserve	Pension reserve	Total reserve
		£	**£**	**£**
Balance at 1 April 2022		2,051,593	(2,201,000)	(149,407)
Changes in reserves 2022-23				
Actuarial gains		-	(3,017,000)	(3,017,000)
Change in assumptions underlying the present value of the scheme liabilities		-	5,495,000	5,495,000
Net surplus/(deficit) for the year		1,574,658	(311,000)	1,263,658
Balance as at 31 March 2023		3,626,251	(34,000)	3,592,251
Changes in reserves 2023-24				
Actuarial gains	3.5.13	-	(100,000)	(100,000)
Change in assumptions underlying the present value of the scheme liabilities	3.5.13	-	(108,000)	(108,000)
Net surplus for the year		1,002,273	209,000	1,211,273
Balance as at 31 March 2024		**4,628,524**	**(33,000)**	**4,595,524**

3.5.12 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

There were no capital commitments at 31 March 2024 (2022-23: £nil).

(ii) Contingent liabilities

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

From 1 June 2023, WICS registered as an employer in New Zealand (IRD No. 139-863-402). Because there was no intention to profit from the activities in New Zealand, the IRD provided us with a Special Tax Rate Certificate confirming that no corporation tax would be due. To confirm this position, an income tax return was made to the IRD for the financial year 2022-23 and 2023-24.

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

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

3.5.13 PENSION

(i) Background

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

In the period, WICS paid contributions totalling £462k (2022-23: £440k) into the Fund. Under the Superannuation Regulations, contributions are set to meet 100% of the Fund's overall liabilities. WICS has been advised that specific (minimum) rates for employer contributions in 2024-25 will be 24.5% (2023-24: 29.4%).

In accordance with IAS 19 WICS commissioned the Fund's actuaries to undertake a valuation as at 31 March 2024. This calculation was based on rolling forward valuation data at 31 March 2023 (the last formal valuation) to 31 March 2024 based on several financial assumptions.

The main financial assumptions used included:

Financial assumptions	Year ended 31 March 2024 % p.a.	Year ended 31 March 2023 % p.a.
Pension Increase Rate (CPI)	2.75	2.95
Salary Increase Rate	3.25	3.55
Discount rate	4.85	4.75

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

Financial assumptions	Males	Females
Current pensioners (years)	21.4	21.1
Future pensioners (years)	23.4	25.1

(ii) Change in the fair value of plan assets, defined benefit obligation and net liability for the year ended 31 March 2024 (continued on next page)

	Assets	Obligations	Impact of asset ceiling adjustment	Net (liability)/ asset
	£(000)	**£(000)**	**£(000)**	**£(000)**
Fair value of employer assets	11,785	-	-	11,785
Present value of funded liabilities	-	8,983	-	(8,983)
Present value of unfunded liabilities	-	34	-	(34)
Effect of the asset ceiling	-	-	(2,802)	(2,802)
Opening position as at 31 March 2023	**11,785**	**9,017**	**(2,802)**	**(34)**
Current service cost	-	256	-	(256)
Total service cost	**-**	**256**	**-**	**(256)**
Net interest				
Interest income on plan assets	570	-	-	570
Interest cost on defined benefit obligation	-	434		(434)

	Assets	Obligations	Impact of asset ceiling adjustment	Net (liability)/ asset
Interest on the effect of the asset ceiling	-	-	(133)	(133)
Total net interest	**570**	**434**	**(133)**	**3**
Total defined benefit cost recognised in profit	**570**	**690**	**(133)**	**(253)**
Cashflows				
Participants' contributions	126	126	-	-
Employer contributions	459	-	-	459
Estimated benefits paid	(193)	(193)	-	-
Estimated unfunded benefits paid	(3)	(3)	-	-
Estimated contributions in respect of unfunded benefits paid	3	-	-	3
Expected closing position	**12,747**	**9,637**	**(2,935)**	**175**
Re-measurements				
Changes in financial assumptions	-	(638)	-	638
Changes in demographic assumptions	-	(403)	-	403
Other experience	(261)	1,149	-	(1,410)
Return on assets, excluding amounts included in net interest	351	-	-	351
Changes in the effect of the asset ceiling	-	-	(190)	(190)
Total re-measurements recognised in Other Comprehensive Income (OCI)	**90**	**108**	**(190)**	**(208)**
Fair value of employer assets	12,837	-	-	12,837
Present value of funded liabilities	-	9,712	-	(9,712)
Present value of unfunded liabilities	-	33	-	(33)
Impact of asset ceiling adjustment	-	-	(3,125)	(3,125)
Closing position as at 31 March 2024	**12,837**	**9,745**	**(3,125)**	**(33)**

Pension assets and liabilities recognised in the statement of financial position

The amount included in the statement of financial position arising from WICS' obligation with respect to the pension scheme is normally the net liability represented by the present value of the defined benefit obligation and the fair value of the plan assets. Similarly to the position in 2022-23, the actuarial gains arising from changes in the financial assumptions have resulted in a net asset position.

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

	2023-24	2022-23
	£(000)	**£(000)**
Present value of the defined benefit obligations	(9,745)	(9,017)
Fair value of plan assets	12,837	11,785
Closing position at 31 March	3,092	2,768
Asset ceiling adjustment	(3,125)	(2,802)
Closing position at 31 March, after asset ceiling adjustment	**(33)**	**(34)**

The liability of £33,000 (2022-23: £34,000) represents the present value of unfunded pension liabilities as at 31 Marc.

Asset ceiling adjustment

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

	2023-24	2022-23
	£(000)	**£(000)**
Net present value of estimated future service costs	15,408	2,391
Net present value of future contributions	(27,718)	(4,283)
	(12,310)	**(1,892)**

As the present value of future contributions is greater than the present value of future service costs, the net asset is restricted to zero on 31 March 2024. However, the present value of unfunded pension liabilities is required to be disclosed at the end of the financial year, totalling £33k, as disclosed above.

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

	Assets	Obligations	Net (liability)/ asset
	£(000)	**£(000)**	**£(000)**
Fair value of employer assets	11,271		11,271
Present value of funded liabilities	-	13,432	(13,432)
Present value of unfunded liabilities	-	40	(40)
Opening position as at 31 March 2022	**11,271**	**13,472**	**(2,201)**
Current service cost	-	687	(687)
Total service cost	**-**	**687**	**(687)**
Net interest			
Interest income on plan assets	315	-	315
Interest cost on defined benefit obligation	-	379	(379)
Total net interest	**315**	**379**	**(64)**
Total defined benefit cost recognised in deficit	**315**	**1,066**	**(751)**
Cashflows			
Participants' contributions	125	125	-
Employer contributions	437	-	437
Estimated benefits paid	(148)	(148)	-
Estimated unfunded benefits paid	(3)	(3)	-
Estimated contributions in respect of unfunded benefits paid	3	-	3
Expected closing position	**12,000**	**14,512**	**(2,512)**
Re-measurements			

	Assets	Obligations	Net (liability)/ asset
Asset ceiling adjustment	(2,802)	-	(2,802)
Change in financial assumptions	-	(6,250)	6,250
Change in demographic assumptions	-	(89)	89
Other experience	-	844	(844)
Return on assets excluding amounts included in net interest	(215)	-	(215)
Total re-measurements recognised in Other Comprehensive Income (OCI)	**(3,017)**	**(5,495)**	**2,478**
Fair value of employer assets	**9,017**	-	9,017
Present value of funded liabilities	-	9,017	(9,017)
Present value of unfunded liabilities	-	34	(34)
Closing position as at 31 March 2023	**9,017**	**9,051**	**(34)**

(iv) Fair value of plan assets for the period ended 31 March 2024

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

Asset category	Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of total assets
Equity securities:				
Consumer	884.9	-	884.9	7%
Manufacturing	1,038.9	-	1,038.9	8%
Energy and utilities	513.0	-	513.0	4%
Financial institutions	945.0	-	945.0	7%
Health and care	472.8	-	472.8	4%
Information technology	961.1	-	961.1	7%
Other	111.2	-	111.2	1%
Debt securities:				
UK Government	1,307.2	-	1,307.2	10%
Other	179.5	-	179.5	1%
Private equity:				
All	-	82.7	82.7	1%
Real estate:				
UK property	-	732.10	732.10	6%
Overseas property	-	0.2	0.2	0%
Investment funds and unit trusts:				
Equities	2,299.3	-	2,299.3	18%
Bonds	607.3	-	607.3	5%
Infrastructure	-	1,969.4	1,969.4	15%
Other	-	316.2	316.2	2%
Cash and cash equivalents:				
All	416.0	-	416.0	3%
Totals	**9,736**	**3,101**	**12,837**	**100%**

The asset value, at bid value, for the period ended **31 March 2023** are outlined in the table below.

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

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

The table below provides an analysis of the projected amount to be charged to operating profit for the period to 31 March 2025.

	Assets	Obligations	Net (liability)/ asset	% of pay
Projected current service cost	-	231	(231)	(14.8%)
Total service cost	**-**	231	**(231)**	**(14.8%)**
Interest income on plan assets	630	-	630	40.4%
Interest cost on defined benefit obligation	-	476	(476)	(30.5%)
Total net interest cost	630	**476**	**154**	**9.9%**
Total included in income statement	**630**	**707**	**(77)**	**(4.9%)**

Employer’s contributions for the period to 31 March 2025 will be approximately £382,000.

(vi) Sensitivity analysis

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

Change in assumptions at 31 March 2024	Approximate % increase to employer	Approximate monetary amount £(000)
0.1% decrease in Real Discount Rate	2%	212
0.1% increase in the Salary Increase Rate	0%	16
0.1% increase in the Pension Increase Rate (CPI)	2%	200
1 year increase in member life expectancy	4%	390

3.5.14 RELATED PARTY TRANSACTIONS

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

We have had transactions with other central and local government bodies, including Scottish Water, Falkirk Council, Stirling Council, and Audit Scotland.

All Board Members and Directors complete and update a register of interests annually. During the year 2023-24, no Board Member, Director or other related party has undertaken any material transactions with us.

4. Accounts Direction

WATER INDUSTRY COMMISSION FOR SCOTLAND
DIRECTIONS BY THE SCOTTISH MINISTERS

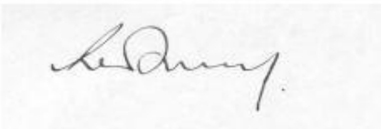
1. The Scottish Ministers give the following directions to the Water Industry Commission for Scotland ("WICS") in exercise of powers conferred by section 1(3) of the Water Industry (Scotland) Act 2002 (the "2002 Act"), as amended by section 1(1) of the Water Services etc. (Scotland) Act 2005. In accordance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

2. The statement of accounts for the financial year ended 31 March 2018, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.

3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

4. These directions shall be reproduced as an appendix to the statement of accounts.

5. The direction given by the Scottish Ministers to WICS, in relation to statements of accounts, dated 3 October 2006 is revoked.



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

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WICS Economic regulation for Scotland's water