

N Tables

Transfer Pricing

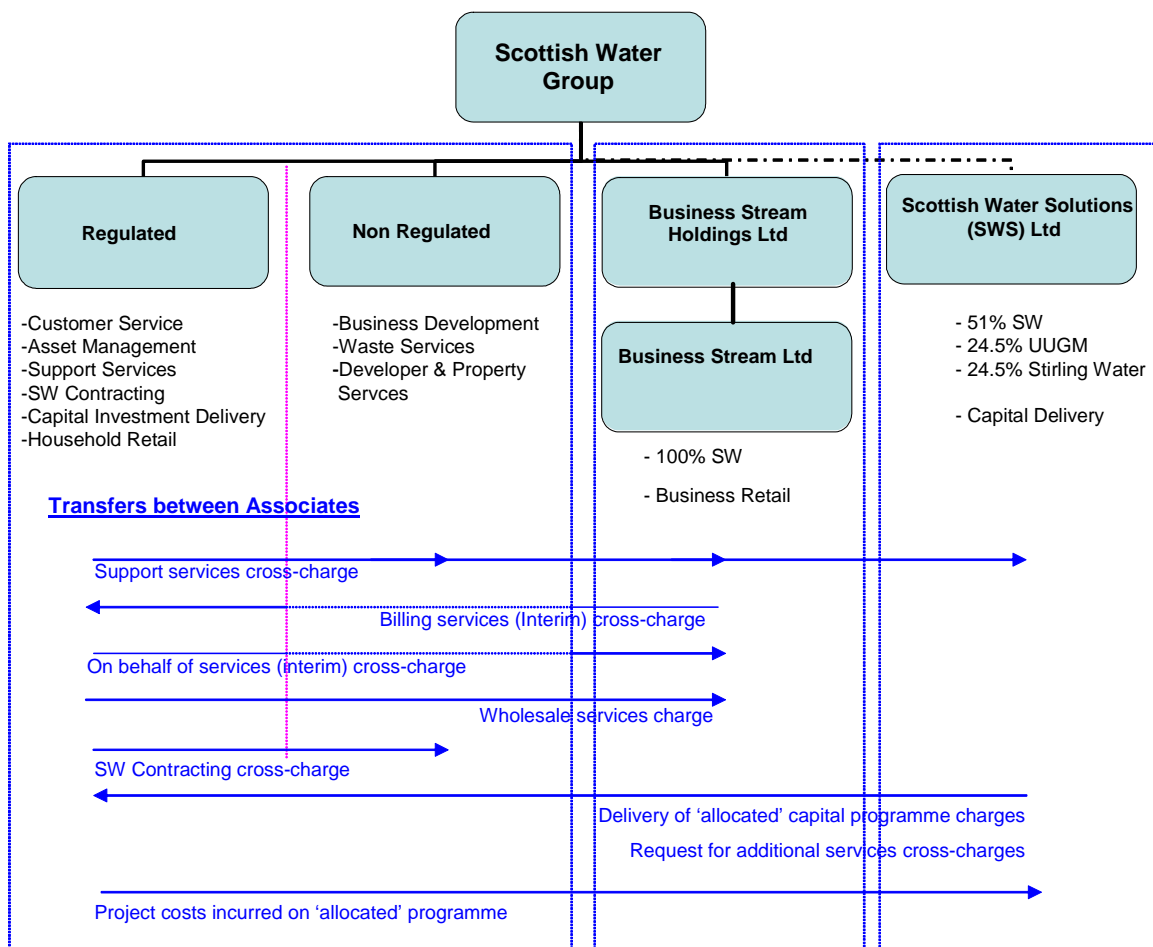
General Comments

The N tables for 2007/08 have been prepared in accordance with Regulatory Accounting Rule 5 and related definitions.

The N tables detail the financial and contractual transactions which have taken place between Scottish Water (Regulated) and the following associates:

1. Scottish Water Solutions Ltd (SWS): the consortium responsible for delivering part of the capital programme under contract to Scottish Water.
2. Scottish Water Business Stream Ltd (SWBS): the subsidiary, established in November 2006, responsible for retail – non household activities.
3. Scottish Water Business Stream Holdings Ltd (SWBSH): the holding company for SWBS, established in November 2007.
4. Scottish Water (Non Regulated): activities undertaken by Scottish Water that are not necessary to fulfil the functions and duties of a water undertaker as defined in the Water (Scotland) Act 1980 as amended by subsequent legislation and as a sewerage undertaker as defined in the Sewerage (Scotland) Act 1968 or as amended by subsequent legislation.

The main transfers between associates are illustrated below.



Statement of Compliance

Douglas Millican, Finance & Regulation Director, has signed the N Table return and accompanying commentary, and in so doing has confirmed Scottish Water's compliance with Regulatory Accounting Rule 5 – Transfer Pricing.

Declaration of Interest

Scottish Water Business Stream Holdings Ltd is a fully owned subsidiary of Scottish Water with its own board of directors. The actions of SWBSH's Directors are governed by the Companies Act 2006 and the Governance Code agreed between the Water Industry Commission for Scotland, Scottish Water and Business Stream.

In accordance with director's duties under the Companies Act 2006, Scottish Water Solutions board of directors must act in the interest of SWS at all times and not in relation to any underlying shareholder interest. In addition, in the Declaration of Interest section of SWS Board meetings, the Directors declared their respective interest in contracts that were the subject of Board discussion and may be awarded to members of their consortia and agreed in reviewing such matters they would act in the best interests of SWS at all times.

Scottish Water (Regulated) and Scottish Water (Non Regulated) form part of the same legal entity and in most cases utilise common, shared resources. Therefore, in transactions between these associates, directors can act as both purchaser and supplier in any transaction with an associate entity. Compliance with transfer pricing rules is ensured, firstly through separate budgetary and accounting control at General Manager level and secondly through Finance and Regulation enforcement of transfer pricing rules in cross-charges. A new company, Scottish Water Horizons Limited, has commenced trading in April 2008 to enhance separation further for non regulated activity. This company is responsible for the majority of Scottish Water's Non Regulated activity.

Table N1 Transfer Pricing Summary (Capex)

A. Market Testing

1. Scottish Water Solutions Ltd
 - (i) Delivery of the Capital Programme

This outlines details of the contract between Scottish Water and Scottish Water Solutions Ltd (SWS) for delivery of part of the capital programme. Following an extensive competitive tender process, the contract was awarded to SWS Ltd a consortium which includes Stirling Water, Scottish Water and UUGM. The total value of the contract awarded was £1.8bn, which covers the period of the Quality & Standards II and Quality & Standards III investment programmes. The total value of the services delivered by SWS in 2007/8 was £311m.

- (ii) Request for Additional Services

Additional design and construction services to the value of £12.2m were delivered in 2007/8 by SWS for SW compared to £3.1m in 2006/7. This increase is due to additional work being carried out with regard to SR10. [Additional services are procured within the contractual arrangements which were negotiated and established at the formation of SWS and were therefore subject to the formal tendering and competitive processes.](#)

SWS provide a quote for additional services, detailing resources, timescales, costs and outputs. Benchmarking and comparison to SW framework contractor rates is undertaken as part of the SW management decision making process before deciding whether to allocate additional work to SWS. Determined management and a formal approvals process ensures the most appropriate delivery route is selected to maximise efficient delivery and value for money.

B. Cost Allocation. Recharges to Associate / Non Core from Core

1. Project costs incurred on 'allocated' projects

Costs incurred by Scottish Water (Regulated) on capital projects which have been contracted to SWS to deliver. These costs are recharged to (SWS) at full cost incorporating overhead recovery. The majority of the costs are for land purchase costs, compensation payments and power costs, including associated internal overhead, incurred on SWS projects. In addition, certain Scottish Water internal costs are cross-charged, e.g. operational staff and sampling staff activity on SWS projects. The total value of project costs charged in 2007/8 was £5.6m.

2. Services provided to Scottish Water Solutions from Scottish Water (Regulated – Contracting)

This relates to mains rehabilitation activities carried out on a commercial basis by Scottish Water Contracting for SWS. Income from these activities reduced from £4.4m in 2006/7 to £0.3m in 2007/8, reflecting the set up of a Capital Investment Delivery (CID) function within Scottish Water, and increased level of internal project delivery.

Scottish Water Contracting were contracted to undertake Quality and Standards II work by SWS. In most cases contracts used ECC Option A lump sum contracts. The value charged to SWS in 2007/8 was £0.3m. All jobs were live at the end of the previous financial year and no "new" contracts were negotiated between SWC and SWS during 2007/8. The income arose from the completion of live projects and the agreement of Final Accounts. The actual cost charged to these contracts in 2007/8 was £0.1m.

3. Transfer of Assets from Scottish Water (Regulated) to Scottish Water Business Stream

IT interfaces, used solely by Business Stream were transferred to Business Stream at a Net Book Value of £0.2m.

Business Solutions staff, contracts and smart meter assets were transferred to Business Stream at the end of February, assuming transfer but pending Water Industry Commission approval. The value of smart meters was transferred at net book value. The valuation of the contracts transferred was based on the forecast income stream transferred.

4. Scottish Water Business Stream Holdings set up

In November 2007, Scottish Water's investment in Scottish Water Business Stream Ltd (Business Stream) increased by £9.6m when Business Stream capitalised £9.6m of reserves through a bonus share issue. At the same time, Scottish Water Business Stream Holdings (SWBSH), a 100% owned subsidiary company, was set up as a holding company for Business Stream with an initial cash investment of £34.6m. SWBSH acquired Scottish Water's investment in Business Stream for £9.6m reducing the net cash cost of Scottish Water's investment in SWBSH to £25.0m, all as agreed with the Commission. The shares confer the normal shareholder rights but within the constraints and requirements of the Governance Code.

This was part of the refinancing of Business Stream, based on a capitalisation value of £90m. This involved Business Stream repaying £44.5m of outstanding loans to Scottish Water and receiving £78.5m of loans and £1.9m for the purchase of shares from SWBSH.

Scottish Water also made a loan of £58.5m to SWBSH. After set up and initial capitalisation, the intention was for SWBSH to be funded directly from the Scottish Government (SG). However, delays within the SG in obtaining budgetary approval have resulted in a continuation of the required funding being via SW. This is a temporary measure only. On the core business balance sheet at 31 March 2008, the borrowings from Government are offset by the intercompany loan receivable from SWBSH of £58.5m (see line M2.2 in Table M2) demonstrating that SWBSH is cost/financing neutral.

5. Services provided to Scottish Water (Non Regulated) from Scottish Water (Regulated – Contracting)

This relates to non regulated main-laying and connection tie-in work undertaken by Scottish Water Contracting for Scottish Water Customer Connections. This charge reflects the actual cost of projects carried out by Scottish Water Contracting, which for 2007/8 was £0.2m. This reduced from £1.6m in 2006/7 due to Scottish Water Customer Connections significantly reducing the level of Self Lay work. The actual cost of these projects is transferred to SWC Non Regulated. Work is called off and recharged internally between SW Contracting (Non Regulated) and SW Customer Connections (Non Regulated) based on an agreed schedule of rates.

6. Sale of Masts and Towers Income Rights

During the year Scottish Water sold its rights to income from Masts and towers receiving £6.4m including VAT, £0.2m was transferred to Non Regulated deferred income on the balance sheet for costs incurred by Non Regulated for the sale and the remainder was split 61% Non Regulated, 39% Regulated, based on a split of income rights between the legacy portfolio and newly generated Non Regulated portfolio. This resulted in a total transfer to Non regulated of £3.4m.

C. Cost Allocation. Recharges to Core from Associate / Non Core

1. Accounts Payable Service

This relates to Scottish Water Solutions providing a capital invoice processing service on behalf of Scottish Water (Regulated). This charge reflects the actual cost of the service provided.

2. Request for Additional Services

Contracts for additional services to the value £12.2m were delivered in 2007/8 for design and construction works.

3. Delivery of SWS allocated capital programme

The total value of the services delivered by SWS in 2007/8 was £311m.

Table N2 Transfer Pricing Summary (P&L)

A. Market Testing

There has been no additional market testing of Table N2 services in 2007/8.

B. Cost Allocation. Recharges to Associate / Non Core from Core

1. Recharges from Scottish Water (Regulated) to Scottish Water Solutions

Staff Costs

As at 31 March there were 132 staff seconded from Scottish Water to SWS. The average FTE for the year was 163. The costs associated with these staff (incl. basic salary, pension, NI, overtime etc) were recharged to SWS at cost, this totalled £7.3 m in the year.

Support Services – IT

IT costs include desktop support, applications support and maintenance and telecoms infrastructure and support. These costs have been recharged to SWS as follows:

Desktop support:	number of PC's and number of help-desk calls
Applications support/maintenance:	actual costs and number of users
Infrastructure and support:	actual consumption

The cross-charge for the year was £2.2m compared to previous year's charge of £1.9m due to project work charged to SWS, in addition to the standard service charges.

Support costs – Property

The property recharge was based on a standard unit charge per employee, which includes recovery of all direct costs, depreciation and overhead. The cross-charge for the year was £1.8 compared to £2.0m for previous year. This reduced for a number of reasons:

- Reduction in the number of SWS staff
- Reduction to property charges to reflect SW property cost savings

Support costs – Payroll

This includes recharges for the provision of payroll services to SWS, which reflects the costs of the activities carried out by Scottish Water's Payroll department, and the number of SWS employee payments and activities undertaken.

Support costs – Financial Systems

This includes recharges for the provision of Financial Systems services to SWS, which reflects the costs of the activities carried out by Scottish Water's Finance Systems department, and the level of development and maintenance undertaken for SWS.

Support costs – Fleet

The fleet recharge was based on a standard unit cost per vehicle type, plus a charge for actual consumption of variable expenditure (e.g. fuel, wear and tear and hire). The cross-charge for the year was £0.5m compared to £0.4m for previous year.

Support costs – Internal Audit

The cross-charge for Internal Audit work transacted during the year was £46K for the financial year 2006/7, and £40k for 2007/8.

Support costs – Customer Contact

This includes the cost of handling customer calls related to SWS activity, and reflects an activity cost and volume of calls. Customer contact is charged at £2K per month based on the estimated number of contacts being handled by the call centre for SWS capital projects/queries.

2. Scottish Water charges to Scottish Water Business Stream

(i) Service & Support Charges £4.0m

Initial service level agreements (SLA's) were put in place for support services provided by Scottish Water (SW) to Business Stream (SWBS), and for services delivered by SW on behalf of SWBS, on an interim basis, until full systems and process separation was completed. These were replaced by full service agreements requiring WICS approval or by transfer of these activities to Business Stream. Services were priced based on ABM analysis of full service costs, including direct costs, overheads, working capital and depreciation.

The services charged under SLA's were:

- Metering Services charge (£0.6m) included the full cost of providing retail metering activities for business customers, on behalf of SWBS. A monthly charge was made to cover the agreed costs of meter reading and metering enquiry handling. The metering team and associated assets transferred to Business Stream in October 2007, and the service charge ceased at this point.
- Trade Effluent Billing Services charge (£0.1m) includes the full cost of providing retail trade effluent billing and enquiry activities for business customers, on behalf of SWBS. A monthly charge was made to cover the agreed costs of providing these services.
- Customer Operational Contact Services charge (£0.1m) includes the full cost of providing operational contact activities for business customers, on behalf of SWBS. Charges were levied on a £ / call basis levied on the assumed retail element of customer calls. This service ceased at the end of March 2008.
- Customer Connections charge for processing connection applications on behalf of Business Stream. This service ceased in December 2007.
- IT service charge (£1.2m) includes the full cost of all IT services including desktop support; mobile, fixed voice, and data communications; and applications and infrastructure provision and support.
- IT contractors, hardware and software costs (£1.2m) were charged under a development service agreement at actual cost for IT development and purchases made on SWBS's behalf. [SWBS incurred additional costs associated with business separation activity, over and above the standard level of service](#)
- Property charge (£0.5m) for the provision of office facilities to SWBS based on office space utilised
- The standard Payroll service for processing SWBS employee's pay and expenses ceased in March 2007. Scottish Water charge on an hourly basis for any central payroll services provided, e.g. Payroll system upgrade testing
- Financial Systems charge for support and minor development of Peoplesoft Financials based on service activity volumes and module usage / users
- Fleet charge for actual fleet costs incurred (vehicle hire / lease).
- Corporate Affairs charge for marketing and public relations support to SWBS. This service was only provided for a short, initial period.
- The standard Accounts Payable service for processing SWBS Invoices ceased in August 2007.
- Tax team charge for group VAT processing and reporting; and actual insurance premium costs incurred under group insurance arrangements.
- Internal Audit charge (£0.1m) on a daily rate basis for the agreed audit plan
- Other Corporate Services (HR & Legal) on an hourly rate basis. These ad-hoc services are no longer provided.
- Miscellaneous actual costs incurred by Scottish Water on behalf of SWBS early in 2007/8, billed to SWBS.

[The majority of services cross-charged to SWBS have increased in value from 2006/7 due to 2007/8 being the first full year of SWBS trading, compared to 5 months in 2006/7.](#)

The increase is not proportionately 12/5, except for Trade Effluent Billing Services, as a number of services ceased or reduced during the year (Customer Operational contact, Financial Systems, Fleet, HR, Property Services, Other Corporate Services).

(ii) Wholesale Charges £305.5m

Scottish Water is required to charge business retailers for Primary and Non Primary Water and Wastewater services. Cross-charges are based on the Wholesale Scheme of Charges.

(iii) Interest Charges £1.8m

The interest charges are on the following loans to SWBS:

1. Loans outstanding at 31/3/07	Value	Rate
Transferred loans with charges being calculated from 1 st November 2006	£5,000,000	5.75%
	£20,000,000	4.50%
	£10,000,000	3.75%
New loan from 1 st November 2006	£25,000,000	4.70%
New loan from 1 st March 2007	£4,500,000	5.50%
2. New Loans in 2007/08		
New loan from 13 th April 2007	£15,000,000	5.39%
New loan from 2 nd April 2007	£ 5,000,000	5.60%

3. Scottish Water interest charges to Scottish Water Business Stream Holdings

Following the refinancing of SWBS, and set up of SWBSH, interest charges of £1.6m were charged to SWBSH on the following loans:

New loan from 19th November 2007	£58,500,000	7.6975%
New loan from 29th February 2008	£58,500,000	6.74%
New loan from 20th March 2008	£58,500,000	7.15%

After set up and initial capitalisation, the intention was for SWBSH to borrow directly from the Scottish Government. However, delays within the Scottish Government in obtaining the budgetary approval resulted in a continuation of the required funding being via SW. This temporary arrangement was agreed with Scottish Government and WICS.

The loans from SW to SWBSH were all short term:

Date of advance - 19 November 2007; 29 February 2008; 20 March 2008

Maturity date - 29 February 2008; 20 March 2008; 30 May 2008.

The interest rates to SWBSH were based on 3 month LIBOR + 1.25%, therefore the interest rates differed for each new loan.

4. Recharges from Scottish Water (Regulated) to Scottish Water (Non Regulated)

Scottish Water (Non Regulated) was not set up as a separate legal entity in 2007/8. However, Scottish Water (Non Regulated) is set up as a separate accounting entity. Certain costs are directly captured within Scottish Water (Non Regulated). These are direct employment, materials and external service costs for the following functions:

- Scottish Water (Non Regulated – Business Development)

- Scottish Water (Non Regulated – Waste Services)
- Scottish Water (Non Regulated – Property Services)
- Scottish Water (Non Regulated – Customer Connections)

These costs are charged directly to Scottish Water (Non Regulated), and therefore are not reported in table N2. Table N2 reports the value of cross-charges between Scottish Water (Regulated) and Scottish Water (Non Regulated), which includes the following transaction types:

- Labour, material and service costs transferred from Scottish Water (Regulated – Contracting) as actually incurred on Non Regulated activities (projects)
- Recharges from Scottish Water (Regulated) for support activities undertaken for Scottish Water (Non Regulated). This includes the cost of functions such as IT, Fleet, Property, Finance, HR and Customer Services. Cross charges either reflect the actual cost of the service, e.g. actual fuel charge, actual mobile phone call charges; or the cost of the service as calculated via Activity Based Management (ABM). ABM calculates the actual cost of the support activity, and allocates the cost of that support activity across internal customers based on the share of activity cost drivers. This is in accordance with RAR 5 requirements.
- Labour, material and service costs transferred from Scottish Water (Regulated – Customer Operations) incurred on Non Regulated activities based on operational timesheets and job cost capture
- Other functions on agreed activity and driver basis, e.g. Scientific Services based on volume and cost of samples and tests, waste services based on mogden formula for 3rd party waste (liquids) treatment and sludge model costs for 3rd party waste (sludge) treatment.

Table N2 does not report the total cost of Scottish Water (Non Regulated), but reports the value cross-charged between the Scottish Water (Regulated) and Scottish Water (Non Regulated) entities (£14.2m). The total cost of the Non Regulated entity (£27.7m) is reported in Table M18, in line with Regulatory Reporting requirements.

The following cross-charges have been made in 2007/8:

i) Services provided to Scottish Water (Non Regulated) from Scottish Water (Regulated – Contracting).

Costs have been cross-charged from SW Contracting (Regulated) to Non Regulated based on:

- direct costs charged to non regulated projects, e.g. materials, contractors;
- labour and contractor costs timesheeted to non regulated projects;
- support activities charged to non regulated based on actual costs incurred or as calculated via ABM, and recharged to SWC (Non Regulated); this charge has been separately reported for 2007/8, but was included in the value of the direct services in 2006/7;
- SWC indirect and support staff charged directly to Non Regulated or split between Regulated and Non Regulated based on work splits

The following main activities have been cross-charged from SW Contracting (Regulated) to Non regulated

- Main laying work for Business Development (£2.2m). [SW Business Development contract with external developers for infrastructure work](#). Business Development looks at its portfolio of suppliers and some projects are allocated to SWC. Most projects are 2 stage: optioneer and provide offer to construct. SWC tenders are

based on cost base solution rates plus an uplift to cover project-specific factors, and risk.

- Mains Rehabilitation and other capital work for Scottish Water Solutions (£0.1m). This is the cost transferred from Regulated to Non regulated for the work undertaken for SWS, reported in N1 (£0.3m).
- Other infrastructure work directly for 3rd parties, e.g. Developers, Nevis Water (£4.8m) gained via competitive tendering.
- The charges to SWC Non Regulated include ABM calculated charges for support activities and SWC indirect and support costs of £2.5m, in addition to standard fleet, IT and property recharges.

The value of SWC Non Regulated work dropped significantly in 2007/8 compared to 2006/7 due to the change in workload from supporting external / SWS activities to supporting the in-house delivery of the capital investment programme.

ii) **Support activities provided to Scottish Water (Non Regulated) from Scottish Water (Regulated).**

Costs have been cross-charged to all Non Regulated functions for a share of all relevant support activities. Cross-charges are fully compliant with RAR 5, in that they reflect the full cost of services provided, and are based on resource consumed. The main support activity cross-charges are described below:

- Actual Fleet – actual fuel costs, fleet hire costs, and vehicle wear, tear and damage costs as incurred
- Recharge Fleet – standard recharge by vehicle type to cover fixed vehicle costs (e.g. depreciation, lease costs, etc.)
- Actual IT – actual mobile phone charges
- Recharge IT – standard recharge by asset type (e.g. laptop, pda, PC) to cover asset-related costs (e.g. depreciation, desktop support, etc.)
- Activity Based IT based on the actual costs and drivers of activities such as: Application Support & Provision (cost by application, split by users), Infrastructure Availability (split based on capacity usage), Integration (split based on interface usage). Actual costs include all operating expenditure, including employment costs, licenses, depreciation, etc.
- Recharge Property – standard recharge per workstation to cover provision of office accommodation. Costs include rates, depreciation, direct costs and overhead.
- Activity Based HR – based on the actual costs and drivers of activities such as: Training (split based on training course places), Staff Recruitment (split based on number of staff recruited), etc.
- Activity Based Finance - based on the actual costs and drivers of activities such as: Supplier Invoice Processing (split based on number of invoices), Insurance Premiums (split based on risk and employee / asset values, weighted for risk), etc.
- Activity Based Customer Services - based on the actual costs and drivers of activities such as: Bad Debt (split based on split of aged debt by service), Handling Customer Calls (split based on number of customer calls), etc.
- Activity Based Procurement and Logistics - based on the actual costs and drivers of activities such as: Procure Goods and Services (split based on number of purchase orders), Issue Stock (split based on number of stock issues)
- Activity Based Scientific – based on the actual costs and drivers of activities such as – Take Samples (split based on number of sample visits), Analyse Tests (split based on number of tests analysed, weighted for lab cost)

The value of standard fleet, IT & property recharges was £0.3m (excluding SWC), and the value for activity based recharges was £1.4m (excluding SWC stated in i above)

iii) Labour, material and services provided to Scottish Water (Non Regulated) from Scottish Water (Regulated) on specific Non regulated activities.

Certain non regulated activities utilise Scottish Water (Regulated) assets and staff, and cross-charges are made to reflect this. Cross-charges are fully compliant with RAR 5 in that they reflect the full cost of services provided, and are based on resource consumed. The main non regulated activities utilising regulated assets and staff are:

- Operate & Maintain 3rd Party Assets (Aquatrine)
- Rechargeable Works
- Provision of Shipping Water
- Provision of non Potable Water
- Lab Services

In previous years Scottish Water classified Non Domestic Septic Tank Emptying as Non Regulated. Under the terms of the Sewerage (Scotland) Act 1968 Section 10, Scottish Water has a duty to empty a septic tank where it is reasonably practicable (other than those receiving Trade Effluent). This includes any septic tank from business customers with domestic septage (i.e. foul water drained from activities such as drinking, cooking or washing). All of the Non Domestic Septic Tanks emptied by Scottish Water are in this category, and therefore In 2007/8 this activity was re-classified as Core Third Party Services and no transfers now take place between Regulated and Non Regulated. [This service is undertaken by Scottish Water staff utilizing Scottish Water assets, and Scottish Water Non Regulated was previously charged for this service. No assets were actually owned by Scottish Water \(Non Regulated\) and hence no transfer of assets took place upon re-classification of this service.](#)

The labour, plant and vehicle cross charge for Business Development of £0.7m includes:

- £0.6m charge for SW Customer Operations staff working on Aquatrine (MoD) assets.
- £0.1m of charges for other SW (Regulated) staff time and resource

The labour, plant and vehicle cross charge for Waste Services of £0.3m includes a charge from Customer Operations (Regulated) for waste treated and disposed at Scottish Water assets. The charge for liquids is based on the mogden formula, and the charge for sludge is based on Scottish Water's sludge model which reflects the estimated cost of treating and disposing of sludge at each of Scottish Water's works.

The labour, plant and vehicle cross charge, and material and contractors charge for Rechargeable Works of £1.2m includes all costs captured against rechargeable work orders. The total cost of each work order is captured by Customer operations and transferred to the SW Customer Operations (Non regulated).

The labour, plant and vehicle cross charge for Shipping Water of £0.4m includes the costs of Customer Operations staff involved in non regulated shipping water activity.

The test and sample processing charge for Scientific Services of £0.4m includes the cost of processing non regulated samples and tests, charged based on full activity cost and number of tests and samples.

iv) Business Retail (pre 1st November 2006) and Household Retail activities

Household retail activity and residual Business retail activity (management of Licensed Provider interfaces, Wholesale Billing and CMA activity), were not separate legal or accounting entities during the year. Scottish Water does, however, report the full cost of these services in M18 tables.

The cost of Business retail activity in 2007/8 was £8.8m, and for household retail activity the full year was £28.4m. Costs are a combination of direct cost capture of activity/customer costs, and allocation support and retail activity between customer groupings based on activity drivers. Further details of cost allocation are included in M18 table commentary.

C. Cost Allocation. Recharges to Core from Associate / Non Core

1. Cross-charges from Scottish Water Business Stream (Regulated) to Scottish Water (Regulated)

As of 1st November 2006, Scottish Water's Customer Billing system (Hi Affinity) and Billing staff transferred to Scottish Water Business Stream, and with this went Scottish Water's billing capability. Scottish Water developed a new billing capability within its Peoplesoft Financial System. When this was implemented in November 2007, Scottish Water ceased to take its Sundry Billing service from Business Stream. Between April and November 2007 SWBS charged SW for this service.

Household Metered billing was not transferred to Scottish Water's new billing capability until the end of March 2008. SWBS charged SW for this service until this date.

During 2007/8 IT contractors charged to SWBS, carried out data migration and cleansing services on the Hi Affinity billing system in order to enable the transfer of property data to SW. The charge in the year for these services was £0.4m.

During 2007/8 SWBS paid their staff a bonus relating to 2006/7 as these staff were SW staff until November 2006 SWBS recharged SW for the bonus which was attributable to SW relating to the period from April to November 2006.

The majority of the miscellaneous recharge (£22k) is a refund of an element of the property cross-charge from SW to SWBS. SWBS entered into a separate business rates arrangement with Edinburgh City Council for the office space occupied by SWBS. SW charged SWBS for a share of business rates for the same office space for an overlapping period, and therefore SW refunded this overpayment.

2. Interest paid to SWBS

As per the wholesale agreement Scottish Water Business Stream pay Scottish Water Wholesale in advance. Interest is charged on this advance payment at base rate and is payable to SWBS, this totalled £1.2m during the year.