

## **B7 Financial Projections and Financial Model Input Sheets**

### **Outline**

Scottish Water should focus on the financing plan that is consistent with the strategy and expenditure set out in other parts of this business plan.

Section B7 of the business plan requires Scottish Water to project strategic financial information and indicators for the forthcoming review period.

This part of the plan also contains the input sheets for the completion of WICS' financial model. Information entered into these should be consistent with the information supplied in the rest of this business plan.

Information should be consistent with information supplied in other regulatory returns such as the Annual Return and RAB returns. Any variations should be discussed in the associated commentary.

It is suggested that the following issues are discussed within the commentary for these tables

- The financing plan
- Depreciation and IRC

### **Financing Plan**

The commentary in this section should focus upon the financing plan required by Scottish Water for the forthcoming period. It should be consistent with the strategy and expenditure set out within the rest of this business plan.

### **Assumptions**

Material assumptions relating to the following issues should be exposed within the commentary for these tables. Should these be different to those applied to previous information submissions to WICS then a full explanation should be offered in the commentary.

- The cost of debt
- Age of debt profiles
- Returns on Capital
- Projected capital value
- Critical financial indicators

### **Depreciation and IRC**

The commentary in this section should focus on Scottish Water's assessment of its current cost depreciation (CCD) projections.

Critical elements that should be discussed are:

- Explanation of how Scottish Water has taken account of any unexplained element resulting in changes to the CCD.
- Explanation of links between the apportionment of capital expenditure set out in this business plan. Where projected apportionments are significantly different to those reported in historic and current Annual Returns, the reasons should be set out clearly.
- Explanation of the procedures adopted to review asset lives in advance of the forthcoming review period. This should involve descriptions of changes in asset lives assumptions from the last Strategic Review of Charges. It should specifically state the basis on which IRC was calculated.

Any material assumptions made relating to how depreciation has been calculated should be detailed in the associated commentary.

## **Data Tables**

### **B7.1 and B7.2 Financial Projections and Cash Flow**

These tables set out Scottish Water's projections regulatory capital value for both year-end and year average values. The basis of these should be clearly set out.

B7.2 gives Scottish Water the facility to include interest receivable/received from its investments. A breakdown of the

type and principle amount of each investment from which the interest receivable/received is derived should be provided.

### **B7.3, B7.4, B7.5 Depreciation projections**

These tables collect information concerning Scottish Water's projections for depreciation on fixed asset and asset additions.

Depreciation of fixed assets should be consistent with the information and methods supplied as part of Section H of the Annual Return.

It should be noted that 'enhancements' are those elements or proportions of expenditure which provide new services or enhanced operating or serviceability capability. This includes inter alia enhanced operational scope such as might be provided in replacement instrumentation and control equipment. Enhanced expenditure will include all expenditure classified as quality enhancements, enhanced service levels and supply/demand balance. Unless stated otherwise, this expenditure should be before the deduction of any grants or contributions.

Depreciation is analysed between:

- Assets existing at 31 March 2004
- New investment for renewal or replacement of assets for the purpose of maintaining base service and adjustments for work in progress on projects for base service, together with;

- Depreciation on additions classified as enhancements; and
- Adjustments for work in progress relating to enhancements.

The CCD charge should reflect the operational life of the asset. Where the original projected life is known to vary for the economic life, an adjustment should be made. All such adjustments should be commented on and methodologies used to adjust specified.

Table B7.5 covers the amortisation of intangible fixed assets and historic cost depreciation for both the water and wastewater functions exiting at 31 March 2004.

The historic cost depreciation and amortisation profiles will form part of the historic profit and loss account. The historic figures can then be used to calculate key ratios for Scottish Water.

### **B7.6 Customer Revenues**

This table summarises key financial projections relating to the revenue Scottish Water forecasts it will receive from its various classifications of customers in the forthcoming period and beyond.

This should reconcile with the information supplied in Tables B8 of this business plan and information supplied in any other information submissions to WICS.

### **B7.7 Financial Model Income & Expenditure Account**

This table is the first of five that are inputs into the draft financial model. The inputs to this should therefore be consistent with the workings of the draft model. Particularly, both costs and revenues should be entered as positive numbers. All costs relating to operating expenditure should be entered at 05-06 prices unless otherwise stated, details should be provided in the commentary. All capital expenditure costs, unless otherwise stated should be inputted on an outturn basis, that is, the expected prices for the year.

The first draft business plan uses 2003-04 as the base year for projections of operating expenditure. In reporting projected operating expenditure for 2004-05 onwards, Scottish Water should determine the level of expenditure required to maintain base service levels as delivered in 2003-04. New operating expenditure is the projected additional cost of improvements to service levels over and above those delivered in the base year 2003-04.

Block A relates to operating costs for the water service, Block B refers to costs for operating the sewage service whilst Block C deals with operating costs for both services.

The information submitted should be consistent with information supplied elsewhere in the business plan and with all other submissions to WIC

### **B7.8 Financial Model Cash Flow Account and Balance Sheet**

This is the second of five tables that are inputs into the draft financial model. The inputs to this should therefore be consistent with the workings of the draft model. Particularly, both costs and revenues should be entered as positive numbers. All costs relating to operating expenditure should be entered at 05-06 prices unless otherwise stated, details should be provided in the commentary. All capital expenditure costs, unless otherwise stated, should be inputted on an outturn basis, that is, the expected prices for the year.

Block A refers to the 2005-06 cash flow statement whilst Block B are inputs to the Balance sheet

Information in this table should be consistent with information in Scottish Water's annual report and accounts as well as with other submissions to the WIC.

### **B7.9 Financial Model Asset Information Data Entry Sheet**

This is the third of five tables that are inputs into the draft financial model. The inputs to this should therefore be consistent with the workings of the draft model. Particularly, both costs and revenues should be entered as positive numbers. All costs relating to operating expenditure should be entered at 05-06 prices unless otherwise stated, details should be provided in the commentary. All capital expenditure

costs, unless otherwise stated, should be inputted on an outturn basis, that is, the expected prices for the year.

Block A deals with starting inputs for the financial model. These costs should be in 05-06 costs, not outturn costs.

Block B refers to additions to the asset base, this includes all maintenance, growth and quality spend. The costs should be on an outturn basis.

Block C transfers the historic accounting cost of assets to current costs.

Block D refers to planned asset disposals; these should be in 05-06 costs not outturn costs.

The information submitted should be consistent with information supplied elsewhere in the business plan and with all other submissions to WIC.

### **B7.10 Financial Model Debt Information Data Entry Sheet**

This is the fourth of five tables that are inputs into the draft financial model. The inputs to this should therefore be consistent with the workings of the draft model. Particularly, both costs and revenues should be entered as positive numbers.

This table refers to Scottish Water's embedded debt. Block A deals with levels of embedded debt in 05-6, whilst Block B deals with the repayment of the debt. All numbers are inputted as positive numbers.

The information submitted should be consistent with information supplied elsewhere in the business plan and with all other submissions to WIC.

### **B7.11 Financial Model General Assumptions**

This is the fifth of five tables that are inputs into the draft financial model. The inputs to this should therefore be consistent with the workings of the draft model. Particularly, both costs and revenues should be entered as positive numbers. All costs relating to operating expenditure should be entered at 05-06 prices unless otherwise stated, details should be provided in the commentary. All capital expenditure costs, unless otherwise stated, should be inputted on an outturn basis, that is, the expected prices for the year.

The indexes in rows 2 and 4 work with 05-06 as the base year and update automatically.

The information submitted should be consistent with information supplied elsewhere in the business plan, the company accounts and with all other submissions to WIC.

### **Guidance to Reporters**