water industry
commission
FOR SCOTLAND

Annual Report
& Financial Statements
2018-19

Annual Report and Financial Statements
2018-19

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SG/2019/166 For the period 1 April 2018 to 31 March 2019

Laid before the Scottish Parliament by the Scottish Ministers under Part 1, section 5(4) of the Water Industry (Scotland) Act 2002 (as amended). October 2019

Chairman's foreword

This has been a busy year for the Commission as we reach a critical stage in our price setting process for the next regulatory control period, which runs from 2021 to 2027. We are continuing to work closely with stakeholders to put in place the key elements of our new regulatory approach which focuses on establishing the best outcomes for water and wastewater customers, communities and the Scottish environment.

The Scottish water industry has committed to adopting the principles of Ethical Based Regulation (EBR) and this commitment necessitates, more than ever, that the industry works jointly to deliver the Scottish Ministers' vision for the sector, including the commitment to net zero carbon in 2045.

The Commission is conducting a transparent and collaborative price review, taking account of all the evidence available to it in coming to the views set out in its published Decision Papers. The Commission acknowledges and appreciates the continued support of stakeholders in the development of the 2021-27 Strategic Review of Charges.

The competitive retail market continues to evolve. During 2018/19, we undertook a comprehensive review of the market to ensure that the framework for the competitive market remains fit for purpose and that it continues to serve the interests of non-household customers in Scotland. Based on the output of this review, we are now taking forward proposals for changes to the market framework.

The Commission has an ongoing commitment to support the Scottish Government's Hydro Nation initiative and looks forward to new opportunities to learn from, and share experience with, regulators across Europe and beyond. During 2018/19, we worked successfully with stakeholders in the Romanian water industry to strengthen economic regulation in Romania as part of a European Union funded programme to support the Romanian Public Services Regulatory Authority (ANRSC). In the forthcoming year, we seek to further develop and grow relationships in several other countries.

Looking forward, there is much still to do to complete our work for the next regulatory control period. Working with Scottish Water and other stakeholders, we will seek to establish and embed processes that will help ensure that the water industry in Scotland continues to provide value for customers and protection for the environment over the long-term.

It has been a challenging year and the success of the Commission's work relies on the efforts, hard work and dedication of the Chief Executive and the Commission staff. We are extremely grateful to all of them for their contribution to the effective discharge of our responsibilities throughout 2018-19.

Donald MacRae

Professor Donald MacRae OBE FRSE
Chairman August 2019

Ensuring value for money for customers

Strategic Review of Charges 2015-21

Our final determination for water and sewerage charges for the period 2015-21 set out that customer bills would increase below the rate of inflation throughout the period. The final determination also allowed for an extensive programme of investment of over £3.5 billion.

In the fifth year of the current regulatory control period, we are pleased to note that Scottish Water continues to perform well and deliver benefits to Scottish customers. We will continue to monitor and report on Scottish Water's progress throughout the current regulatory period.

Strategic Review of Charges 2021-27

This year our focus has been on concluding and implementing our approach to the next regulatory control period that commences in April 2021.

Our approach places a clear obligation on Scottish Water to take ownership of delivering the very best for customers and for Scotland and to look beyond compliance and meet the needs and expectations of the customers and communities it serves. Scottish water industry stakeholders continue to work together and have adopted the principles of Ethical Based Regulation (EBR). In line with the principles of EBR, we have continued to enhance our approach to involve stakeholders more transparently and collaboratively in the Strategic Review process. Our thinking has benefitted greatly from the input of our stakeholders and together, we have made good progress in identifying approaches to tackle the challenges facing the industry.

This high level of commitment and engagement from stakeholders has initiated open discussion and consideration of the very real strategic challenges facing the industry. In response to a request from the Cabinet Secretary, stakeholders have initiated the development of a Scottish water sector vision which will help set a clear path for the industry over the long-term.

We have particularly welcomed Scottish Water's proposal to co-create its Strategic Plan with stakeholders. Stakeholders have engaged in a series of co-creation working groups to provide input and a challenge to the content of Scottish Water's Strategic Plan. This has introduced a highly beneficial enhanced level of transparency and understanding among stakeholders that otherwise would have been difficult to achieve.

Scottish water industry stakeholders have asked the Organisation for Economic Co-operation and Development (OECD) to undertake an independent review of the 2021-27 Strategic Review of Charges process. The OECD is providing useful insights in behavioural economics and the development of the industry's approach to asset replacement and capital maintenance. They will conduct a Peer Review and report on lessons learnt towards the end of 2019.

Representing customers and communities

Our methodology outlines the enhanced role that the Commission has asked the Customer Forum to play. The Forum is a conduit for the views of customers and communities and is charged with reaching agreement with Scottish Water on its Strategic Plan. Its agreement should reflect fully the decisions taken by the Commission on the ranges for the key inputs to the Strategic Review of Charges. The Customer Forum is building on the excellent work of its predecessor and expanding its customer engagement and outreach.

More information on the Customer Forum's work on behalf of Scottish customers can be found on their website.

Monitoring Scottish Water's Performance

Our 2015-21 determination allowed for Scottish Water to build on its achievements in previous regulatory control periods and it continues to perform well. We will continue to monitor Scottish Water's progress in delivering levels of service and improvements for customers.

We are a member of the Output Monitoring Group (OMG), together with Scottish Government, Scottish Water, the Scottish Environment Protection Agency, the Drinking Water Quality Regulator, the Consumer Futures Unit of Citizens Advice Scotland and the Scottish Public Services Ombudsman. This group regularly reviews the progress of Scottish Water towards the timely delivery of the objectives of the Scottish Ministers. The OMG assesses the progress of Scottish Water in delivering the key milestones of the investment programme against targets set out in the Delivery Plan. The Group publishes reports on a quarterly basis on the Scottish Government's website.

Our most recent performance report published in November 2018 showed that overall Scottish Water is continuing to perform well against what they set out to achieve in their delivery plan. We will continue to monitor progress carefully. A full report on Scottish Water's performance for the 2018-19 period will be published later this year. We are conscious of the need to review and develop the mechanisms by which we measure Scottish Water's performance. In our approach to the 2021-27 Strategic Review of Charges, we have further developed our thinking on how the monitoring regime might be established for the 2021-27 regulatory control period. We are specifically considering the process for evidencing financial, service level and water and environmental compliance in the coming regulatory control period and beyond.

We published an updated decision paper on performance monitoring at the end of 2018.

Achieving greater value and choice through retail competition

The competitive retail market is continually evolving. Throughout 2018-19, the incumbent retailer's market share has remained below 50%. There are now 30 Licensed Providers competing to offer greater choice and value-added services to Scotland's business customers.

Competition in the non-household market for retail water and sewerage services began in April 2008. Businesses, public sector and not-for-profit organisations can, as a result, choose a price and service level that reflects their specific needs. Business customers can now benefit from more tailored services and/or lower prices.

The Commission is working to ensure that the market framework is consistent with the requirements of the changing market. In 2018-19, the Commission undertook a comprehensive market review of the water and sewage non-household retail market focusing on measures to protect customers' prepayments and improving the market framework.

The Commission continues to assess the regulatory framework to ensure Licence Providers are complying with their regulatory obligations after the opening of the English retail market in April 2017.

Sharing our experience

We actively support the Scottish Government's Hydro Nation initiative and continue to liaise and network with regulatory offices across Europe and internationally, who want to learn more about the Scottish water industry's journey and experience.

The work of the Commission continues to be regarded as a model for regulation of a public-sector entity, not only by the Scottish Government, but also by organisations, academics and other regulators in the rest of the UK and abroad. We are taking the opportunity to share our experience and expertise with this wider audience in line with the Scottish Government's Hydro Nation commitments and our duties under the Water Resource Act 2013. We continue to participate in international events and conferences and we actively collaborate with international organisations, such as the OECD's Network of Economic Regulators.

The European Commission sponsored project to support the Romanian Public Services Regulatory Authority (ANRSC) and Romanian Waters resulted in the development of a valued relationship with the Structural Reform Support Service of the European Commission.

Our involvement in the Hydro Nation initiative helps ensure that we remain in touch with regulatory best practice while providing useful experience and opportunities for staff and an exposure to alternative regulatory approaches and techniques.

Managing our office

We are a small office of 20 employees, responsible for regulating an industry of vital importance to the Scottish people and to the Scottish economy.

The Commission is a non-departmental public body with statutory responsibilities, which acts independently of Ministers. We are accountable to customers in Scotland and we achieve this by being transparent in our work. As part of accountability, we must agree a corporate plan with Scottish Ministers as well as submitting an annual report and financial statements. The corporate plan sets out our work and budget for the regulatory control period. This document is available on our website.

Our methodology for delivering our statutory duties, and the skills required to meet our key objectives, has changed significantly over the last few years and will continue to evolve to meet the needs of the industry. We restructured in 2017 to unify the activities of the office, creating an integrated structure and promote joint working amongst our staff. We continue to review the structure to provide greater integration of the roles, recognising the overlap of skill sets between analytical and support employees, and to ensure clearer succession planning and transparency.

As a public body we are very conscious of our obligations to deliver value for money. We monitor our expenditure with care, and by maintaining robust procurement processes, we ensure maximum efficiency.

Financial statements

Year ended 31 March 2019

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Performance report

1. Overview

The Water Industry Commission for Scotland (the Commission) presents the financial statements for the year from 1 April 2018 to 31 March 2019. The financial statements have been prepared in a form directed by Scottish Ministers in accordance with the Water Industry Act 1999, as amended by the Water Industry (Scotland) Act 2002 and the Water Services etc. (Scotland) Act 2005. The Commission is required to make a report to Scottish Ministers at the end of each year on its activities during the year and arrange for the report to be published.

The purpose of the performance section of the annual report is to provide information on the Commission, its main objectives and strategies and the principal risks that it faces.

1.1 History and statutory background

The Commission is a non-departmental public body sponsored by the Scottish Government Directorate for Environment, Climate Change and Land Reform. The Commission was formed on 1 July 2005. The office of the Water Industry Commissioner for Scotland was dissolved at that time. The Water Services etc. (Scotland) Act 2005 transferred to the Commission the former Commissioner's function of promoting the interests of water customers. It also gave the Commission the functions of:

- determining limits on Scottish Water's charges; and
- creating and managing the regime for licensing the provision of retail water services to the non-household sector.

These functions are subject to scrutiny by the Competition and Markets Authority.

1.2 Principal activities

As the economic regulator of the Scottish water and sewerage industry we have a statutory duty to promote the interests of consumers and business customers. We do this by incentivising Scottish Water to be more efficient by insisting on better service and by facilitating greater value and choice through the competitive retail framework.

1.3 Performance over the period

Strategic Review of Charges

We have a duty to promote the interests of customers. We achieve this by limiting the amount that Scottish Water can charge customers. We decide these limits through a process called the Strategic Review of Charges (or Price Review). In each review, we set the prices that allows Scottish Water to deliver Scottish Ministers' Objectives for the water industry at the lowest reasonable overall cost.

We published refinements and clarifications to our methodology for the Strategic Review of Charges 2021-27 (SRC21) in November 2018. This document updates customers and stakeholders on our latest thinking and set out our expectations and approach for the remainder of SRC21 process.

Throughout the course of 2018, we also published a further eight Decision Papers, building on our expectations set out in the 2017 Decision Papers and capturing our latest thinking in relation to key components of the Strategic Review of Charges. A further two Decision Papers on Asset Replacement and Prospects for Prices will be published later in 2019.

In support of the principles of Ethical Based Regulation (EBR), an independent EBR Support Group has been established to support stakeholders in this new approach. The Group has and will continue to undertake a regular assessment of how the behavioural elements of SRC21 and the co-creation process are working in practice.

Retail

In 2018, we commenced a market review of the water and sewage non-household retail market focusing on customer protection measures and improving market arrangements. Furthermore, we continue to assess frequently the regulatory framework to ensure Licence Providers are complying with their regulatory obligations after the opening of the English retail market in April 2017 and how this has affected the behaviours of Market participants in Scotland.

Hydro Nation

The European Commission sponsored project to support the Romanian Public Services Regulatory Authority (ANRSC) and Romanian Waters was completed on the 29 March 2019. The project was initially established to make a positive contribution in strengthening Romania's economic regulation. We have now formed a valued relationship with the Structural Reform Support Service of the European Commission, the pilot companies involved and ANRSC.

During 2018-19, we participated in international events and conferences and have collaborated with international organisations, such as the OECD's Network of Economic Regulators. We have also continued our membership of European Water Regulators (WAREG), a network of European Regulators focused on sharing knowledge and experience in regulation.

Governance

Following receipt of a revised Executive NDPB Model Framework from the Scottish Government during the year, we have been working to update our terms of reference and other governance documents to ensure consistency with the new Framework Document. This has been done in conjunction with our internal audit team, who has performed a review of our governance arrangements. Once this review has been finalised, the recommendations will be discussed internally and implemented as necessary.

Risks

A strategic risk register is in place, overseen by the Board of the Commission and the Audit and Risk Committee (the Committee), in accordance with the approved risk management strategy. The office of the Commission worked closely with the Committee during the year to develop risk reporting to provide them with the level of information they require to provide the Board of the Commission with assurance on our risk management practices.

On 8 November 2017, the deputy first minister John Swinney announced the publication of the Public-Sector Action Plan on Cyber Resilience, which set out the key actions that should be implemented to ensure higher standards of cyber resilience amongst Scotland's public bodies.

We continue to adapt its policies and procedures around cyber security, adjusting to new technology and developments helping to strengthen and maintain our cyber resilience credentials. In addition, we are taking preventative measures including regular cyber updates to employees and staff security awareness training. Our Cyber Essentials Plus accreditation was independently re-assessed in February 2019 to ensure critical control measures are in place and working correctly.

As a small office, we rely on a small number of skilled professionals to carry out the functions of the Office. Public Sector Pay policy continues to restrict our ability to compete with the private sector to recruit and retain staff. We are reviewing our recruitment strategy and are in the process of assessing methods of retaining current employees. We are focussing on succession planning for key roles and training and developing talent internally.

Record Management

The General Data Protection Regulation (GDPR) was introduced to the UK on 25 May 2018. The GDPR forms part of the data protection regime in the UK, together with the new Data Protection Act 2018 (DPA 2018). The regulation sets out how organisations should handle personal data. We have a duty to comply with both the GDPR and the Public Records (Scotland) Act 2011 (PRSA). The National Records of Scotland (NRS) works with all public bodies, monitoring compliance with the PRSA. They aim to ensure public bodies have processes in place to manage their records appropriately. During the year, we commissioned a GDPR information audit providing us with assurance that our record management policies and processes are in order. These efforts combined with a programme of staff training will ensure that we continue to comply with these regulations.

1.4 Future developments

We will continue to work collaboratively with industry stakeholders on the SRC21 throughout the 2020 period. We are working closely with stakeholders to finalise our views on regulatory parameters and the long-term price profile.

Scottish Water will finalise its co-created Strategic Plan later this year, ahead of the publication of our Draft and Final Determinations in May and September 2020. The Customer Forum will seek to agree with Scottish Water, whether the co-created Strategic Plan has taken proper account of the research it has provided on the views and aspirations of current and future customers. It will also agree the price profile required to deliver the Strategic Plan within the ranges set by the Commission.

The Ethical Based Regulation (EBR) Support Group will continue to provide independent support to all stakeholders in the Strategic Review of Charges process. Throughout the course of 2020, they will continue to undertake regular assessment of behaviours within the SRC21 and co-creation process. This work will complement the wider OECD's Peer Review of the regulatory process which is expected to conclude in summer 2020.

We intend to keep the framework for the retail market under review to ensure that it continues to serve the interests of Scottish customers. We plan to conduct health checks of the retail market and its key components on an ongoing basis. We expect the first of these regular audits to begin next year.

With regards to supporting the Scottish Government's Hydro Nation initiative, we will continue our efforts to seek out appropriate opportunities to support the development of regulation in other countries. To support knowledge sharing and capacity building activity, we plan to sign Memorandums of Understanding with key stakeholders in other jurisdictions.

2. Performance analysis

2.1 Overall financial performance

As set out in the financial statements, there was a net surplus for the year of £130,424 (2017-18: £141,112). Expenditure for the financial year 2018-19 was £4,165,687 (2017-18: £3,429,371). This increase relates primarily to expenditure on the project with the ANRSC in Romania. However, this expenditure was reimbursed as a grant from the European Commission, reducing the effect on the net surplus for the year. Increased pension contributions (from 19.1% in 2017-18 to 28.3% in 2018-19) following the latest triennial pension valuation reduced the net surplus from the previous year.

We routinely review our budget requirements every three years for approval by Scottish Ministers. As part of our budgeting process, we have demonstrated that the cash balance of £2,072,147 will be utilised by the end of the financial year 2023-24.

The balance on the General Reserve as at 31 March 2019 was £1,129,029 (2017-18: £1,170,605). The balance sheet position of the pension liability has declined once again, as a result of lower Corporate Bond yields, increasing the value of the pension obligations.

2.2 Changes in non-current assets

During the year, there was an investment of £60,924 (2017-18: £23,340) in information technology assets. There was no other capital expenditure in the year.

2.3 Pensions

Some employees and former employees of the Commission's office are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme.

Hymans Robertson was commissioned by Falkirk Council to carry out a full actuarial valuation of the Falkirk Council Pension Fund as at 31

March 2017 as required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 ("the Regulations"). Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. Following this exercise, we received a report which presented the solvency level of our share of the pension scheme at 31 March 2017 based on the funding assumptions and proposed appropriate levels of Employer contribution for the period 1 April 2018 to 31 March 2021.

In accordance with IAS 19 (Revised) – the Fund's actuaries undertook a valuation as at 31 March 2019. The accounting balance sheet position as at 31 March 2019, and the projected charge to the income statement for 2018-19, are based on a roll forward from the 2017 formal valuation. Full details of the pension valuation can be found in note 12.

The IAS 19 report provided by the actuary in April 2018 estimated the Commission's share of pension fund assets at 31 March 2018 as £6.397 million. The actuary subsequently provided the Fund with a more up-to-date asset valuation as at 31 March 2018. The Commission obtained a revised report from the actuary which showed that the Commission's share of pension fund assets had increased to £6.425 million. This was not adjusted for in the financial statements for the year ended 31 March 2018, however, prior year comparative figures have been restated in these financial statements. This has resulted in the net pension liability in the Statement of Financial Position decreasing by £28,000 from £812,000 last year to £784,000 as at 31 March 2018, with a matching increase in the general reserve. See note15 for details on the restated amounts.

2.4 Supplier payment performance

It is our policy to pay all invoices not in dispute within 30 days from receipt of the invoice or in accordance with the agreed contractual terms if otherwise specified. However, we aim to pay suppliers as soon as possible following receipt of an invoice. The time taken to pay suppliers was 7 days (2017-18: 9 days).

During the year we made a change to our accounting software. This change allows invoices and related documents to be issued received and reconciled electronically through a secure channel. This has replaced paper-based, manual processes, and has benefits for both the Commission and its suppliers. Our new processes are compliant with the requirements of the EU Directive on electronic invoicing in public procurement. This states that an electronic invoice is one that has been issued, transmitted and received in a structured electronic format which allows for automatic and electronic processing.

2.5 Sustainability

Public Bodies in Scotland are bound by the Climate Change Public Bodies Duties set out in Part 4 of the Climate Change (Scotland) Act 2009. These duties require that public bodies covered by the duties must, in exercising their functions:

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

We endeavour to behave in a carbon aware manner, with the location of our office allowing employees and visitors to have better access to sustainable forms of transport. We have maintained our recycling policy during this financial year and have a staff travel policy which guides employees to make the most economic and efficient decisions relating to business travel. Details of the carbon footprint of the office of the Commission can be found in the table below. Our work on the Romanian project has resulted in the increase in our expenditure in the area of travel and transportation. We are committed to off-setting our carbon footprint and will be reviewing this during the next financial year.

	2018-19		2017-18	
Area	**Non-financial information**	**Expenditure**	**Non-financial information**	**Expenditure**
Energy	**Electricity:** 13.8 tonnes CO_2 **Gas:** 11.9 tonnes CO_2 **Total carbon from energy:** **25.7 tonnes CO_2**	**Electricity:** £7,765 **Gas:** £1,994.81	**Electricity:** 14.7 tonnes CO_2 **Gas:** 8.9 tonnes CO_2 **Total carbon from energy:** **23.6 tonnes CO_2**	**Electricity:** £5,254 **Gas:** £1,533
Waste	**Waste to landfill:** 5.4 tonnes CO_2 **Paper waste recycled:** 0.02 tonne CO_2 **Total carbon from waste:** 5.4 tonnes CO_2	£1,478	**Waste to landfill:** 5.4 tonnes CO_2 **Paper waste recycled:** 0.03 tonne CO_2 **Total carbon from waste:** 5.4 tonnes CO_2	£910
Water	0.2 tonnes CO_2	£2,257	0.2 tonnes CO_2	£2,482
Transport and travel	92 tonnes CO_2	£184,199	108 tonnes CO_2	£117,102

All the information in the table is based on our best estimates. We used the following sources for the information:

Energy: all information based on actual usage as reported on gas and electricity invoices.

Waste: financial information taken from actual invoices received in relation to waste collection and shredding services; volume based on estimated average weekly volume of waste, multiplied by number of collections in year. Volume of recycled paper collated from recycling providers service report.

Water: information based on water consumption reports detailing water, sewage and drainage volume and financial charges. This is supplied from our water provider Anglian Water.

Transport and travel: financial and mileage information is based on air and rail usage reports supplied by our approved travel provider. Financial and mileage volume relating to vehicles is based on mileage estimates of journeys taken by employees during the year and estimated expenditure.

All conversions to carbon consumption are calculated using data available from the Department for Environment, Food and Rural Affairs.

2.6 The Public Services Reform (Scotland) Act 2010

The Public Services Reform (Scotland) Act 2010 imposed duties on the Scottish Government and on public bodies such as the Commission to publish specific information on their expenditure. The Act also requires us to publish two statements outlining the steps we have taken to promote and increase sustainable growth and to improve efficiency, effectiveness and economy. The duties to publish this information are intended to promote greater openness and transparency. We publish a document with our response to the requirements of the Act each year on our website.

2.7 Social responsibility, anti-bribery and corruption

We take our social responsibility seriously, whether that be in discharging its statutory remit or more widely in respect of its key business functions. We take steps to ensure all staff policies and procedures that are in place are up to date and in compliance with the most recent legislation.

We are committed to conducting our business with honesty and integrity and we expect all staff to maintain high standards too. We encourage open communication from all those who work for us and we want everyone to feel secure about raising concerns. We have a whistleblowing policy in place to allow staff the opportunity and protection to raise any concerns they may have.

All staff have protection under whistle blowing laws if they raise concerns in the correct way. This policy is designed to give staff that opportunity and protection.

During the year, there were no instances reported of fraud or corruption.

17 September 2019

Alan D A Sutherland, Accountable Officer

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

Accountability report

1. Corporate Governance report

1.1 Directors' report

The Accountable Officer authorised the financial statements for issue on 16 September 2019 The financial statements were approved by the Board of the Commission on 5 September 2019.

The Board

The Board of the Commission meets regularly throughout the year and, as at 31 March 2019, comprises the Chair, three further non-executive members, and the Chief Executive, Alan Sutherland. Members of the Board are appointed by Scottish Ministers. The length of appointments may vary to ensure continuity of Board membership but is usually three or four years.

Name	Position	Initial appointment date	Re-appointment date	Current end date
Donald MacRae	Chair	01/07/2016*	-	30/04/2022
Libby Gawith	Member	01/01/2012	01/01/2016	31/12/2019
Ross Finnie	Member	01/07/2012	01/07/2016	30/06/2020
Jo Armstrong	Member	01/07/2016	-	30/06/2020

*Appointed as Chair on 1 May 2018

Directors

The Directors during the year were Alan Sutherland, Katherine Russell and Ian Tait. As well as being the Chief Executive and Accountable Officer, Alan Sutherland is also the executive member of the board of the Commission.

Interests held by the Board of the Commission

Neither the Board, nor its members or directors, held interests in other bodies with which the Commission has dealings. The Commission has a register of interests which is available for inspection on our website.

Data loss

There have been no instances of data loss, including personal data loss, in the year.

Significant events since the end of the financial year

There have been no significant events since the end of the financial year that require adjustment or disclosure under the terms of IAS 10: events after the reporting period. In accordance with the requirements of IAS 10, events are reviewed and considered up to the date on which the financial statements are authorised for issue. This is interpreted as the date on which the Independent Auditor's report is signed.

1.2 Statement of Accountable Officer's responsibilities

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

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

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

The Permanent Secretary has appointed the Chief Executive as Accountable Officer of the Commission. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the Commission's assets, are set out in the Scottish Public Finance Manual (SPFM) published by Scottish Ministers.

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

The Accountable Officer confirms that the annual report and financial statements are fair, balanced and understandable and that he takes personal responsibility for the annual report and financial statements and the judgments required for determining that it is fair, balanced and understandable.

1.3 Governance statement

Scope of responsibility

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

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

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Commission is directed and controlled. It enables the Commission to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

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

The governance framework has been in place at the Commission for the year ended 31 March 2019 and up to the date of approval of the annual report and financial statements.

The Commission's governance framework and review of effectiveness

The Commission aims for the highest standards in corporate governance and details of the processes, significant developments and issues identified during the period are outlined below.

(i) The Board of the Commission

The Board members have corporate responsibility for ensuring that the Commission fulfils its statutory duties, any targets agreed with Scottish Ministers and for promoting the efficient and effective use of staff and other resources by the Commission in accordance with the principles of Best Value. The Commission reviews our strategy and its implementation regularly. This includes assessing changing external economic, political, environmental and social factors and our capacity to deliver considering any such changes. The Commission meets regularly and at least quarterly for general business, including a review of the risk register. At each meeting the Commission has a mandate to focus on strategic issues relating to the monitoring of Scottish Water's performance, Strategic Review of Charges and developments in the Market.

(ii) Audit and Risk Committee

The Committee meets at least four times a year to assist the Board in fulfilling its statutory and fiduciary responsibilities by reviewing the adequacy of internal control and risk management, monitoring the reviews of the integral accounting and financial reporting processes as well as ensuring sound corporate governance. Throughout the year, the Committee was chaired by Ross Finnie. In addition, three new non-executive members were formally appointed to the Committee. The non-executive members are appointed by the Board of the Commission based on the breadth of skill, knowledge and experience they can bring to the Committee. The external and internal auditors are invited to attend all meetings and are given the opportunity to speak confidentially to the Committee members. The Committee operates independently and reports to the Commission. The Committee presented the annual report of the Committee to the September 2019 Board meeting, which outlined the work undertaken by the Committee to review the Commission's control systems and financial reporting processes to measure and manage the risk inherent in the delivery of the organisation's objectives. The report did not highlight any material concerns or issues.

(iii) Internal audit

The work of the internal auditor is submitted to the organisation's Audit and Risk Committee and includes regular reports and the Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement.

During the financial year, our internal auditor, Grant Thornton carried out the following reviews:

- A review of the Commission's migration of accountancy software. This focused on arrangements surrounding the implementation of the new system, and the controls around the completeness and accuracy of the transition to the new ledger. The review found three "low" rated recommendations, all of which were implemented before the end of the financial year.
- A review on our Hydro Nation work specifically ensuring any expenditure incurred on the ANRSC Romanian Project is consistent with the conditions set out in the contract with the European Commission. The review resulted in one "medium" rated recommendation and two "low" rated recommendations. These recommendations have been or are in the process of being completed.
- A review of the risk and control environment over cyber security. The review confirmed that

the Commission has a well-developed cyber security strategy and a team with the right balance between putting effective controls in place and not becoming complacent with the ever evolving threat.

- A governance review considering governance arrangements within the Commission, how the Commission demonstrates good governance and establishes a culture of openness and transparency between Commission members and Senior Management. The finding of this review will be used for further work in the next financial year.

(iv) Risk management

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

The Commission has established a robust and effective framework for the management of risk, one that is proactive in understanding risk, builds upon existing good practice and is integral to all our decision making, planning, performance reporting and delivery processes. Our risk strategy makes clear the roles and responsibilities for achieving an effective control framework. The focus of our strategy is a risk register which identifies potential or actual risks to the achievement of the objectives set out in our Corporate Plan. It also documents the controls in place to manage these risks and any action being taken to reduce the risk rating and is regularly reviewed as described below.

The Commission actively champions the risk management process and is responsible for defining the organisation's risk appetite. The risk register is populated by contributions from the Commission and all staff, and each risk is scored and set a realistic target to reduce the level of the risk. The action plans in place to reduce risk ratings are subject to continual review. They are monitored by staff internally and reviewed by the Commission's Audit and Risk Committee on a quarterly basis. The Accountable Officer, also reviews the register prior to its submission to the Committee. The Commission is informed of significant changes to the register or new risks.

Significant governance issues

The review of effectiveness of the Commission's governance framework, as outlined above, provides good assurance of the effectiveness of the Commission's system of internal control. There have been no governance issues identified during the year that are significant in relation to the Commission's overall governance framework. Specific, but not significant, opportunities for improvement in governance and internal controls identified as part of the assurance processes outlined above have been, or are in the process of being, addressed.

2. Remuneration and staff report

2.1 Background

The Chair and Commission members are appointed by Scottish Ministers in line with the Code of Practice issued by the Scottish Commissioner for Public Appointments. The Chief Executive is appointed by the Chair of the Commission. The parameters for the remuneration of the Chief Executive, the Chair and the members of the Commission are set by the Scottish Government's Public Sector Pay Policy for Senior Appointments, which is updated annually.

There is no separate Remuneration Committee and remuneration related issues are brought to the attention of the Commission as they arise. Performance pay of all employees is in line with the Public Sector Pay Policy as defined by the Scottish Government on an annual basis.

The sections below (2.2 – 2.4) are subject to audit.

2.2 Directors' salary and pension entitlements

The total remuneration of the Chief Executive in the year was £161,133 (2017-18: £157,302). The total remuneration of the Directors was as follows:

	2018-19			2017-18		
Directors	**Gross Salary £(000)**	**Pension benefits £(000)**	**Total £(000)**	**Gross Salary £(000)**	**Pension benefits £(000)**	**Total £(000)**
Alan Sutherland, Chief Executive	160 - 165	-	160 - 165	155 - 160	8	165 - 170
Katherine Russell, Director of Hydro Nation and External Relations	130 - 135	34	165 - 170	130 - 135	44	175 - 180
Ian Tait, Director of Network Regulation	95 - 100	23	120 - 125	110 - 115	76	185 - 190

The accrued pension benefits have been calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

The Directors' normal retirement age is 67, which is the earliest date at which the member can take full benefits without consent and without reduction. There are no additional benefits to which the Directors would become entitled on early retirement.

No bonus payments or benefits in kind were paid to the Chief Executive or Directors during 2018-19 (2017-18: £nil). The total remuneration of the Chief Executive and other Directors was £400k-£405k (2017-18: £400k-£405k). The Directors are also ordinary members of the Falkirk Council Pension Scheme. The Chief Executive withdrew from the Scheme on 31 March 2017.

Retirement benefits of the Directors are as follows:

			Cash Equivalent Transfer Value*		
	Accrued pension as at 31 March 2019 and related lump sum £(000)	**Change in pension net of inflation and related lump sum £(000)**	**At 31 March 2019 £(000)**	**At March 2018 £(000)**	**Increase net of members' contributions £(000)**
Alan Sutherland	30 – 35 *plus lump sum of* 25 - 30	-	474	450	11
Katherine Russell	25 – 30 *plus lump sum of* 10 - 15	0 – 2.5 *plus lump sum of* -2.5 - 0	394	343	28
Ian Tait	30 – 35 *plus lump sum of* 25 - 30	2.5 – 5.0 *plus lump sum of* -2.5 – 5-0	481	426	30

*The cash equivalent transfer value is the actuarially assessed value of the retirement scheme benefits accrued by a member at a point in time.

2.3 Commission remuneration

The remuneration of the Commission Members, other than the Chief Executive, is determined by Scottish Ministers and subject to the Scottish Government's Public Sector Pay Policy for Senior Appointments. The remuneration of the Commission members, other than the Chief Executive, was as follows:

	2018-19	2017-18
	Total £(000)	Total £(000)
Donald MacRae	35 - 40	30 - 35
Ross Finnie	10 - 15	10 - 15
Libby Gawith	10 - 15	10 - 15
Jo Armstrong	10 - 15	10 - 15

Commission Members are not members of the pension scheme. The Commission also paid £2,717 on behalf of Commission Members in the year in respect of PAYE and National Insurance contributions due on travel to work expenses in 2017-18 (2017-18: £2,327). No benefits in kind were paid in the year.

2.4 Staff report

Fair pay disclosure

The range of staff remuneration within the Commission is £15-20k to £160-£165k (2017-18: £15-20k to £150-£155k). Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. The remuneration of the highest paid Director of the Commission for the year to 31 March 2019 was £161,133 (2017-18: £157,302). This was 5 times the annualised median remuneration of the workforce, which was £33,070 (2017-18: £30,741). The highest paid Director of the Commission is the Chief Executive.

	2018-18	2017-18
Highest paid Director's total remuneration £(000)	161,133	157,302
Median total remuneration (£)	33,070	30,741
Ratio	4.9	5.1

Average number of persons employed

The average number of full-time equivalent persons employed during the year was 22 (2017-18: 23), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2019	Year ended 31 March 2018
Chief Executive and Directors	3	3
Other employees	19	20

All employees are employed on permanent contracts.

Staff composition

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

	Male	Female	Total
Directors	2	1	3
Other employees	10	12	22

Staff costs are disclosed in more detail in note 4. Expenditure on external consultancy is outlined in note 5.

Equal opportunities and diversity

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

The Commission will not tolerate unlawful discrimination or harassment related to any of the protected characteristics and will take any concerns raised extremely seriously.

Although the Commission does not employ any person with a disability, the organisation is committed to valuing and promoting equal opportunities in all areas of recruitment, employment, training, managing people and providing benefits to employees.

Health and safety

It is our policy to safeguard the health, safety and welfare of all employees by providing healthy and safe working conditions. The Commission considers the maintenance of a positive health and safety culture to be an important part of the way in which we conduct our business and we acknowledge that, as a business, we also have a responsibility to suppliers and other stakeholders in relation to health and safety matters. The Commission has a health and safety policy in place which outlines the responsibilities the Commission has towards employees and provides guidance on health and safety issues within the office. Last year, we appointed a health and safety officer to monitor and oversee our health and safety policy.

Sickness absence

The average length of time that each employee was absent due to sickness was 6 days (2017-18: 6 days).

Exit packages

There were no voluntary exit packages or compulsory redundancies in the year.

3. Parliamentary accountability and audit report

3.1 Funding

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

Under the 2002 Act as amended by the 2005 Act, the Commission is funded by a levy paid by Scottish Water. Following approval by Scottish Ministers of the Commission's Corporate Plan, the Sponsor Directorate instructs Scottish Water to pay the amount determined to the Commission on a monthly basis. In addition, fees are payable by Licensed Providers on a cost recoverable basis, sufficient to meet the costs incurred by the Commission in exercising its functions relating to water services and sewerage services. The corporate plan, or elements thereof, is updated between Strategic Reviews as and when considered necessary and a copy is provided to the sponsor unit prior to the start of the Strategic Review period.

3.2 Losses and special payments

There were no losses or special payments in the year (2017-18: £nil).

3.3 Gifts

No gifts were made during the year.

3.4 Contingent liabilities

Two contingent liabilities have been disclosed in this financial year (2017-18: £nil). Both relate to pension liabilities – two high court rulings during the year will likely result in the enhancement of member's benefits. See note 11 for more information on the contingent liabilities.

3.5 Auditors

Under the Public Finance and Accountability (Scotland) Act 2000, our independent auditors are appointed for the Auditor General by Audit Scotland. Audit Scotland has been appointed as the Commission's external auditors for a five-year period from 2016-17 to 2020-21. The certifying auditor is Stephen O'Hagan. The appointment is undertaken in accordance with the Code of Audit Practice approved by the Auditor General. The fees paid to Audit Scotland in respect of the independent statutory audit for the financial year 2018-19 are £13,160 (2017-18: £12,910).

17 September 2019

Alan D A Sutherland, Accountable Officer

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

Independent auditor's report

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

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Water Industry Commission for Scotland for the year ended 31 March 2019 under the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (the 2018/19 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM; and
- have been prepared in accordance with the requirements of the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 26 January 2018. The period of total uninterrupted appointment is two years. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

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

Report on regularity of expenditure and income

Opinion on regularity

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland.

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

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

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

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

17 September 2019

Stephen O'Hagan, Senior Audit Manager

Audit Scotland, 4th Floor, The Athenaeum Building, 8 Nelson Mandela Place, Glasgow G2 1BT

Statement of comprehensive net expenditure

For the year ended 31 March 2019

	Note	Year ended 31 March 2019 £	Restated Year ended 31 March 2018 £
Income			
Income from activities	2	4,292,010	3,570,148
Expenditure			
Staff costs	4	(2,000,174)	(1,732,820)
Depreciation	6	(47,066)	(31,675)
Other expenditure	5	(2,118,447)	(1,664,876)
		(4,165,687)	(3,429,371)
Operating surplus /(deficit)		126,323	140,777
Interest receivable		5,126	1,341
Net surplus/(deficit) for the year after interest		**131,449**	**142,118**
Corporation tax payable		(1,025)	(1,006)
Net surplus/(deficit) for the year after tax		130,424	141,112
Other comprehensive net income			
Actuarial gain/(loss)	12	(172,000)	1,019,000
Total comprehensive net income/(expenditure) for the year	10	**(41,576)**	**1,160,112**

All income and expenditure relates to continuing activities.

The notes on pages 33 - 49 form part of these financial statements.

Statement of financial position

As at 31 March 2019

	Note	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Non-current assets			
Property plant and equipment	6	89,550	75,692
Total non-current assets		**89,550**	**75,692**
Current assets			
Other receivables	7	625,519	101,776
Cash and cash equivalent		2,072,147	2,421,458
Total current assets		**2,697,666**	**2,523,234**
Total assets		**2,787,216**	**2,598,926**
Current liabilities			
Trade payables and other current liabilities	8	(556,427)	(595,531)
Total current liabilities		**(556,427)**	**(595,531)**
Non-current liabilities			
Provisions	9	(55,760)	(48,790)
Total net assets, excluding pension liabilities		**2,175,029**	**1,954,605**
Pension scheme liability	12	(1,046,000)	(784,000)
Net Assets		**1,129,029**	**1,170,605**
Equity			
General Reserve		1,129,029	1,170,605

The notes on pages 33 - 49 form part of these financial statements.

The Accountable Officer authorised these financial statements for issue on:

17 September 2019

Alan D A Sutherland, Accountable Officer

Statement of cash flows

For the year ended 31 March 2019

	Note	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Cash flows from operating activities			
Operating surplus/(deficit)		126,323	140,777
Adjustments for non-cash items			
Difference in pension costs compared to contributions	12	68,000	109,000
Depreciation on tangible non-current assets	6	47,066	31,675
Finance costs		22,000	45,000
Increase in provision	9	6,970	6,970
Movements in working capital			
Decrease/(Increase) in other receivables	7	(523,743)	45,153
Increase /(Decrease) in trade payables and other current liabilities	8	(39,104)	452,427
Net cash (outflow)/inflow from operating activities		**(292,488)**	**831,002**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(60,924)	(23,340)
Net cash outflow from investing activities		**(60,924)**	**(23,340)**
Cash flows from financing activities			
Interest received		5,126	1,341
Corporation tax due		(1,025)	(1,006)
Net inflow from financing activities		**4,101**	**335**
Net (decrease)/increase in cash and cash equivalents		**(349,311)**	**807,997**
Cash as at 1 April		2,421,458	1,613,461
Cash as at 31 March		2,072,147	2,421,458
Net (decrease) /increase in cash and cash equivalents		**(349,311)**	**807,997**

The notes on pages 33 - 49 form part of these financial statements.

Statement of changes in equity (SCE)

For the year ended 31 March 2019

	£
Balance at 1 April 2017	10,493
Total comprehensive net income for the year 2017-18	1,160,112
Balance as at 31 March 2018	1,170,605
Total comprehensive net expenditure for the year 2018-19	(41,576)
Balance as at 31 March 2019	**1,129,029**

The general reserve is analysed in note 10.

The notes on pages 33 - 49 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

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

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

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

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

The Commission and Accountable Officer have considered the budget for 2019-20, including the statutory contribution from Scottish Water and Licensed Provider levies, and consider that the Commission has adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

1.1 Accounting Convention

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

1.2 Critical accounting estimates and judgements

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

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/ (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Commission determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Commission considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 12.

1.3 Newly Adopted IFRS

In these financial statements, there are no adopted IFRSs which are effective for the first time which have had a material effect on the financial statements therefore there has been no restatement of comparatives.

Adopted IFRS not yet applied

The Adopted IFRS, IFRS 16 "Leases", has been issued but has not been applied in these financial statements. Its adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

1.4 Furniture and fittings and information technology

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

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

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

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

A full year's depreciation is provided in the year of acquisition and none in the year of disposal.

1.5 Financial assets

Classification

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

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

Recognition and measurement

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

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

1.6 Financial liabilities

Classification

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

Recognition and measurement

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

1.7 Cash and cash equivalents

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

1.8 Provisions

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

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

1.9 Income and expenditure

Funding is by way of a statutory contribution paid by Scottish Water, as directed by Scottish Ministers. Licensing activity is funded by a levy charged to Licensed Providers. In addition, during the year we received grant income from the European Commission in relation to a project with the Romanian Public Services Commission (ANRSC). As at 31 March 2019, accrued income of £399,506 is payable from the European Commission, which is recognised within current assets.

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

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

1.10 Value added tax

Most of the activities of the Commission are outside the scope of Value Added Tax (VAT) and, in general, the Commission is not required to declare output tax to HMRC on the income that it receives. Correspondingly, the Commission is not entitled to recover VAT that it incurs on costs (input tax) in relation to these activities that fall outside the scope of VAT. Such irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. The Commission became VAT registered from 1 January 2015 to recognise the provision of services being carried out in relation to the opening of the retail market in England, which are subject to VAT. The Commission does not foresee the provision of any taxable services in the near future.

1.11 Operating Leases

Leases where most of the risks and rewards of ownership of the asset remain with the lessor are classified as operating leases. Operating lease payments are recognised in the comprehensive statement of income and expenditure on a straight-line basis over the lease term. The benefit of any lease incentive is recognised as a reduction in rental expense on a straight-line basis over the life of the lease.

1.12 Employee benefits

Employees of the Commission are members of the Local Government Pension Scheme (the Scheme) administered by Falkirk Council. The Scheme is a tax approved, defined benefit occupational pension scheme and the scheme regulations are made under the Public Service

Pension Schemes Act 2013 and, in the case of the Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014, under the Superannuation Act 1972. The Scheme is contracted out of the State Second Pension scheme and meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008.

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

The expected cost of providing staff pensions to employees contributing to the Scheme is recognised in the statement of comprehensive expenditure on a systematic basis over the expected average remaining lives of members of the funds in accordance with IAS 19 and recognises retirement benefits as the benefits are earned and not when they are due to be paid. The statement of comprehensive expenditure also includes the net impact of returns on the Scheme's assets and interest on the Scheme's liabilities, which is disclosed (net) as other finance income or interest payable. A pension scheme asset is recognised on the balance sheet only to the extent the surplus may be recovered by reduced further contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent that the Commission has a legal or constructive obligation to settle the liability.

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

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

1.13 Termination benefits

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

1.14 Segmental reporting

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

2. Income

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Scottish Water statutory contribution	1,976,000	2,064,512
Levy on licensed providers	1,410,365	1,501,237
EU Income	905,645	4,399
	4,292,010	**3,570,148**

3. Analysis of net expenditure by segment

The purpose of activity reporting is to analyse the Commission's costs and income by team and by the key work streams of the organisation. This allows the Commission to have a better understanding of how (and against which activities) resources are being deployed. A summary of the full year report is detailed below. The reporting format changed during the year, and therefore prior year comparatives are not available.

	Year ended 31 March 2019 £
Contribution to overheads by activity:	
Network Regulation	376,169
Retail	1,149,236
Hydro Nation	21,495
Total contribution to overheads	**1,545,900**
Overheads	(1,427,114)
Surplus for the year	**118,786**

4. Staff related costs

Staff costs comprise:	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Wages and salaries	1,452,669	1,384,307
Social security costs	159,877	138,630
Pension costs	387,628	209,883
Staff costs per statement of comprehensive net expenditure	**2,000,174**	**1,732,820**

The cash contributions made to the pension scheme are disclosed in note 12.1.

5. Other expenditure

Staff costs comprise:	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Travel and subsistence	381,273	257,846
Office accommodation	124,113	115,903
General operating costs	295,086	264,143
Regulation and licensing costs	1,206,385	888,543
Recruitment	14,639	38,772
Information technology	71,757	52,150
Finance charges	25,194	47,519
	2,118,447	**1,664,876**

The operating costs for the year are stated after charging the external audit fee of £13,160 (2017-18: £12,910) and, within office accommodation, an operating lease rental of £49,175 (2017-18: £49,175).

Finance charges principally relate to the net interest cost of the pension scheme for the year (see note 12.3).

Services provided under regulation and licensing costs are provided by external consultants. The increases in travel and subsistence and regulation and licensing costs relate to expenditure incurred in carrying out the project in Romania.

6. Property, plant and equipment

	Information technology £	Furniture and fittings £	Total £
Cost			
At 31 March 2018	215,445	277,656	493,101
Additions	60,924	-	60,924
Disposals	(112,637)	(6,627)	(119,264)
At 31 March 2019	**163,732**	**271,029**	**434,761**
Depreciation			
At 31 March 2018	186,537	230,872	417,409
Charge for the year	27,837	19,229	47,066
Eliminated on disposals	(112,637)	(6,627)	(119,264)
At 31 March 2019	**101,737**	**243,474**	**345,211**
Net book value at 31 March 2019	**61,995**	**27,555**	**89,550**
Net book value at 31 March 2018	**28,908**	**46,784**	**75,692**

	Information technology £	Furniture and fittings £	Total £
Cost			
At 31 March 2017	192,105	277,656	469,764
Additions	23,340	-	23,340
Disposals	-	-	-
At 31 March 2018	**215,445**	**277,656**	**493,101**
Depreciation			
At 31 March 2017	174,001	211,733	385,734
Charge for the year	12,536	19,139	31,675
Eliminated on disposals	-	-	-
At 31 March 2018	**186,537**	**230,872**	**417,409**
Net book value at 31 March 2018	**28,908**	**46,784**	**75,692**
Net book value at 31 March 2017	**18,104**	**65,923**	**84,027**

7. Other receivables

	As at 31 March 2019 £	As at 31 March 2018 £
Current receivables		
Prepayments	54,728	86,302
Other receivables	570,791	15,474
Total other receivables	**625,519**	**101,776**

	As at 31 March 2019 £	As at 31 March 2018 £
Intra-government receivables:		
Central Government	-	-
Local Authorities	12,742	13,313
Bodies external to government	612,777	88,463
Total other receivables	**625,519**	**101,776**

8. Current liabilities

	As at 31 March 2019 £	As at 31 March 2018 £
Trade payables	51,400	18,211
Taxation and Social Security	3,742	3,474
Accruals	501,285	150,983
Deferred income	-	422,863
Total current liabilities	**556,427**	**595,531**

	As at 31 March 2019 £	As at 31 March 2018 £
Intra-government payables:		
Local Authorities	42,001	4,179
Central Government	220,754	12,081
Bodies external to government	293,672	579,271
Total current liabilities	**556,427**	**595,531**

9. Provisions for liabilities and charges

	As at 31 March 2018 £	As at 31 March 2017 £
Balance at 1 April 2018	48,790	41,820
Provided in the year	6,970	6,970
Balance at 31 March 2019	**55,760**	**48,790**

The provision for dilapidation costs relates to the Commission's contractual duty to repair leasehold property on termination of the lease. Provision is made for the estimated costs of fully repairing leasehold properties at the balance sheet date.

10. Note to the statement of changes in equity

The general reserve is analysed below to highlight that element which relates to pensions.

	Note	Operations £	Restated Pension £	Restated General Reserve £
Balance at 1 April 2017		1,659,493	(1,649,000)	10,493
Changes in reserves 2017-18				
Actuarial gains		-	(49,000)	(49,000)
Change in assumptions underlying the present value of the scheme liabilities		-	1,068,000	1,068,000
Net surplus/(deficit) for the year		295,112	(154,000)	141,112
Balance as at 31 March 2018		**1,954,605**	**(784,000)**	**1,170,605**
Changes in reserves 20187-19				
Actuarial gains	12	-	423,000	423,000
Change in assumptions underlying the present value of the scheme liabilities	12	-	(595,000)	(595,000)
Net surplus/(deficit) for the year		220,424	(90,000)	130,424
Balance as at 31 March 2019		**2,175,029**	**(1,046,000)**	**1,129,029**

11. Commitments and contingent liabilities

11.1 Capital commitments

There were no capital commitments at 31 March 2019 (2017-18: £nil).

11.2 Commitments under operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the stated periods. The amounts relate entirely to the Commission's office accommodation.

	2018-19 £	2017-18 £
Not later than one year	49,176	49,176
Later than one year and not later than 5	98,352	147,528

11.3 Contingent liabilities

McCloud ruling

When the LGPS benefit structure was reformed in 2015, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2015 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied.

The impact of the ruling is uncertain. It is likely that benefits accrued from 2015 may need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. In this outcome, there would likely be a retrospective increase to members' benefits, which in turn would give rise to a past service cost for the Fund employers when the outcome is known.

Quantifying the impact at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The Fund's actuary has adjusted GAD's estimate to better reflect the Falkirk Council Pension Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to the Commission is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be 0.3% higher as at 31 March 2019, an increase of approximately £25,000.

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. However, there is likely to be unavoidable upward pressure on contributions in future years.

Guaranteed Minimum Pensions Equalisation

A High Court judge has ruled that UK defined benefit pension schemes must compensate members for differences attributable to guaranteed minimum pensions (GMPs). GMPs accrued in the LGPS from 6 April 1978 to 5 April 1997. In broad terms, the GMP represents the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme (SERPS). GMPs are inherently unequal due to a number of factors, including the differing retirement ages for men (age 65) and women (age 60) and female GMPs accruing at a higher rate. While this can result in differences in GMP values, what has been deemed to matter more is what the members receive in total from the LGPS and the State and whether that leads to inequality.

The Government's long-term solution of converting GMP to scheme pension will lead to an increase in liabilities as a result of the scheme paying full GMP increases for all members with a State Pension Age after 2016. We anticipate that this will affect the next triennial pension valuation and that the impact will be shown as a 'past service cost' in the statement of net expenditure. However as the preferred methodology for addressing equalisation has still to be agreed, no reliable estimate can be place on the liability at this point in time.

12. Pension

12.1 Background

Some employees and former employees of the Commission's office are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme. In the period the Commission paid contributions totalling £318k (2017-18: £207k) into the Fund. Under the Superannuation Regulations, contributions are set to meet 100% of the overall liabilities of the Fund. We have been advised that specific (minimum) rates for employer contributions in 2018-19 will be 28.3%.

In accordance with IAS 19 the Commission commissioned the Fund's actuaries to undertake a valuation as at 31 March 2019. This calculation was based on rolling forward valuation data at 31 March 2018 (the last formal valuation) to 31 March 2019 based on several financial assumptions. The main financial assumptions used included:

12.2 Financial Assumptions

	Year ended 31 March 2019 %	Year ended 31 March 2018 %
Pension Increase Rate	2.4	2.3
Salary Increase Rate	2.9	2.8
Discount rate	2.5	2.7

Life expectancy is based on the Fund's VitaCurves assuming the current rate of improvements has peaked and will converge to a long-term rate of 1.25% pa. Based on these assumptions, the average future life expectancies at age 65 are summarised below.

	Males	Females
Current pensioners	21.2 years	23.7 years
Future pensioners	22.7 years	25.5 years

12.3 Change in the fair value of plan assets, defined benefit obligation and net liability for the year end 31 March 2019

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)
Fair value of employer assets	6,425	-	6,425
Present value of funded liabilities	-	7,165	(7,165)
Present value of unfunded liabilities	-	44	(44)
Opening position as at 31 March 2018	6,425	7,209	(784)
Service cost			
Current service cost	-	386	(386)
Total service cost	-	386	(386)
Net interest			
Interest income on plan assets	178	-	178
Interest cost on defined benefit obligation	-	200	(200)
Total net interest	178	200	(22)
Total defined benefit cost recognised in deficit	178	586	(408)
Cashflows			
Plan participants' contributions	93	93	-
Employer contributions	316	-	316
Contributions in respect of unfunded benefits	2	-	2
Benefits paid	(88)	(88)	-
Unfunded benefits paid	(2)	(2)	-
Expected closing position	6,924	7,798	(874)
Re-measurements			
Change in demographic assumptions	-	-	-
Change in financial assumptions	-	(592)	(592)
Other experience	-	(3)	(3)
Return on assets excluding amounts included in net interest	423	-	423
Total re-measurements recognised in Other Comprehensive Income (OCI)	423	**(595)**	(172)
Fair value of employer assets	7,347	-	7,347
Present value of funded liabilities	-	8,346	(8,346)
Present value of unfunded liabilities	-	47	(47)
Closing position as at 31 March 2019	**7,347**	**8,393**	(1,046)

12.4 Change in the fair value of plan assets, defined benefit obligation and net liability for the year end 31 March 2018 (restated)

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)
Fair value of employer assets	6,114	-	6,114
Present value of liabilities	-	7,763	(7,763)
Opening position as at 31 March 2017	**6,114**	**7,763**	**(1,649)**
Service cost			
Current service cost	-	316	(316)
Total service cost	**-**	**316**	**(316)**
Net interest			
Interest income on plan assets	168	-	168
Interest cost on defined benefit obligation	-	213	(213)
Total net interest	**168**	**213**	**(45)**
Total defined benefit cost recognised in deficit	**168**	**529**	**(361)**
Cashflows			
Plan participants' contributions	76	76	-
Employer contributions	205	-	205
Contributions in respect of unfunded benefits	2	-	2
Benefits paid	(89)	(89)	-
Unfunded benefits paid	(2)	(2)	-
Expected closing position	**6,474**	**8,277**	**(1,803)**
Re-measurements			
Change in demographic assumptions	-	(23)	(23)
Change in financial assumptions	-	(472)	(472)
Other experience	-	(573)	573
Return on assets excluding amounts included in net interest	(49)	-	(49)
Total re-measurements recognised in Other Comprehensive Income (OCI)	**(49)**	**(1,068)**	**(1,019)**
Fair value of employer assets	6,425	-	6,425
Present value of funded liabilities	-	7,165	(7,165)
Present value of unfunded liabilities	-	44	(44)
Closing position as at 31 March 2017	**6,425**	**7,209**	**(784)**

12.5 Projected defined benefit cost for the period to 31 March 2019

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)	% of pay
Current service cost	-	440	(440)	(39.4%)
Total service cost	**-**	**440**	**(440)**	**(39.4%)**
Interest income on plan assets	188	-	188	16.9%
Interest cost on defined benefit obligation	-	215	(215)	(19.3%)
Total net interest cost	**188**	**215**	**(27)**	**(2.4%)**
Total included in income statement	**188**	**655**	**(467)**	**(41.8%)**

Employer's contributions for the period to 31 March 2020 will be approximately £315,000.

12.6 Sensitivity analysis

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

Change in assumptions at 31 March 2019	Approximate % increase to Employer	Approximate monetary amount £(000)
0.5% decrease in Real Discount Rate	13%	1.099
0.5% increase in the Salary Increase Rate	2%	155
0.5% increase in the Pension Increase Rate	11%	927

13. Related party transactions

The Commission is a non-departmental public body sponsored by the Scottish Government. The Scottish Government is regarded as a related party. There have been no transactions between the Commission and the Scottish Government. In addition, the Commission has had transactions with other central and local government bodies: Scottish Water, Falkirk Council, Stirling Council and Audit Scotland.

A levy is received from each licensed provider to fund any licensing activity carried out by the Commission. Anglian Water is a licensed provider. Through a Scottish Government framework agreement, Anglian Water provides the Commission with water and waste water services and is therefore considered a related party.

Related party	Income (£)	Expenditure (£)	Year-end receivable (£)	Year-end payable (£)
Anglian Water	340,580	1,973	2,434	-

All Commission members and Directors complete and update a register of interests on an annual basis. During the year 2018-19, no Commission Member, Director or other related party has undertaken any material transactions with the Commission.

14. Events after the reporting period

The Commission received a late invoice from a supplier after the year-end audit was completed. The invoice related to services provided as part of the project in Romania, and the financial statements have been adjusted to reflect this invoice. This adjustment had the effect of increasing income and receivables by £83,276 and increasing expenditure and accounts payable by £70,754.

In July 2019, the UK Government's appeal on the McCloud ruling was denied. Information on this event is outlined in note 11.

15. Prior year adjustments

As outlined in section 2.3 of the Performance Report, the prior year net pension liabilities have been restated. The impact of this restatement is outlined below.

Effect on line items in the Statement of Comprehensive Net Expenditure for the year ended 31 March 2019:	As originally stated (£)	As restated (£)	Restatement (£)
Other comprehensive net income			
Actuarial gain	991,000	1,019,000	28,000
Total comprehensive net income for the year	**1,132,112**	**1,160,112**	**28,000**

Effect on line items in the Statement of Financial Position as at 31 March 2019:	As originally stated (£)	As restated (£)	Restatement (£)
Pension scheme liability	(812,000)	(784,000)	(28,000)
Net assets	**1,142,605**	**1,170,605**	**(28,000)**
General reserve	**1,142,605**	**1,170,605**	**28,000**

WATER INDUSTRY COMMISSION FOR SCOTLAND
DIRECTIONS BY THE SCOTTISH MINISTERS

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

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

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

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

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

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

October 2019

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water industry commission FOR SCOTLAND