

M Tables – Regulatory Accounts Commentary

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1. Overview

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

The Regulated Income & Expenditure Statement and Capital Investment for the year to 31 March 2025 compared to the Final Determination (FD)² is presented below.

SW Regulated Income & Expenditure Statement	Actual 2024/25 £m	WICS financial model underpinning FD 2024/25 £m	Variance 2024/25 £m	Cumulative variance 21-25 £m
Total revenue	1,595	1,731	(136)	(321)
Regulatory operating costs	(511)	(677)	(3)	29
PFI costs	(169)			
Interest charges	(142)	(188)	46	153
Costs before items subject to LTNC³	(822)	(865)	43	182
Total available to support investment before LTNC items	773	866	(93)	(139)
Responsive repair & refurbishment costs	(230) ⁴	(279)	49	140
Developer contributions	(33) ⁴	(35)	2	2
Tax paid	- ⁴	(6)	6	22
Total LTNC Items	(263)	(320)	57	164
Surplus after charging LTNC items	510	546	(36)	25

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

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

³ Costs before items subject to LTNC in the FD have been amended to include actual outturn cloud computing arrangement costs and Scottish Water non-regulated costs in the year of £29m and £3m respectively. These items are also included within the actual column to ensure like for like comparison.

⁴ The LTNC for responsive repair & refurbishment costs, developer contributions and tax have been revised based on updated trends. This has resulted in an increase of £5 million to £230 million per year, an increase of £3 million to £33 million per year and a reduction of £1 million to nil respectively over the period from 2021-27.

Revenue

Revenue for the year at £1,595 million was £136 million lower than anticipated in the FD. Cumulatively, for the first four years of the regulatory period, charges were 0.4% below CPI inflation and 8.6% below the charge path anticipated in the FD. Consequently, revenue, on a cumulative basis since the start of the regulatory period, was £321 million lower than that anticipated in the FD. Charges in the FD were based on CPI inflation plus 2% per annum but charge increases for 2024/25 were higher at 8.8%, 4.2% higher than the October 2023 CPI inflation of 4.6% to start bringing charges in line with the cumulative CPI + 12.6% increase published in the FD.

Operating Costs, PFI and Interest charges

Costs before items subject to LTNC for the year at £822 million, were £43 million lower than anticipated in the FD, driven by lower interest charges of £46 million and marginally offset by higher operating and PFI costs of £3 million.

As set out in the 2024/25 Interim Performance and Prospects, planned costs before items subject to LTNC were expected to be £804 million which after adjusting for the change in regulatory accounting rules (see footnote 3) would be £836 million. Actual performance in the year was £14 million lower at £822 million. The main contributors, compared to plan, were reduced weather impacts over the winter period reflecting a benign weather year, lower electricity costs and gas prices⁵ compared with the market expectations when we set the plan, and lower interest charges driven by improved interest rates paid on funds on deposit.

Costs before items subject to LTNC, on a cumulative basis since the start of the regulatory period, were £182 million lower than that anticipated in the FD.

Long-Term Normative Charge Items (LTNC)

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

Actual regulatory expenditure in the year for responsive repairs and refurbishment was £277 million compared to the LTNC charge for the year of £230 million, which itself was £49 million lower than the FD assumption of £279 million. Cumulatively, the LTNC for responsive repairs and refurbishment was £140 million lower than the level assumed in the FD. In the year we have amended our LTNC from £225 million to £230 million to align with our forecast for the 2021-27 period. This increase reflects the increase in demand as a consequence of the ageing asset base.

Developer contributions and taxation also experience significant annual variability and hence we have adopted a similar normative charge approach in these with normative charges of £33 million per annum for developer contributions and nil per annum for tax paid. The normative charge for developer contributions has increased to reflect increased demand, particularly with the current expansion in Perth and taxation has reduced by £1 million per annum reflecting higher levels of repair being expensed.

In the year actual expenditure for developer contributions was £46 million with tax expenditure reflecting a refund of £16 million due to enhanced capital allowances of 100% first year capital allowance applying to expenditure on new plant and machinery and the new 50% first year special rate allowance on long-life assets. Consequently, total actual expenditure on LTNC items in the year was £307 million, £44 million higher than the LTNC.

⁵ Which reduce contractual indexation within the Levenmouth PFI contract.

Over the 2025-27 period rebasing of LTNCs will be required to reflect actual expenditure trends and up-to-date forecasts. These updates will continue to be highlighted within interim and annual reports.

Surplus to support planned investment

The total surplus available to support planned investment, after charging for LTNC items, for the year was £510 million. This was £36 million lower than that anticipated in the FD for the year. Cumulatively, since the start of the regulatory period, the surplus to support planned investment was £25 million higher.

Capital Investment

Gross planned investment, on a regulatory accounting basis, in the year was £815 million, which was £68 million or c. 9% higher than the FD. When combined with responsive repair and refurbishment costs, total regulated investment was £1,092 million in the year. The table below compares performance to the investment expectations in the FD.

Investment on a regulatory accounting basis	Actual 2024/25 £m	Final Determination 2024/25 £m	Inc/(dec) 2024/25 £m	Cumulative inc/(dec) 2021-25 £m
Planned investment	815	747	68	154
Responsive repair & refurbishment costs	277	279	(2)	(203)
Total	1,092	1,026	66	(49)

Prospects for 2025/26

We remain committed to deliver our Strategic Plan, increase investment to replace our ageing assets, achieve our net zero ambitions and take all possible steps to drive for further efficiency to provide great value for customers by targeting at least a 1% year-on-year real reduction (CPI-1%) in costs in line with the challenging target set in the FD.

The planned regulated income & expenditure for the year to March 2026 compared to the Final Determination is presented below.

SW Regulated Income & Expenditure Statement	Plan 2025/26 £m	WICS financial model underpinning FD 2025/26 £m	Inc/(dec) 2024/25 £m	Cumulative Inc/(dec)
Total revenue	1,753	1,820	(67)	(388)
Regulatory operating costs	(552)	(693)	(32)	(3)
PFI operating costs	(173)			
Interest charges	(159)	(194)	35	188
Costs before items subject to LTNC	(884)	(887)	3	185
Total available to support investment before LTNC items	869	933	(64)	(203)

Responsive repair & refurbishment costs	(230)	(286)	56	196
Developer contributions	(33)	(36)	3	5
Tax paid	-	(6)	6	28
Total LTNC Items	(263)	(328)	65	229
Surplus after charging LTNC items	606	605	1	26

Customer charges for 2025/26 have increased by 9.9% reflecting our current and future investment needs to protect services and to recover revenue lost over the earlier half of the regulatory period when charges were set at lower levels in recognition of the Covid 19 pandemic and the cost-of-living crisis. Despite this increase, charges remain c. 3.2% below the charge path outlined in the FD.

Currently, Scottish Water's investment plan of £4.45 billion⁶ assumes that charges over the 2021-2027 regulatory period will align with the FD level of CPI + 12.6%. To remain aligned with this level, future charges would increase above the CPI inflation for 2026/27.

Costs for 2025/26, before items subject to LTNC, are anticipated to outperform by £3 million. The decrease in outperformance reflects an assumed reversion to normal operating conditions (rather than the benign weather year in 2024/25), continued inflationary pressures on our operating and PFI costs relative to CPI, offset by lower net interest charges and continued improvements supported by our transformation programme.

Over the 2021-27 regulatory period, our expectation is that our costs before LTNC items, will be c. £190 million lower than the FD.

Net new borrowing from the Scottish Government in 2025/26 is planned to be £170 million. Planned investment, combined with responsive repair and refurbishment costs are forecast in a range of £1,113 million to £1,173 million. The expected cash balance at the end of 2025/26 is within a range of £50 million to £100 million.

2. Introduction

SW produces statutory consolidated accounts incorporating the results of all subsidiary companies. The consolidated statements also include the income statement, balance sheet and cash flow (and relevant notes) for SW only ('company'). Reconciliations between the statutory accounts and the regulatory tables are detailed in Table M3 and are also included in table M27a and M28a.

M Table financial information is for SW company only (i.e. excluding all subsidiaries) and is analysed between Core and Non-Core where required. The exceptions to this are tables M18W and M18WW (explained in section 4) and tables M27a and M28a. For 2024/25, new M table templates were agreed in January following the issuance of updated Regulatory Accounting Rules (RARs). Consequently, SW has reassessed its current activities and all activities carried out by the SW legal entity are now reported as core activities throughout the tables with the exception of the M18 tables.

The M Tables have been completed using historical cost information, except for the addition of current cost non-current assets and an economic depreciation charge within tables M4, M5 and M32.

3. Commentary – Tables M1 to M32

The commentary provided in this section for individual tables explains significant year-on-year movements or provides additional guidance on how the information was obtained and/or calculated. There are no comments on the tables which are self-explanatory.

⁶ In 2017/8 prices

Table M1 (SRC21) – Tier 1 Income and Cost Statement

Table M1 (SRC21) represents the Tier 1 income and cost statement, consistent with the financial commentary of Scottish Water's Performance and Prospects Report for 2024/25.

Total revenue excluding infrastructure charges income and disposal proceeds (line M1.4) increased £133m or 9.2% to £1,580m (2023-24: £1,446m). This mainly reflects the charge increase in the year of 8.8% and new connections to services.

Infrastructure charges (line 1.5) reduces £0.4m or 3% to £12.9m reflecting slightly lower demand in the year. Disposal proceeds (line 1.6) reduced £0.3m to £2.3m (2023-24: £2.6m) mainly reflecting the disposal of redundant plant, machinery and vehicles during the year.

Net new borrowing (line M1.8) reduced £26m to £170m (2023-24: £196m). Net new borrowing in the year reflects a return to the borrowing level per the original Final Determination of £170m following additional borrowing in the prior year due to the recovery of debt associated with the former North-East Scotland PFI.

Tier 1 operating costs before interest and tax (line M1.14) increased £116m or 13% to £1,003m. Each of the key lines and variances are explained in further detail below:

- Operating expenditure (line M1.10) increased £53m or 12% to £511m (2023-24: £458m) mainly reflecting the inclusion of cloud computing arrangements costs and previously regarded non-core operating costs (£28.8m and £2.8m respectively) following the change to regulatory accounting rules applicable in 2024/25. Excluding these in year adjustments like for like operating costs have increased £21m, which after excluding the one-off £25m refund of rates charges following the successful appeal of the 2017 Water undertaking valuation, presents a £4m reduction in operating costs resulting from reduced energy costs and a benign weather year, partially offset by increases in employment costs as a consequence of modernising the pay and grading system for our employees.
- PPP costs (Line M1.11) increased by £8m or 5%, to £168m (2023-24: £160m) mainly reflecting contractual price inflation and variations in flows and loads treated at PFI sites.
- Responsive repair and refurbishment (Line M1.12) increased by £41m or 18% to £277m (2023-24: £236m) due to increased volumes linked to an ageing asset base and inflationary pressures.
- Reasonable cost contributions (RCC), line M1.13, increased by £14m or 41% to £47m (2023-24: £33m) driven by expansive development in Perth (Bertha Park) and improving the standard of vested assets.

Net interest charges (line M1.15) increased £9m or 7% to £142m (2023-24: £133m). The increase was mainly driven by higher interest charges reflecting a combination of higher interest rates and higher debt levels.

Taxation (line M1.16) reflects a tax refund received from HMRC due to enhanced capital allowances of 100% first year capital allowance applying to expenditure on new plant and machinery and the new 50% first year special rate allowance on long-life assets.

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

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

Table M1 (SRC27) – Tier 1 Income and Cost Statement

Table M1 (SRC27) represents the Tier 1 income and cost statement as per table M1 (SRC21) detailed above, except for the removal of Responsive repair and refurbishment costs; Reasonable

cost contributions (RCC); and the inclusion of Repair costs (line M1.13) on a regulatory basis as reported in the G tables (line G1.52).

Repairs costs (line M1.13) increased by £30m or 10% to £335m (2023-24: £305m) due to increased volumes linked to an ageing asset base and inflationary pressures.

Memo lines 1.19 to 1.25 enable comparison on a like-for-like basis of revenue and operating costs prior to the impact of the updated RARs and tables. The values presented show cloud arrangement costs and the revenues and costs from activities previously regarded as non-core.

Table M3 (SRC21) – Tier 1 Income and Cost Statement – Reconciliation to Statutory Accounts

Table M3 (SRC21) reconciles the regulatory Tier 1 income and costs (Table M1(SRC21)) to the SW's statutory income statement. The adjustments in Table M3 reflect:

- the inclusion of depreciation and amortisation charges (line 3.11 to 3.13);
- the removal of balance sheet and cash flow items generally associated with capital investment in lines 3.4, 3.5, and 3.10;
- the capitalisation of refurbishment expenditure, the timing of regulatory and statutory repairs recognition (reflected in column G), and the expensing of planned repair costs (line 3.9);
- IFRS adjustments relating to pension costs (IAS 19), PFI costs (IFRIC 12), Leases (IFRS16) and the tax charge, including deferred tax.

Table M3 (SRC27) – Tier 1 Income and Cost Statement – Reconciliation to Statutory Accounts

Table M3 (SRC27) reconciles the regulatory Tier 1 income and costs (Table M1(SRC27)), following the change to RARs during 2024/25 and alignment to the joint financial model, to the SW's statutory income statement. The adjustments in Table M3 reflect:

- the inclusion of depreciation and amortisation charges (line 3.10 to 3.12);
- the removal of balance sheet and cash flow items generally associated with capital investment in lines 3.4 and 3.5;
- The timing of regulatory and statutory repairs recognition (reflected in column G) of line 3.9;
- IFRS adjustments relating to pension costs (IAS 19), PFI costs (IFRIC 12), Leases (IFRS16) and the tax charge, including deferred tax.

Table M4 and M4b – Regulatory Accounts Income and Expenditure

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

The majority of lines are populated from information presented in Table M1 and M3. All current cost adjustments have been calculated on a MEAV basis as agreed with WICS, and as per table M32. Prior year current cost adjustments have been presented as reported in 2023-24.

Lines M4.1, M4.2, M4.3, M4.4 and M4.10 have been explained earlier in the commentary under Table M1. The remaining lines are explained in turn below:

Economic depreciation (Line M4.5) has been calculated in table M32, which uses gross MEAV and the average useful life of assets. To ensure alignment with the MEAV methodology used in the preparation of Table H, the average useful life of assets has been adjusted to reflect those assets which are deemed to have infinite lives. The MEAV adjustment in 2024-25 increases depreciation charges of £368m shown in lines M3.10 and M3.11 of table M3 (SRC27) by £385m to £753m. The decrease in the year of £34m reflects the change in the calculation method of MEAV through table M32. Prior year current cost depreciation has been presented as reported in AR24.

Profit or loss on disposal (line M4.9) represents the disposal proceeds shown in Table M1 (SRC27) (line M1.11) less the remaining net book value, on a historic cost basis, of assets disposed.

Taxation shown in lines M4.12 and M4.13 shows the split of the tax charge shown on Table M3 (SRC27) excluding adjustments to tax relating to IFRS pension adjustments (Line M3.17) between current and deferred tax.

Revaluation gains and losses (Line 4b.4) shows the movement in the MEAV adjustment to Tangible assets presented in Table M5. This has been presented within other comprehensive income to be consistent with revaluation gains and losses under IFRS accounting to create a current cost reserve in Table M5. However, this adjustment should not be confused with revaluation.

Table M5 – Regulatory Accounts Balance Sheet

Table M5 is a regulatory accounting Balance Sheet that reflects regulatory accounting information (excluding IFRS adjustments) using MEAV rather than historic cost and the inclusion of a cumulative replacement deficit/surplus reflecting economic depreciation, as calculated in table M32. Table M5 for 2023-24 has been reported as per AR24 submission.

Tangible Assets (Line 5.1) and Current cost reserve (Line 5.26), represent MEAV adjusted values as explained in the M4 commentary above.

Working Capital and other creditors (line M5.4 and M5.16) are linked to Table M11. Commentary for M11 is found below.

Cash balances (M5.5 and M5.6) decreased £144m to £136m (2023-24: £280m). The reduction in cash reflects a net cash outflow of £314m, due mainly to the growth in the investment programme, offset by net new borrowing from the Scottish Government of £170m.

Income and expenditure (Line 5.25) has decreased £44m to £1,737m (2023-24: £1,781) reflecting the profit retained in line M4.18 of negative £352m and adding back the economic depreciation adjustment compared to historic cost depreciation of £385m outlined in the M4 and M4b commentary, and following the change in RARs and alignment to the joint financial model, adding back the previously recognised non-core income and expenditure account of £7m and deducting prior year cloud arrangement costs of £83m.

Cumulative replacement deficit/surplus (Line 5.21) is a new addition to table M5 in AR25 and reflects the difference between calculated economic depreciation and asset replacement investment in the year. Economic depreciation reflects the high of the long-term sustainable replacement range of £478m to £753m

The current cost reserve (line 5.26) has increased £2,126m reflecting the revaluation gains and losses reported in line M4b.4 less the MEAV adjustment to depreciation outlined above.

Table M6a – Regulatory Investment

Table M6a is a new requirement for AR25 and details regulatory investment by intervention type and the required adjustments to reconcile investment on regulatory basis to the statutory basis. Cloud computing arrangement costs of £29m are excluded from table M6a following the update to the regulatory accounting rules and are now reported as part of Operating costs in table M1. Regulatory investment has been crosschecked against the G tables to ensure alignment, and a reconciliation is provided in the table below. To capture total gross investment including reasonable cost contributions, expenditure on inspections and testing (G1.51) is included within the line M6a.3.

Investment category	M6a ref	G1 ref	M6a (£m)	G1 (£m)	Diff	Notes
Reasonable cost contributions	M6a.1	G1.81 G1.82	46.8	15.0 31.8	-	
Repairs	M6a.2	G1.54	334.7	334.7	-	
Refurbishment	M6a.3	G1.51 G1.53	147.1	41.3 105.8	-	
Asset replacement	M6a.4	G1.54	351.8	379.8	(28.0)	M6a excludes cloud costs
Growth	M6a.5	G1.55	62.7	62.7	-	
Enhancement	M6a.6	G1.56	181.6	182.4	(0.8)	M6a excludes cloud costs
Completion	M6a.7	G1.57	14.9	14.9	-	
Total gross spend	M6a.8	G1.83	1,139.6	1,168.4	(28.8)	M6a excludes cloud costs
Third party contributions	M6a.9	G1.59	(5.6)	(5.6)	-	
Insurance recoveries	M6a.10	n/a	-	-	-	
Total net spend	M6a.11	n/a	1,134.0	1,162.8	(28.8)	M6a excludes cloud costs

Total gross spend (line M6a.8) excludes cloud computing arrangement costs of £29m, as explained above, in comparison to the G tables (line G1.83).

Table M6 – Regulatory Income and Expenditure and Cash Flow

Table M6 is a regulatory cash flow that aligns to the regulatory current cost P&L (Table M4) and the regulatory current cost Balance Sheet (Table M5). It includes a reconciliation to the 'Net cash flow from operating activities' (line 6.9) from the operating profit in M4.8.

Interest paid (line 6.11) of £152m includes intercompany interest paid to Business Stream of £2.8m and £1.6m to 3rd party LPs in relation to the settlement of wholesale billing and reconciliation process. The interest paid has been offset by interest income of £11m reflecting increased interest income from funds on deposit due to higher interest rates.

The total capital expenditure has been separated into component parts across lines 6.15 to 6.22. The tables below provide the detail and the reconciliation of the total capital investment to lines 6.14 to 6.22:

	M Table / line ref	2023/24 £m	2024/25 £m
Opening short term capital creditor	M11.12	131.7	138.4
Add: Capital investment (net of contributions)		1,054.9	1,134.1
Add: Group asset purchase - SW Grampian		-	-
Less: Responsive and planned repairs		(318.2)	(342.6)
Closing short term capital creditor	M11.12	(138.4)	(127.7)
=>			
Capital expenditure		730.0	802.2
Analysed:			
Reasonable cost contributions	M6.15	21.5	39.9
Refurbishment	M6.16	74.8	147.1
Asset replacement	M6.17	299.4	379.8
Growth	M6.18	68.9	62.7
Enhancement	M6.19	218.4	163.4
Completion	M6.20	50.0	14.9
Third party contributions	M6.21	(3.0)	(5.6)
Insurance recoveries	M6.22	-	-
Capital expenditure (total)		730.0	802.2

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

	2023/24 £m	2024/25 £m
Responsive repair and refurbishment (line M1.12)	235.8	277.3
Tier 2 investment (Per M8 commentary below)	788.9	815.6
Developer contributions (Line M1.13)	33.1	46.8
Less: Contributions	(3.0)	(5.6)
Capital investment (net of contributions)	<u>1,054.9</u>	<u>1,134.1</u>

Table M6R – Regulatory Accounts – Ratio information

This table provides all the information for, and calculation of, the basic ratios in one place. The ratios calculated in Table M6R are the clean calculation using the actual financial information, with all figures referenced from the relevant M Tables.

Table M7 – Analysis of Turnover and Operating Income

Table M7 analyses regulatory income between water and wastewater.

Turnover from services supplied to household customers increased by £104m or 10% to £1,153m (2023-24: £1,049m) (line M7.1) reflecting the increase in household charges of 8.8% for both water and wastewater services, effective from 1 April 2024, and the net increase in properties connected to the network. The additional lines (lines M7.17 – M7.20) provide detail on the movements in household revenue.

Turnover from wholesale services provided to Licensed Providers increased by £28m or 7% to £411m (2023-24: £382m) (line M7.3) reflecting tariff increase of 8.8% (shown in M7.21) for both water and wastewater services and additional revenue generated from GAP sites. The additional lines (lines M7.21 – M7.26) provide a further analysis of the year-on-year movements in wholesale revenue.

Turnover from other sales increased £2m or 8% to £16m (2023-24: £14m) (line M7.7), which includes £3m of revenue reassessed in the year as core following the RARs update of £3m.

Cash receipts in respect of infrastructure charges remained in line with the prior year at £13m (Line M7.10) reflecting the ability of developers to partly connect developments, rather than have to pay for the total site completion from the first connection. Disposal proceeds were also mainly in line with the prior year at £2m as explained in M1 commentary above (line M7.11).

Table M8 – Movements in Cash Balance

Table M8 compares the financial flows delivered in the year to those in the Final Determination updated for inflation (and the closing position in 2020-21) and reconciles movements from the closing Final Determination cash position to the closing actual cash position of Scottish Water at 31 March 2025.

The Final Determination model has been updated consistent with prior year, with the inclusion of cloud arrangement costs and previously classified non-core income and expenditure at the 2024-25 level of £28.8m, £3m and £3m respectively, and reflects:

- the 2020-21 closing position for household, wholesale and other revenue;
- the 2020-21 closing position for cash (less SR15 completion);

- CPI inflation of 2.36% for 2024/25; and
- price increase of 6.6% based on a preceding October CPI of 4.6% for 2023/24.

The updated Final Determination model has then been compared to actual reported Tier 1 performance (as per Table M1), planned investment (Tier 2) performance (as set out in the Overview Commentary in section 1 above) and net new borrowing (as per Table M29) in 2023-24. Closing cash per the updated Final Determination model, closing cash and Tier 2 expenditure have been reported excluding completion to allow for a like-for-like comparison to the Final Determination:

- Closing cash per the Final Determination is reported as £79m, being £429m reported 2020-21 closing cash position, less £291m of SR15 completion costs, less £59m of cash utilisation as per the Final Determination model.
- Scottish Water closing cash is reported as £89m, being £136m closing cash reported on Table M5, lines M5.6 and M5.6, less remaining SR15 completion costs of £47m.
- Tier 2 investment in the year was £815m including completion costs of £14m. So, excluding completion Tier 2 investment was £801m compared to modelled FD Tier 2 investment of £747m for 2024-25.

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

Working capital movements reflect the difference between the Tier 1 statement, Tier 2 investment, and the total cash movement in the year. It should be noted that the working capital movement in table M8 is not equivalent to the working capital movement in M11. This is because M8 compares the Tier 1 and Tier 2 movements on an accruals basis against the Final Determination which is on a purely cash basis. M11 however, compares the movement in balance sheet balances from 2023-24 to 2024-25. The basis of the calculation used is consistent with prior years. The Working capital movement of £31m mainly reflects an increase in closing trade creditors at the year end.

Timing Impacts (cols G to J) arise where cash inflows/outflows are expected to be utilised/recovered during a future year of the regulatory period relative to the updated Final Determination model. Timing differences for LTNC items are shown as the expected LTNC level less the actual performance in the year and are combined with any prior period adjustments when the LTNC level changes to reflect the latest forecast view. This is summarised in the table below and reflect the values presented in the overview in section 1:

LTNC item	LTNC	Actual	Timing	Prior Years Adj	Total Timing adj
Responsive repair and refurbishment	230	277.3	47.3	(15)	(32.3)
Developer contributions	33	46.8	13.8	(9)	4.8
Tax paid	-	(16.5)	(16.5)	3	(13.5)

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

The Tier 2 investment timing adjustment is calculated as total Tier 2 investment of £816m less SR15 completion costs in the year of £15m, giving £801m of SR21 Tier 2 investment. When compared to Tier 2 investment per the updated Final Determination of £747m the timing impact equates to £54m.

Table M11 – Regulatory Accounts Working capital (Core)

Table M11 sets out the movements in working capital. All of the balances presented in Table M11 are on a regulatory accounting basis except for lines 11.25 and 11.26. Additional rows have been included within the tables in AR25 to improve alignment with the joint financial model.

Table M18W and M18WW commentary – see Section 4 below

Table M21 – Taxation analysis

Table M21 provides a taxation analysis.

The 2023/24 data has been updated to reflect the actual 2023/24 tax computation submitted to HMRC.

Line M21.34 refers to disallowable revenue expenditure. This is expenditure that is treated as revenue for accounting purposes but is not considered as allowable for tax purposes so needs to be added back to the accounting profit figure. This includes small items that would be considered as capital for tax purposes such as small tools and equipment. It also includes business entertainment expenditure as well as additional depreciation relating to assets funded by customer infrastructure charges. It would also include any donations payable and any disallowable portion of company car lease rentals.

M21.35 refers to the movement in general provisions. Provisions can be regarded as specific or general. Any accounting movement in a specific provision is allowable for tax purposes meaning there is no adjustment required to accounting profit. However, the movement in general provisions is disallowable for tax purposes so requires an adjustment to the taxable profit. These provisions are ones where the future obligation is probably but less certain and is usually estimate basis i.e. Bad debt provisions.

M21.36 includes items that impact the tax calculation provided to HMRC but do not have a specific line elsewhere in the table. This includes adjustments for allowable PFI depreciation, deferred revenue and group relief to ensure that the correct taxable profit/loss figure is calculated at M21.41.

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

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

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

The core column in M28a is populated with the values from Table M5 with current cost items being removed and regulatory to statutory recognition adjustments included in the Net MEAV to HCA fixed asset value adjustment column (lines M28a.1, M28a.2, M28a.21, M28a.25 and M28a.26).

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

Table M27a – Consolidated IFRS Income Statement

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

- M27.2 - The operating expense adjustment reflects the accounting treatment of lease costs under IFRS 16 to separate the costs into a liability repayment and interest costs as presented in Table M3.7.
- M27.3 - This expense adjustment reflects the adjustments associated with PFI finance lease costs under IFRIC 12 to separate the costs into a liability repayment and an interest cost as shown in line M27.10.
- M27b.2 - Is the net actuarial gain at March 2025 calculated from changes in actuarial assumptions and expected return on assets set at the beginning of the year. The actuarial

assumptions and valuation of the defined benefit pension scheme calculation are provided by independent qualified actuaries.

- M27b.3 - This represents the actuarial service cost and interest expense of the defined benefit pension scheme, net of actual cost of contributions paid to the pension funds as per IAS19.

Further details of core IFRS adjustments can be found at appendix 1.

The intercompany items being visibly eliminated (in col 7) on this table are the intercompany wholesale income in SW and the intercompany cost of sales in Business Stream. The intercompany interest between SW and Business Stream is already eliminated across line 27.10.

Non-core / non-licensed includes the results for the two holdings companies (Scottish Water Business Stream Holdings (SWBSH) & Scottish Water Horizons Holdings (SWHH), SWH, and Scottish Water Services (Grampian) (WSWG).

Table M28a – Consolidated Historic Cost Balance Sheet

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

- M28a.4 - This entry primarily relates to the timing of pension fund contribution payments reflected in M28.19.
- M28a.19 - This represents the net pension liability required under IAS19 at the end of the period. This is independently calculated and is audited as part of our year end audit to ensure compliance with the standard. Actuarial assumption changes result in the pension liability being presented as a liability for 2024/25. Additional information can be obtained from note 22 to the Financials in our Performance & Prospects report for 2024-25.
- M28a.20 - This entry is reducing the unfunded pension benefit provision already included in post-employment asset / liabilities, line M28.19.
- M28a.27 – This value represents the remaining liability under IFRIC 12 for all PFI contracts and contracts classified as leases under IFRS 16.

The Non-core / non licensed column includes the balance sheets of SWBSH, SWHH, SWH, and WSWG.

Table M29 – Interest

Table M29 reconciles the movement in net interest expense presented on Table M4 (line M4.10).

Line M29.11 adjusts the calculation in line M29.7 for timing differences. This is required as a reconciling item as line M29.7 assumes all new borrowing and borrowing repaid takes place at the start of the year. Table M30 provides more detail on the drawdown and repayment dates.

Interest income decreased £2m to £11m (line M 29.9) reflecting lower interest levels of funds on deposit throughout the year due to cash utilisation.

Prepaid wholesale charges interest (line M29.10) remained in line with the prior year at £4m.

Tables M30 & M31 – Inventory of loans

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

Table M30 details the principal value of the loans due for repayment in full by their maturity dates. The listing includes details of the £169m of loans repaid during 2024/25.

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

Table M32 – Economic depreciation

Table M32 is a new addition in the year and seeks to calculate the theoretical economic depreciation charge (M4.5), net MEAV at 31 March 2025, and the replacement deficit or surplus (M5.21) when considering the asset replacement expenditure in the year. Economic depreciation is calculated as the gross MEAV, as per table H1, divided by the average useful life of assets. As the economic depreciation calculation does not consider those assets deemed to have infinite lives, the average useful life of assets has been adjusted to remain consistent with SW MEAV methodology. Economic depreciation for the prior year has been presented as reported in AR24.

4. Commentary– Tables M18W & M18WW

Introduction

The M18 tables are produced for Scottish Water regulated and non-regulated activity (including non-regulated activities within Scottish Water Horizons), prepared on a historic cost basis and excluding IFRS adjustments. As mentioned in the introduction above, reassessed non-regulated activities within the Scottish Water entity are reported within the non-core column as the population of these tables follows our general ledger structure. Changes to the general ledger have been made for the 2025-26 year and therefore non-core activities within Scottish Water will be reported within the core columns for AR26.

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

	Table ref	£m			
Tier 1 operating costs	M1.10	511.1			
Add: Repair and refurbishment expenditure previously expensed as operating expenditure in SR15					
	M1.23	62.8			
Less: directly capitalised tier 1a spend previously expensed as operating expenditure in SR15	M18W.29, M18WW.30	(17.7)			
SW regulated operating costs		556.2			
SW Non-reg operating costs		-			
SW Horizons operating costs		22.3			
Operating costs		578.5	Diff	Total	M18W/WW Tables
					M18W M18WW
PFI costs	M1.11	168.4			311.1 260.8
PFI Costs		168.4	6.8	175.2	0.0 175.2
Total operating expenditure	M18W.25, M18WW.26	746.9	0.2	747.1	311.1 436.0
Explained by charges to SWBS and others for support			(0.2)		
* Table References - lines:				[M18W.25]	[M18WW.26]

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

- £6.8m difference between the SW Board report and the M18 Tables re. PFI costs represents costs incurred in providing SW support to PFI activities;
- The expenditure totals differ slightly due to charges to SWBS for support being excluded in the preparation of the M18 tables

Cost analysis in Tables M18 W and M18 WW was prepared using reports from SW's 2022-23 Activity Based Management (ABM) process updated with 2024-25 general ledger costs. The simplified ABM methodology used in 2024/25 did not differ materially from the methodology in 2022/23 and was audited as part of the Binnies audit in May 2025. A detailed explanation of the methodology has been provided in Appendix 2 to this commentary.

Commentary

For 2024/25, the operating expenditure sections of the M18 tables have been populated using SW's ABM model on a basis consistent with 2023/24. Rows M18.25 (W) and M18.26 (WW) show total regulated operating costs including responsive repairs and refurbishment costs of £45.1m.

Additional Tier 1a costs previously reported as operating expenditure is shown in rows M18.29 (W) and M18.30 (WW). The table below shows a reconciliation to values included within the M1 table.

Tier 1a Reconciliation	2024/25
	£m
Tier 1a spend reported within Total operating expenditure	45.1
Water M18.29 Repair and refurbishment previously expensed as operating expenditure in SR15 (Tier 1a)	9.0
Wastewater M18.30 Repair and refurbishment previously expensed as operating expenditure in SR15 (Tier 1a)	8.7
M1 table line 1.23 - Repair and refurbishment expenditure previously expensed as operating expenditure in SR15	62.8
Water M18.30 Remaining responsive repair and refurbishment expenditure (Tier 1a)	109.1
Wastewater M18.31 Remaining responsive repair and refurbishment expenditure (Tier 1a)	105.4
M1 table line 1.12 - Responsive repair and refurbishment	277.3

Total operating costs increased by £62.8m (9.2%) to £747.1m.

Total Operating Costs	2024/25	2023/24	Variance
	£m	£m	£m
Operating expenditure - Water M18w.43	311.068	274.157	(36.911)
Operating expenditure - Waste M18ww.44	436.006	410.133	(25.873)
	747.074	684.290	(62.784)

Analysis by activity:

	2024/25	2023/24	Variance
	£m	£m	£m
Wholesale	654.739	604.666	(50.073)
Retail	66.142	63.723	(2.419)
Non Regulated	26.194	15.901	(10.293)
	747.074	684.290	(62.784)

Wholesale activity costs increased by £50.1m (8.3%) from 2023/24 to £654.7m reflecting the following key movements at line level:

- Inclusion of cloud expenditure for the first time in AR25, which totalled £25.3m. For comparison cloud costs of 2023-24 were £22.3m;
- An increase in direct employment costs of £1.9m driven mainly by pay inflation;
- A decrease in direct power costs of £3.8m due mostly to lower consumption from the attributable to lower average rainfall and more self-generation;
- A decrease in hired and contracted services of £12.3m driven by improved cost capture resulting in more contractors spend being captured directly in projects, a lower level of incidents throughout the year influenced by benign weather conditions, and an increase in procurement rebates;
- An increase in PFI costs of £7.9m, primarily due to indexation of contract service fees;
- Materials and consumables costs decreased by £0.9m due primarily to lower chemical costs due to fewer compliance issues influenced by the benign weather conditions;

- Other direct costs increased by £0.9m mainly due to property repairs and maintenance to improve site health and safety and access standards;
- General and support costs decreased by £1.3m, mostly due to lower hire costs because of fewer incidents and lower anticipated insurance claim provisions;
- Costs associated with scientific services increased by £1.2m, reflecting pay and general inflation; and
- Local authority rates costs increased by £28.6m, reflecting the one-off rates refund received in the prior year of £25m associated with the appeal of the 2017 valuation of the Water Undertaking.

Retail activity costs increased by £2.4m (3.8%) to £66.1m primarily driven by inclusion of cloud expenditure for the first time of £2.4m.

Non-Regulated costs have increased by £10.3m (64.8%) mainly reflecting the recognition of a provision by Scottish Water Horizons to ensure that SW costs for electricity purchased from heat from sewage assets that Horizons disposed of to a third party during the year reflect market prices over the life of the contract, and an increase in the number of developer projects undertaken.

IFRS Statutory Accounting adjustments

Table M27a provides the results of Scottish Water Core on the IFRS Accounting and consolidated basis. The non-cash pension adjustments, as calculated under IAS 19, have all been included in Table M27b.

All reconciling items are purely the IFRS entries in respect of PFI costs, lease costs, and the removal of fixed asset current cost adjustments. The net impact on the profit before tax is summarised below.

		£m	
Loss before tax per table M4 (line M4.12)		(1,325.0)	
IFRS 16	Leases - depreciation and lease liability	(0.2)	1.
IFRIC 12	PFI costs - depreciation & lease liability	11.5	2.
	Reg to stat repairs	(7.9)	
	Economic depreciation	1,383.4	
Scottish Water - net decrease in costs		1,386.8	
Profit before tax on table M27a (Core) stat (line M27a.11)		61.8	

1. IFRS 16 'leases'

IFRS 16 'leases' came into effect for SW from 1 April 2024. Under IFRS 16, lease agreements, excluding short-term leases and leases of a low value, are classified as finance leases, resulting in the leases being brought onto SW's balance sheet in the form of a right-of-use asset and a lease liability. The annual lease costs incurred are broken down into three categories: finance costs and a reduction of the finance lease obligation. In addition, there is a depreciation charge calculated in respect of the right-of-use assets held on the balance sheet.

The adjustment in respect of IFRS 16 leases of 0.2m in the table above is allocated in M27a as follows:

		M Table / line ref	2024/25 £m
<i>Adjustments in statutory accounts:</i>			
<i>Income statement</i>			
Cost of sales	Lease costs reallocated	M27a.2	3.4
	Depreciation	M27a.5	(3.0)
Finance costs - net		M27a.10	(0.6)
Impact on surplus before tax			(0.2)

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

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

In Table M27a, line M7a.3 'PPP costs' for the core business consists of the operating costs totalling £136m in 2024-25. The total depreciation charges of £12m are in line 27a.5, the finance costs of £9m are in line 27a.10 and Scottish Water internal costs are included in line 27a.3.

The table below provides the reconciliation from Table M4 to Table M27a core (stat).

		2024/25 £m
Total PPP costs in Table M4	M4.3	168.4
IFRS adjustments:		
Less: Depreciation charges - PPP leased assets		(12.1)
Less: Finance lease obligation - to balance sheet		(20.6)
Total PPP costs in Table M27a	M27a.3 core (stat)	135.7

Table M27b – Consolidated – Statement of comprehensive income

This table has been completed on a consistent basis with prior years and includes all of the IAS 19 'Employee benefits' adjustments in respect of the post-employment benefits. These IFRS adjustments are all non-cash.

The profit for the year (line M27b.1) is the Core (stat) retained profit from Table M4 Stat (line M4Stat.19).

The actuarial gains/losses on post-employment plans (line M27b.2), net of related deferred taxation, are as reported in the statutory results for Scottish Water.

The post-employment plans (non-cash), net of tax (line M27b.3) consists of the total service cost and the net financing expense as calculated under IAS 19 which replace the 'normal management' operating costs as charged in tables M1 and M4 (line M4.2). The net adjustment of £0.9m is analysed as follows:

	SW £m
Pension service cost adjustments	(1.7)
Interest on pension scheme net liabilities	1.6
Deferred tax on IAS 19 adjustments	1.0
	0.9

There were no other gains or losses (line M27b.5).

Table M28a – Consolidated Balance Sheet – including reconciliation from Regulatory to Statutory accounts

Tangible assets balance (line M28a.1 core (stat)) equals the Property, plant & equipment and Intangible asset balance per the IFRS accounts.

PFI assets and right-of use assets form part of the Property, plant & equipment balance, and totalled £182m and consists of the SW owned assets and the assets treated as leased under the IFRS basis. The related finance lease liability is shown in line M28a.27. The following tables provide additional analysis and reconciliation to the presentation in the statutory accounts.

Property, plant & equipment			£m
Leased assets			165.9
Owned assets	(reclassification)		15.7
		M28a, line 28a.1	181.6
Other loans & borrowings			
Finance lease liability	< 1 year		24.2
	> 1 year		121.0
	total	M28a, line 28a.27	145.2

Post-employment asset / (liability) (line M28a.19) shows the retirement benefit asset under IAS 19, net of the related deferred tax balance, as described in the M28a commentary above and detailed below.

<i>Balance sheet</i>		£m
Retirement benefit obligations (Post employment liabilities)		(68.4)
Deferred taxation on retirement benefit obligations		<u>17.1</u>
Retirement benefit obligations - net	M28a, line 28a.19	<u>(51.3)</u>

Retained earnings (line M28a.22 Core (stat) consists of the total of the reserve brought forward from 31 March 2024 and the retained profit for 2024/25 (Table M27a core (stat), line M27b.5), as detailed below.

		£m
<i>Retained earnings reconciliation as per table M28a</i>		
Retained earnings as at 31 March 2024	M28a stat, line 28a.22	1,675.2
Reallocation of previously classified non-regulated		6.7
Total comprehensive income for the year	M27b stat, line 27b.6	<u>(3.1)</u>
Retained earnings carried forward at 31 March 2025	M28a stat, line 28a.25	<u>1,678.8</u>

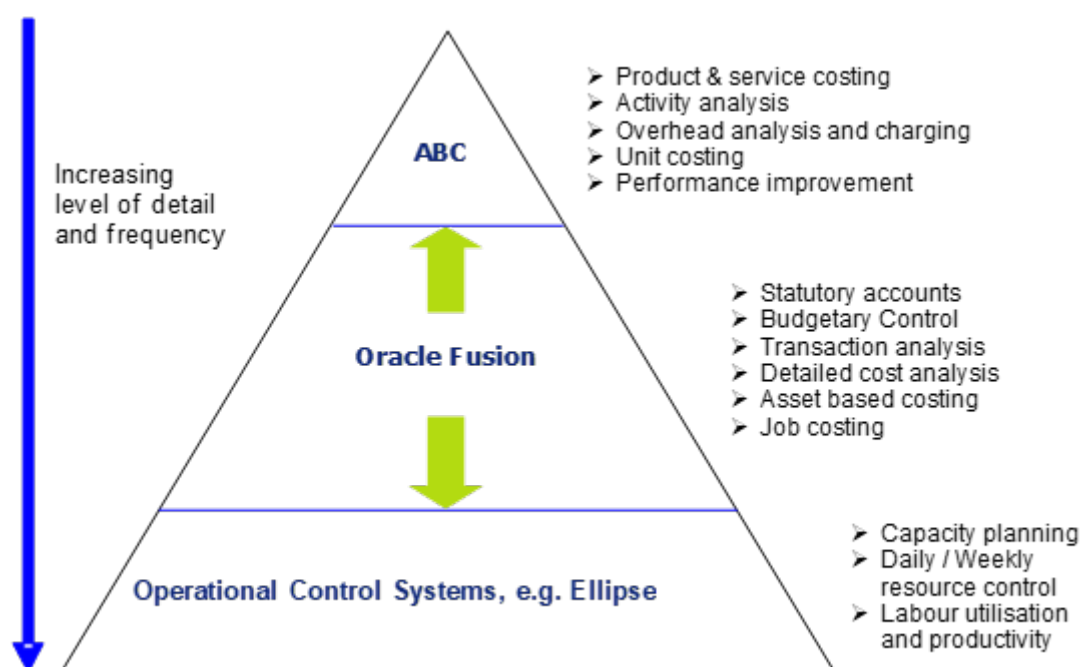
Methodology for Scottish Water's Activity Based Management (ABM) process

Cost analysis in the M18 Tables (M18W and M18WW) was prepared using reports from Scottish Water's 2022/23 Activity Based Management (ABM) model, updated for 2024/25 general ledger costs, and on a historic cost basis excluding IFRS adjustments. The explanation below describes the 2022-23 allocation calculations.

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

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

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



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

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

	The diagram illustrates the ABC allocation model. It features a 'Support Department Cascade' at the top, which branches into four levels: A, B, C, and D. Each level has a horizontal arrow pointing to a 'Direct Departments' box at the bottom. A large blue arrow on the right side points downwards, labeled 'Type of support provided'. The ABC allocation model is structured around Scottish Water’s key (c.250) activities and is run annually to cover all profit and loss expenditure. Oracle Fusion feeds total expenditure directly into the modelling process. Where activity splits have already been captured, e.g. Ellipse effort by activity / asset, these are also fed directly into the model process. Costs are analysed by activity and for each activity a non financial driver is captured. The non financial driver is the measurable factor which is judged to drive activity cost, or the level of resource consumption. In the model these drivers are used to allocate activity costs to services. The non financial driver data is collected from a variety of sources. Output from the ABM model is an estimate of the full cost of services, by activity, which feed into the E & M Table classifications.
Non-financial Driver Data Sources	Examples of systems and drivers are: • LIMS – Lab tests processed and samples taken; • Oracle CRM – Customer calls and written contacts; • Gemini – Waste movements; • Ellipse – Number of jobs, man hours, stores issues, etc; and • Oracle Fusion – Number of invoices, purchase orders, customer bills, man hours.

Ellipse / Oracle Fusion Integration

