

WATER INDUSTRY COMMISSION FOR SCOTLAND

Accounts for the year to 31 March 2011

CONTENTS

	Pages
Directors' report and Management commentary	2 - 7
Remuneration report	8 - 9
Statement of Accountable Officers responsibilities	10
Statement on internal control	11 - 12
Auditor's report	13 - 14
Statement of comprehensive income	15
Statement of financial position	16
Statement of cash flow	17
Statement of changes in equity	18
Notes to the financial statements	19 - 29
Accounts Direction	30

The Accountable Officer authorised these financial statements for issue on:

14 October 2011

DIRECTORS' REPORT AND MANAGEMENT COMMENTARY

The financial statements are for the period ended 31 March 2011 and have been prepared in a form directed by the Scottish Ministers in accordance with the Water Industry Act 1999. The Commission is required to make a report to Scottish Ministers at the end of each year on its activities during the year and arrange for the report to be published.

Functions

The Water Industry Commission was formed on 1 July 2005. The office of the Water Industry Commissioner for Scotland was dissolved at that time.

The Water Services etc. (Scotland) Act 2005 transferred to the Commission the former Commissioner's function of promoting the interests of water customers. It also gave the Commission the functions of:

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

These functions are subject to scrutiny by the UK Competition Commission.

Review of principal activities

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

Achieving value for money

To achieve best value for customers of the water and sewerage industry we set prices that deliver environmental, drinking water quality and service improvements at the lowest overall reasonable cost. In November 2009 we announced our final determination of the prices that Scottish Water can charge its customers over the period 2010-15.

The review brought good news for customers, with a freeze on charges for households and businesses in both 2010-11 and 2011-12, and charges kept at below inflation until 2015. The default tariffs that are available for all business customers will also remain below inflation through to 2015. The determination also brings improvements in service, public health and environmental performance.

The final determination set out our view of the lowest cost of delivering the Scottish Ministers' objectives for the water industry. We set prices that allowed Scottish Water sufficient resources to deliver these objectives provided it meets our expectations of improved efficiency.

The charge caps enable Scottish Water to deliver more than £2.5 billion in investment to:

- improve our environment,
- contribute to sustainable development,
- reduce its carbon emissions,
- achieve its economic level of leakage,

- increase compliance with public health standards, and
- provide higher levels of service to customers.

Planning for the next review

We want to make sure that the industry is properly equipped to meet the challenges that lie ahead, including complying with future carbon reduction targets, keeping charges affordable and satisfying higher customer expectations.

We are therefore planning now how we can improve regulation for the next price review, when we will set charges for the period beyond 2015. Our aim is to simplify the regulatory system and encourage greater customer participation in decision-making.

We would like to see much greater dialogue with customers before and after Scottish Water publishes its business plan in 2013 and before the Commission publishes its draft conclusions in 2014. We published an initial consultation on customer engagement, 'Putting customers at the centre of the price review process' in July 2010, and published a summary of responses to this in January 2011. We are now discussing the issues further with customer representatives and Scottish Water.

Working with stakeholders we have agreed a detailed timeline for the next review; this allows time for effective customer engagement. We also published a 'ready reckoner' to help illustrate the impacts of new investment on future bills.

Improving performance

We monitor Scottish Water's performance in providing service to customers and set targets so that we can measure and report on improvements.

Better customer service

We first drew attention to the level of customer service in our 2001 price review, and in 2005 we set annual milestones for Scottish Water to improve in this area. We use a points-based system, the 'overall performance assessment' (OPA), which encompasses aspects of service that are most important to customers. Scottish Water has responded very well to its customer service targets and has significantly outperformed in this area. Since it was formed in 2002 its OPA score has more than doubled, increasing from 132 in 2002-03 to 291 in 2009-10.

From April 2010 we have redefined the OPA on a wider basis than before. As outlined in our final determination, we expect Scottish Water to achieve a score in the range 380 to 400 by 2013-14, equivalent to that of the leading water and sewerage companies in England and Wales. Scottish Water is on target to achieve this, and its reported score of 330 is higher than we expected for 2010-11.

Tackling leakage

We have set annual targets for Scottish Water to reduce leakage since 2006. The targets are designed to ensure that by 2013-14 Scottish Water achieves the point where the cost saving of reducing leakage is equal to the economic cost of the water lost (this is known as the economic level of leakage).

The reduction in leakage that Scottish Water has achieved since 2006 is enough to supply half of Scotland's households every day. We are pleased to report that Scottish Water will beat its leakage target of 720MI/d for 2010-11 in spite of the very severe weather at the start of the winter. As a result, leakage is now over a third lower than its level of five years ago.

Delivering investment

Progress in delivering the investment programme is measured against targets that are agreed by Ministers and set out in Scottish Water's delivery plan. In our Performance Report 2010 we noted that the vast majority of the programme for 2006-10 had been delivered. Scottish Water has also outperformed the ministerial objectives in several areas, delivering more outputs than were financed in areas such as drinking water quality, waste water compliance and tackling leakage. Areas where a shortfall remains have been captured and are being closely monitored through the Outputs Monitoring Group¹.

In our Annual Report 2010-11 (published 6 June 2011) we highlighted our concerns about the fact that no borrowing had been allowed for Scottish Water for 2011-12. Despite budgetary constraints in Scotland it is essential to make sure that the capital programme continues to be financed so that environmental and drinking water quality improvements can continue to be delivered effectively and efficiently.

Facilitating greater value and choice through competition

It is three years since the retail market was opened to competition for businesses and public sector organisations. Around 42% of the market (some 47,000 customers) are already enjoying the direct benefits. This year we have seen significant savings for the public purse too. We were particularly pleased to welcome the announcement in March 2011 of the results of a national tender exercise carried out by Procurement Scotland. The tender represents more than 20% of the total non-household market in Scotland and will bring around £20 million of savings to the public sector over three years.

In addition to the direct benefits to customers, our latest analysis shows that the costs of establishing and running the retail framework are already being covered from savings in administrative costs, and these savings will grow over time. Indeed, our analysis shows that the benefit for customers of the introduction of retail competition in Scotland is £330 million (based on the net present value of already achieved and potential future cost reductions).

Managing the office

From our small office in Stirling we are responsible for regulating an industry with an annual turnover of more than £1 billion that provides a vital service to the Scottish people. We carry out this role at a cost of around 55 pence per customer a year.

Early in 2010 we commissioned an independent external review of our operations and methods of working over the previous four years. This was carried out by Christopher Bolt CB, assisted by Grant Thornton UK LLP, who reported to us in July 2010. We published our response to the review in October, and have since taken forward many of the review's recommendations. We also published our own 'Mission, governance and strategy' paper in February 2011.

This year we also further tightened our procurement and other procedures, including processes to lessen reputational risk. For example, we now publish Commission members' expenses as and when these are claimed. We also publish information about expenditure as required by the Public Services Reform (Scotland) Act 2010.

We managed to reduce our own operating costs substantially during 2010-11, through savings in staff salaries, travel and subsistence, and consultancy costs. As a result, we were able to repay £607,000 to Scottish Water and £75,000 to the licensed providers.

¹ This comprises the Scottish Government, Scottish Water, the Drinking Water Quality Regulator, the Scottish Environment Protection Agency, Waterwatch Scotland and the Commission.

The Public Services Reform (Scotland) Act 2010

The Public Services Reform (Scotland) Act 2010 imposed new duties on the Scottish Government and on public bodies such as the Water Industry Commission for Scotland to publish specific information on their expenditure. The Act also requires us to publish two statements outlining the steps we have taken to promote and increase sustainable growth and to improve efficiency, effectiveness and economy. The duties to publish this information are intended to promote greater openness and transparency. A document which comprises our response to the requirements of the Act can be found on our Corporate website.

Environmental policy

As a public body, the Commission is required to contribute to the targeted reduction in carbon emissions set out in the Climate Change (Scotland) Act 2009. In March we moved into new smaller offices close to Stirling city centre. We are saving energy, carbon and water (around 21 tonnes of CO₂ equivalent and 11,000 litres of water a year). Staff and visitors also have better access to sustainable forms of transport.

Employees

The Commission recognises the commitment of all employees in carrying out the functions of its Office, and seeks to be an equal opportunity employer in the recruitment, training and development of all staff. The Commission seeks to consult fully with employees on all matters that impact upon their employment within the office.

Payments to creditors

It is the Commission's policy to pay all invoices not in dispute within 30 days from receipt of the invoice or the agreed contractual terms if otherwise specified. However, last year the Commission revised its processes to reduce the length of time taken to pay suppliers, moving closer to achieving the Government's 10 day payment pledge. During 2010/11, the average length of time taken to pay an invoice was 7 days (2009/10: 8 days).

Changes in non-current assets

Expenditure invested in terms of information technology, furniture and fittings and intangible assets totalled £247,361 for the year ended 31 March 2011 (2010: £62,950). This amount relates to costs associated with the office move and a refresh of information technology hardware.

Interests held by the Commission

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

Financial results

As set out in the financial statements, there was a retained net surplus for the year of £353,051 (2010: £166,932). The increase in the surplus from the previous financial year is largely as a result of reduced

expenditure relating to consultants. The balance on the General Reserve as at 31 March 2011 was £1,125,100 (2010: £452,049). The biggest variance relates to the reduction of the net pension liability to £155k as at 31 March 2011, from £894k as at 31 March 2010.

Pensions

Some employees and former employees of the Commission's office are members of the Local Government Superannuation Scheme administered by Falkirk Council. This scheme is a defined benefit scheme. In accordance with International Accounting Standard 19 (IAS19) – Employee Benefits, the Commission commissioned the Fund's actuaries to undertake a valuation as at 31 March 2011. This calculation was based on rolling forward valuation data at 31 March 2008 to 31 March 2011, on the basis of a number of financial assumptions. The investment return on LGPS funds during 2010/11 was better than expected, in the region of 5% to 10%, which had a positive impact on the IAS 19 position of assets. In the June 2010 Emergency Budget, the Chancellor announced that public sector pension increase will henceforth be linked to the (lower) Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). Again, this has served to decrease the value of the liabilities, thus having a positive impact on the IAS 19 position.

Details on the pension scheme can be found in the remuneration report on page 8, the accounting policies listed on pages 19 and 20 and in note 12 to the financial statements.

Sickness absence data

The average length of time that each employee was absent due to sickness was 9.0 days (2010: 6.8 days).

Directors and Commission members

The Directors and Commission Members during the year were as follows:

Directors

Katherine Russell
John Simpson
Ian Tait

Commission Members

Sir Ian Byatt (Chairman)
John Banyard
Mike Brooker
Charles Coulthard
David Simpson
Alan Sutherland

The appointments of Sir Ian Byatt, John Banyard and Mike Brooker came to an end on 30 June 2011. Professor Gordon Hughes has been appointed as the new Chairman of the Water Industry Commission for Scotland from July 1, 2011.

Audit Arrangements

The Auditor General for Scotland has appointed Audit Services, Audit Scotland as the auditor to the Water Industry Commission. Their appointment is undertaken in accordance with the Code of Audit Practice approved by the Auditor General. The cost of these services for the year to 31 March 2011 amounted to £13,100 (2010: £16,700). The Auditor General has approved that the audit of the Commission should be carried out by KPMG LLP for the next 5 years.

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 accounts are authorised for issue. This is interpreted as the date on which the Independent Auditor's report is signed.

Disclosure of Audit Information to the Auditors

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



3 October 2011

Alan D A Sutherland
Accountable Officer
Water Industry Commission for Scotland
Moray House
Forthside Way
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FK8 1QZ

REMUNERATION REPORT

Salary and Pension Entitlements (Audited)

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

During 2010/11 the Remuneration Committee of the Commission was comprised of the Chairman and two members of the Commission, being John Banyard and David Simpson. It is the responsibility of the Remuneration Committee to review the remuneration packages of senior staff, ensuring they operate within the public sector pay framework for staff pay remits. The Remuneration Committee will also approve the principles that underlie the salary ranges of other Commission staff. Performance pay and bonuses are in line with the Public Sector Pay Policy as defined by the Scottish Government on an annual basis.

The total remuneration of the Chief Executive in the year was £141,183 (2009/10: £150,935, of which £12,982 was paid as a bonus). Pension contributions of £14,818 (2009/10: £14,476) made on behalf of the Chief Executive were payable to the Falkirk Council Pension Scheme.

The Directors are also ordinary members of the Falkirk Council Pension Scheme. The remuneration (including bonuses and allowances) and pension entitlements of the Directors were as follows:

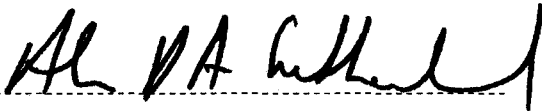
	Salary and Pension 10/11 £'000	Bonus 10/11 £'000	Gross Salary 2010/11 £'000	Salary and Pension 09/10 £'000	Bonus 09/10 £'000	Gross Salary 2009/10 £'000
Directors						
Katherine Russell, Director of Corporate Affairs	121 - 125	-	121 - 125	115 - 120	6 - 10	126 - 130
John Simpson, Director of Analysis	106 -110	-	106 -110	101 - 105	6 - 10	111 - 115
Ian Tait, Director of Investment	91 - 95	-	91 - 95	86 - 90	6 - 10	96 - 100

	Accrued pension as at 31/03/11 £'000	Lump sum as at 31/03/11 £'000	Real increase in pension £'000	Real increase in lump sum £'000	CETV at 31/03/11 £'000	CETV at 31/03/10 £'000	Real Increase in CETV £'000
Directors							
A Sutherland	11 - 15	26 - 30	0 - 2.5	-2.5 - 0	156	148	2
K Russell	6 - 10	11 - 15	0 - 2.5	-2.5 - 0	88	78	7
J Simpson	11 - 15	21 - 25	0 - 2.5	-2.5 - 0	197	177	13
I Tait	11 - 15	21 - 25	0 - 2.5	-2.5 - 0	129	127	-3

Commission Members are not members of the pension scheme. However, the Chairman received £6,788 (2009/10: £8,485) as a contribution to his personal pension fund. The remuneration of the Commission Members, other than the Chief Executive, is determined by a daily fee rate. To ensure consistency and comparability across public bodies, a number of remuneration bands have been developed within the 'Daily Fee Framework'. The Commission is considered a 'band 2' organisation, and the daily fees and the total amount paid to the Commission members was:

	2010/11	2010/11	2009/10	2009/10
	Daily rate	Total	Daily rate	Total
	£	£000	£	£000
Sir Ian Byatt (Chairman)	398	41 – 45	398	51 – 60
Professor John Banyard	301	16 – 20	301	16 - 20
Dr Michael Brooker	301	16 – 20	301	16 - 20
Charles Coulthard	301	16 – 20	301	16 - 20
Professor David Simpson (Deputy Chairman)	301	16 – 20	301	16 - 20

No material benefits in kind were paid to any of the Directors or Commission Members.



3 October 2011

Alan D A Sutherland
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STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Water Industry Act 1999, the Scottish Ministers have directed the Water Industry Commission for Scotland to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Water Industry Commission for Scotland as at the end of the financial year and of the operating cost, changes in equity and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual, and in particular 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 the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts.
- Prepare the accounts on a going concern basis.

The Accountable Officer of the Scottish Government Environment and Rural Affairs Department appointed the Chief Executive of the Water Industry Commission for Scotland as the Accountable Officer for the Commission.

The Chief Executive's responsibilities as Accountable Officer for the Commission are set out in the Financial Memorandum published by the Scottish Government. The Accountable Officer has responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding the Commission's assets.

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The Scottish Public Finance Manual (SPFM) is issued by the 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.

Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The process within the organisation accords with guidance from the Scottish Ministers provided in the SPFM and has been in place for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts.

Risk and control framework

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

The Water Industry Commission has established a robust and effective framework for the management of risk, one that is proactive in understanding risk, builds upon existing good practice and is integral to all our decision making, planning, performance reporting and delivery processes. Our risk strategy makes clear the roles and responsibilities for achieving an effective control framework.

The focus of our strategy is a risk register which identifies potential or actual risks to the achievement of the objectives set out in our Corporate Plan. It also documents the controls in place to manage these risks and any action being taken to reduce the risk rating.

The Commission actively champions the risk management process and has defined the organisation's risk appetite. The risk register is populated by the Commission and all staff, and each risk is scored and set a realistic target to reduce the level of the risk. The action plans in place to reduce risk ratings are subject to continual review. They are monitored by staff internally and reviewed by the Commission's Audit Committee on a quarterly basis. I, as the Accountable Officer, also review the register prior to its submission to the Audit Committee. The Commission are informed of significant changes to the register or new risks and hold a bi-annual strategy meeting to review the register and to discuss any potential new risks that may result from current activities of the Commission or external matters which may have a material impact on our work.

More generally, the organisation is committed to a process of continuous development and improvement, developing systems in response to any relevant reviews and developments in best practice in this area. Early in 2010 we commissioned an independent external review of our operations and methods of working over the previous four years. This was carried out by Christopher Bolt CB, assisted by Grant Thornton UK LLP, who reported to us in July 2010. We published our response to the review in October, and have since taken forward many of the review's recommendations. We also published our own 'Mission, strategy and governance' paper in February 2011. This year we also further tightened our procurement and other procedures, including processes to lessen reputational risk. For example, we now publish Commission members' expenses and information about expenditure as required by the Public Services Reform (Scotland) Act 2010.

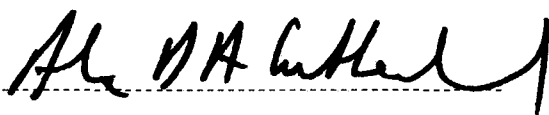
Review of Effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by:

- the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the organisation's Audit Committee regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement;
- comments made by the external auditors in their management letters and other reports; and
- the annual report of the Audit Committee, which concluded that the Committee was satisfied that the Water Industry Commission for Scotland has acted diligently to set in place effective control systems and financial reporting processes to measure and manage the risk inherent in the delivery of the organisation's objectives.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system.

I have considered the standard of internal control for the Water Industry Commission for Scotland. Based on my review of the effectiveness of the system of internal control, and my own knowledge of internal control matters in the Commission, I can confirm that these controls are currently working satisfactorily, and are kept under continual review by our Audit Committee.



3 October 2011

Alan D A Sutherland
Accountable Officer
Water Industry Commission for Scotland
Moray House
Forthside Way
Stirling
FK8 1QZ

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

I have audited the financial statements of the Water Industry Commission for Scotland for the year ended 31 March 2011 under 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 comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statement of Changes in Equity, and the related notes. 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 2010/11 Government Financial Reporting Manual (the 2010/11 FReM).

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 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities on page 10, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and receipts. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and receipts.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Directors' Report and Management Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view 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 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Water Industry Commission for Scotland as at 31 March 2011 and of its net surplus 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 2010/11 FReM; and

- have been prepared in accordance with the requirements of the Water Industry Act 1999, as amended by the Water Industry (Scotland) Act 2002 and the Water Services etc (Scotland) Act 2005, and directions made thereunder by the Scottish Ministers.

Opinion on regularity

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

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared 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 and directions made thereunder by the Scottish Ministers; and
- the information given in the Directors' Report and Management Commentary is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement on Internal Control does not comply with Scottish Government guidance.

I have nothing to report in respect of these matters.



Murdoch McCamley CA
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14 October 2011

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

	Note	Year ended 31 March 2011 £	Restated Year ended 31 March 2010 £
Income			
Income from activities	2	3,890,962	4,957,450
Finance income	2	-	-
Other income	2	711	5,422
		<hr/>	<hr/>
		3,891,673	4,962,872
Expenditure			
Staff costs	4	1,348,958	1,768,713
Depreciation and amortisation	6/7	121,436	114,294
Other expenditures	5	2,070,114	2,914,611
		<hr/>	<hr/>
		3,540,508	4,797,618
Operating surplus		351,165	165,254
Interest receivable		1,886	1,678
		<hr/>	<hr/>
Retained net surplus for the year		353,051	166,932
Other comprehensive income			
Actuarial gains/(losses) recognised		320,000	(845,000)
		<hr/>	<hr/>
Total comprehensive income/(expenditure) for the year		673,051	(678,068)

All income and expenditure relates to continuing activities.

The notes on pages 19 - 29 form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	Note	Year ended 31 March 2011 £	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Non-current assets				
Property plant and equipment	6	265,461	188,967	209,065
Intangible assets	7	53,576	108,733	147,314
Pension assets	12	2,466,000	2,081,000	1,464,000
Other receivables	8	12,337	-	-
Total non-current assets		2,797,374	2,378,700	1,820,379
Current assets				
Other receivables	8	188,868	125,541	90,575
Cash and cash equivalent	9	976,890	1,364,942	1,277,019
Total current assets		1,165,758	1,490,483	1,367,594
Total assets		3,963,132	3,869,183	3,187,973
Current liabilities				
Trade payables and other current liabilities	10	(217,032)	(442,134)	(505,856)
Total current liabilities		(217,032)	(442,134)	(505,856)
Non-current assets plus/less net current assets/liabilities		3,746,100	3,427,049	2,682,117
Non-current liabilities				
Pension liabilities	12	(2,621,000)	(2,975,000)	(1,462,000)
Net Assets		1,125,100	452,049	1,220,117
Equity				
General Reserve		1,125,100	452,049	1,220,117



3 October 2011

Alan D A Sutherland
Accountable Officer
Water Industry Commission for Scotland

The notes on pages 19 - 29 form part of these financial statements

STATEMENT OF CASH FLOW

For the year ended 31 March 2011

	Note	Year ended 31 March 2011 £	Restated Year ended 31 March 2010 £
Cash flows from operating activities			
Operating surplus		351,165	165,254
<i>Adjustments for non-cash items</i>			
Difference in pension costs compared to contributions	12	(419,000)	(39,000)
Depreciation on tangible and intangible non-current assets	6/7	121,436	114,294
Loss on disposal of non-current assets	5	104,588	7,335
<i>Movements in working capital</i>			
Increase in trade and other receivables	8	(75,664)	(34,966)
Decrease in trade payables	10	(225,102)	(63,722)
Net cash outflow from operating activities		(142,577)	149,195
Cash flows from investing activities			
Purchase of intangible assets	7	-	(19,340)
Purchase of property, plant and equipment	6	(247,361)	(43,610)
Net cash outflow from investing activities		(247,361)	(62,950)
Cash flows from financing activities			
Interest received		1,886	1,678
Net inflow from financing activities		1,886	1,678
Net (decrease)/increase in cash and cash equivalents		(388,052)	87,923
Cash as at 1 April	9	1,364,942	1,277,019
Cash as at 31 March	9	976,890	1,364,942

The notes on pages 19 - 29 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY (SCE)

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

For the year ended 31 March 2011

	Notes	Operations £	Pension £	General Reserve £
Balance at 1 April 2009		1,218,117	2,000	1,220,117
Changes in reserves 2009-10				
Actuarial gains		-	320,000	320,000
Change in assumptions underlying the present value of the scheme liabilities		-	(1,255,000)	(1,255,000)
Net surplus for the year		127,932	39,000	166,932
Balance as at 31 March 2010		1,346,049	(894,000)	452,049
Changes in reserves 2010-11				
Actuarial gains	12	-	31,000	31,000
Change in assumptions underlying the present value of the scheme liabilities	12	-	289,000	289,000
Net retained (deficit)/surplus for the year		(65,949)	419,000	353,051
Balance as at 31 March 2011		1,280,100	(155,000)	1,125,100

The notes on pages 19 - 29 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The financial statements have been prepared as required by the Accounts Direction issued by the Scottish Ministers on 3 October 2006 and prepared in accordance with the 2010/11 Government Financial Reporting Manual (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 particular circumstances of the Water Industry Commission for Scotland for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material in relation to the accounts.

a) Accounting Convention

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

b) Property, plant and equipment (PPE)

(i) PPE is recorded in the accounts at the lower of replacement cost and recoverable amount. Assets are recognised for expenditure which is of continuing benefit to the Water Industry Commission over a period of more than one year. The bulk of assets are represented by office fittings in a leasehold building, and their market value is not readily available. Assets are valued at depreciated cost, on the basis of the following estimated useful lives:

- Information technology 4 years
- Furniture and fittings 10 years

A full year's depreciation is provided in the year of acquisition and none in the year of disposal. The Commission has considered the effect of applying modified historical cost accounting and revaluing the assets to take account of current cost indexation. For the period ended 31 March 2011, the effect of revaluing the assets makes no material difference to the results for the period or the financial position at the period end, therefore no adjustment has been made for the difference between the current value and the carrying value of the non-current assets. All tangible assets are carried at fair value.

(ii) Intangible assets relate to software licences and externally developed software. These are treated in the same manner as information technology, as detailed above.

c) Trade receivables and payables

Both trade receivables and trade payables are valued at fair value.

d) Financial instruments

Due to the non-trading nature of its activities and the way in which it is financed, the Commission is not exposed to the degree of financial risk faced by business entities. The Commission's activities expose it to the following financial risks:

- Liquidity risk arises from the possibility that the Commission might not have funds available to meet its commitments to make payments. The Commission has agreed a budget with the Scottish Government as outlined in the Corporate Plan for the regulatory period 2010-15. The

Commission has internal procedures in place by which expenditure is carefully monitored against the budget.

- Credit risk could only arise from cash held with the bank.
- The Commission is not exposed to significant market risk.

e) Income

Funding is by way of the statutory contribution paid by Scottish Water, as directed by Scottish Ministers. Since April 2008, licensing activity has been funded by a levy charged to licensed providers. All income is recognised in the statement of comprehensive income on an accruals basis.

f) Operating Leases

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

g) Pension Costs

The Commission makes pension provision for some present and former employees through the Local Government Superannuation Scheme administered by Falkirk Council. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method. The Commission is required to fully adopt the accounting principles as required by International Accounting Standard 19 – Employee Benefits. This requires the cost of retirement benefits to be recognised in the financial statements as they are earned by employee service. As a result accounting entries have been made to the financial statements which include a net pension asset/liability in the statement of financial position matched by an entry to the general reserve together with entries in the statement of comprehensive income to reflect movements in the net pension asset/liability from one year to the next.

h) Cost of Capital

HM Treasury, under the Clear Line of Sight (Alignment Project) removed the cost of capital charge from accounts from 1 April 2010. The cost of capital charge is no longer applicable. The removal of the cost of capital charge is a change in accounting policy under IAS 8. Applying paragraph 31 of IAS 1 and, noting that the removal of the cost of capital charge has no effect on the balance sheets, a specific disclosure is not required. The impact on the 2009/10 figures in the statement of comprehensive income would have been to disclose both a charge for £44,873 and a corresponding credit before Net expenditure, thus having £nil overall effect.

i) Segmental reporting

IFRS 8 Segmental Reporting requires operating segments to be identified on the basis of internal reports about components of the Commission that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and assess their performance. The segments identified within the Commission relate to licensing and regulation activities.

j) Going concern

The accounts are prepared on the going concern basis, which provides that the entity will continue in operational existence for the foreseeable future.

2. Income

	Year ended 31 March 2011	Year ended 31 March 2010
	£	£
Scottish Water statutory contribution	2,132,770	3,033,204
Scottish Water statutory contribution - WWS	613,192	719,496
Levy on licensed providers	1,145,000	1,204,750
Other income	711	5,422
	<u>3,891,673</u>	<u>4,962,872</u>

The Scottish Water statutory contribution includes amounts received on behalf of Waterwatch Scotland. This is received monthly and is transferred to Waterwatch Scotland immediately upon receipt. From 15 August 2011, the functions of Waterwatch Scotland were transferred to Consumer Focus Scotland and the Scottish Public Services Ombudsman. Therefore, the Commission will no longer receive these amounts.

An annual levy is payable by each licensed provider, representing the relevant portion of the estimated costs incurred by the Commission for that year in exercising its functions relating to water services and sewerage services licenses. Of levy received from licensed providers, 99% was received from Business Stream, the wholly owned subsidiary of Scottish Water.

3. Analysis of net expenditure by activity

The analysis below does not include the amounts received by and paid to Waterwatch Scotland, finance income, other income and interest receivable. Expenditure includes the net pension credit which has arisen as a result from the move to Consumer Prices Index (CPI), rather than the Retail Prices Index (RPI), as explained in note 4.

For the year ending 31 March 2011	Licensing £	Regulation £	Total £
Income	1,145,000	2,132,770	3,277,770
Direct expenditure	(613,536)	(840,702)	(1,454,238)
	<u>531,464</u>	<u>1,292,068</u>	<u>1,823,532</u>
Contribution to overheads			1,823,532
Overheads			(1,473,077)
Surplus			350,455

For the year ending 31 March 2010	Licensing £	Regulation £	Total £
Income	1,204,750	3,033,204	4,237,954
Direct expenditure	(405,277)	(1,771,868)	(2,177,145)
	<u>799,473</u>	<u>1,261,336</u>	<u>2,060,809</u>
Contribution to overheads			2,060,809
Overheads			(1,900,977)
Surplus			159,832

4. Staff numbers and related costs

Staff costs comprise:

	Year ended 31 March 2011	Year ended 31 March 2010
	£	£
Salaries and wages	1,309,961	1,371,577
Commission remuneration	110,788	138,485
Social security costs	158,157	156,390
Pension costs	(229,948)	102,261
	<hr/>	<hr/>
Amounts included within operating surplus	1,348,958	1,768,713
	<hr/>	<hr/>

The Emergency budget in June 2010 required that the pension increase assumption for the year should be in line with the lower Consumer Prices Index (CPI), rather than the Retail Prices Index (RPI). This has given rise to an overall net pension credit in the statement of comprehensive income, as opposed to an expense.

Average number of persons employed:

The average number of whole-time equivalent persons employed during the year was 23 (2010: 26), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2011	Year ended 31 March 2010
Directors, including Chief Executive	4	4
Corporate Affairs	9	9
Analysis	10	13

All employees are employed on permanent contracts.

5. Other expenditure

	Notes	Year ended 31 March 2011	Year ended 31 March 2010
		£	£
Staff travel and subsistence		90,145	216,076
Office accommodation		152,906	145,082
General operating costs		461,895	646,268
Regulation and licensing costs		478,883	1,113,356
Recruitment		-	563
Information project and IT Support		35,103	51,698
Relocation costs		131,610	-
Finance charges		1,792	14,737
Transfer of levy to Waterwatch Scotland		613,192	719,496
		<hr/>	<hr/>
		1,965,526	2,907,276
<i>Add non-cash costs:</i>			
Loss on disposal of non-current assets		104,588	7,335
Depreciation	6/7	121,436	114,294
		<hr/>	<hr/>
		2,191,550	3,028,905
		<hr/>	<hr/>

The operating costs for the year are stated after charging the external audit fee of £13,100 (2010: £16,700) and, within office accommodation, an operating lease rental of £76,349 (2010: £76,037).

6. Property, plant and equipment

	Information technology	Furniture and fittings	Total
	£	£	£
Cost			
At 31 March 2010	155,786	275,846	431,632
Additions	97,348	150,013	247,361
Disposals	(85,875)	(169,696)	(255,571)
	<hr/>	<hr/>	<hr/>
At 31 March 2011	167,259	256,163	423,422
	<hr/>	<hr/>	<hr/>
Depreciation			
At 31 March 2010	121,340	121,325	242,665
Charge for the year	40,914	25,364	66,278
Eliminated on disposals	(81,875)	(69,107)	(150,982)
	<hr/>	<hr/>	<hr/>
At 31 March 2011	80,379	77,582	157,961
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2011	86,880	178,581	265,461
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2010	34,446	154,521	188,967
	<hr/>	<hr/>	<hr/>

	Information technology	Furniture and fittings	Total
	£	£	£
Cost			
At 31 March 2009	176,736	271,270	448,006
Additions	24,424	19,186	43,610
Disposals	(45,374)	(14,610)	(59,984)
	<hr/>	<hr/>	<hr/>
At 31 March 2010	155,786	275,846	431,632
	<hr/>	<hr/>	<hr/>
Depreciation			
At 31 March 2009	137,926	101,015	238,941
Charge for the year	28,788	27,585	56,373
Eliminated on disposals	(45,374)	(7,275)	(52,649)
	<hr/>	<hr/>	<hr/>
At 31 March 2010	121,340	121,325	242,665
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2010	34,446	154,521	188,967
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2009	38,810	170,255	209,065
	<hr/>	<hr/>	<hr/>

7. Intangible assets

	Software licences £	Information technology £	Total £
Cost			
At 31 March 2010	38,253	193,429	231,682
Additions	-	-	-
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2011	38,253	193,429	231,682
	<hr/>	<hr/>	<hr/>
Amortisation			
At 31 March 2010	30,684	92,265	122,949
Charge for the year	6,800	48,357	55,157
Eliminated on disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2011	37,484	140,622	178,106
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2011	769	52,807	53,576
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2010	7,569	101,164	108,733
	<hr/>	<hr/>	<hr/>

	Software licences £	Information technology £	Total £
Cost			
At 31 March 2009	36,715	175,627	212,342
Additions	1,538	17,802	19,340
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2010	38,253	193,429	231,682
	<hr/>	<hr/>	<hr/>
Amortisation			
At 31 March 2009	21,121	43,907	65,028
Charge for the year	9,563	48,358	57,921
Eliminated on disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2010	30,684	92,265	122,949
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2010	7,569	101,164	108,733
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2009	15,594	131,720	147,314
	<hr/>	<hr/>	<hr/>

8. Other receivables

	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
	£	£	£
Current receivables			
Prepayments	188,632	122,282	89,947
Other receivables	236	3,259	628
	<u>188,868</u>	<u>125,541</u>	<u>90,575</u>
Long-term receivables			
Prepayments	12,337	-	-
	<u>12,337</u>	<u>-</u>	<u>-</u>

All prepayments and other receivables relate to bodies external to government.

9. Cash

	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
	£	£	£
Balance at 1 April	1,364,942	1,277,019	273,177
Net change in cash	(388,052)	87,923	1,003,842
Balance at 31 March	<u>976,890</u>	<u>1,364,942</u>	<u>1,277,019</u>

10. Trade payables and other current liabilities

	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
	£	£	£
Trade payables	13,623	227,394	319,487
Taxation and Social Security	39,320	47,840	56,087
Accruals	164,089	166,900	130,282
	<u>217,032</u>	<u>442,134</u>	<u>505,856</u>
Intra-government creditors:			
	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009
	£	£	£
Local Authorities	2,472	30,124	13,195
Central Government	60,928	47,840	56,087
Bodies external to government	153,632	364,170	436,574
	<u>217,032</u>	<u>442,134</u>	<u>505,856</u>

11. Commitments and Contingent Liabilities

Capital commitments at 31 March 2011 £nil (2010: £nil).

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.

	2010/11	2009/10
	£	£
not later than one year:	63,336	77,550
later than one year and not later than five years:	316,680	-
later than 5 years:	564,746	-

Contingent liabilities

The Commission has no contingent liabilities at 31 March 2011 (2010: £nil).

12. Pension

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 £190k (2010: £144k) into the Fund representing an average of 19.3% (2010: 16.6%) of pensionable salary. 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 2011/12 will be 21.9%.

In accordance with International Accounting Standard 19 – Employee Benefits the Commission commissioned the Fund's actuaries to undertake a valuation as at 31 March 2011. This calculation was based on rolling forward valuation data at 31 March 2008 (the last formal valuation) to 31 March 2011 on the basis of a number of financial assumptions. The main financial assumptions used included:

Financial Assumptions

	Year Ended 31 March 2011	Year Ended 31 March 2010
	%	%
Pension Increase Rate	2.8	3.8
Salary Increase Rate	5.1	5.3
Expected Return on Assets	6.9	7.2
Discount rate	5.5	5.5

The fair value and expected return on assets

	Expected return at 31 March 2011 % p.a.	Assets at 31 March 2011 £(000)	Expected return at 31 March 2010 % p.a.	Assets at 31 March 2010 £(000)
Assets (Employer)				
Equities	7.5	1,874	7.8	1,602
Bonds	4.9	321	5.0	271
Property	5.5	197	5.8	146
Cash	4.6	74	4.8	62
	<hr/>	<hr/>	<hr/>	<hr/>
Total	6.9	2,466	7.2	2,081
	<hr/>	<hr/>	<hr/>	<hr/>

The expected returns are based on the recommended return assumptions which are derived from the Hymans Robertson Asset Model, the proprietary stochastic asset model developed and maintained by Hymans Robertson LLP.

Note to the statement of financial position

Year ended:	31 March 2011 £(000)	31 March 2010 £(000)
Fair value of employer assets	2,466	2,081
Present value of funded obligations	(2,585)	(2,933)
	<hr/>	<hr/>
Net underfunding in funded plans	(119)	(852)
Present value of unfunded obligations	(36)	(42)
	<hr/>	<hr/>
Net liability	(155)	(894)
	<hr/>	<hr/>

Reconciliation of movement in deficit during the year

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Movement in (deficit)/surplus during the year:		
- (Deficit)/surplus at beginning of year	(894)	2
- Current Service Cost	229	(92)
- Employer Contributions	190	144
- Net Return on Assets	-	(13)
- Actuarial gain/(loss)	320	(935)
	<hr/>	<hr/>
Deficit at end of the year	(155)	(894)
	<hr/>	<hr/>

Note to the statement of comprehensive income

Year ended:	31 March 2011		31 March 2010	
	£(000)	% of pay	£(000)	% of pay
Current service cost	180	18.2%	68	7.8%
Interest on obligation	157	15.9%	106	12.2%
Expected return on employer assets	(157)	(15.9%)	(93)	(10.7%)
Past service cost / (gain)	(409)	(41.4%)	24	2.8%
Total included in "member costs"	(229)	(23.2%)	105	12.1%
Actual return on plan assets	189		503	

Note to the statement of changes in equity (SCE)

Year ended:	31 March 2011	31 March 2010
	£(000)	£(000)
Actuarial gains on plan assets	31	410
Actuarial gains / (losses) on obligation	289	(1,255)
Actuarial gain / (loss) recognised in SCE	320	(845)
Cumulative actuarial gain /(loss) recognised in SCE	(364)	(684)

Reconciliation of defined benefit obligation

Year ended:	31 March 2011	31 March 2010
	£(000)	£(000)
Opening defined benefit obligation	2,975	1,462
Current service cost	180	68
Interest on obligation	157	106
Contribution by members	87	77
Actuarial losses / (gains)	(289)	1,255
Past service costs / (gains)	(409)	24
Estimated unfunded benefits paid	(2)	(2)
Estimated benefits paid	(78)	(15)
Closing defined benefit obligation	2,621	2,975

Reconciliation of fair value of employer assets

Year ended:	31 March 2011	31 March 2010
	£(000)	£(000)
Opening fair value of employer assets	2,081	1,374
Expected return on assets	157	93
Contributions by members	87	77
Contributions by the employer	188	142
Contributions in respect of unfunded benefits	2	2
Actuarial gains	31	410
Unfunded benefits paid	(2)	(2)
Benefits paid	(78)	(15)
Closing fair value of employer assets	2,466	2,081

Amounts for the current and previous accounting periods

Year ended:	31 March 2011 £(000)	31 March 2010 £(000)	31 March 2009 £(000)	31 March 2008 £(000)	31 March 2007 £(000)
Fair value of employer assets	2,466	2,081	1,464	1,206	1,045
Present value of defined benefit obligation	(2,621)	(2,975)	(1,462)	(1,089)	(1,240)
Surplus/(deficit)	(155)	(894)	2	(117)	(195)
Experience gains/(losses) on assets	31	410	(74)	(111)	(8)
Experience gains/(losses) on liabilities	2	(3)	(365)	1	-
Actuarial gains/(losses) on employer assets	31	410	(74)	(111)	(8)
Actuarial gains/(losses) on obligation	289	(1,255)	(159)	431	(232)
Actuarial gains/(losses) recognised in SCE	320	(845)	(233)	320	(240)

The Employer's contribution for the year to 31 March 2012 is estimated to be £206k.

13. Related party transactions

The Commission is a non departmental public body sponsored by the Scottish Government Climate Change and Water Industry Directorate. The Directorate is regarded as a related party, as is Scottish Water, which is required by Scottish Ministers to provide a funding contribution. In addition, the licensed provider, Business Stream (a Scottish Water company), is also considered as a related party. During the year, the Commission has had material transactions with Scottish Water and Business Stream – see note 2 for further details.

During the year, no Commission Member, key manager or other related party has undertaken any material transactions with the Commission.

14. Losses and special payments

There were no losses or special payments made during this period (2010: £nil).



WATER INDUSTRY COMMISSION FOR SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of The Water Industry Act 1999, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, 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. This direction shall be reproduced as an appendix to the statement of accounts.

A handwritten signature in black ink, appearing to be 'D. ...', written over a horizontal line.

Signed by the authority of the Scottish Ministers

Dated 03 October 2006

