

25 February 2026
Water Industry Commission for Scotland



Assurance report on financial model for SRC27

Disclaimer

Restrictions

This report has been prepared solely for the benefit of the Water Industry Commission for Scotland (“**WICS**”) for the purpose of providing assurance on the financial model used in the next price control from 2027 – 2033 (“**SRC27**”).

FTI Consulting accepts no liability (including in respect of any negligence, fault, breach of contract or breach of duty or otherwise) or duty of care to any entity other than WICS for the content of the report and disclaims all responsibility for the consequences of any entity other than WICS acting or refraining to act in reliance on the contents of this report or for any decisions made or not made which are based upon the contents of this report. Any person (other than WICS) who chooses to rely on this report does so entirely at their own risk.

Limitations to the scope of our work

This report contains information obtained or derived from a variety of sources. FTI Consulting has not sought to establish the reliability of those sources or verified the information provided.

No representation or warranty of any kind (whether express or implied) is given by FTI Consulting to any entity (except to WICS under the relevant terms of our engagement) as to the accuracy or completeness of this report.

This report is based on information available to FTI Consulting at the time of writing of the report and does not take into account any new information which becomes known to us after the date of the report. We accept no responsibility for updating the report or informing any recipient of the report of any such new information.

Assurance report on financial model for SRC27

25 February 2026

Water Industry Commission for Scotland
Moray House, 1st Floor
Forthside Way
Stirling, FK8 1QZ

Dear Sirs and Madams

Subject: Strategic Review of Charges 2027 financial model assurance support

A. Background

1. FTI Consulting (“**FTI**”) has been commissioned by the Water Industry Commission for Scotland (“**WICS**”) for the purpose of providing assurance on the regulatory financial model used to regulate Scottish Water (the “**Financial Model**”) during the next price control period (“**SRC27**”) running from 2027 to 2033.
2. We have been informed that the Financial Model for SRC27 is used to inform WICS’s forecasts for Scottish Water’s revenue, expenditure and allowed charges, and for monitoring Scottish Water’s performance. This report sets out the scope of our work, the basis of our work and opinion, our opinion and results, as well as out of scope elements and limitations of our work.
3. This letter and related reports were prepared under the terms of our engagement letter dated 22 December 2025.

B. Scope of review

4. The scope of FTI’s review of the Financial Model is as per the Invitation to Tender (“**ITT**”) published by WICS. This is summarised below:
 - reviewing the model’s logical structure including cell links, formulae, calculations, and the macro;
 - reviewing internal consistency and arithmetical accuracy across the model;
 - reviewing tax calculations, including consistency with UK tax policy at the time of the review (including changes announced in the November 2025 Budget) and tax inputs;

- identifying any issues or areas requiring correction or clarification; and
 - reviewing any areas corrected during the contract period as a result of interim findings. We have reviewed corrections made in five iterations¹ of the model.
5. We have also assessed the model’s consistency with WICS’s regulatory approach based on the SRC27 methodology,² and the sensitivity of outputs to changes in assumptions.
6. Our scope of work excludes consideration of the appropriateness, validity, or accuracy of:
- any of WICS’s or Scottish Water’s assumptions underpinning the Financial Model or any of the input data in the Financial Model, with the exception of tax inputs and/or assumptions relating specifically to the UK’s tax framework;³ or
 - the use of any of the outputs of the Financial Model outside of the Financial Model itself.
7. Therefore, we express no opinion on the Financial Model other than the aspects outlined in paragraphs 4 and 5 above.

C. Summary of FTI’s approach to conducting the model assurance

8. We have planned and performed our review of the Financial Model subject to the scope agreed in the engagement letter. We have assessed the model’s logical integrity and whether it is calculating values in an arithmetically accurate manner. Our finding is that the Model is accurate for the purpose of informing WICS’s forecasts for Scottish Water’s revenue, expenditure, setting allowed charges, and monitoring Scottish Water’s performance.
9. In performing our review, and with the exception of inputs relating to the UK’s tax framework,⁴ we have relied exclusively on the information and explanations provided to us by WICS, and have not undertaken any form of verification, investigation, validation, or other work in relation to such information and explanations.

¹ We have reviewed versions 4.0 (“Joint model v4.0.xlsm” received on 05 January 2026), 4.1 (“Joint model v4.1.xlsm” received on 03 February 2026), 4.2 (“Joint model v4.2.xlsm” received on 11 February 2026), 4.3 (“Joint model v4.3.xlsm” received on 17 February 2026) and 4.4 (“Joint model v4.4.xlsm” received on 23 February 2026). Version 4.4 was the final version of the Financial Model for the purpose of this assurance report.

² For details, see WICS (2024), *2027-33 Final Methodology* ([link](#)).

³ In this regard, we reviewed the appropriateness and validity of the mechanical calculation of tax payable, including the mechanical calculation of capital allowances. However, we did not review Scottish Water-specific inputs to the calculation of tax payable, for instance, the allocation of assets to capital pools, or the underlying values of specific adjustments to tax profits. A full list of tax inputs reviewed (and not reviewed) is set out in Appendix 1.

⁴ See footnote 3.

10. We structured our review over three phases:⁵

- In Phase 1, we undertook a ‘red flag’ review of the model, to determine whether calculations are working as intended. This was intended to highlight any issues that could fundamentally change any of the key outputs of the model. This included a high level review of the formulas contained within the model, as well as assessing the sensitivity of the model’s key outputs, i.e., revenue, borrowing, investment, tax and interest costs to changes in inputs and assumptions.

In this phase, we reviewed the version of the Financial Model titled “*Joint model v4.0.xlsm*”, received from WICS on 05 January 2026. Our Phase 1 review did not identify any material inaccuracies and as such, did not necessitate any changes from WICS.

- In Phase 2, we performed a detailed line-by-line review of the model, to determine that the calculations are working as intended along with checking the formatting of the model to ensure the model was clearly structured and easy to understand. Where necessary, we provided suggestions to enhance aspects of the Financial Model such as structure, labelling of values, and formulas.

In this phase, we also reviewed the version of the Financial Model titled “*Joint model v4.0.xlsm*”, received from WICS on 05 January 2026 given that our ‘red flag’ review did not require updates to the model.

- In Phase 3, we reviewed an updated version of the Financial Model titled “*Joint model v4.1.xlsm*”, received from WICS on 03 February 2026, which was updated by WICS for relevant comments from Phases 1 and 2. We also reviewed versions 4.2, 4.3 and 4.4 which incorporated and iteratively addressed our comments based on version 4.1 of the model. This phase focused on reviewing the appropriateness and accuracy of the changes made to the model by WICS in response to our suggestions.

11. After each of Phases 1 and 2, we shared a detailed log of observations (i.e., clarification questions, comments, or suggestions) with WICS. The WICS team responded to each observation in writing and subsequently proceeded to action the relevant comments in the Financial Model after the end of the Phase 2 review.

12. As part of Phase 3, we subsequently reviewed WICS’s responses to our comments and conducted a further review of the changes implemented by WICS in iterations 4.2, 4.3 and 4.4 of the model. Following each iteration, there was a further clarification call conducted with WICS, resulting in a further update of the observations log.

13. The final version of the Financial Model for the purpose of this assurance report is the version received on 23 February 2026 (working title “*Joint model v4.4.xlsm*”).

⁵ More details of our reviews in Phases 1, 2, and 3 are set out in Appendix 1.

14. The financial model contains a macro to solve for either investment, borrowing or cash balance depending on the scenario selected. We have assessed the accuracy of the macro's output as part of our review. Macros are not standard practice in regulatory models and we (FTI) derived a non-macro solution which arrived at the same answer. However, WICS has indicated its preference to keep the versions of the model between itself and Scottish Water as aligned as possible and hence to retain the macro. We are satisfied that the current implementation of the macro does not compromise the model's integrity, accuracy or transparency.

D. Results and opinion

15. Based on our review,⁶ and the representations made to us by WICS (including those on behalf of Scottish Water), it is our independent and unbiased opinion that the Financial Model is accurate in all significant respects and consistent with WICS's SRC27 final methodology.
16. At this point in time, we do not consider the macro to be a material risk to the robustness of the Financial Model and, on that basis, are comfortable with WICS's decision to retain the macro in the final version of the model.
17. We express no opinion with respect to the accuracy of the forecasts contained within the model relative to the future outturn results for Scottish Water. Specifically, we have not evaluated whether the forecasted financial or operational metrics will materialize as projected. Our scope of work is limited to reviewing the model's structure, formula integrity, and computational accuracy, not to assessing the validity of the underlying business assumptions, market conditions, or strategic plans that drive these forecasts. Actual results may differ materially from the forecasts due to factors beyond the scope of our review.

E. Out of scope elements and limitations of our work

18. The scope of our work was limited solely to the procedures outlined in Section B. Therefore, we do not express any opinion or conclusion on areas outside our scope. WICS is responsible for determining the sufficiency of our scope of review and we make no representation regarding the sufficiency of our review.
19. Specifically, as set out in paragraph 5, we did not review inputs or assumptions with the exception of tax inputs specifically relating to the UK's tax framework,⁷ i.e., we did not check that inputs are consistent with underlying data in source documents.
20. Additionally, as set out in paragraph 9, we also did not verify information provided to us by WICS except to the extent expressly stated above.

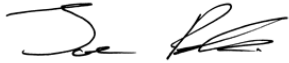
⁶ See paragraph 7 for details.

⁷ See footnote 3.

F. Distribution

21. This letter is intended solely for the information and use of WICS and has been prepared according with the terms of our engagement dated 22 December 2025.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Joe Perkins', with a stylized flourish at the end.

Joe Perkins

Senior Managing Director

FTI Consulting LLP

Appendix 1 Details on approach

- A1.1 This appendix details the approach undertaken in reviewing the Financial Model. Specifically, we set out:
- the checks performed as part of our review process in each phase;
 - the classification of comments; and
 - the processes through which comments were addressed.

A. Checks performed

- A1.2 In our Phase 1 review, we focused principally on assessing the key outputs of the Financial Model to ensure that the mechanics of the Financial Model were flowing logically and correctly. This included:
- **Conducting a mechanical review of the worksheets.** We assessed how formulas flow through the spreadsheet from row-to-row. In cases where the calculations were unclear or contained empty values, we asked WICS about the purpose of specific calculations.
 - **Assessing the sensitivity of the model's key outputs, i.e., revenue, borrowing, investment, tax and interest costs to changes in inputs and assumptions.** Specifically, we examined how changes to household and non-household K-factors, inflation profiles, and the cost of new debt affected the model's key outputs across the three macro settings (investment, borrowing, and cash). The directional and numerical results of the sensitivity analysis were consistent with our expectations.
 - **Assessing the consistency of tax inputs with the UK November 2025 budget.**⁸ Specifically, we assessed whether the Financial Model's key tax inputs⁹ were consistent with the UK November 2025 Budget. We also assessed whether there were any differences between the UK November 2025 Budget and the Scottish January 2026 Budget.¹⁰ We were satisfied that the tax inputs were consistent with UK tax policy.

⁸ For details on the November 2025 UK Budget, see UK Government, *Budget 2025 in full* ([link](#)).

⁹ A full list of tax inputs reviewed is provided in Table A1-1 below.

¹⁰ For details on the Scottish January 2026 Budget, see Scottish Government, *Scottish Budget 2026 to 2027* ([link](#)).

- **Reviewing the macro code.** We conducted a line-by-line review of the macro code and produced flow charts setting out how the different macro settings work to solve circularity issues. We were satisfied that the macro worked as intended by WICS and Scottish Water.
- **Reviewing the macro’s outputs.** We assessed whether the macro outputs are internally consistent when inputs are aligned across different macro settings. For example, we assessed whether the “*borrowing*” macro setting produces the same net borrowing figure when using the investment profile generated by the “*investment*” macro setting, as the net borrowing profile input used to produce that profile. We were satisfied that macro outputs were internally consistent.

A1.3 Across these checks, we did not find any ‘red flags’ which would materially impact the Financial Model’s key outputs and this was conveyed to WICS.

A1.4 In our Phase 2 review, we conducted a more in depth and granular review of formulas, structure, and labelling to ensure that Version 4.0 of the Financial Model was accurate throughout the modelling period, clear, and easy to understand. This included:

- **Assessing whether formulas were correctly and consistently carried forward across years.** Specifically, we utilised a software¹¹ to track (a) when new formulas are applied within a worksheet and (b) up to which point a formula is carried forward. We followed up with WICS in cases where formulas were not consistently carried forward as part of our detailed observations log.
- **Assessing whether the structure of worksheets and formulas could be simplified to facilitate model understanding.** Specifically, we assessed whether the layout and presentation of worksheets could be streamlined to facilitate readability, e.g., by suggesting a re-structuring of a worksheet to separate inputs, calculations and outputs and changing the presentation of values. We also assessed whether formulas could be simplified, e.g., by suggesting separation of complex formulas into multiple rows or the use of Excel functions to shorten formulas.
- **Assessing the use of formatting and labelling to facilitate model understanding.** Specifically, we conducted a comprehensive review of formatting and labelling across tabs to ensure clarity, consistency, and clear differentiation between inputs, calculations and outputs. We provided thorough comments across tabs to enhance the model’s readability, e.g., by streamlining the terminology used to refer to projected, actual, and real values, as well as the model’s units.

¹¹ We utilised ‘Spreadsheet Pro’, a software that facilitates model review and quality assurance by assessing if a spreadsheet contains certain errors such as formula inconsistencies, hard-coded numbers etc. Specifically, we used the software’s mapping function to assess whether formulas are carried forward correctly and when new formulas are applied within a worksheet.

- A1.5 A selection of our most material findings from the Phase 2 review are set out below:
- We observed that there were some issues in the ‘inputs’ tab where inputs had been deflated using an incorrect price base. When raised with WICS, WICS said that these inputs were legacy inputs from a previous version of the model, and would be updated for the final iteration.
 - A formula in the worksheet which calculated SW’s embedded interest costs did not encompass all cells in the summation range, which led to an underestimate of embedded interest cost in a latter period in the model.
 - We flagged several areas where labelling was inconsistent and/or unclear, for instance mixed labelling for actual and projected data. WICS addressed this comment by taking a consistent approach to the use of labels for price base and actual or forecast data.
 - We suggested structural changes to the workbook, in particular the separation of inputs and intermediate model calculations to enable future model auditability, which were implemented by WICS.
- A1.6 Finally, our Phase 3 review entailed a re-review of WICS’s updated Financial Model, versions 4.1, 4.2, 4.3 and 4.4, to check the consistency of WICS’s implementation with WICS’s written responses and our original comments in Phases 1 and 2. This included:
- **Assessing whether formulas were consistently carried forward across years following WICS’s changes to the model.** Similar to Phase 2, we utilised a software¹² which tracks when new formulas are applied within a worksheet and up to which point existing formulas are carried forward. We followed up with WICS in cases where formulas were not consistently carried forward as part of our detailed observations log. Our interactions with WICS ensured that all comments and/or observations were satisfactorily addressed.
 - **Reviewing labelling and formatting changes.** We reviewed WICS’s changes to the design of tabs and to labelling in response to our observations log to ensure they are accurate and facilitate model readability. In cases where labelling and/or formatting could be further streamlined, we included relevant comments in the observations log. Our final review of WICS’s responses to our observations was satisfactory with no outstanding issues to address.

¹² See footnote 11 for details.

- **Comparing outputs relative to the previous version of the model.** Specifically, for v 4.1, we aligned the inputs and assumptions used across models and, using the Investment macro setting, assessed whether the outputs across models were consistent following changes to household K-factors, inflation and cost of new debt. The results of the analysis showed that the two versions produced almost identical results.¹³

A1.7 As noted previously, we did not review the appropriateness, validity, or accuracy of any of WICS's or Scottish Water's assumptions underpinning the Financial Model or any of the input data in the Financial Model, with the exception of tax inputs and/or assumptions relating to the UK's tax framework.

A1.8 Table A1-1 below sets out a full list of the tax inputs and assumptions that FTI did, and did not, review.

Table A1-1: Tax inputs reviewed by FTI

Tax inputs reviewed by FTI	Financial Model reference
Statutory tax write-down allowance rates	tab 'Inputs', rows 212-216, 218, 220
Corporate tax allowance	tab 'Inputs', row 242
Tax loss utilisation rate	tab 'Inputs', row 243
Corporate tax rate	tab 'Inputs', row 246
Tax inputs not reviewed by FTI	Financial Model reference
Tax payable if tax override option is used	Tab 'Inputs', row 184
Actual tax payable and deferred taxes	tab 'Inputs', rows 187, 196
Actual opening values of capital allowance pools and losses brought forward	tab 'Inputs', rows 189, 191-194, 222
Allocation of investment to capital allowance pools	tab 'Inputs', rows 199-209
Tax write-down allowance rate for intangible assets	tab 'Inputs', row 217
Adjustments to tax profits	tab 'Inputs', rows 225-227, 230-239, 248

Note: References refer to the Financial Model version "Joint model v4.4.xlsm".

B. Classification of comments

A1.9 Based on the checks performed above, we classified comments into four broad categories:

- **Formulae-related:** incorrect or inconsistent formulae, formulae missing cells in a range, data in formulae, formulae that can be simplified, etc.;

¹³ There were some discrepancies between the 8th-10th decimal points which we understand arise due to the use of the macro.

- **Labelling-related:** incorrect or inconsistent labelling, incorrect units, suggestions to improve clarity, spelling errors, etc.;
- **Design-related:** departure from regulatory best practice, e.g., spreadsheet structure; and
- **Formatting-related:** poor or inconsistent formatting.

A1.10 These comments were additionally categorised by priority, so that WICS could easily identify any comments or suggestions that might materially impact the conclusions of the Financial Model.

A1.11 The vast majority of comments were not material to the outcomes of the spreadsheet and related to formatting- and labelling-related suggestions.

C. Process of addressing comments

A1.12 WICS (and where relevant, Scottish Water) responded to all our comments across all phases of the engagement. Responses were broadly split in two categories, specifically:

- setting out the reasons why, in their view, the existing treatment of an item was appropriate; or
- indicating that a comment will be addressed in the next iteration of the model.

A1.13 We reviewed instances where the WICS team explained their rationale for the existing treatment of an item and were broadly in agreement with their explanations. In the case of discrepancies, we followed up with the WICS team and all questions were eventually resolved.

A1.14 We have reviewed all changes made in the latest version of the model in line with WICS's responses to our comments and are in agreement with the latest version of the model.