water industry commission FOR SCOTLAND

ANNUAL REPORT AND ACCOUNTS

2019-20

CONTENTS

SG/2020/142 For the period 1 April 2019 to 31 March 2020.

FOREWORD FROM THE CHAIR

I am pleased to present our annual report, which comes at the end of what has been an important year for Scotland's water and sewerage customers.

In particular we entered the closing stages of the charge setting process for the period 2021 to 2027, with the publication of two key Decision Papers – the first setting out a long-term, sustainable approach to asset management, and the second providing our assessment of the lowest reasonable overall cost of Scottish Water delivering Scottish Ministers' objectives in a manner that is consistent with their statement on Principles of Charging. These were the final two documents in the series of Decision Papers, a key element of a transparent and collaborative review. The next milestone is the publication of our draft determination – which we will consult on – in October.

This year we have also worked closely with industry stakeholders to start to embed our new regulatory approach. In last year's report I signalled that we, along with other industry stakeholders, are committed to adopting the principles of Ethical Business Regulation (EBR). We believe that the adoption by Scottish Water and all market participants of Ethical Business Practice (EBP), aligned with our move to an EBR approach, will enable the water industry in Scotland to meet the challenges that lie ahead as effectively as possible, and to do so long into the future.

Scottish Water has picked up the baton. We welcomed its strategy, published in February as a first step on the journey the business must now take if it is to achieve the levels of genuine ownership and responsibility to customers that EBP demands. The scale of the task should not be underestimated; as the strategy document acknowledges, the transformation Scottish Water will need to make is on a par with the huge leaps in progress that were made by the Victorian pioneers 150 years ago.

Under the EBR approach it becomes even more important that we maintain active and candid dialogue with key stakeholders – so that we understand their perceptions of Scottish Water and can share our own assessment of performance and progress. This builds on the productive relationships that already exist, and I would like to take this opportunity to thank our stakeholders for their continuing challenge and support.

This year the Commission Board has focussed on its strategy. As we embed EBR and move towards the next regulatory control period, we determined that now would be an opportune time to do so. The revised strategy, which the Board agreed in May 2020, reflects the context in which we are now operating and puts emphasis on implementing a framework that allows for long-term thinking and planning; supporting the sector to deliver a world-leading service for water and sewerage customers and communities in Scotland; and placing our work at the forefront of best practice in economic regulation. The strategy is underpinned by a full set of new governance processes and documentation, which have been developed and agreed this year.

It goes without saying that the start of 2020 was a difficult time for all of us and the impacts on customers, communities and the water industry continue to be felt. When the pandemic first struck it was reassuring that every member of staff was able to move smoothly to home working. This reflects the efforts we have put into business continuity and incident management over a number of years, and the dedication and flexibility of our employees. On that note, and on behalf of the Commission Board I would like to thank the Chief Executive and staff in the office for their commitment this year; it has been a great pleasure to work alongside them.

Professor Donald MacRae OBE FRSE
Chairman
September 2020

INTRODUCTION

As the economic regulator of publicly owned Scottish Water, we work to ensure that the industry is internationally admired for excellence and is sustainable both today and for future generations.

This report outlines the work we have carried out in 2019-20, the penultimate year of the current six-year (2015-21) regulatory control period. The report is presented in three parts:

PERFORMANCE REPORT

consisting of:

- A statement from our Chief Executive and Accountable Officer summarising our performance during the year.
- The overview section, which explains our purpose and strategy, activities and operational risks.
- Performance Analysis, which shows our progress against this year's performance measures and our financial performance.

ACCOUNTABILITY REPORT

consisting of:

- The Corporate Governance report,
- A Remuneration and Staff report,
- A Parliamentary Accountability and Audit report.

FINANCIAL STATEMENTS

1 PERFORMANCE REPORT

2019-20

1.1 STATEMENT FROM THE CHIEF EXECUTIVE AND ACCOUNTABLE OFFICER

I am pleased to present our annual report and to provide here a summary of our performance for 2019-20.

It is now more than 15 years since we were established. During that time we are proud to have become an industry-leading organisation – the first UK economic regulator to show that economic regulation could be applied successfully to a publicly-owned company. This has only been made possible by challenging ourselves never to rest on our laurels, by working with our stakeholders to identify innovations, and by looking externally for best practice – sharing and learning both within the UK and internationally. Much of the credit for the progress we have made must go to our staff, and I would like to take this opportunity first and foremost to thank them for their dedication and competence.

Our objective in all that we do is to establish the best outcomes for water and wastewater customers, communities and the Scottish environment – an approach firmly rooted in doing what is right for both current and future customers. This is within the context of the need to transition to a net zero industry by 2040 and to ensure the sustainable long-term future of the water industry in Scotland.

Our key achievements this year have included the following. Further information about all of the activities outlined here is included in the later sections of this report.

Ensuring value for money for customers

As part of our commitment to a transparent and collaborative price setting process, this year we have published two more Decision Papers, the last in the series.

- The asset replacement paper (July 2019) outlined the need for a long-term, sustainable and innovative approach to replacing Scottish Water's assets. It also presented our analysis of the investment necessary to further improve water quality and the environment, and to support economic growth.
- In February 2020 we published 'Prospects for Prices', which set out our view on the level of charges required in 2021-27. This was in the context of the industry's long-term challenges and the extent of the transformation necessary to meet these challenges.

We noted that to make progress in transitioning to a more sustainable industry would place an upward pressure on charges but that it was not in customers' interests to put this off for future generations in order to keep bills low for current customers. We also noted that there were opportunities for Scottish Water to further improve the efficiency of its operations, financing and management of its PPP contracts.

Another important document in the price review process was the publication by Scottish Water of its Strategic Plan. We fully support the ambitious transformation that the plan anticipates and will work with Scottish Water and other stakeholders as it develops its Transformation Plan. This must set out a clear route map for change, and explain how Scottish Water will focus on both communicating progress and building trust with customers and other stakeholders. A robust and ambitious Transformation Plan will be essential if Scottish Water is to achieve the Scottish Ministers' expectations for the water industry, including its net zero target and the need to replace its assets on a sustainable basis.

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. Our annual performance report showed that the overall

"The Commission's work has been commended as an example of how public sector efficiency in Scotland can be enhanced."

level of customer service exceeded the target range and compared favourably with historical industry performance. Scottish Water also achieved year-on-year improvements in its household customer experience measure.

In terms of delivering the investment programme, Scottish Water remains broadly on target, although it is finding a small number of projects difficult to deliver. There is a significant output delivery challenge for the remainder of the regulatory period, and we will continue to work closely with the Output Monitoring Group – the water industry stakeholder group – to monitor and report on progress in this area. In addition, the group will monitor closely the impacts on Scottish Water's performance of the Covid-19 crisis which has already resulted in delays and is continuing to do so.

Achieving greater value and choice through retail competition

Last year we reported that we were undertaking a root and branch review of the competitive retail market, to ensure that it continues to work well for customers, market participants and Scottish Water. Given the market's maturity (it first opened in Scotland in 2008) this was considered to be a timely opportunity to undertake a coherent review of all market arrangements.

Following our review, and an extensive process of engagement and consultation, we are now in the final stages of making the necessary changes required to update and improve the market arrangements. We plan to implement the agreed policy changes from 1 October. The comprehensive package of reform will encompass measures:

- to support a level playing field;
- to implement market health checks;
- to protect customers (by removing the requirement for prepayments); and
- in relation to mergers and acquisitions between licensed providers.

We are also providing more information about how we intend to regulate in a manner that is consistent with the principles of EBR and what we expect to see from licensed providers in terms of EBP.

We would like to thank all stakeholders for their feedback and engagement throughout this process, which we have used to refine our policy approach.

Supporting Hydro Nation

This year we continued to develop and grow our relationships in the international arena, as part of our commitment to the Scottish Government's Hydro Nation initiative. Our involvement helps ensure that we stay at the forefront of regulatory best practice while sharing our own expertise.

- We concluded our first fully remunerated project in Romania where we provided in-country technical support to strengthen economic regulation as part of a capacity building project for the Romanian Public Services Regulatory Authority (ANRSC).

- We started a new collaborative project working with the New Zealand Government and two of the country's water companies.
- We hosted delegations from other jurisdictions and participated in international events and conferences.
- We increased our collaboration with international organisations such as the OECD's Network of Economic Regulators and WAREG, a network of European Regulators focussed on sharing knowledge and experience in regulation.
- We took the learning from the Romania project and put in place a new set of procedures that cover project initiation, management and reporting for all future international projects.

We believe that our international work makes a difference for those we collaborate with and brings benefits for Scottish customers in terms of the insights and best practice we gain. It also brings a financial benefit by reducing the levy that we would charge Scottish Water, and provides interesting and valuable learning experiences for our staff (which supports our employee recruitment and retention).

In closing, a brief look ahead, as we embark in earnest on the transformation that we too will need to go through as we embed EBR. This is a really exciting time; we are venturing into largely unchartered waters, in terms of utility regulation here in the UK at least. The move away from relying on traditional regulatory tools, to what we are calling 'regulation by exception' requires trust, candour and openness among all stakeholders.

In this sense I am reassured by the progress we have made this year working alongside our partners. I believe too that the new approach will enable us to support the common industry vision, developed by water industry stakeholders in Scotland, that 'the Scottish water sector will be admired for excellence, secure a sustainable future and inspire a hydro nation'.

Alan Sutherland

Alan D A Sutherland
Chief Executive
21 September 2020

Key steps in delivering the Strategic Review of Charges 2021-27 (SRC21)

Date	Milestone	Complete
December 2018	Scottish Water shares its outline Strategic Plan with stakeholders	✓
February 2020	Scottish Water publishes its Strategic Plan	✓
February 2020	The Commission publishes its Decision Paper, 'Prospects for Prices'	✓
July 2020	The Scottish Government issues a revised Commissioning letter setting out a new timescale for SRC21	✓
August 2020	Date by which Scottish Water and the Customer Forum should have agreed on expectations for Scottish Water's transformation	
Autumn 2020	Draft Determination published, followed by consultation period of six weeks	
Autumn 2020	Scottish Government publishes its final Principles of Charging and Investment Objectives	
Winter 2020	WICS publishes its Final Determination	
March 2021	Scottish Water submits its Delivery Plan for the 2021-27 period to the Scottish Ministers for approval	

1.2 ORGANISATIONAL OVERVIEW

Our purpose and strategy

The Commission was formed on 1 July 2005 under the Water Services etc. (Scotland) Act 2005. On that date the functions of the office of the Water Industry Commissioner for Scotland were transferred to the Commission. We have the following statutory duties:

- To determine charge caps for Scottish Water and, in doing so, promote the interests of Scottish Water's customers both in terms of the quality of services provided and the charges that have to be paid.
- To monitor Scottish Water's performance, encouraging Scottish Water to become more efficient and sustainable.
- To facilitate the entry of retail water and sewerage providers that wish to supply non-household customers in Scotland.
- To support the Scottish Government's vision of ensuring that Scotland is a Hydro Nation, and to meet our obligations under the Water Resource Act 2013.

Our regulatory approach

We are currently making the transition to EBR and during 2019-20 have continued to work with Scottish Water and other stakeholders to promote understanding of this approach.

It is our view that adopting EBR will help ensure that the Scottish water industry can meet the significant challenges ahead, such as delivering net zero emissions by 2040 and ensuring effective and sustainable investment. We believe that if Scottish Water adopts and implements EBP, the combination of EBP and EBR will enable the water industry to meet the challenges that lie ahead as effectively as possible and to do so long into the future.

Under EBR, provided Scottish Water and water retailers demonstrate that they are doing the right thing for customers and society then we would not intervene. If, however, the regulated 'company ship' deviates from a reasonable 'shipping lane' then we would act. In the most severe cases, where trust has broken and attempts to restore it have failed, our response would be to rely on our extensive regulatory powers. EBR is therefore akin to 'regulation by exception'.

EBR involves Scottish Water, licensed providers, the Commission and all other stakeholders supporting an open, honest and collaborative culture. It is about fostering trust, having open and frank discussions of risk and issues, and a culture of working together.

At the same time we are currently working through the findings of the review of the competitive market, which was initiated last year. The retail market has brought benefits for customers to date including more tailored services, water efficiency advice and lower prices. However, there have been some changes since the market opened in England in 2017 and, as competition increases, we have taken steps to ensure that the market framework in Scotland continues to work well for customers, licensed providers and Scottish Water. In implementing the findings of the review, we are again following the EBP and EBR approach.

The change in regulatory approach has implications for our overall strategy too. That is why the Commission Board have developed a revised strategy this year. The strategy will be documented in our Corporate Plan for the period 2021-27 (which we are publishing later this year). The plan will be our opportunity to define our key objectives, set out our strategy to achieve them and identify the resources required. It will also outline the key performance indicators we will use to evidence that the regulatory framework is delivering for customers.

Our contribution to the Scottish Government's purpose

The overall purpose of the Scottish Government's National Performance Framework (NPF) is to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The NPF provides a clear vision for Scotland, with broad measures of national wellbeing covering a range of economic, health, social and environmental indicators and targets.

The elements of the NPF that we consider we are able to contribute towards, either directly as a result of our own actions, or indirectly through our statutory functions, are as follows:

NPF elements	How we contribute
We respect, protect and fulfil human rights and live free from discrimination.	• We comply fully with diversity and equal opportunity legislation and are living wage accredited.
We are open, connected and make a positive contribution internationally.	• By supporting the Scottish Government's Hydro Nation programme we collaborate with a large number of other regulators and water industry stakeholders, sharing best practice and helping others to build capacity.
We are well educated, skilled and able to contribute to society.	• We have a performance management process that identifies areas for development and encourages continual training and education of our staff. • We are in the process of developing a high-quality graduate training and development programme, helping students to develop their careers.
We have thriving and innovative businesses, with quality jobs and fair work for everyone.	• We promote a long-term, sustainable water industry. • We ensure the smooth functioning of the retail market.
We value, enjoy, protect and enhance our environment.	• We off-set our carbon footprint from our international travel by funding tree planting in Scotland. • We support Scottish Water in its six capital approach to investment appraisal and are supporting it to meet its target to deliver net zero emissions by 2040. • Indirectly, by managing the retail market, we support retailers who provide water efficiency advice and other bespoke environmental services to customers.

Our Corporate Plan 2021-27 will set out in more detail how our key performance indicators align with these targets.

Our organisational model

The Commission is a non-departmental public body sponsored by the Scottish Government's Directorate for Environment, Climate Change and Land Reform. Based in Stirling, we have 25 employees.

Our Board comprises four non-executive members (including the Chair) and the Chief Executive. The Board is responsible for overall governance. Further information about our Board members and the role of the Audit and Risk Committee (ARC) is covered in the Governance statement in the Accountability Report section.

The Board is also responsible for making sure that the Commission fulfils its Corporate Plan, which is agreed with Scottish Ministers. Our plan reflects our strategic aims and objectives as agreed by Scottish Ministers, indicative budgets and any priorities they set. Our current Corporate Plan covers the period 2015-21. Our Corporate Plan for the 2021-27 period will be published later this year.

We are funded by a levy on Scottish Water and on the licensed providers that participate in the non-household retail market. The size of these levies is set by Scottish Ministers in light of the objectives and key targets agreed through the corporate planning process. Where resources allow, we seek to supplement that income with income derived from the external projects that we undertake as part of our Hydro Nation work.

Our operating environment

We work closely with a large number of stakeholders, and these relationships are summarised below. We acknowledge and appreciate the continued support of all of our stakeholders in the development of SRC21 and, as we move forward, in collaborating as the water sector adopts the EBP and EBR approach.

* The Customer Forum role, as part of the SRC21 process, is to agree what is 'reasonable' in relation to the Commission's determination of the lowest reasonable overall cost.

Key challenges and risks

Challenges for the industry

In undertaking our work we must take into account a number of challenges that are currently, and will continue to, impact on the industry:

- The response to the Covid-19 pandemic during 2020, which will continue to impact on businesses and households across Scotland for some time. It has already resulted in delays to the delivery of customer benefits during the current 2015-21 regulatory period.
- The impact of climate change, as reflected in the climate emergency that was declared by the Scottish Government in May 2019. The water industry will have a vital role to play in helping deliver net zero emissions by 2045. Scottish Water has a substantial operational and embedded carbon footprint and has been set a highly demanding challenge by Scottish Ministers to achieve net zero by 2040.
- The need to operate, refurbish and replace the assets in an economically optimal way, which will be necessary to maintain service and help Scottish Water achieve net zero. Joint work with Scottish Water has identified that expenditure on asset replacement may eventually have to increase three-fold from current levels.

Regulatory approach

One of our key risks is failing to regulate Scottish Water in a way that brings benefits to customers.

We have extensive powers – ranging from powers over information collection through to the power to adjust price caps if we consider such an intervention is necessary. As we transition to the EBR approach we would no longer rely on these powers. We are making our own move now while Scottish Water is gearing up to operate differently and embed EBP across its organisations.

The SRC21 is an important demonstrator of the EBP and EBR approach. As such it is important that we communicate to our wide-ranging stakeholders why the change in approach is necessary, how it works and the benefits it will bring. We will also need to support Scottish Water and the licensed providers as they adopt the EBP approach. Scottish Water, in publishing its strategy document, has made a first step on the journey; there is an opportunity now for the licensed providers to start to engage more fully with the EBP approach and to start to change and to adapt. For our part, there is more work for us to do in developing understanding and support among the licensed providers.

Managing the retail market

We are responsible for managing the competitive market for retail, non-household services, which now encompasses 30 retailers. We must ensure that the market continues to work in an orderly way and in the interests of customers. We manage the risk that this does not happen by engaging with licensed providers and in developing their understanding of the business practices and behaviours that are required, and by being clear about our expectations.

Attracting and retaining staff

One of our biggest challenges in delivering our objectives is to make sure that we are able to attract and retain the best talent and that our employees have the skills and expertise they need. As we develop our international work further and transition to the EBR approach, we need to ensure that our pool of high-quality analytical talent is maintained.

Our pay structure is in line with the Scottish Government's Pay Policy; as such we have a clear grading structure that promotes staff development. All employees are provided with a career-average pension as a core component of the reward package and this is highly valued by employees.

We provide high standards of training and learning and development opportunities to all employees, which not only helps with employee retention but also supports our succession planning.

We are currently focussing on our recruitment processes and on the overall package we provide to new graduates. This includes offering a high-quality programme of training and development to graduates. We are also working on our longer term succession planning.

International work

We have a formal remit to support the Scottish Government's Hydro Nation initiative. During the past three years we have had an increasing number of contacts from regulatory colleagues across Europe and internationally who wish to learn more from us about the Scottish water industry's journey and experience.

As a small office, with limited resources, we need to ensure we are able to take full advantage of this demand. Our challenges include managing our staffing and financial resources, ensuring the welfare of our employees travelling overseas, and managing the general operations and project management for funded projects.

When we had successfully completed our first major international project in Romania, we undertook a formal exercise to identify the lessons learned and any improvements we should make. As a result we have implemented additional processes to ensure that all risks for international projects are identified, managed and reported.

Cyber resilience and records management

We continue to look for opportunities to improve our information governance and strengthen our cyber resilience to minimise the risks of system or data compromise.

We recognise that the threat landscape is constantly evolving and becoming increasingly more sophisticated. This year we once again met the requirements for Cyber Essentials Plus and we continued to test our Disaster Recovery Plan regularly, as well as checking our response to mock cyber-attacks. Such steps help us think about how prepared we are and what more we could do.

We have put in place strict procedures around our data governance and information security. As part of this work we have developed a records management plan, to evidence the arrangement we have in place for managing our records. Our plan is based on 15 elements outlined by the Keeper of the Records of Scotland's model plan. The plan was approved by the Keeper in 2016 on an improvement basis and since then we have reported on an annual basis.

Our latest assessment, dated April 2020 highlighted that the 14 elements of our records management plan continue to be properly considered. The assessment team commended our efforts to keep our plan under review. Based on progress reported, the team considered that we are continuing to take our statutory obligations seriously, and are working hard to bring all elements of our plan into full compliance with the Act. All assessment reports are published on the website of the National Records of Scotland.

We took early action to comply with the 12 steps on the General Data Protection Regulation (GDPR) of the Information Commissioner's Office. During 2019-20 we have implemented our GDPR plan, designed around the 12 steps, which has included providing training to all employees, developing transparency statements, undertaking data loss prevention, and carrying out desktop audits.

Managing risk

When it comes to risk our overall goal is to operate in an environment of 'no surprises'. We do this by creating a culture founded on assessment and maximum mitigation of risk. Some of the steps we have taken to manage risk include:

- All employees are trained to be on alert for any risks that may impact the success of our objectives.
- Our Audit and Risk Committee provide the Board with assurances relating to strategic risks. The Committee is responsible for reviewing the comprehensiveness and reliability of assurances on governance, risk management and the control environment.

Our risk strategy is supported by our risk management software, an outsourced programme that integrates risk management processes.

Managing the impacts of the Covid-19 pandemic

In light of our existing cloud-based IT systems and business continuity plans, we were in a strong position to respond swiftly when the Covid-19 lockdown took place in March 2020.

To protect the health and wellbeing of our staff we took an early decision to close our office. We remained fully operational while moving to home working and have been able to maintain high levels of productivity. We have invested additional resources into making sure that staff have the home office equipment they need to continue to undertake remote working. We are also developing new policies and guidelines in relation to home working for staff.

Our senior management, Board and Audit and Risk Committee are focussed on managing the risks associated with Covid-19 and on ensuring the ongoing health and safety of staff. As part of this work, we are developing plans for a phased return to office working in line with the Scottish Government's safety guidelines; our considerations include a potential new model of office arrangement on a permanent basis. Any steps that we do take will be cautious and gradual.

In terms of the impact on delivering our objectives, while there has been an inevitable delay to the timeline of our Strategic Review process to allow consideration of the impacts of the pandemic, this has been carefully managed. In response to a request from the Scottish Government we have provided advice on an appropriate way forward. We remain committed to delivering the final milestones of the Strategic Review process (specifically the Draft and Final Determinations) by the end of the year. It is worth noting that, while the timeline has been impacted, the overall outcome remains focussed on ensuring that customers benefit from a sustainable water industry over the long-term.

We are working on water reform with the New Zealand Government, where the Scottish model is considered to be "an exemplar in water reform internationally" *(Office of the Minister of Local Government).*

1.3 PERFORMANCE ANALYSIS

Our Corporate Plan 2015-21 explained the direction our work would take and what we would achieve during the period, but did not provide explicit information about the measures against which we would measure success. This year, as part of our work to refresh our strategy and our objectives, we have developed specific and measurable key performance indicators against which we will monitor progress. These will be included in our next Corporate Plan, to be published later this year.

This following section provides commentary on how we have delivered against the Corporate Plan 2015-21.

Developing our approach: SRC21

Our Corporate Plan commitment

- Our Corporate Plan made clear that customers' views would be at the heart of decision-making when we set charges. We noted too that public legitimacy, which derives in large part from the central involvement of customers in the process, is of paramount importance.
- We committed to ensuring that there would be no economic barriers within our regulatory approach that would get in the way of innovation. This enables Scottish Water to continually innovate to meet the expectations of its customers both now and long into the future.

Our performance in 2019-20

During the year we published the last in our series of Decision Papers for SRC21: Prospects for Prices (published February 2020). This set out our views on the level of charges for the next regulatory control period that would be required for Scottish Water to deliver, at the lowest reasonable overall cost, Scottish Ministers' Objectives for the industry, consistent with their Principles of Charging.

The document also outlined our views on the level of charges after 2027. Our analysis took account of the following:

- The need to ensure a smooth transition in prices, consistent with research into customers' preferences.
- The fact that we would not wish to minimise charges today if that leaves future customers to pay higher prices. To do so would be inconsistent with the Commission's duty to future customers.
- The challenges that Scottish Water is facing, including the target to deliver net zero emissions by 2040.

We will publish our Final Determination after Scottish Ministers have finalised their Objectives and Principles for Charging and in the light of responses to the Draft Determination. We plan to publish the Final Determination in December 2020.

As noted previously we are committed to the principles of EBP/EBR. This year we established an EBR Support Group to provide periodic 'temperature checks' of the SRC21 process and to assess progress in implementing the approach. The group has conducted four reviews of stakeholder perceptions to date. Key themes to arise include that:

- everybody in the process is committed to working together to achieve the best outcomes for the water industry in Scotland;
- there remains a strong commitment to making EBR/EBP work; and
- EBP/EBR is not about agreeing about everything, rather different perspectives should be understood and respected.

We hope that Scottish Water will take full advantage of the opportunities of the new regulatory framework and we welcomed its strategy as a first step on this transformative journey. At its core is the need for Scottish Water to engage with the customers and the communities that it serves. Our expectation in this regard is that Scottish Water will ensure customer and community views become as integral to organisational decision making as the views of asset managers and operators. This will require a transformation of its business but is essential to meeting its 2040 net zero obligations.

In line with our commitment to making sure that there are no economic barriers that might prevent Scottish Water from innovating, we have supported a peer review by the OECD of SRC21 which will report at the end of the process. One of the areas being taken forward in the review is the extent to which stakeholders in Scotland could improve their engagement with customers and communities by applying behavioural insights.

Monitoring Scottish Water's performance

Our Corporate Plan commitment

During the 2015-21 regulatory control period, we expect Scottish Water to continue to improve its efficiency, to maintain, at a minimum, its levels of service and to deliver the £3.5 billion investment programme required to achieve drinking water, environmental and other objectives set for the industry by the Scottish Ministers.

In our Corporate Plan we said that we would publish an annual overview of the company's performance, comprising an overall rating, alongside a summary comment on performance, for each of the main areas that affect key outcomes for customers and the environment, as well as the company's financial strength. Such reporting helps give customers and other stakeholders confidence in Scottish Water's delivery against its agreed targets.

In a number of areas we work with other stakeholders to monitor progress. Specifically we are one of the members of the Delivery Assurance Group (DAG), the group that brings together Scottish Water, the Commission, the Drinking Water Quality Regulator, the Scottish Environment Protection Agency and the Consumer Futures Unit of Citizens Advice Scotland. The DAG's role is to ensure that Scottish Water is making appropriate progress towards the timely delivery of the Scottish Ministers' Objectives. The group assesses Scottish Water's progress in delivering the key milestones of the investment programme against its targets set out in the delivery plan and publishes reports on a quarterly basis.

Our performance in 2019-20

We published our annual performance report in November 2019. The report set out our assessment of Scottish Water's performance delivery in 2018-19, the fourth year of the six-year regulatory control period 2015-21. We assessed Scottish Water's performance by comparing what was delivered in 2018-19 with Scottish Water's Delivery Plan, originally published in March 2015 and updated annually to reflect changes to the delivery profile agreed through the DAG. The Delivery Plan sets out how Scottish Water plans to deliver its objectives, within the financial limits set in the final determination.

We were pleased to report that, overall, Scottish Water continued to perform well in 2018-19.

- The overall level of customer service (as measured by the Overall Performance Assessment score) exceeded the target range and compared favourably with historic performance across the industry.
- Scottish Water achieved year-on-year improvements in the household customer experience measure, which was introduced in 2015-16.
- Scottish Water's operating costs were around 3% higher than projected in its Delivery Plan. Scottish Water indicated that most of the difference related to one-off costs including weather incidents.

- Scottish Water's capital expenditure of £660m in 2018-19 was 6% below its central forecast in the Delivery Plan and broadly in line with expenditure in 2017-18 (after adjusting for inflation).

Our view is that overall progress in the delivery of the investment programme remains broadly on target, despite there being a small number of projects that Scottish Water is finding challenging to deliver. There remains a significant output delivery challenge for the remainder of the regulatory period. Working with the Scottish Government and the other regulators in the DAG, we will continue to monitor Scottish Water's performance closely.

Looking ahead to the SRC21 period, our approach under EBR/EBP will be that Scottish Water will own its performance and will seek to ensure that it maintains the confidence of customers, communities and stakeholders that it is delivering effectively and efficiently against its own Strategic Plan. In particular, Scottish Water will have to win the confidence of all of its stakeholders in relation to the way it approaches and appraises investment.

The non-household retail market

Our Corporate Plan commitment

We published our last Corporate Plan around two years before the non-household retail market opened south of the border. At that time we said that we would contribute to the practical implementation of the UK Government's Water Act 2014 and would work to ensure that, as far as possible, non-household customers in Scotland benefited from the competitive opportunities that would follow from this development of the retail markets.

Since the retail market opened in England in 2017, we have been keeping the regulatory framework under review to make sure that it continues to serve the interests of customers, licensed providers, and Scottish Water.

Our performance in 2019-20

This year we took the opportunity to undertake a root and branch review of the market. The review focussed on strengthening the market arrangements and building trust among market participants. The work started in September 2018 and during 2019-20 we concluded a number of consultations on potential changes to the market framework. At the end of each consultation process we reviewed all stakeholders' representations and published an initial decision. Our comprehensive package of reform encompasses the following:

- A range of measures designed to support a level playing field; to implement market health checks; and in relation to mergers and acquisitions between licensed providers.
- More information about how we intend to regulate in a manner that is consistent with the principles of EBR, and what we expect to see from licensed providers in terms of implementing EBP.
- Policy decisions on measures to protect customers – in particular to prohibit licensed providers from offering or requiring customers to prepay their water charges as a default position.

We published a statutory consultation on these issues in March 2020 and plan to implement all policy changes by October 2020.

International work

Our Corporate Plan commitment

The Scottish Government's Hydro Nation vision seeks to raise Scotland's international profile through knowledge exchange and developing trade opportunities for services, manufacturing and research. The vision was still in its early stages when we published our Corporate Plan.

In October 2017 the Scottish Parliament added us to the list of bodies specified in the Water Resource Act 2013 as having a formal remit in this area.

Our performance in 2019-20

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.

This year, to promote the success of the public sector regulatory model we have hosted delegations from other jurisdictions and participated in international events and conferences. In addition we have increased our collaboration with international organisations such as the OECD's Network of Economic Regulators.

We also successfully completed a project for the Romanian Public Services Regulatory Authority (ANRSC) and Romanian Waters, through a European Commission sponsored project to deliver the technical assistance required to build a robust regulatory information framework for Romania.

This project not only made a significant contribution to the fixed costs of our office but has also led to further opportunities for us to provide training to water companies in Romania. In addition, the Romanian Ministry of European Funds is now considering how it can use its discretionary funding from the EU to pay for a new project that we would lead.

In December 2019, we submitted a proposal to the New Zealand Government to provide training and support. Subsequently, Wellington Water and WaterCare (Auckland), approached us to deliver the first stage of that proposal. Wellington Water and WaterCare (Auckland) are seeking to demonstrate that it is possible to provide the information that its government requires to pursue effective reform of the industry. The principal aim of the project is to gain a better understanding of current performance, assets, future investment requirements and costs for each company. As such, it draws on our experience in Romania. The project started in March 2020 and will be completed by October 2020.

Our work continues to be seen as a model for regulation of a public-sector entity – not only by the Scottish Government but also by organisations, academics and other commentators in the rest of the UK and abroad.

Financial performance

Our Corporate Plan commitment

Our Corporate Plan 2015-21 proposed an initial decrease in Scottish Water's levy to £2.0m with a 1.6% increase each year thereafter, in line with proposals for Scottish Water's household bills. We agreed that the licensed providers' levy would see an annual increase of 2.5% in recognition of the increasing activity required of us in the lead up to Anglo-Scottish markets being opened. This resulted in a levy of £1.4m in 2015-16, bringing the total levy in 2015-16 to £3.4m. We agreed that we would operate under a tight budget constraint and would meet all foreseeable costs from this budget, with a review of our budget at the mid-point of the regulatory period.

In the first four years of the regulatory period we saved 9% and were able to refund £450,000 to Scottish Water and the licensed providers. However, we required the flexibility to attract and retain the people we needed to both complete SRC21 and to fulfil our other duties, such as managing the non-household retail market, which has become more complex now that the retail market is open south of the border.

Therefore, as part of the revised Corporate Plan for the remainder of the regulatory period we proposed to increase the budget by 3% in the first year (2018-19) and by 2.5% each year for the remainder of the regulatory period, for both Scottish Water's levy and that of the licensed providers. One of the principal drivers for this uplift was an increase in the cost of providing a career average pension scheme to our employees, with employer contributions increasing from 19.8% to 28.3%.

We prepare a detailed annual budget, in line with our Corporate Plan, which is submitted to our Board for approval. We use a comprehensive budgeting and financial reporting system, which aligns with the Scottish Public Finance Manual, to compare actual results to the budgets that our Board has approved. Management accounts are prepared each month, with significant variances from budget investigated and reported. Cash flow and other financial forecasts are prepared regularly throughout the year to ensure that we have sufficient cash to meet our operational needs.

Financial performance 2019-20

As set out in the financial statements, there was a net surplus for the year of £17,944 (2018-19: deficit of £41,576). However, prior to the actuarial gain of £561k for the year (2018-19: loss of £172k), there was a net deficit of £543,056 (2018-19: surplus of £130,424). This was a planned deficit to use cash reserves.

The level of income we received during the year was in line with what we had budgeted, with the exception of £64k relating to an international project.

Expenditure for the financial year 2019-20 was £4,375,839 (2018-19: £4,165,687), being £146k below the budget. This variance was the result of lower remuneration costs than expected due to the early retirement of one of our directors and lower than expected consultancy costs.

We routinely review our budget requirements every three years for approval by Scottish Ministers. As part of our budgeting process for the next regulatory period, we will review the level of cash balance expected at 31 March 2020 and will factor this into our budget calculations for the future.

The balance on the General Reserve as at 31 March 2020 was £1,146,973 (2018-19: £1,129,029). This is an improvement on the previous year. Investment returns on pension assets were significantly lower than expected, particularly in the last two months of the financial year, which worsened the balance sheet position. However, the effect of this has been off-set by a higher net discount rate which serves to reduce the value placed on pension obligations. Although Corporate Bond yields were at a similar level to 2019, inflation expectations are significantly lower.

Supplier payment policy

It is our policy to pay all supplier invoices that are not in dispute within the terms of the relevant contract and as soon as possible following receipt of an invoice. In line with the Scottish Government's guidance, we aspire to a 10-working day target for paying bills to businesses in Scotland. Paying supplier bills promptly is seen as a key objective, and an important expression of our commitment to supporting business. The average time taken to pay suppliers in 2019-20 was 7 days (2018-19: 7 days).

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 about 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 an annual document on our website setting out our response to the requirements of the Act.

Social matters

Our statutory purpose is designed to deliver environmental, social and economic success. We take our social responsibility seriously and ensure that all staff policies and procedures are up to date and comply with the most recent legislation. During the year we carried out a full review of all of our internal policies and processes, including our staff handbook. We implemented a new HR system to centralise our employee records and to provide a platform for easy access to organisational news and documents.

Equality and diversity in our workplace

We are committed to valuing and promoting equal opportunities and diversity in all areas of recruitment, employment, training and managing people and to providing benefits to our employees. We are also committed to complying with our general public-sector duty to eliminate unlawful discrimination and promote equality of opportunity. In this respect, we 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.

We follow the Scottish Government's Pay Policy. This has prioritised protecting those on low pay through a progressive approach delivered through the application of tiered pay increases.

We offer a free, confidential Employee Assistance Programme to all staff. This service provides counselling, signposting and information to help staff with personal or work-related problems that may be affecting their health, wellbeing or performance. It is accessed either online or through a 24-hour Freephone service.

Anti-bribery and corruption

As part of our zero tolerance approach towards fraud, bribery and corruption we have an employee code of conduct, whistle-blowers policy and clear policies regarding acceptable levels of gifts and hospitality (both given and received). We actively encourage staff to be aware of appropriate behaviours with both customers and suppliers. We also maintain a gifts and hospitality register.

No frauds were discovered in 2019-20.

We take malpractice very seriously and are committed to conducting our business with honesty and integrity. We encourage open communication from all those who work for us and we want everyone to feel secure about raising concerns. Our whistleblowing policy makes it clear that staff should raise any concerns they may have. All staff are protected under whistleblowing laws if they raise concerns in the correct way.

Transparency of Information

We aim to be open in all that we do; our default approach is to publish information on our activities on our website whenever possible. We maintain frequent dialogue with industry stakeholders and regularly set out our approach and decisions in published papers.

For our SRC21, we published a detailed methodology and timeline that set out the key dates of stakeholder interactions, publications and consultations.

Complaints

We recognise the learning that complaints can generate, and we use information from complaints to help us improve. Our complaints handling procedure (CHP) reflects our commitment to valuing complaints. It seeks to resolve dissatisfaction and to conduct thorough, impartial and fair investigations of complaints so that, where appropriate, we can make evidence-based decisions on the facts of the case.

We published our CHP on our website at the end of October 2019 but are currently revising it to ensure that it aligns with the Scottish Public Services Ombudsman's (SPSO's) revised model CHP (which was launched in January 2020). We will publish the new CHP once it has been approved by the SPSO.

In addition, as of January 2020 we have started to report our complaints statistics to senior management on a quarterly basis and to publish this information on our website. We will publish the statistics for 2020-21 in next year's annual report.

Our environmental performance

Scotland has some of the most ambitious greenhouse gas reduction targets in the world; we wish to contribute as much as we can to help deliver this world-leading climate change action.

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

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

As a small office, we recognise that the extent to which we can continually reduce our carbon footprint is limited. That said, we do all that we can to make sure that our internal office functions are delivered in a sustainable and carbon aware manner. Our office's central location provides employees and visitors with easy access to sustainable transport. Our internal policies also encourage employees to make carbon aware decisions in relation to procurement, travel and recycling.

We are also delighted that we were able to switch our gas supply to the Stirling District Heating Scheme at the end of 2019. This project was the first in the UK to use a mix of cutting-edge renewable technologies to harness energy from wastewater, bringing cheap, low-carbon heat to Stirling through a district heating network, delivering a range of significant environmental and economic benefits.

Our biggest challenge in the management of our own carbon footprint is the overseas travel that is required as part of our contribution to the Hydro Nation initiative. In an effort to compensate our increased overseas travel, we have contributed £1,780 to a scheme that invests in Scottish woodland, which is the equivalent of our total carbon output during 2018-19. We intend to continue to do this for the foreseeable future.

In addition to managing our own environmental performance, through our function as the economic regulator of Scottish Water, we play a key role in helping facilitate the delivery of Scottish Ministers' Objectives for the water industry in related areas such as environmental impact, carbon reduction and biodiversity.

Details of our carbon footprint is provided below.

	2019-20		2018-19	
Area	**Non-financial information**	**Financial information**	**Non-financial information**	**Financial information**
Energy	Electricity: 9.1 tonnes CO_2 Gas: 9.3 tonnes CO_2 Total carbon from energy: **18.4 tonnes CO_2**	Electricity: £7,171 Gas: £1,882	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
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**	£1,786	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**	£1,813
Water	**0.2 tonnes CO_2**	£2,231	**0.2 tonnes CO_2**	£2,482
Transport and travel	**77 tonnes CO_2**	£132,684	**92 tonnes CO_2**	£184,199

The information in this 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.

Alan D A Sutherland
Chief Executive

2 ACCOUNTABILITY REPORT

2.1 CORPORATE GOVERNANCE REPORT

2.1.1 Director's report

The Board

Our Board is responsible for the overall direction and performance of our organisation, including our efficiency and effectiveness as a public body. Members come from a variety of business backgrounds and bring with them a wealth of knowledge and expertise.

Our Board currently comprises Donald MacRae (Chair), three further non-executive members, and the Chief Executive, Alan Sutherland. Members of the Commission are appointed by Scottish Ministers. The length of appointments may vary to ensure continuity of Commission membership but is usually three or four years. There is the possibility of a further term, subject to evidence of effective performance and satisfying the skills, knowledge and personal qualities required on the Board at the time of re-appointment. The membership during the year is detailed below.

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 an executive member of the Board of the Commission. Katherine Russell retired in June 2019.

Interests held by the Board of the Commission

We ask our Board Members and Directors to complete a declaration of interest and we publish a register of interests on our website. During the year, neither the Board members nor directors held interests in other bodies with which the Commission has dealings.

Name	Position	Initial appointment date	Re-appointment date	End date
Donald MacRae	Chair	01/07/2016*	-	30/04/2022
Jo Armstrong	Member	01/07/2016	01/07/2020	30/06/2024
Libby Gawith	Member	01/01/2012	01/01/2016	31/12/2019
Robin McGill	Member	01/01/2020	-	31/12/2024
Ross Finnie	Member	01/07/2012	01/07/2016	30/06/2020

*Appointed as Chair on 1 May 2018

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 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 2019-20 are £13,340 (2018-19: £13,160).

All relevant audit information has been made available to our auditors, and the Accountable Officer has taken steps to ensure that the auditors are aware of any relevant audit information.

Other information

In the year to 31 March 2020, we did not have any notifications of data breaches to the Information Commissioner's Office.

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.

2.1.2 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 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 our 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 our auditors are aware of that information.

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

2.1.3 Governance Statement

The Governance Framework

The Commission is a non-departmental public body. The broad framework in which we operate is set out in a framework document, which also defines key roles and responsibilities which underpin the relationship between the Commission and the Scottish Government. While this document does not confer legal powers or responsibilities, it forms a key part of our accountability and governance framework.

Non-departmental public bodies are directed by Scottish Ministers to comply with the SPFM. The SPFM provides guidance on the proper handling of public funds to ensure:

- compliance with statutory and parliamentary requirements;
- value for money;
- high standards of propriety; and
- effective accountability and robust systems of internal control.

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 is responsible for maintaining a sound governance framework that supports the achievement of the organisation's policies, aims and objectives set by Scottish Ministers, while 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 we are directed and controlled. It enables us to monitor the achievement of our 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 our 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 2020 and up to the date of approval of the annual report and accounts.

The Commission Board

The role of the Commission Board is to provide strategic leadership, direction, support and guidance to ensure that we deliver and are committed to delivering our functions effectively and efficiently and in accordance with the aims, policies and priorities of Scottish Ministers.

Commission 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 in accordance with the principles of Best Value.

The Commission meets regularly and during 2019-20 met nine times for regular meetings and an additional three meetings to discuss and develop our strategy, including a review of the overall governance arrangements. At each regular meeting the Commission has a mandate to focus on strategic issues relating to monitoring Scottish Water's performance, the SRC and developments in the retail market.

A full description of our Board's role and responsibilities is detailed within its Scheme of Delegation. Additionally, Board members are required to comply with the Code of Conduct for Members of the Commission. Board members discharge their duties in accordance with the guidance set out in appointment letters and in On Board – A Guide for Board Members of Statutory Boards.

As well as attending Board meetings and strategy meetings, Board members carry out non-executive engagement with stakeholders. Reports of engagement activity are provided at each subsequent Board meeting to ensure that the activity is noted and to give members and management the opportunity to discuss issues arising from this activity.

Board members also meet with staff to discuss key strategic issues and attend relevant seminars and events. Following the adoption of EBR, the Commission Board held three strategy workshops during 2019-20. The strategy workshops identified implications for the operation of the Commission and the Board as a result of the change in approach. Regulating with EBR principles has material implications for how the Board and the office interact, placing greater importance on how the Board develops, agrees and monitors progress against our Corporate Plan.

Aligned with this work has been a review of the Commission's governance arrangements, with assistance from our internal audit team. As part of a governance workshop held in January 2020, the Board and ARC agreed that a new strategy should be developed. The existing governance framework should then be aligned with the strategy, with a revised Scheme of Delegation, allowing the Board to have assurance that we have delivered on the strategy. Moving forward, operational and performance reporting should reflect the delivery of the Commission's strategy, Corporate Plan and performance indicators. In developing the Corporate Plan the Board will consider the strategic risks in agreeing the scope of the workplan and delegated activity and ensuring that appropriate reporting responsibilities are in place.

Corporate Plan

Our Corporate Plan reflects our strategic aims and objectives as agreed by the Scottish Ministers. The plan should include the key objectives and associated key performance targets for the period covered by the plan, and the strategy for achieving those objectives. It should also set out how these will contribute towards the achievement of the Scottish Government's primary purpose and how they align with the National Performance Framework. It should include indicators against which performance can be judged and details of planned efficiencies, describing how we propose to achieve better value for money, including through collaboration and shared services. Although the current Corporate Plan 2015-21 falls short on detail on some of these areas, as part of the work on reviewing our governance framework and developing our strategy we are currently developing our Corporate Plan for 2021-27. This will outline the specific measures against which we will measure and report on our success against our objectives.

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 we have used this to derive our own risk management strategy.

We have a risk management framework to identify things that might prevent us from delivering our statutory purpose and to identify appropriate controls to manage the risk to a tolerable level. The risk management framework seeks to (i) understand the threats, (ii) identify and prioritise risks (iii) identify controls to reduce or mitigate the risk and (iv) monitor the risk until it has been reduced to a tolerable level.

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. As described below, we review the strategy on a regular basis.

Risks are assessed in terms of the likelihood of them occurring, the impact they would have if they did occur, and their proximity (how soon they are likely to occur).

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 ARC on a quarterly basis. The Accountable Officer also reviews the register prior to its submission to the ARC. The Commission is informed of significant changes to the register or new risks.

Audit and Risk Committee (ARC)

The Board has appointed the ARC to assist in fulfilling the Board's 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. Members are appointed to the ARC by the Board. The ARC is governed by its Terms of Reference and remit.

The ARC meets to receive reports from internal and external auditors and Commission staff. The internal and external auditors may attend all meetings of the ARC. In addition, they may contact the Chair of the ARC at any time to express specific concerns identified during audit work.

The ARC meets at least four times a year. During the year the ARC was chaired by Ross Finnie and there are three non-executive members. 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 ARC.

The ARC operates independently and reports to the Commission. The ARC presented the annual report of the ARC to the August 2019 Board meeting, which outlined the work undertaken by the ARC 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 issues or concerns.

Internal audit

Internal audit has been provided by Grant Thornton since April 2018. At the start of the appointment we agreed a three-year internal audit workplan to provide assurance that key risks are being managed effectively and value for money is being achieved. It is a risk-based plan, taking into account our risk management framework, our strategic objectives and priorities, and the views of senior managers and members of the ARC.

Before each audit, the scope of work is approved by the senior management team and the ARC. The auditors prepare a report for the ARC following each audit. We produce a quarterly report for the ARC explaining progress with management actions.

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

- A review of our governance arrangements that had carried forward from the previous financial year. This allowed us to enhance the process of developing a new strategy by allowing us to define how the Commission will be able to demonstrate good governance and establish a culture of openness and transparency between Commission members and Senior Management. The findings from this review resulted in the governance workshop whereby Board and ARC members met to discuss the recommendations and agree further action required.
- A review of the Commission's financial procedures following the implementation of new accountancy software in 2018. This review identified one 'medium' rated recommendation and two 'low' rated recommendations. Much of the review focussed on evidencing the segregation of duties within the finance team, as a result of processes becoming more automated following implementation of the new software. The improvements made by the migration to a cloud-based finance solution, and the refinement resulting from the internal audit review, left the Commission in ideal circumstances for being fully operational during the Covid-19 shut-down in March 2020.
- A review of our complaints handling procedures. A complaint received during the year highlighted some inadequacies surrounding our handling of complaints. This is the first complaint received by the Commission in recent years. We used this as an opportunity to develop better complaints handling procedures and provide training and guidance to all our staff. We recognise the value in complaints to our organisation and how they can assist in improving our performance. The internal audit review of our progress on this work resulted in three 'low' rated recommendations.
- General Data Protection Regulation (GDPR) came into force on 25 May 2018 and all organisations, including the Commission, need to demonstrate compliance with the Act. Failure to meet its requirements could result in fines for the Commission, alongside an impact on our reputation. The Information Commissioner's Office (ICO) published guidance on the GDPR requirements including a 12-step guide to complying with the regulation. The objective of the audit was to consider how we demonstrate compliance with GDPR considering the ICO 12 steps. This review identified two 'medium' rated recommendations and one 'low' rated recommendation. These included ensuring all staff involved in managing data have completed appropriate training over

GDPR and ensuring timely completion and documentation of Data Protection Impact Assessments for new processes or plans.

- A review of the process surrounding our internal delivery of the Strategic Review of Charges. This review identified four 'low' rated recommendations, which the Commission has taken on board.

Significant governance issues

The review of effectiveness of the Commission's governance framework, as detailed 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 detailed above have been addressed.

Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. My review of the effectiveness of these systems is informed by the work of the internal auditors and the executive managers within the organisation. The executive managers have responsibility for the development and maintenance of the internal control framework. I also rely on the comments made by the external auditors in their management letter and other reports. I have been advised on the effectiveness of the systems by the ARC. The ARC has kept me informed of plans to address any weaknesses discovered in internal control systems.

2.2 Remuneration and Staff report

Remuneration policy

The Board and Chief Executive's remuneration packages are agreed within the parameters set by the Scottish Government's pay policy. The Scottish Government approves the daily fee to be paid to the Chairs and members, as well as approving the Chief Executive remuneration packages.

Board members contribute at least one day per week in support of the Commission's activities. The Chair devotes at least two days per week in support of the Commission's activities.

There is no separate Remuneration Committee and remuneration related issues are brought to the attention of the Board as they arise. No performance payments were made in 2019-20 in accordance with the Scottish Government pay policy.

The rest of this Remuneration and Staff report is subject to audit.

Directors' salary and pension entitlements

The total remuneration of the Chief Executive in the year was £164,416 (2018-19: £161,133).
The total remuneration of the Directors was as follows:

	2019-20			2018-19		
	Gross Salary £(000)	Pension benefits £(000)	Total £(000)	Gross Salary £(000)	Pension benefits £(000)	Total £(000)
Alan Sutherland Chief Executive	165-170	9	170-175	160-165	-	160-165
Katherine Russell Director of Hydro Nation	25-30	3	30-35	130-135	34	165-170
Ian Tait Director of Network Regulation	100-105	41	140-145	95-100	23	120-125

Katherine Russell started work with the Commission on 1 August 1996 and retired due to ill-health on 14 June 2019. The salary disclosed relates to salary paid until the leaving date. In addition, two additional payments were made - £66,906 relating to 6 months' notice and £4,117 in untaken holidays. Katherine Russell's salary prior to retirement was £130-135k.

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 2019-20 (2018-19: £nil). The total remuneration of the Chief Executive and other Directors was £400k-£405k (2018-19: £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:

	Accrued pension as at 31 March 2020 and related lump sum £(000)	Accrued pension as at 31 March 2019 and related lump sum £(000)	Change in pension net of inflation and related lump sum £(000)	Cash Equivalent Transfer Value* At 31 March 2020 £(000)	At March 2019 £(000)	Increase net of members' contributions £(000)
Alan Sutherland	30 – 35 *plus lump sum of* 25 – 30	30 – 35 *plus lump sum of* 25 – 30	0 – 2.5 *plus lump sum of* 0 – 2.5	505	474	25
Katherine Russell	-	25 – 30 *plus lump sum of* 10 – 15	-	-	394	-
Ian Tait	30 – 35 *plus lump sum of* 30 – 35	30 – 35 *plus lump sum of* 25 – 30	2.5 - 5 *plus lump sum of* 0 – 2.5	563	481	66

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

Board remuneration

The remuneration of the Commission members, other than the Chief Executive, was as follows:

	2019-20 Total £(000)	2018-19 Total £(000)
Donald MacRae	35 - 40	35 - 40
Ross Finnie	10 - 15	10 - 15
Libby Gawith	10 - 15	10 - 15
Jo Armstrong	10 - 15	10 - 15
Robin McGill	10 - 15	-

Commission Members are not members of the pension scheme. The Commission also paid £382 on behalf of Commission Members in the year in respect of PAYE and National Insurance contributions due on travel to work expenses in 2019-20 (2018-19: £2,717). No benefits in kind were paid in the year.

Fair pay disclosure

The range of staff remuneration within the Commission is £20k-25k to £165k-£170k (2018-19: £15-20k to £160-£165k).

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 2020 was £165,174 (2018-19: £161,133). This was 4 times the annualised median remuneration of the workforce, which was £37,164 (2018-19: £33,070). The highest paid Director of the Commission is the Chief Executive.

	2019-20	2018-19
Highest paid Director's total remuneration £(000)	165,174	161,133
Median total remuneration (£)	37,164	33,070
Ratio	4.4	4.9

Average number of persons employed

The average number of full-time equivalent persons employed during the year was 22 (2018-19: 22), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2020	Year ended 31 March 2019
Chief Executive and Directors	2	3
Other employees	20	19

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	-	2
Other employees	12	11	23

Staff costs are outlined in note 4 of the financial statements.

Exit packages

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

Health, safety and well-being

It is our policy to safeguard the health, safety and welfare of all employees by providing healthy and safe working conditions. We consider a positive health and safety culture to be an essential part of the way in which we conduct our business. We acknowledge that, as a business, we also have a responsibility to suppliers and other stakeholders in relation to health and safety matters. Our health and safety policy outlines the responsibilities the Commission has towards employees and provides guidance on health and safety issues within the office.

Our employee handbook outlines the procedures in place for managing staff in a supportive way. We are committed to supporting employees who are absent due to sickness and we have flexible policies relating to the return to work for employees who have been absent for health and other personal reasons or following maternity or paternity leave.

We actively encourage education and training for all employees. Our performance management and development policy is used to identify training needs and opportunities for development.

Sickness absence

The average length of time that each employee was absent due to sickness was 6 days (2018-19: 6 days).

2.3 PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Funding

The Commission has a Corporate Plan in place, agreed with Scottish Ministers and published on our website. We agree with the Scottish Government the issues to be addressed in the plan and the timetable for its preparation and review. The finalised plan reflects our 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 our Corporate Plan, the Sponsor Directorate instructs Scottish Water to pay the amount determined to us on a monthly basis. In addition, fees are payable by licensed providers on a cost recoverable basis, sufficient to meet the costs we incur in exercising our 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.

Losses and special payments

There were no losses or special payments in the year (2018-19: £nil).

Gifts

No gifts were made during the year.

Contingent liabilities

One contingent liability has been disclosed in this financial year relating to Guaranteed Minimum Pensions Equalisation. See note 11 for further information on this.

Alan Sutherland

Alan D A Sutherland
Chief Executive
21 September 2020

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 2020 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 2019/20 Government Financial Reporting Manual (the 2019/20 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 2020 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 2019/20 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. This is the third year of the appointment. 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 independent auditor's report. 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.

Stephen O'Hagan

Stephen O'Hagan
Audit Scotland

21 September 2020

3 FINANCIAL STATEMENTS

3.1 STATEMENT OF COMPREHENSIVE NET EXPENDITURE

For the year ended 31 March 2020

	Note	Year ended 31 March 2020 £	Restated Year ended 31 March 2019 £
Income			
Income from activities	2	3,827,918	4,292,010
Expenditure			
Staff costs	4	(2,282,581)	(2,000,174)
Depreciation	6	(45,510)	(47,066)
Other expenditure	5	(2,047,748)	(2,118,447)
		(4,375,839)	(4,165,687)
Operating deficit		(547,921)	126,323
Interest receivable		6,006	5,126
Net (deficit)/surplus for the year after interest		**(541,915)**	**131,449**
Corporation tax payable		(1,141)	(1,025)
Net (deficit)/surplus for the year after tax		(543,056)	130,424
Other comprehensive net income			
Actuarial gain/(loss)	12	561,000	(172,000)
Total comprehensive net income/ (expenditure) for the year		**17,944**	**(41,576)**

All income and expenditure relates to continuing activities.

The notes on pages 43-56 form part of these financial statements.

3.2 STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Non-current assets			
Property plant and equipment	6	62,955	89,550
Total non-current assets		**62,955**	**89,550**
Current assets			
Other receivables	7	390,074	625,519
Cash and cash equivalent		1,691,848	2,072,147
Total current assets		**2,081,922**	**2,697,666**
Total assets		**2,144,877**	**2,787,216**
Current liabilities			
Trade payables and other current liabilities	8	(272,174)	(556,427)
Total current liabilities		**(272,174)**	**(556,427)**
Non-current liabilities			
Provisions	9	(62,730)	(55,760)
Total net assets, excluding pension liabilities		**1,809,973**	**2,175,029**
Pension scheme liability	12	(663,000)	(1,046,000)
Net Assets		**1,146,973**	**1,129,029**
Equity			
General Reserve		1,146,973	1,129,029

The notes on pages 43-56 form part of these financial statements.

Alan Sutherland

Alan D A Sutherland
Chief Executive

21 September 2020

3.3 STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	Note	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Cash flows from operating activities			
Operating (deficit)/surplus		(547,921)	126,323
Adjustments for non-cash items			
Difference in pension costs compared to contributions	12	150,000	68,000
Depreciation on tangible non-current assets	6	45,510	47,066
Finance costs		28,000	22,000
Increase in provision	9	6,970	6,970
Movements in working capital			
Decrease/(Increase) in other receivables	7	235,445	(523,743)
(Decrease)/Increase in trade payables and other current liabilities	8	(284,253)	(39,104)
Net cash outflow from operating activities		**(366,249)**	**(292,488)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(18,915)	(60,924)
Net cash outflow from investing activities		**(18,915)**	**(60,924)**
Cash flows from financing activities			
Interest received		6,006	5,126
Corporation tax due		(1,141)	(1,025)
Net inflow from financing activities		**4,865**	**4,101**
Net decrease in cash and cash equivalents		**(380,299)**	**(349,311)**
Cash as at 1 April		2,072,147	2,421,458
Cash as at 31 March		1,691,848	2,072,147
Net (decrease)/increase in cash and cash equivalents		**(380,299)**	**(349,311)**

The notes on pages 43-56 form part of these financial statements.

3.4 STATEMENT OF CHANGES IN EQUITY (SCE)

For the year ended 31 March 2020

	£
Balance at 1 April 2018	1,170,605
Total comprehensive net expenditure for the year 2018-19	(41,576)
Balance as at 31 March 2019	1,129,029
Total comprehensive net income for the year 2019-20	17,944
Balance as at 31 March 2020	**1,146,973**

The general reserve is analysed in note 10.

The notes on pages 43-56 form part of these financial statements.

The financial statements were approved by the Board of the Commission on 3 September 2020.

The Accountable Officer authorised the financial statements for issue on:

Alan Sutherland

Alan D A Sutherland
Chief Executive

21 September 2020

3.5 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 2020-21, 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.

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.

Change in accounting policy

Previously, a full year's depreciation was provided in the year of acquisition and none in the year of disposal. From 1 April 2019, depreciation is calculated on a monthly basis. Following the implementation of new accountancy software, the calculation of depreciation can be automated. The automation of this function allows us to depreciate on a monthly basis with minimal effort and increased accuracy.

The impact of this change on the depreciation charge is outlined below:

	2019-20 £	2018-19 £
Depreciation charge – new policy	45,510	43,516
Depreciation charge – old policy	48,509	47,066

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. Last year we received grant income from the European Commission in relation to a project with the Romanian Public Services Regulatory Authority (ANRSC). This year we recorded 25% of the income due from a project with two water companies in New Zealand which started in March 2020.

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.

1.11 Operating leases

In line with IAS17, 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 in order to allocate resources to the segments and assess their performance.

2. INCOME

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Scottish Water statutory contribution	2,179,608	1,976,000
Levy on licensed providers	1,584,645	1,410,365
EU Income	-	905,645
Hydro Nation income	63,665	-
	3,827,918	**4,292,010**

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 2020 £
Contribution to overheads by activity:	
Network Regulation	(122,506)
Retail	1,150,767
Total contribution to overheads	**1,028,261**
Overheads	(1,571,317)
Deficit for the year	**(543,056)**

4. STAFF RELATED COSTS

Staff costs comprise:	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Wages and salaries	1,612,541	1,452,669
Social security costs	180,122	159,877
Pension costs	489,918	387,628
Staff costs per statement of comprehensive net expenditure	**2,282,581**	**2,000,174**

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

5. OTHER EXPENDITURE

Staff costs comprise:	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Travel and subsistence	263,971	381,273
Office accommodation	131,938	124,113
General operating costs	421,199	295,086
Regulation and licensing costs	1,075,295	1,206,385
Recruitment	44,959	14,639
Information technology	53,526	71,757
Finance charges	56,860	25,194
	2,047,748	**2,118,447**

The operating costs for the year are stated after charging the external audit fee of £13,340 (2018-19: £13,160) and, within office accommodation, an operating lease rental of £49,175 (2018-19: £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.

6. PROPERTY, PLANT AND EQUIPMENT

	Information technology £	Furniture and fittings £	Total £
Cost			
At 31 March 2019	163,732	271,029	434,761
Additions	15,933	2,982	18,915
Disposals	-	-	-
At 31 March 2020	**179,665**	**274,011**	**453,709**
Depreciation			
At 31 March 2019	101,737	243,474	345,062
Charge for the year	26,773	18,737	45,510
Eliminated on disposals	-	-	-
At 31 March 2020	**128,510**	**262,211**	**390,721**
Net book value at 31 March 2020	**51,155**	**11,800**	**62,955**
Net book value at 31 March 2019	**61,995**	**27,555**	**89,550**

	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**

7. OTHER RECEIVABLES

	As at 31 March 2020 £	As at 31 March 2019 £
Current receivables		
Prepayments	197,748	54,728
Other receivables	192,326	570,791
Total other receivables	**390,074**	**625,519**

	As at 31 March 2020 £	As at 31 March 2019 £
Intra-government receivables:		
Central Government	-	-
Local Authorities	13,065	12,742
Bodies external to government	377,009	612,777
Total other receivables	**390,074**	**625,519**

8. CURRENT LIABILITIES

	As at 31 March 2020 £	As at 31 March 2019 £
Trade payables	40,274	51,400
Taxation and Social Security	52,301	3,742
Accruals	142,097	501,285
Deferred income	37,502	-
Total current liabilities	**272,174**	**556,427**

	As at 31 March 2020 £	As at 31 March 2019 £
Intra-government payables:		
Local Authorities	48,599	42,001
Central Government	52,301	220,754
Bodies external to government	171,274	293,672
Total current liabilities	**272,174**	**556,427**

9. PROVISIONS FOR LIABILITIES AND CHARGES

	As at 31 March 2020 £	As at 31 March 2019 £
Balance at 1 April 2019	55,760	48,790
Provided in the year	6,970	6,970
Balance at 31 March 2020	**62,730**	**55,760**

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 £	Pension £	General Reserve £
Balance at 1 April 2018		1,954,605	(784,000)	1,170,605
Changes in reserves 2018-19				
Actuarial gains		-	423,000	423,000
Change in assumptions underlying the present value of the scheme liabilities		-	(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**
Changes in reserves 2019-20				
Actuarial gains	12	-	(691,000)	(691,000)
Change in assumptions underlying the present value of the scheme liabilities	12	-	1,252,000	1,252,000
Net deficit for the year		(365,056)	(178,000)	(543,056)
Balance as at 31 March 2020		**1,809,973**	**(663,000)**	**1,146,973**

11. COMMITMENTS AND CONTINGENT LIABILITIES

11.1 Capital commitments

There were no capital commitments at 31 March 2020 (2018-19: £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.

	2019-20 £	2018-19 £
Not later than one year	49,176	49,176
Later than one year and not later than 5	49,176	98,352

11.3 Contingent liabilities

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. The impact will be known as part of the 2020 formal valuation of the Fund and will therefore be captured in the accounting liability for March 2021.

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 £334k (2018-19: £318k) 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 2020-21 will be 28.3%.

In accordance with IAS 19 the Commission commissioned the Fund's actuaries to undertake a valuation as at 31 March 2020. This calculation was based on rolling forward valuation data at 31 March 2018 (the last formal valuation) to 31 March 2020 based on several financial assumptions. The main financial assumptions used included:

12.2 Financial Assumptions

	Year ended 31 March 2020 %	Year ended 31 March 2019 %
Pension increase rate	1.8	2.4
Salary increase rate	2.2	2.9
Discount rate	2.3	2.5

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	20.5 years	22.8 years
Future pensioners	21.7 years	24.3 years

An approximate allowance (equivalent to c.0.6% of active liabilities) has been made in respect of the McCloud judgement, which is shown as the Past Service cost. This has led to a loss of £21k on the balance sheet.

12.3 Change in the fair value of plan assets, defined benefit obligation and net liability for the year end 31 March 2020

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)
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)
Opening position as at 31 March 2019	7,347	8,393	(1,046)
Service cost			
Current service cost	-	465	(465)
Past service cost (including curtailments)	-	21	(21)
Total service cost	-	486	(486)
Net interest			
Interest income on plan assets	188	-	188
Interest cost on defined benefit obligation	-	216	(216)
Total net interest	188	216	(28)
Total defined benefit cost recognised in deficit	188	702	(514)
Cashflows			
Participants' contributions	99	99	-
Employer contributions	334	-	334
Estimated benefits paid	(90)	(90)	-
Estimated unfunded benefits paid	(2)	(2)	-
Estimated contributions in respect of unfunded benefits paid	2	-	2
Expected closing position	7,878	9,102	(1,224)
Re-measurements			
Change in financial assumptions	-	(897)	897
Change in demographic assumptions	-	(304)	304
Other experience	-	(51)	51
Return on assets excluding amounts included in net interest	(691)	-	(691)
Total re-measurements recognised in Other Comprehensive Income (OCI)	**(691)**	**(1,252)**	**561**
Fair value of employer assets	7,187	-	7,187
Present value of funded liabilities	-	7,810	(7,810)
Present value of unfunded liabilities	-	40	(40)
Closing position as at 31 March 2020	**7,187**	**7,850**	**(663)**

12.4 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 liabilities	-	7,209	(7,209)
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			
Participants' contributions	93	93	-
Employer contributions	316	-	316
Estimated benefits paid	(88)	(88)	-
Estimated unfunded benefits paid	(2)	(2)	-
Unfunded benefits paid	2	-	2
Expected closing position	**6,924**	**7,798**	**(874)**
Re-measurements			
Change in financial assumptions	-	592	(592)
Change in demographic assumptions	-	-	-
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)**

12.5 Projected defined benefit cost for the period to 31 March 2021

	Assets £(000)	Obligations £(000)	Net (liability)/asset £(000)	% of pay
Current service cost	-	371	(371)	(31.4%)
Total service cost	**-**	**371**	**(371)**	**(31.4%)**
Interest income on plan assets	169	-	169	14.3%
Interest cost on defined benefit obligation	-	185	(185)	(15.7%)
Total net interest cost	**169**	**185**	**(16)**	**(1.4%)**
Total included in income statement	**169**	**556**	**(387)**	**(32.8%)**

Employer's contributions for the period to 31 March 2021 will be approximately £333,000.

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 2020	Approximate % increase to employer	Approximate monetary amount £(000)
0.5% decrease in Real Discount Rate	13%	1,052
0.5% increase in the Salary Increase Rate	2%	137
0.5% increase in the Pension Increase Rate	12%	905

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. 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 wastewater services and is therefore considered a related party.

Related party	Income (£)	Expenditure (£)	Year-end receivable (£)	Year-end payable (£)
Anglian Water	353,792	2,231	-	-

All Commission members and Directors complete and update a register of interests on an annual basis. During the year 2019-20, no Commission Member, Director or other related party has undertaken any material transactions with the Commission.

WATER INDUSTRY COMMISSION FOR SCOTLAND
DIRECTIONS BY THE SCOTTISH MINISTERS

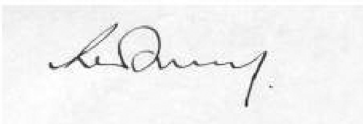
1. The Scottish Ministers give the following directions to the Water Industry Commission for Scotland ("WICS") in exercise of powers conferred by section 1(3) of the Water Industry (Scotland) Act 2002 (the "2002 Act"), as amended by section 1(1) of the Water Services etc. (Scotland) Act 2005. In accordance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

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October 2020

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