



WATER INDUSTRY COMMISSION FOR SCOTLAND

RULES AND GUIDELINES FOR THE CONTENTS OF REGULATORY ACCOUNTS

REGULATORY ACCOUNTING RULE 3

**Operative: Financial Year 2006-07
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Pro-formas

Appendix 2 contains the following pro formas

Pro-forma Number	Statement
1	- historic cost income and expenditure account;
2	- historic cost balance sheet;
3	- historic reconciliation between statutory accounts and regulatory accounts;
4	- current cost income and expenditure account;
5	- current cost balance sheet;
6	- current cost cash flow statement;
7	- analysis of turnover and operating income;
8/9/10	- current cost analysis of fixed assets by asset type and service;
11	- current cost working capital;
12	- movement on current cost reserve;
13	- reconciliation of current cost operating surplus to net cash flow from operating activities;
14	- analysis of net debt;
15	- regulatory capital value;
16	- 5 year rolling summary – current cost income and expenditure account;
17	- 5 year rolling summary – current cost balance sheet; and
18	- published activity cost table – core business.
19	- Statement of total recognised gains and losses

PART 1 - EXPLANATORY NOTE

1.1 Introduction

1.1.1 This regulatory accounting rule (RAR) covers the requirements for accounting information, with the exception of the current cost accounting methodology which is covered by regulatory accounting rule 1 (RAR 1), the classification of expenditure (RAR 2) and the activity cost analysis and methodology which is addressed in RAR 4.

1.1.2 Regulatory accounts should be prepared in accordance with these rules for each financial year. Additionally Scottish Water is required to provide in electronic format audited accounting information for the core and non-core business as part of the Annual Return reporting requirements each year. Separate guidance is provided for these returns.

1.2 Requirements

1.2.1 This regulatory accounting rule contains guidance on:

- the accounting statements of Scottish Water;
- the activity cost analysis of the core and non core businesses including analysis between wholesale and retail activities; RAR 4 also provides additional details;
- transactions with associated entities; and
- audit and publication of accounting statements.

1.3 Role of Regulatory Accounting Rules

1.3.1 Regulatory accounts are the primary source of regular audited financial information about the business regulated by WICS. It is intended that the RARs should take precedence over the accounting standards issued by the Accounting Standards Board in the preparation of regulatory accounts. Where the RARs do not specifically address an accounting issue, then UK Generally Accepted Accounting Practice (UK GAAP) should be followed.

1.3.2 In accordance with RAR 1, for the purposes of regulatory accounts, infrastructure renewals accounting will be used and the relevant sections of FRS12 and in FRS15 should be dis-applied.

1.3.3 For statutory purposes FRS17 – Retirement benefits and FRS19 – Deferred tax require certain disclosures by way of a note to the accounts. Where the statutory accounts of Scottish Water are bound with the regulatory accounts in one document, the additional disclosures specified in FRS17 and 19 are not required in the regulatory accounts. Where Scottish Water produces statutory accounts in a separate document, full disclosures under FRS17 and 19 must be made in the regulatory accounts.

PART 1 - EXPLANATORY NOTE

- 1.3.4 A full reconciliation between the statutory accounts and the historic cost regulatory accounts should be provided, in the prescribed format, within the regulatory accounts (see Appendix 2, pro forma 3).
- 1.3.5 Merger accounting will be retained for regulatory purposes, so as to ensure comparability, and the relevant sections of FRS6 should be dis-applied. Again a full reconciliation between the statutory accounts and the historic cost regulatory accounts should be provided.
- 1.3.6 The RARs also require certain information, not normally provided under UK GAAP to be prescribed in the notes to the regulatory accounts. This includes, for example, details of the regulatory capital value and disaggregated cost information. Appendix 2 sets out pro formas for both the primary financial statements and the supporting notes to the accounts.

PART 2 – DEFINITIONS OF TERMS

2.1 Historical cost accounts definitions

2.1.1 HCA income and expenditure account

Turnover

All revenue derived from standard charges for inclusion in the tariff basket calculation, together with revenue from non-tariff basket charges, revenue grants and other sources as defined below. These definitions also apply, where relevant, to the notes to the accounts.

- household unmeasured water supply

All revenue derived from charges for the sale of water to household customers based on the Council tax band of their home.

- household unmeasured wastewater services

All revenue derived from charges to household customers based on the Council Tax band of the property for the provision of sewerage services. This includes surface water and roads drainage.

- household measured water supply

All revenue derived from the sale of water at standard rates billed to household customers, where all or some of the charges are based on measured quantities of volume.

- household measured wastewater services

All revenue derived from the provision of sewerage services to household customers (which includes revenue raised by any rateable value element of measured sewerage tariff), where all or some of the charges are based on measured quantities of volume. Sewerage services include surface water and roads drainage and exclude reception, treatment and disposal of trade effluent.

- non-household unmeasured water supply

All revenue derived from the sale of water to non-household customers based on the connected property's rateable value. For 2006-07, this should be split between the provision of services charged directly to non-households and services charged to licensed retail providers.

- non-household unmeasured wastewater services

All revenue derived from the provision of sewerage services to non-household customers based on the connected property's rateable value. Sewerage services include sewage treatment and disposal and exclude reception, treatment and disposal of trade effluent. For 2006-07, this should be split between the provision of services charged directly to non-households and services charged to licensed retail providers.

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- non-household measured water supply

All revenue derived from the sale of water to non-household customers, where all or some of the charges are based on measured quantities of volume. For 2006-07, this should be split between the provision of services charged directly to non-households and services charged to licensed retail providers.

- non-household measured wastewater services

All revenue derived from the provision of sewerage services to non-household customers, where all or some of the charges are based on measured quantities of volume. For 2006-07, this should be split between the provision of services charged directly to non-households and services charged to licensed retail providers.

- trade effluent

All revenue derived from the reception, treatment and disposal of trade effluent including the annual fixed charge and the charge based on the Mogden formula. For 2006-07, this should be split between the provision of services charged directly to non-households and services charged to licensed retail providers.

- revenue grants

All revenue grants received for the provision of water and sewerage services, split between services.

Rechargeable works

All income received for services where Scottish Water is the monopoly supplier, the cost of which is recovered from any person and recorded as revenue.

Bulk supplies

- All income received from providing bulk supply to another water undertaker.
- All income received from sewerage connection agreements with another sewerage undertaker or any other intercompany payments for sewerage services.

- other sources (excluding third party services)

All other sources of turnover not previously covered (excluding services to third parties).

- third party services

Revenue derived from the provision of water or wastewater (as applicable) services to third parties for which costs are separately disclosed in the activity cost analysis table, split by service.

HCA operating costs

HCA operating costs including exceptional items, depreciation and the

PART 2 – DEFINITIONS OF TERMS

infrastructure renewals charge but excluding extraordinary items. (Both exceptional and extraordinary items are defined below). HCA operating costs should include:

- employment costs

The sum of total costs of “non-manual and manual manpower” which are directly attributable to each of the individually identified service activities: water resources and treatment, water distribution and water service total. To be included are the gross salaries and wages of all employees within the relevant activity, including payments resulting from bonus and profit-related payment schemes, employer’s National Insurance contributions, pension costs, unfounded pension liabilities, sick pay, sickness benefits, private health insurance, retirement awards, death in service benefits, paid leave, subsistence, travel, entertaining and conference expenses.

- power

All energy costs other than energy used for transport.

- rates

The cost of Local Authority rates. This should include both the Uniform Business Rate and the National Non-Domestic Rate (if appropriate), including cumulo rates for water supply.

- service charges

Payments to the Scottish Environment Protection Agency (SEPA) for water abstraction, payments for bulk water supplies (water) and payments to the SEPA for discharge consents (sewerage).

- materials and consumables

All materials and consumables that are not capitalised, included in the infrastructure renewals charge or included in hired and contracted services which are directly attributable to each of the individually identified service activities. This category of cost includes equipment (such as small tools and clothing), provisions, tarmac and backfill materials, but excludes all items capitalised or included within infrastructure renewals expenditure. Most if not all stock items fall into this category. This category of cost includes tools, equipment, provisions, clothing, chemicals, petrol, stationery, office equipment, tarmac and backfill materials.

- hired and contracted services

All hired and contracted equipment and services, not capitalised or included in the infrastructure renewals charge, which are directly attributable to each of the individually identified activities. Hired services include hire of plant, machinery, office and general equipment and transport excluding leased company cars.

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Contracted services include all contracted labour, professional advice (such as lawyers, auditors and consultants), purchased (non capitalised) computer software and local authority contracts for the collection of water or sewerage charges. Contracted services do not include services provided by associated entities.

- Bulk supply imports

Total payments for imported bulk supplies that are directly attributable to individually identified service activities: water resources and treatment, water distribution and Water service total

- Other direct costs

Any other operating costs, but excluding interest and taxation, on an aggregated basis, including costs associated with the provision of depots and offices, and insurance premiums, (where such costs exceed 5% of the total operating costs, an analysis should be provided), also include fines and penalties, which can be directly attributable to individually identified service activities: water resources and treatment, water distribution and water service total.

- General and support expenditure

General and support activities include all centrally provided services, except for any items specifically covered under the individually identified activities. The following services should be included:

- administrative;
- personnel;
- financial;
- legal and property management;
- research and development;
- policy determination, implementation and monitoring;
- audit;
- public and employee relations;
- data processing;
- planning liaison;
- vehicles and plant (including hired vehicles and plant, and leased company cars);
- electrical and mechanical maintenance;
- land and property maintenance;
- materials storage;
- operational and technical support;

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- general and support buildings.

Where an associated company provides such services, the relevant charge should be included.

- doubtful debts

The charge/ credit to the income and expenditure account for bad and doubtful debts.

- non infrastructure depreciation

The non-infrastructure depreciation charge on tangible fixed assets. (The depreciation charge on non-redundant infrastructure assets is taken to be zero when infrastructure renewals accounting is in use.)

- intangible assets amortisation

Any amortisation or other reduction in the balance sheet valuation of intangible assets, such as goodwill.

- infrastructure renewals expenditure

Expenditure incurred in maintaining the operating capability of infrastructure assets. Further guidance is contained in RAR 2.

- infrastructure renewals accrual

The infrastructure renewals charge is the forecast cost based on an operational assessment of activity needed to maintain the serviceability of the underground infrastructure over a medium to long-term period (typically in excess of 15 years).

The infrastructure renewals accrual is the difference between the infrastructure renewals charge and the infrastructure renewals expenditure.

- amortisation of grants

The amortisation of deferred credits arising from third party contributions on non-infrastructure assets. These are amortised over the life of the related asset.

- amortisation of PFI assets

The amortisation of assets transferred to PFI contractors

- other operating costs

All other operating costs on an aggregated basis including leased company cars and telephone costs but excluding interest and taxation.

Operating income

- profit on sale of fixed assets

Proceeds from the disposal of fixed assets less book value and offsetting

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costs.

- exceptional items

Exceptional items are defined in FRS 3 (Reporting Financial Performance) as material items deriving from events or transactions that fall within the ordinary activities of Scottish Water and which need to be disclosed separately by virtue of their size or incidence and which need to be disclosed if the financial statements are to give a true and fair view.

Other operating income

Any operating income that is not profit on sale of fixed assets or exceptional items.

Other income

Includes rental income and income from investments (e.g. share income); but excludes net interest received and profit on disposals on fixed assets.

Interest receivable

Interest receivable including interest received on cash deposits, loans, leases or other forms of lending.

Interest payable

Interest payable including interest paid on Government capital loans, other loans, leases, debenture, floating rate debt, overdrafts and all other borrowings e.g. commercial paper or bills of exchange.

Taxation – current

Taxation on ordinary activities for the charging year including any shadow advance corporation tax recoverable, mainstream corporation tax, income and other taxes. FRS16 (Current tax) is to be adhered to.

Taxation – deferred

Taxation on ordinary activities for the charging year including any shadow advance corporation tax recoverable, mainstream corporation tax, income and other taxes. FRS19 (Deferred tax) is to be adhered to.

Extraordinary Items

Extraordinary items are defined in accordance with paragraph 6 of FRS3 as material items possessing a high degree of abnormality which arise from events or transactions that fall outside the ordinary activities of the reporting entity and which are not expected to recur.

Customer earnings

Customer retained earnings announced during the charging year (includes interim and final customer earnings). Customer retained earnings are to be shown in the Income and expenditure statement.

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2.1.2 HCA balance sheet

Tangible fixed assets

Net book value of tangible fixed assets at the end of the charging year less any grants and contributions received relating to capital expenditure on infrastructure assets.

Investments – loan to group company

Loans made to other group companies repayable in more than one year.

Investments – other

Fixed asset investments which are intended to be held for the long term. Eg. Shares in other group companies.

Stocks

Consumable stores and work in progress including chemicals, stationery, petrol, backfill materials etc.

Debtors

All amounts owing to Scottish Water at the end of the charging year including trade debtors, prepayments, accrued income, amounts owed by group undertakings and amounts falling due after more than one year. This definition excludes any infrastructure renewals prepayments.

Cash at bank and in hand

Cash in hand, bank and cash deposit balances at the end of the charging year. It does not include overdrafts, which should be included within borrowings.

Short term investments

Investments which are readily convertible into known amounts of cash. This may include short-term deposits made with group companies.

Infrastructure Renewals prepayment

Any cumulative excess of IRE over IRC

Creditors, amounts falling due within one year

All creditors due to be paid at dates within one year from the end of the charging year and comprising of borrowings due within one year (excluding Government loans), customer retained earnings payable and other creditors.

Borrowings (excluding Government loans)

Comprises obligations under finance leases, , loans due to other group companies, redeemable debentures repayable, bonds, commercial paper, bills of exchange and any other form of borrowing repayable. Accrued interest on borrowings should not be included. (Note that borrowings should be split with

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those due within one year and those due after more than one year)

Accrued interest on borrowing should not be included.

Overdrafts

Banks overdrafts as defined by FRS1

Infrastructure Renewals accrual

Any cumulative excess of IRC over IRE

Creditors

Trade creditors and any other accruals or creditors due with one year that are **not** overdrafts, borrowings, IRA, tax creditors or customer retained earnings payable

Corporation tax payable

Amounts owed to HMRC in respect of corporation tax. This should exclude dereffed tax balances.

Customer retained earnings payable

Amounts owed in respect of customer-retained earnings still outstanding at the year-end date.

Other creditors

Creditors falling due within one year (other than items defined as borrowings and customer retained earnings payable), eg trade creditors, capital creditors and accruals.

Creditors, amounts falling due after one year

All creditors due to be paid at dates over one year from the end of the charging year. This is split in:

- **Borrowing:** Balances due after more than one year
- **Other Creditors:** Other amounts due after more than one year which are not borrowings or provisions for liabilities and charges. This will include accrued interest and mains deposits.

Provisions for liabilities and charges

All provisions including the deferred taxation provisions and restructuring or reorganisation provisions.

Deferred tax provision

A provision for tax liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation.

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Post employment asset/(liabilities)

The net of the fair value of the scheme assets and the present value of the scheme liabilities as defined by FRS17

Deferred income- grants and contributions

Deferred income in respect of grants and contributions on capital expenditure relating to non-infrastructure assets.

Other provisions

All provisions including restructuring or reorganisation provisions but excluding the deferred tax provisions

Capital and reserves

Government loans

Government loans comprise outstanding debt on borrowings from Scottish Ministers.

Income and expenditure account

Cumulative balance of historical cost surpluses retained.

Other reserves

All non-distributable reserves including capital redemption reserves, contingency reserves and other capital reserves.

2.2 Current cost accounts definitions

2.2.1 CCA income and expenditure account

Definitions are provided where different from the HCA income and expenditure account.

Current cost operating costs

Total cost current operating costs including current cost depreciation, infrastructure renewals charges and exceptional charges but excluding extraordinary items.

Current cost operating income

Current cost operating income including current cost profit or loss on disposal of fixed assets and income from exceptional items. Exceptional items are as defined in paragraph 5 of FRS3.

Working capital adjustment

The adjustment for the impact of general inflation on the real value of working capital to the business. (see RAR 1 for more details).

Financing adjustment

PART 2 – DEFINITIONS OF TERMS

The real gain or loss arising for the providers of funds from the impact of general inflation on monetary assets and liabilities. see RAR 1 for more details)

2.2.2 CCA balance sheet

Definitions are provided where different from the HCA balance sheet.

Tangible fixed assets

The current cost net book value of tangible fixed assets before third party contributions. This value reflects the asset valuation principles set out in RAR 1. Assets are included at Modern Equivalent Asset (MEA) values.

Third party contributions

Grants and third party contributions received in respect of infrastructure assets and the balance of deferred income relating to grants and third party contributions for non-infrastructure assets.

Working capital

All current asset and liabilities that relate exclusively to income or expenditure items brought into the calculation of operating profit. This is disaggregated in the regulatory accounts as a note (See Proforma 11):

- Stocks
- Trade debtors
- Measured income accrual
- Prepayments and other debtors
- Trade creditors
- Deferred income – customer advance receipts
- Capital creditors
- Accruals and other creditors

‘Other debtors’ and ‘other creditors’ will include intra-group trading balances.

Non-trade debtors

Debtors other than those included in working capital and also excluding any infrastructure renewals prepayment.

Non-trade creditors due within one year

Creditor balances due to be paid in less than one year from the end of the charging year, excluding:

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- amounts included as working capital
- customer retained earning payable
- tax payable
- borrowings due within one year
- any infrastructure renewals accrual

cept short-term Government loan

Income and expenditure account

Cumulative balance of surpluses retained under current cost accounting.

Current cost reserve

Current cost reserve at the year-end. This will be the opening balance on the current cost reserve at the start of the year adjusted for any investment plan and inflation adjustments in respect of fixed assets, working capital, financing, grants and third party contributions.

Other Reserves

Non-distributable reserves (other than Government loans and current cost reserves) under current cost accounting rules. It will include capital redemption reserves, contingency reserves and other capital reserves. Amounts attributable to minority interests (if applicable) should also be included in this category.

2.2.3 Cash flow statement

Net cash flow from operating activities

The net increase or decrease in cash resulting from the operations shown in the income and expenditure account in arriving at operating surplus.

Returns on investments and servicing of finance

This includes receipts resulting from the ownership of an investment excluding those items classified under operating, investing or financing activities. Cash inflows include interest received and dividends received net of any tax credits. Cash outflows include interest paid including any associated tax and the interest element of finance lease rentals. The detailed elements are defined below.

Interest received

The amount of interest received by Scottish Water in the year. This includes interest on cash balances, loans to other group companies or third parties, and other investments.

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Interest paid

The amount of interest paid by Scottish Water in the year. This includes interest on any overdrafts, loans (from all sources) and debenture stock.

Interest in finance lease rentals

The interest element on finance leases paid by the Scottish Water in the year.

Taxation paid

All cash flows to or from taxation authorities in respect of the Scottish Water's revenue and capital profits.

Gross cost of purchase of fixed assets

The gross purchase price of fixed assets paid for by the Scottish Water before any deduction of grants and contributions.

Receipts of grants and contributions

The total amount of capital grants and other contributions received in respect of fixed assets during the year.

Infrastructure renewals expenditure

Expenditure incurred in maintaining the existing operating capability of infrastructure assets.

Disposal of Fixed Assets

Cash proceeds received in the year on the sale of fixed assets.

Movements on long term group loans

Cash flows relating to the movement in long term loans to group companies

Net cash flow from investment activities

The sum of the cash flows from gross cost of purchase of fixed assets, receipts of grants and contributions, infrastructure renewals expenditure, disposal of fixed assets and movements on long term group loans.

Acquisitions and disposals

The cash flows related to acquisition or disposal of any trade, business or any investment which becomes or ceases to be either an associate, joint venture subsidiary undertaking. It is envisaged that this heading will be rarely used.

Customer retained earnings paid

Customer retained earnings paid are cash paid to the Scottish Executive in the form of a dividend from customer retained earnings.

Net cash flow from Management of Liquid resources

This is the movement in current asset investments such as short-term deposits

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or other liquid resources. These are defined as a readily disposable investment is one that is disposable without curtailing or disrupting its business and is either readily convertible into known amounts of cash at or near its carrying amount or traded on an active market.

Net cash flow from financing

Financing cash flows comprise receipts from or repayments to external providers of finance including receipts from the issue of debentures and borrowings (including Government loans) and the capital element of finance lease rentals. The detailed elements are defined below.

Capital element in finance lease rentals

The net movement due to:

- The capital element in finance lease payments made in the year,
- Cash flows arising from the drawing down of finance lease facilities

New bank loans

The receipts from any loans taken out in the year. These include the proceeds of any loans taken out from other group companies.

Repayment of bank loans

Loans repaid in the year. These include any loan repaid to other group companies.

New Government loans

The net proceeds of any Government loans received in the year.

Repayment of Government loans

Government loans repaid in the year.

Increase (decrease) in cash and cash equivalents

This comprises of total net cash flows from all sources

Note: Further current cost accounting terms are defined in Regulatory Accounting Rule 1, Accounting for Current Costs and Regulatory Capital Values.

PART 3 – ACCOUNTING RULE

3.1 Accounting statements

3.1.1 Requirements

Scottish Water shall prepare an income and expenditure account, a statement of assets and liabilities and a cash flow statement in respect of each of:

- the wholesale business;
- the retail business;
- the core business;
- the non - core business; and
- the total business of Scottish Water.

3.1.2 Cash flow statement

The regulatory accounts require Scottish Water to include a cash flow statement, accompanied by reconciliations between operating surplus and net cash flow from operating activities and also the movement in cash in the period and the movement in net debt. The cash flow statement should be prepared using the pro formas set out in Appendix 2.

3.1.3 Pro formas

Regulatory accounting statements should, as far as is practicably possible, have the same content as the statutory annual accounts of Scottish Water and be prepared in accordance with the formats and the accounting policies and principles which apply to those annual accounts.

3.1.4 The information in the regulatory accounts should be provided in the required format. The pro formas for the submission of data are included in Appendix 2. It is intended that these pro formas be consistent with the information submitted as part of the Annual Return. The regulatory capital values (pro forma 15) are those determined by WICS at strategic reviews. The pro forma for the statements of disaggregated activities are included for completeness but are fully described in RAR 4.

3.1.5 The Commission is primarily concerned with the current cost accounts. It has therefore decided that the analysis of operating surplus (incorporating the analysis of operating costs and turnover) and of fixed asset values by asset type and by service should only be prepared on a current cost basis. The regulatory requirement for the analysis of historical cost operating surpluses and fixed assets will be largely met by the statutory requirements.

3.1.6 Customer retained earnings policy

Scottish Water is required to report on the value of any customer retained earnings paid and provide a comprehensive explanation of the basis of the customer-retained earnings payment.

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3.1.7 Comparability – accounting treatment of acquisitions

Regulatory accounts are used for assessing comparative performance between Scottish Water and the water companies in England and Wales. So when businesses combine their operations it is necessary for merger accounting to be used for regulatory reporting. This may conflict with the requirements of FRS6 (Acquisitions and mergers) for the preparation of statutory accounts. The regulatory accounts should include a note reconciling in full the amounts reported in the statutory accounts with those reported in the historic cost part of the regulatory accounts.

3.1.8 Transparency

Regulatory accounts should aim to be transparent and readily understood by their readers. Accounting policies should be fully and clearly set out. Accounting policy changes should be clearly identified..

3.1.9 The objectives and constraints considered by members when selecting and changing accounting policies are to be stated. The disclosures required under FRS18 (Accounting Policies) for the statutory accounts are also to be made in the regulatory accounts.

3.1.10 Scottish Water should:

- Include and Operating and Financial Review (OFR)
- Provide a statement as to disclosure of information to auditors,
- Include a statement on customer retained earnings policy for the core business in the notes to the regulatory accounts;
- Include a statement describing the accounting treatment of amounts given to charitable trusts assisting customers or similar funds, in the notes to the regulatory accounts,
- Describe any changes in the accounting policies and assumptions underpinning the calculation of IRC and CCD, and;
- Include a comprehensive statement on the principles of the cost allocations for the disaggregated activities tables..

3.1.11 Regulatory Capital Value

Scottish Water is also specifically required to provide additional commentary and explanation of the Regulatory Capital Value as set out in the footnote to the proforma (see Appendix 2)

3.1.12 Operating and Financial Review (OFR)

Scottish Water should include an OFR in its regulatory accounts. This replaces the previous commentary requirements for the current year

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results.

‘Reporting Statement Operating and Financial Review’ (ASB January 2006) describes best practice for preparing an OFR. This should be followed for regulatory accounting purposes.

The OFR should **additionally** cover the following specific areas;

- Movements in turnover should be described with reference to the allowed price limit and to customer demand,
- Atypical operating expenditure items,
- Significant movements in IRC and CCD,
- Donations to charitable trusts assisting customers or similar funds,
- Customer retained earnings paid.

3.1.13 Where Scottish Water publishes its statutory and regulatory accounts in one document, then it may refer in the regulatory accounts to any relevant information provided as part of the statutory accounts. If however, Scottish Water produces separate regulatory accounts then it must include all commentary in the regulatory accounts.

3.1.14 **Statement as to disclosure of information to auditors**

The Companies (Audit, Investigations and Community Enterprise) Act 2004 (s234ZA) now includes clauses dealing with the auditor’s rights to information.

Previous legislation in this area (s389A of the Companies Act 1985) meant that auditors were entitled to require information and explanations for their duties from ‘officers’ of the company. Whilst it was a criminal offence to provide misleading, false or deceptive information it was not an offence if officers failed to provide any such required information. The revised legislation means it is now a criminal offence to fail to provide this information.

The new legislation requires each director to make a statement in the accounts that:

- a) so far as the director is aware, there is no relevant audit information of which the company’s auditors are unaware; and
- b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company’s auditors are aware of the information.

Typically this is included in the Directors report for statutory purposes. WICS requires this statement to be made in Scottish Water’s regulatory

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accounts.

3.2 Core Business

3.2.1 Definitions

The activities of a Scottish Water are separated into activities which are defined in RAR 4:

- the core wholesale business;
- the core retail business; and
- the non-core business.

Transfer prices

3.2.2 When a non - core activity includes the optional use of an asset owned for a core activity, then it is appropriate that both owner and customers should benefit.

3.2.3 An arms length transfer price should be negotiated. This transfer price will appear in the turnover of the core business and the costs of the non - core business.

3.2.4 RAR 5 incorporates the disclosures required in respect of the apportionment and allocation of revenues, costs, assets and liabilities between the core wholesale business, the core retail business and any other business of Scottish Water or between Scottish Water and an associated entity. Transactions to be disclosed in the regulatory accounts are set out in Section 3.4 of this rule.

3.3 Surplus Analysis

Analysis of total current cost operating costs

3.3.1 The detailed requirements given in RAR 4 (The analysis of operating costs and assets) require a segmental analysis of the total current cost operating costs of Scottish Water for each of the following:

Water supply

Non core/Non-licensed

- Total

Core/Licensed

- Wholesale
 - resources and treatment
 - source
 - treatment
 - distribution
- Retail
 - retail household
 - retail non household

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- measured
- non measured

Waste Water supply

Non core/Non-licensed

- Total

Core/Licensed

- Wholesale
 - sewerage
 - sewage treatment
 - sludge treatment and disposal
- Retail
 - retail - household
 - retail -non household
 - measured
 - non measured

- 3.3.2 The regulatory requirements in respect of the subjective analysis of operating costs have been incorporated into the pro formas in Appendix 1 to RAR 4.

Turnover analysis

- 3.3.3 An analysis of the turnover of Scottish Water is also required as set out in Appendix 1 to RAR 4 under the following headings:

Water supply

- non core turnover;
- wholesale charges;
- measured supply;
- unmeasured supply;
- other sources;
- third party services; and
- elimination of intra authority trading.

Waste water supply

- non core turnover
- wholesale charges
- measured supply;
- unmeasured supply;
- trade effluent;
- other sources;
- third party services; and
- elimination of intra authority trading.

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- 3.3.4 The categories of turnover are defined in Part 2.
- 3.3.5 When 'other sources' exceeds 5% of turnover this figure should be disaggregated into its major components.
- 3.3.6 All items of income should be stated gross and should not be netted off against items of expenditure.
- 3.3.7 This analysis should not include:
- rental income;
 - interest received;
 - income from investments; and
 - profit from the sale of fixed assets.

However, profit from the sale of fixed assets and exceptional items should be disclosed separately. Rental income and income from investments should be shown, net of any associated expenses as other income after operating surplus in the income and expenditure account. Interest received should be included in the interest line. The analysis should be by service and include:

- current cost profit/(loss) on disposals of fixed assets;
- exceptional items;
- other operating income; and
- the working capital adjustment.

This analysis should be submitted in the format recommended in Appendix 2 (pro forma 7).

Reconciliation with the income and expenditure account

- 3.3.8 The subjective analysis of total operating costs should be combined with the analysis of turnover in order to disclose an analysis of operating surplus, split between water and sewerage, core and non core and retail and wholesale which can be readily reconciled with the income and expenditure account of Scottish Water.

This analysis should be submitted in the format recommended in Appendix 2 and RAR 4.

3.4 Associated entities

Definitions

- 3.4.1 RAR 5 defines that an associated entity should be determined in accordance with Financial Reporting Standard 8. For the purpose of this rule, the following are all to be considered associates of Scottish Water Wholesale (see RAR4 for further definitions):

- Retail - Non-household activities;

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- Scottish Water Retail - Household
- Any other non-core business.

Other non-core should itself be divided into related business groupings and transactions with the core analysed.

- 3.4.2 Paragraph 14 of FRS8 seeks to distinguish between the control and influence of entities. Where Scottish Water considers that paragraphs 14(a) and 14(b) of FRS8 are applicable it should demonstrate that this is the case. Where an entity has Directors in common with Scottish Water and transactions have taken place between the entity and Scottish Water as covered in FRS8 paragraph 14(c); Scottish Water are to be required to have procedures in place to ensure such Directors are unable to influence such transactions.

Transactions to be disclosed

- 3.4.3 All transactions between the Scottish Water and its associated entities must be disclosed. In particular, the following transactions, with related data, must be disclosed:

- loans by or to Scottish Water;
- customer retained earnings paid to any associated entity;
- guarantees or other forms of security by Scottish Water;
- transfer of any asset or liability by or to Scottish Water;
- supply of any service by or to Scottish Water;
- omission by Scottish Water or any associated entity to exercise a right as a result of which the value of the net assets of Scottish Water is decreased; and
- waiver of any consideration, remuneration or other payment by Scottish Water.

- 3.4.3 Part 2 of RAR 5 specifies the information to be disclosed for each of these categories of transactions. Where appropriate, formulae may be disclosed in place of figures, for example, for interest rates.

- 3.4.4 Any transactions in the last four categories may be aggregated with any other similar transaction in the same category with the same associated entity. This aggregation does not include netting off transactions to Scottish Water against transactions by Scottish Water or vice versa.

- 3.4.5 If an entity is an associated entity of Scottish Water for only part of a financial year then transactions with that associated entity throughout the financial year should be disclosed, unless Scottish Water has agreed with the Commission that partial disclosure is sufficient.

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3.4.6 Scottish Water should include details in its Regulatory Accounts of services supplied by associate entities to Scottish Water and services supplied by Scottish Water to other associate entities. If a materiality level below which transactions are not disclosed is applied this should be declared.

3.4.7 In addition to the transactions identified in Section 3.4.3 above, the following details of inter-entity transactions should be provided:

- Where costs have been allocated between core and non-core businesses and between wholesale and retail businesses, the methodology for allocating costs should be described.
- Where customer retained earnings have been paid to an associated entity the policy underlying the dividend should be commented on.

3.4.8 The following details should now be included in the published regulatory accounts:

Service	Entity	Turnover Of Associate	Terms of Supply	Value
Service received by Scottish Water or service provided by Scottish Water.	Associate providing the service or associate to whom the service is provided.		A statement of the means by which the price to associates has been established eg competitive tendering.	Of service received by Scottish Water or service supplied by Scottish Water.

Members' statement

3.4.10 The disclosure of transactions with associated entities should include a statement that to the best of the members' knowledge, all appropriate transactions with associated entities have been disclosed. Nil returns are also required.

Transfer prices

3.4.11 All transactions between Scottish Water and associated entities should be considered on an arm's length basis and follow the guidance provided in RAR 5.

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Diversification and protection of the core business

3.4.12 Scottish Water is required to submit at the same time as the regulatory accounting information, a certificate from the members stating that Scottish Water will have available to it sufficient financial resources and facilities to enable it to carry out, for at least twelve months, its regulated activities and sufficient management resources to enable it to carry out its functions.

In addition to the requirements outlined above, Scottish Water is required to:

- Confirm that in the opinion of the members all contracts entered into with any associated entity include all necessary provisions and requirements concerning the standard of service to Scottish Water, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.
- Submit with each certificate a statement of the main factors which the members have taken into account in giving that certificate.
- Provide a report prepared by the Scottish Water's auditors and addressed to WICS, stating whether they are aware of any inconsistencies between the certificate and the financial statements or any information obtained in the course of their work.

3.4.13 If the period to which the statement relates straddles the period when the Commission is entitled to issue an interim determination notice, the opinion of the members should in no way be compromised. Particularly as the Commission will continue to have specific regard to his general duties as defined in Statute.

3.4.14 This certificate should be submitted to the Commission as part of the published regulatory accounting information.

3.5 Publication of accounting statements

Reports to be delivered

3.5.1 Accounting information can be sub - divided as follows:

- statutory information which is not required by these rules (for example, emoluments of directors);
- statutory information which is also required by these rules (for example, income and expenditure account of Scottish Water);
- non - statutory information which is required to be published by these

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rules (for example, segmental analysis of operating costs), together with an auditors report on this information.

- non - statutory information which is required by this rule but is not required to be published, together with a report from the auditors on this information. This is generally covered by the requirements of RAR 5.

3.5.2 Scottish Water should submit the following documents to the Commission:

- Scottish Water accounts which should also be circulated on request to customers; and
- A supplementary report containing any unpublished information.

3.5.3 It should be noted that Scottish Water should also submit the full statutory accounts.

3.5.4 It is recommended that water bill notifications make reference to the availability, upon request, of Scottish Water's accounts.

3.5.5 A checklist of the statements and reports required under this rule is contained in Appendix 1.

3.5.6 This rule requires that Scottish Water shall deliver to the Commission a copy of the accounting statements and auditors reports prepared under this rule as soon as reasonably practicable and in any event not later than 15 July following the end of the financial year to which they relate. Scottish Water should deliver five copies of each of these statements and reports. Scottish Water is required to publish its regulatory accounts on its website at the same time as they are submitted to WICS.

If Scottish Water publishes its statutory and regulatory accounts in one document, then it may refer in the regulatory accounts to any relevant information provided as part of the statutory accounts..

3.5.7 **Reports to be published on website**

Scottish Water is required to publish its regulatory accounts in its website at the same time these are submitted to the Commission.

Reports to be published

3.5.8 This rule requires that all of the accounting statements and reports delivered to the Commission shall also be published, with the exception of:

- details of transactions (other than the summary outline in section 3.4.8 above) with associated entities; and

PART 3 – ACCOUNTING RULE

- details of the allocation and apportionment of assets and costs.

3.6 Audit

Auditors' reports

3.6.1 This rule requires auditors to address reports to the Water Industry Commission for Scotland concerning:

- accounting records;
- accounting statements;
- historical cost accounts;
- current cost accounts; and

3.6.2 Regulatory accounting information falls into two categories – that which is required to be published and that which is not required to be published – as discussed above. It is therefore convenient for auditors to prepare two reports to the Commission – one relating to the published accounts and the other to the information that is not required to be published. The recommended wording of these reports is discussed below.

3.6.3 These reports are in addition to the statutory report of the auditors to the members of the Board of Scottish Water, the Scottish Parliament and the Auditor General for Scotland.

Report on published accounts

3.6.4 The recommended wording of the auditors' report to the Commission on the published accounts is as follows:

" To the Water Industry Commission for Scotland

We have audited the regulatory financial statements of Scottish Water for the year ended 31 March 200X, which comprise the historic cost financial statements, itself comprising the group historical cost income and expenditure account, group statement of total recognised gains and losses, group historical cost balance sheet, entity historical cost balance sheet, group historical cost cash flow statement, notes to the cash flow statement a and b and related notes to the historical cost financial statements numbered 1 to X, and the current cost financial information, itself comprising the current cost income and expenditure account, current cost balance sheet, current cost cash flow statement and related notes to the current cost financial information numbered 1 to X.

This report is made, on terms that have been agreed, solely to Scottish Water and the Regulator in order to meet the requirements of regulatory accounting rules issued by the Regulator. Our audit work has been undertaken so that we might state to Scottish Water and the Regulator

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those matters that we have agreed to state to them in our report, in order (a) to assist the Scottish Water to meet its obligations under the regulatory accounting rules issued by the Regulator and (b) to facilitate the carrying out by the Regulator of its regulatory functions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Scottish Water and the Regulator, for our audit work, for our report, or for the opinions we have formed.

Basis of preparation

The regulatory financial statements have been prepared in accordance with the Regulatory Accounting Rules 1 to 4 issued by the Regulator, and the accounting policies set out in the statement of accounting policies set out in note X to the historical cost financial statements and note X to the current cost financial information.

The regulatory financial statements are separate from the statutory financial statements of Scottish Water and have not been prepared under the basis of Generally Accepted Accounting Principles in the United Kingdom (“UK GAAP”). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of an entity as shown in financial statements prepared in accordance with the Water Industry (Scotland) Act 2002.

Respective responsibilities of the board members, accountable officer and auditor

The Regulator determines the nature, form and content of the regulatory financial statements. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator’s purposes. Accordingly, we make no such assessment.

The Board and Accountable Officer are responsible for preparing the regulatory financial statements in accordance with the Regulatory Accounting Rules 1 to 4.

Our responsibility is to audit the regulatory financial statements in accordance with United Kingdom auditing standards issued by the Auditing Practices Board, except as stated in the ‘Basis of audit opinion’ below and having regard to the guidance contained in Audit 05/03 ‘Reporting to Regulators of Regulated Entities’.

We report our opinion as to whether the regulatory financial statements present fairly, in accordance with the Regulatory Accounting Rules 1 to 4 issued by the Regulator and the accounting policies set out in note X to the historical cost financial statements and note X to the current cost financial information, the results and financial position of Scottish Water. We also report to you if, in our opinion, Scottish Water has not kept proper

PART 3 – ACCOUNTING RULE

accounting records or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the regulatory financial statements, and of whether the accounting policies are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of regulatory financial statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of Scottish Water on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of Scottish Water (our “Statutory” audit) was made solely to the members of the Board of Scottish Water, the Scottish Parliament and the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our Statutory audit work was undertaken so that we might state to the members of the Board of Scottish Water, the Scottish Parliament and the Auditor General for Scotland those matters that we are required to state to them in a Statutory auditor’s report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than Scottish Water, the members of the Board of Scottish Water, the Scottish Parliament and the Auditor General for Scotland, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Opinion

In our opinion, the regulatory financial statements fairly present in accordance with the Regulatory Accounting Rules issued by the Regulator, and the accounting policies set out in note X to the historical cost financial

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statements and note X to the current cost financial information, the state of Scottish Water's affairs at 31 March 200X on an historical cost and current cost basis, the historical cost and current cost surplus for the year then ended and current cost cash flow for the year the ended, and have been properly prepared in accordance with those conditions, rules and accounting policies.

In respect of this information, we report that in our opinion:

- a) proper accounting records have been kept by Scottish Water as required by the Water Industry (Scotland) Act 2002;
- b) the information is in agreement with Scottish Water's accounting records and has been properly prepared in accordance with the Regulatory Accounting Rules 1 to 4 issued by the Water Industry Commission for Scotland;
- c) except for the treatment of infrastructure assets, the historical cost financial statements fairly present the revenues, costs, assets and liabilities of the Scottish Water and its Core Retail and Core Wholesale Businesses. In accordance with WICS rules, the provision for infrastructure renewals remains in provisions for liabilities and charges which is contrary to the requirements of FRS 12; and
- d) the current cost financial information has been properly prepared in accordance with Regulatory Accounting Rule 1, "Accounting for current costs and regulatory capital values", issued in April 2007 by the Water Industry Commission for Scotland.

Report on unpublished information

3.6.5 The arrangements for the provision of assistance by the auditors to the Reporter on the accounting information which is not required to be published is covered in RAR 5.

Auditors' contracts

3.6.6 The Commission should be informed by the Scottish Water of any change in Scottish Water's auditors and the following details provided:

- the name and address of the new auditors;
- the name of the partner responsible for the audit;
- the name, address, telephone number and e-mail address of the principal contact; and
- the date on which the auditors were appointed.

3.6.7 The Commission also requires a statement confirming that the contract of appointment with the auditors satisfies the requirement "that the auditors

PART 3 – ACCOUNTING RULE

will provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Commission may reasonably require."

APPENDIX 1 - Checklist of requirements

This appendix summarises the reports and statements to be included in the regulatory accounts.

Accounting statements

Reports:

- HC Income and expenditure account
- HC Balance Sheet
- CCA Income and expenditure account
- CCA Balance Sheet
- CCA Cash Flow Statement
- for each of the Core Business, the Non Core Business and the Total business of Scottish Water.
- Notes to these accounts

Segmental information

Analysis of:

- turnover, operating income and working capital adjustment of the Core Business; - current cost operating costs of the Core Business split between water resources and treatment and distribution for water supply, sewage, sewage treatment, sludge treatment and disposal for sewerage services.

Transactions with Associated Entities & Ring Fencing (note RAR 5 – part 2 provides more details)

- statement of compliance with RAR 5
- details of transactions between Scottish Water and associated entities and between the Core and Non Core Businesses of Scottish Water
- statement that to the best of the members' knowledge, all appropriate transactions with associated entities have been disclosed.
- details of procedures used to award contracts to associates.
- members' certificate regarding diversification and protection of the Core business.
- declaration by Directors and Senior Managers of interests in associates.

Basis of allocations and apportionment

- description of the basis of allocation and apportionment of costs and assets between Scottish Water and its associated entities and between the Core and the Non Core Businesses of Scottish Water.
- Further details are also given in RAR 4.

APPENDIX 1 Checklist of requirements

Current cost accounts

- CC Income and expenditure account,
- CC Balance Sheet,
- CC Cash Flow Statement,
- analysis of fixed assets by asset type within service,
- calculation of investment plan adjustment where appropriate,
- five year rolling summary,
- statement of accounting policies,
- working capital note and
- movement on current cost reserves note,
- infrastructure renewals account reconciliation,
- analysis of net debt.

Audit reports

- report on published accounts
- report on non - published information

APPENDIX 2 - Pro formas

Notes used in this appendix;

I: Input

C: Calculation

(a): note required; see separate table for further analysis

(b): note required only if regulatory accounts are not bound with statutory accounts or if the amount reported is different to the statutory accounts

APPENDIX 2 - Pro formas

PRO FORMA 1

Historic Cost Income and Expenditure Account for the Twelve Months ended 31 March 20XX

	Note	Current Year			Prior Year		
		Core	Non Core	Total	Core	Non Core	Total
Turnover	(b)			C			C
Operating costs	(b)			C			C
Historic Cost Depreciation	(b)			C			C
Infrastructure Renewals Charge	(b)			C			C
Amortisation of PFI assets	(b)			C			C
Amortisation of deferred income	(b)			C			C
Operating income	(b)			C			C
Operating surplus	(b)	C	C	C	C	C	C
Other income	(b)			C			C
Interest receivable	(b)			C			C
Interest payable	(b)			C			C
Surplus on ordinary activities before taxation		C	C	C	C	C	C
Taxation – current - deferred	(b)	 	 	C C	 	 	C C
Surplus on ordinary activities after taxation		C	C	C	C	C	C
Extraordinary items	(b)			C			C
Surplus for the year		C	C	C	C	C	C
Customer earnings	(b)			C			C
Retained surplus for year		C	C	C	C	C	C

APPENDIX 2 - Pro formas

PRO FORMA 2

Historic Cost Balance Sheet as at 31 March 20xx

	Note	Current Year			Prior Year		
		Core	Non Core	Total	Core	Non Core	Total
Fixed Assets							
Tangible Assets	(b)			C			C
Investments				C			C
- loan to group company				C			C
- Other				C			C
Total fixed assets		C	C	C	C	C	C
Current Assets							
Stocks				C			C
Debtors	(b)			C			C
Cash at bank and in hand				C			C
Short term deposits				C			C
Infrastructure renewals prepayment				C			C
Total current assets		C	C	C	C	C	C
Creditors: amounts falling due within one year							
Overdrafts				C			C
Infrastructure renewals accrual	(b)			C			C
Creditors				C			C
Borrowings (excl. Govt. loans)				C			C
Corporation tax payable				C			C
Customer earnings payable				C			C
Total creditors		C	C	C	C	C	C
Net current assets		C	C	C	C	C	C
Total assets less current liabilities		C	C	C	C	C	C
Creditors: amounts falling due after one year							
Borrowings (excl. Govt. loans)				C			C
Other creditors				C			C
Total creditors		C	C	C	C	C	C
Provision for liabilities & charges							
Deferred tax provision	(b)			C			C
Deferred income – grants and contributions				C			C
Post employment asset/(liabilities)				C			C
Other provisions				C			C
Net Assets employed		C	C	C	C	C	C
Capital and reserves							
Govt. loans				C			C
I & E account				C			C
Other reserves	(b)			C			C
Capital & reserves		C	C	C	C	C	C

APPENDIX 2 - Pro formas

PRO FORMA 3

Reconciliation between Statutory accounts and regulatory accounts

£m	Statutory UK GAAP / IFRS*	Regulatory	
<u>Profit and loss account</u>			
Operating profit			<explanation of difference>
Profit before tax			
<u>Balance sheet</u>			
Tangible fixed assets (net book value)			<explanation of difference>
Debtors			<explanation of difference>
Deferred income – grants and contributions			<explanation of difference>

* delete as applicable

APPENDIX 2 - Pro formas

PRO FORMA 4

Current Cost Income and Expenditure Account for the Core Business for the year ended 31 March 20XX

	Note	Current Year Core	Prior Year Core
Turnover	(a)		
Current cost operating costs	(a)		
Current Cost depreciation	(a)		
Infrastructure Renewals Charge	(a)		
Amortisation of PFI assets	(a)		
Amortisation of deferred income	(a)		
Operating income		C	C
Working capital adjustment			
Current cost operating surplus		C	C
Other income	(b)		
Interest receivable	(b)		
Interest payable	(b)		
Financing adjustment			
Current cost surplus before taxation		C	C
Taxation	(b)		
- Current taxation			
- Deferred			
Current cost surplus on ordinary activities		C	C
Extraordinary items	(b)		
Current cost surplus for the year		C	C
Customer retained earnings	(b)		
Current cost surplus retained		C	C

APPENDIX 2 - Pro formas

PRO FORMA 5

Current Cost Balance Sheet for Core Business as at 31 March 20XX

	Note	Current Year Core	Prior Year Core
Fixed Assets			
Tangible assets	(a)		
Third party contributions			
Working capital	(a)		
Cash			
Short term deposits			
Overdrafts			
Infrastructure Renewals prepayment/(accruals)			
Net operating assets		C	C
Non Operating Assets and Liabilities			
Borrowings (excl. govt. loans)			
Non-trade debtors			
Non-trade creditors due within one year			
Investment – loan to group company			
Investment – other			
Corporation tax payable			
Customer earnings payable		C	C
Total non-operating assets and liabilities			
Creditors: amounts falling due after more than one year			
Borrowings (excl. Govt. loans)			
Other Creditors		C	C
Total Creditors falling due after more than one year			
Provisions for liabilities and charges			
Deferred tax provision			
Post employment asset/(liabilities)			
Other provisions		C	C
Total Provisions		C	C
Net assets employed			
Capital and reserves			
Government Loans			
Income and expenditure account			
Current cost reserve	(a)		
Other reserves			
Total capital & reserves		C	C

APPENDIX 2 - Pro formas

PRO FORMA 6

Current Cost Cash Flow Statement for Twelve Months Ended 31 March 20XX

	Current Year			Prior Year		
	Core	Non Core	Total	Core	Non Core	Total
Net cash flow from operating activities (a)	I	I	C	I	I	C
Returns on investments & servicing of finance	I	I	C	I	I	C
Interest received	I	I	C	I	I	C
Interest paid	I	I	C	I	I	C
Interest in finance lease rentals	I	I	C	I	I	C
Net cash flow from returns on Investment & servicing of finance	C	C	C	C	C	C
Taxation paid	I	I	C	I	I	C
Capital expenditure and financial investment						
Gross cost of purchase of fixed assets	I	I	C	I	I	C
Receipt of grants and contributions	I	I	C	I	I	C
Infrastructure renewals expenditure	I	I	C	I	I	C
Disposal of fixed assets	I	I	C	I	I	C
Movements in long term loans to group companies						
Net cash outflow from investing activities						
Acquisitions and disposals	I	I	C	I	I	C
Customer retained earnings paid	I	I	C	I	I	C
Management of liquid resources						
Net cash flow from management of liquid resources	I	I	I	I	I	I
Net Cash flow before financing	C	C	C	C	C	C
Financing						
Capital element in finance lease rentals	I	I	C	I	I	C
New bank loans	I	I	C	I	I	C
New Government loans	I	I	C	I	I	C
Bank loans repayments	I	I	C	I	I	C
Government loans repayments	I	I	C	I	I	C
Net cash inflow from financing	C	C	C	C	C	C
Increase (decrease) in cash and cash equivalents	C	C	C	C	C	C

APPENDIX 2 - Pro formas

PRO FORMA 7

Analysis of Turnover and Operating Income

	Current Year			Prior Year		
	Water Services	Sewerage Services	Core Business	Water Services	Sewerage Services	Core Business
TURNOVER						
Household			C			C
Retail Non-Household			C			C
Wholesale Non-Household			C			C
Revenue grants			C			C
Rechargeable works			C			C
Bulk supplies			C			C
Other sources (excluding third parties)			C			C
Third party services			C			C
Total turnover	C	C	C	C	C	C
Operating income						
Current cost surplus or loss on disposal of fixed assets			C			C
Exceptional items			C			C
Other operating income			C			C
Total operating income	C	C	C	C	C	C
Working capital adjustment						

APPENDIX 2 - Pro formas

PRO FORMA 8

Current Cost Analysis of Fixed Assets by Asset Type

Water Services

	Specialised Operational assets	Non- Specialised operational assets	Infrastructure Assets	Other Tangible assets	Total
Gross replacement cost					
At 1 April 20XX					C
Investment plan adjustment					C
Inflation adjustment					C
Disposal					C
Additions					C
At 31 March 20XX	C	C	C	C	C
Depreciation					
At 1 April 20XX					C
Investment plan adjustment					C
Inflation adjustment					C
Disposals					C
Charge for year					C
At 31 March 20XX	C	C	C	C	C
Net book amount at 31 March 20XX	C	C	C	C	C
Net book amount at 1 April 20XX	C	C	C	C	C

APPENDIX 2 - Pro formas

PRO FORMA 9

Current Cost Analysis of Fixed Assets by Asset Type

Sewerage Services

	Specialised Operational assets	Non- Specialised operational assets	Infrastructure Assets	Other Tangible assets	Total
Gross replacement cost					
At 1 April 20XX					C
Investment plan adjustment					C
Inflation adjustment					C
Disposal					C
Additions					C
At 31 March 20XX	C	C	C	C	C
Depreciation					
At 1 April 20XX					C
Investment plan adjustment					C
Inflation adjustment					C
Disposals					C
Charge for year					C
At 31 March 20XX	C	C	C	C	C
Net book amount at 31 March 20XX	C	C	C	C	C
Net book amount at 1 April 20XX	C	C	C	C	C

APPENDIX 2 - Pro formas

PRO FORMA 10

Current Cost Analysis of Fixed Assets by Asset Type

Total Services

	Specialised Operational assets	Non- Specialised operational assets	Infrastructure Assets	Other Tangible assets	Total
Gross replacement cost					
At 1 April 20XX					C
Investment plan adjustment					C
Inflation adjustment					C
Disposal					C
Additions					C
At 31 March 20XX	C	C	C	C	C
Depreciation					
At 1 April 20XX					C
Investment plan adjustment					C
Inflation adjustment					C
Disposals					C
Charge for year					C
At 31 March 20XX	C	C	C	C	C
Net book amount at 31 March 20XX	C	C	C	C	C
Net book amount at 1 April 20XX	C	C	C	C	C

APPENDIX 2 - Pro formas

PRO FORMA 11

Current Cost Working Capital

	Current Year	Prior Year
Stocks		
Trade debtors – Households		
Trade debtors – Non Households/Licensed retailers		
Other Trade debtors		
Measured income accrual		
Prepayments and other short term debtors		
Trade creditors		
Deferred income - customer advance receipts		
Short-term capital creditors		
Accruals and other creditors		
Total working capital	C	C

APPENDIX 2 - Pro formas

PRO FORMA 12

Movement on Current Cost Reserve

	Current Year	Prior Year
Balance at 1 April 20XX		
Investment plan adjustment		
Inflation adjustments:		
Fixed assets		
Working capital adjustment		
Financing adjustment		
Grants and third party contributions		
<hr/>		
Balance at 31 March 20XX	C	C

APPENDIX 2 - Pro formas

PRO FORMA 13

**Reconciliation of
Current cost operating surplus
to net cash flow
from operating activities**

	Current Year	Prior Year
Current cost operating surplus		
Working capital adjustment		
Increase in working capital		
Receipt from other income		
Current cost depreciation		
Amortisation of PFI assets		
Amortisation of deferred income		
Current cost profit/(loss) on sale of assets		
Infrastructure renewals charge		
Movement in provisions		
Net cash flow from operating activities	C	C

APPENDIX 2 - Pro formas

PRO FORMA 14

Analysis of net debt

	Government	Non-government	Total
	Loans	Loans	
Less than one year			C
Between one and two years			C
Between two and five years			C
Between five and twenty years			C
In more than twenty years			C
Total Borrowings			C
Cash			
Short term deposits			
Net debt			C

APPENDIX 2 - Pro formas

PRO FORMA 15

	Regulatory Capital Value	
	Note	Current Year
Opening RCV for the year	(a)	I
Capital expenditure (excluding IRE)	(a)	I
Infrastructure renewals expenditure		I
Grants and contributions		I
Depreciation		I
Infrastructure renewals charge		I
Other adjustments		I
Closing RCV carried forward	(a)	C
Average regulatory capital value		C

I: input

C: calculation

(a) notes required: To explain that the table shows the RCV used in setting the price limits for the period [2006-07 to 2009-10]; the differences from the actual capital expenditure and depreciation etc will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next strategic review.

Scottish Water may also explain items which may be logged up and items of discretionary expenditure for possible inclusion in the RCV in future. The commentary should note that these items will require agreement with WICS prior to the next price setting period.

Where 'other adjustments' have been populated (usually arising as a result of an interim determination), then a comment should be included stating when the determination took place and that the net effect on the RCV is represented by this amount.

APPENDIX 2 - Pro formas

PRO FORMA 16

**Five year rolling summary:
Current Cost Income and Expenditure
Account for Core Business**

	Year 1	Year 2	Year 3	Year 4	Year 5
Turnover					
Current cost operating costs					
Operating income/expense					
Working capital adjustment					
	C	C	C	C	C
Other income					
Net interest					
Financing adjustment					
Current cost surplus before taxation	C	C	C	C	C
Taxation					
Current cost surplus on ordinary Activities	C	C	C	C	C
Extraordinary items					
Current cost surplus for the year	C	C	C	C	C
Customer retained earnings					
Current cost surplus retained	C	C	C	C	C

APPENDIX 2 - Pro formas

PRO FORMA 17

Five year rolling summary: Current Cost Balance Sheet for Core Business

	Year 1	Year 2	Year 3	Year 4	Year 5
Tangible fixed assets					
Third party contributions					
Working capital					
Cash, short-term deposits and overdrafts					
Infrastructure renewals prepayment/(accrual)					
Net operating assets	C	C	C	C	C
Borrowings (non government)					
Non-trade debtors					
Non-trade creditors due within one year					
Investments					
Corporation tax payable					
Customer retained earnings payable					
Net current assets	C	C	C	C	C
Creditors due after more than one year					
Provisions for liabilities and charges					
Net assets	C	C	C	C	C
Government Loans					
Income and expenditure account					
Current cost reserve					
Other reserves					
Total capital and reserves	C	C	C	C	C

APPENDIX 2 - Pro formas

Proforma 18

SCOTTISH WATER																
Table M18 W: Activity Based Costing - Water Service (Proforma 18)																
2006-07																
Line Ref.	Description	Ofwat Ref	Units JR 01	Field Type	2006-07											
					NON-CORE/NON-LICENSED				WHOLESALE			CORE / LICENSED			RETAIL	
					Total	Water Source	Treatment	Total	Water Distribution	Wholesale Core Total	Retail Domestic	Retail - Non Domestic	Water Service Core	Water Service Total	CG	
Service Analysis - Water - Direct Costs																
M18.1	Employment costs	T21.L1	em	WG				0						0	0	
M18.2	Power	T21.L2	em	WG				0						0	0	
M18.3	Mixed and construction services	T21.L4	em	WG				0						0	0	
M18.4	Material and consumables	T21.L5	em	WG				0						0	0	
M18.5	Service charges SEPA	T21.L7	em	WG				0						0	0	
M18.6	Bulk supply imports	T21.L8	em	WG				0						0	0	
M18.7	Contract Management	em	WG					0						0	0	
M18.8	Motor Maintenance & Installation	em	WG					0						0	0	
M18.9	Other direct costs	T21.L9	em	WG				0						0	0	
M18.10	Contract Management	em	WG											0	0	
M18.11	Manage Billing Data	em	WG											0	0	
M18.12	Generate & Issue Bills	em	WG											0	0	
M18.13	Handle Billing Enquiries	em	WG											0	0	
M18.14	Handle Billing Exceptions	em	WG											0	0	
M18.15	Handle Billing Complaints	em	WG											0	0	
M18.16	Motor Reading	em	WG											0	0	
M18.17	Curry of Motor maintenance & Installation	em	WG											0	0	
M18.18	Handle Metering Enquiries	em	WG											0	0	
M18.19	Handle Metering Complaints	em	WG											0	0	
M18.20	Remittance & Cash Processing	em	WG											0	0	
M18.21	Debt Management and Bad debt charge	em	WG											0	0	
M18.22	External Debt recovery	em	WG											0	0	
M18.23	Disconnection	em	WG											0	0	
M18.24	Handle Payment Plan Enquiries	em	WG											0	0	
M18.25	Advertising & Marketing	em	WG											0	0	
M18.26	Account Management	em	WG											0	0	
M18.27	Manage O&M Payments	em	WG											0	0	
M18.28	Handle Customer operational calls	em	WG											0	0	
M18.29	Other Direct Costs	T21.L9	em	WG										0	0	
M18.30	Direct employment costs	em	WG											0	0	
M18.31	IT (over employment)	em	WG											0	0	
M18.32	Total direct costs	T21.L10	em	0				0						0	0	
M18.33	General support costs	T21.L11	em	WG				0						0	0	
M18.34	Functional expenditure	T21.L12	em	0				0						0	0	
M18.35	Operating Expenditure															
M18.36	Scientific services	T21.L14	em	I										0	0	
M18.37	Cost of Population	T21.L15	em	I										0	0	
M18.38	Total business activities	T21.L16	em	0				0						0	0	
M18.39	Local authority rates	T21.L17	em	I										0	0	
M18.40	Bad Debt charge	T21.L18	em	I										0	0	
M18.41	Total Exceptional items	T21.L19	em	WG										0	0	
M18.42	Total general third party services	T21.L20	em	0										0	0	
M18.43	Third party services - opex	T21.L21	em	WG										0	0	
M18.44	Total operating expenditure	T21.L22	em	0				0						0	0	
M18.45	Reactive and Planned Maintenance (included in Opex)															
M18.46	Reactive and planned maintenance-infrastructure	T21.L23	em	WG										0	0	
M18.47	Reactive and planned maintenance-op-infrastructure	T21.L24	em	WG										0	0	
M18.48	Capital Maintenance															
M18.49	Infrastructure renewable expenditure	T21.L25	em	WG										0	0	
M18.50	Non-Infrastructure depreciation charge	em	WG											0	0	
M18.51	Amortisation of deferred credits	T21.L28	em	WG										0	0	
M18.52	Amortisation of intangible assets	T21.L29	em	WG										0	0	
M18.53	Business activities depreciation charge	T21.L30	em	WG										0	0	
M18.54	Capital maintenance for third party services	T21.L31	em	0										0	0	
M18.55	Third party services - depreciation	T21.L32	em	WG										0	0	
M18.56	Total capital maintenance	T21.L33	em	0				0						0	0	
M18.57	Total operating costs	T21.L34	em	0				0						0	0	

APPENDIX 2 - Pro formas

Proforma 18

SCOTTISH WATER																	
Table M18 W: Activity Based Costing - Waste Water Service (Proforma 18)																	
2006-07																	
Line Ref.	Description	Ofwat Ref	Units	Field Type	CORE / LICENSED												
					NON-CORE / NON-LICENSED			CORE / LICENSED									Retail
					Total	Sewerage	Sewage Treatment	Sledge Treatment/Disposal	Wholesale Core Total	Retail Domestic	RETAIL			Wastewater Service Total	ter Service Total	CG	
Service Analysis - Sewerage - Direct Costs																	
M18.1	Employment costs	T21.L1	em	IC					0								
M18.2	Power	T21.L2	em	IC					0								
M18.3	Head and contracts director	T21.L4	em	IC					0								
M18.4	Annual charge for PPP scheme		em	IC					0								
M18.5	Internal cost of PPP scheme		em	IC					0								
M18.6	Material and consumables	T21.L5	em	IC					0								
M18.7	Service charge SEPA	T21.L7	em	IC					0								
M18.8	Contract Management		em	IC					0								
M18.9	Meter Maintenance & Installation		em	IC					0								
M18.10	Other Direct Costs	T21.L9	em	IC					0								
M18.11	Contract Management		em	IC					0								
M18.12	Manage Billing Data		em	IC					0								
M18.13	Generate Billing Bill		em	IC					0								
M18.14	Handle Billing Enquiries		em	IC					0								
M18.15	Handle Billing Escalations		em	IC					0								
M18.16	Handle Billing Complaints		em	IC					0								
M18.17	Meter Reading		em	IC					0								
M18.18	Costs of meter maintenance and installation		em	IC					0								
M18.19	Handle Metering Enquiries		em	IC					0								
M18.20	Handle Metering Complaints		em	IC					0								
M18.21	Maintenance & Cash Processing		em	IC					0								
M18.22	Debt Management and Bad Debt Charge		em	IC					0								
M18.23	External Debt Recovery		em	IC					0								
M18.24	Discharge of Debt		em	IC					0								
M18.25	Handle Payment Plan Enquiries		em	IC					0								
M18.26	Advertising/Marketing		em	IC					0								
M18.27	Account Management		em	IC					0								
M18.28	Manage OSE Payments		em	IC					0								
M18.29	Handle Customer operational calls		em	IC					0								
M18.30	Other Direct Costs	T21.L9	em	IC					0								
M18.31	Direct employment costs		em	IC					0								
M18.32	IT (complementary)		em	IC					0								
M18.33	Total Direct Costs	T21.L10	em	C					0								
M18.34	General and support costs	T21.L11	em	IC					0								
M18.35	Functional expenditure	T21.L12	em	C					0								
Operating Expenditure																	
M18.36	Scientific services	T21.L14	em	I					0								
M18.37	Cost of Regulation	T21.L15	em	I					0								
M18.38	Total business activities	T21.L16	em	C					0								
M18.39	Local authority rates	T21.L17	em	I					0								
M18.40	Bad Debt charge	T21.L18	em	I					0								
M18.41	Total Expenditure	T21.L19	em	IC					0								
M18.42	Total supplier third party services	T21.L20	em	C					0								
M18.43	Third party services	T21.L21	em	IC					0								
M18.44	Total operating expenditure	T21.L22	em	C					0								
Reactive and Planned Maintenance (included in Opex)																	
M18.45	Reactive and planned maintenance infrastructure	T21.L23	em	IC					0								
M18.46	Reactive and planned maintenance non-infrastructure	T21.L24	em	IC					0								
Capital Maintenance																	
M18.47	Infrastructure reusable expenditure	T21.L25	em	IC					0								
M18.48	Infrastructure reusable accrual prepayment	T21.L26	em	IC					0								
M18.49	Non-Infrastructure depreciation charge		em	IC					0								
M18.50	Amortisation of deferred credits	T21.L29	em	IC					0								
M18.51	Amortisation of intangible assets	T21.L29	em	IC					0								
M18.52	Business activities depreciation charge	T21.L30	em	IC					0								
M18.53	Capital maintenance - third party services	T21.L31	em	C					0								
M18.54	Third party services - depreciation	T21.L32	em	IC					0								
M18.55	Total capital maintenance	T21.L33	em	C					0								
M18.56	Total operating costs	T21.L34	em	C					0								

APPENDIX 2 - Pro formas

Pro forma 19

Statement of total recognised gains and losses
(historical cost accounting)
for Appointed Business year ended 31 March 20XX

		Current Year	Prior Year
	Note		
Profit for the year	(a)	I	I
Actuarial gains/(losses) on post employment plans	(a)	I	I
Other gains and losses	(a)	I	I
Total recognised gains and losses for the year	(a)	C	C

APPENDIX 3 -

Regulatory accounts – pro forma 3 example disclosure

Reconciliation between Statutory Accounts and Regulatory accounts

£m	Statutory UK GAAP	Regulatory	
<u>Profit and loss account</u>			
Operating profit	258.3	256.3	In the statutory accounts the company classifies rental income of £2.0m as operating income. WICS accounting guidelines state that this should be classified as 'other income' ie below the operating profit line. Profit before tax is unaffected by this re-classification.
Profit before tax	150.2	150.2	
<u>Balance sheet</u>			
Tangible fixed assets (net book value)	3,562.9	3,565.8	In the statutory accounts the company adopts infrastructure accounting as set out in FRS 15. WICS requests that, for regulatory accounting purposes, FRS15 is <u>not</u> applied for infrastructure renewals accounting. The infrastructure renewals accrual of £2.9m is therefore excluded from the fixed asset net book value.
Infrastructure renewals accrual	n/a	(2.9)	
Debtors	362.1	262.1	In the statutory accounts a long term group debtor of £100.0m is disclosed within debtors due after more than one year. Ofwat accounting guidelines state that this should be classified as an investment.
Investments – loan to group company	n/a	100.0	
Deferred income - grants and contributions	n/a	(39.3)	In the statutory accounts deferred income relating to grants and contributions of £39.3m is classified as; - Creditors due within one year £10.8m - Creditors due after more than one year £28.5m