

Annual Report & Financial Statements

2017-18

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SG/2018/139 For the period 1 April 2017 to 31 March 2018.

Laid before the Scottish Parliament by the Scottish Ministers under Part 1, section 5(4) of the Water Industry (Scotland) Act 2002 (as amended). October 2018



Chairman's foreword

During 2017-18 the Commission has continued to refine its approach to the next regulatory control period, which runs from 2021 to 2027. The Commission's framework for economic regulation seeks to ensure improved outcomes for customers and communities. If it is working effectively, Scottish Water should be demonstrably making progress towards such improved outcomes.

The Scottish water industry has adopted the principles of Ethical Based Regulation (EBR) and this commitment necessitates, more than ever, that the industry works jointly to deliver the best outcome for customers and for Scotland. The Commission is seeking to conduct a transparent and collaborative price review, taking account of all the evidence available to it in coming to the views set out in its forthcoming Decision Papers. The Commission much appreciates the continued support of stakeholders in the development of the 2021-27 Strategic Review of Charges.

The competitive retail market continues to evolve in Scotland. With the opening of the retail market in England in April 2017, we are focusing our efforts on ensuring that the framework for the competitive market remains fit for purpose and to make sure that it continues to serve the interests of non-household customers in Scotland. During 2018-19, we are undertaking a comprehensive review of the market.

The Commission continues to support the Scottish Government's Hydro Nation initiative and looks forward to new opportunities to learn from, and share experience with, regulators across Europe and beyond. During 2018/19, we will work with stakeholders in the Romanian water industry to strengthen economic regulation in Romania as part of a European Union funded programme to support the Romanian Public Services Regulatory Authority (ANRSC).

The success of the Commission's work relies on the efforts and hard work of the Chief Executive and all Commission staff. I am extremely grateful to all of them for their commitment and admirable contribution to the effective discharge of our responsibilities throughout 2017-18.

A handwritten signature in black ink, which appears to read 'Donald MacRae'. The signature is written in a cursive style and is positioned above the printed name.

Professor Donald MacRae OBE FRSE

Chairman

August 2018

Ensuring value for money for customers

We have a duty to promote the interests of customers

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

Strategic Review of Charges 2015-21

Our final determination for water and sewerage charges for the period 2015-21 set out that customer bills would increase below the rate of inflation throughout the period. The final determination also allowed for an extensive programme of investment of over £3.5 billion. In the third year of the current regulatory control period, we are pleased to note that Scottish Water continues to perform well and deliver benefits to Scottish customers. We will continue to monitor and report on Scottish Water's progress throughout the regulatory period.

We confirmed the allocation of £335.5 million¹ to investment projects as part of the Investment Review 2018 (IR18). This is £49.1 million higher than Scottish Water's Delivery Plan 2015-21.

Strategic Review of Charges 2021-27

This year our focus has been on concluding our approach to the next regulatory control period that commences in April 2021. We published our Methodology for the Strategic Review of Charges 2021-27 in April 2017, followed by thirteen Initial Decision Papers by the end of 2017. We will issue a series of further Decision Papers throughout 2018. These papers will update customers and stakeholders on our latest views and decisions for the Strategic Review of Charges 2021-27.

Our approach builds on the success of the 2015-21 price review and places a clear obligation on Scottish Water to take ownership of delivering the very best for customers and for Scotland and to look beyond compliance and meet the needs and expectations of the customers and communities it serves. Scottish water industry stakeholders continue to work together and have adopted the principles of Ethical Based Regulation (EBR). We believe that EBR is creating the necessary supportive and collaborative environment to address the challenges and opportunities facing the industry. We are engaging with Scottish Water and other industry stakeholders to align objectives and deliver the best possible outcome for customers.

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

Representing customers and communities

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

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

¹ in 2012-13 prices

Monitoring Scottish Water's Performance

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

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

Our most recent annual performance report published in November 2017 showed that overall Scottish Water is continuing to perform well against what they set out to achieve in their delivery plan. We will continue to monitor progress carefully. A full report on Scottish Water's performance for the 2017-18 period will be published later this year. We are conscious of the need to review and develop the mechanisms by which we measure Scottish Water's performance. In our approach to the 2021-27 Strategic Review of Charges, we have been developing our thinking on how the monitoring regime might be established for the 2021-27 regulatory control period. We are specifically considering the process for evidencing financial, service level and water and environmental compliance in the coming regulatory control period and beyond.

We published our initial views on performance monitoring in October 2017. We will publish an updated decision paper on performance monitoring by the end of 2018.

Achieving greater value and choice through retail competition

Competition in the non-household market for retail water and sewerage services began in April 2008. Business customers can, as a result, choose a price and service level that reflects their specific needs. Business Customers can now benefit from more tailored services and/or lower prices.

The competitive retail market continues to evolve. During 2017-18, the incumbent retailer's market share remained below 50%. There are now 27 Licensed Providers competing to offer greater choice and value-added services to Scotland's business customers.

We continue our efforts to improve the licence framework and Governance Code to be consistent with the requirements of the changing market. A new Standard Licence Condition B3 and associated directions that require all general water and sewerage Licensed Providers to transition to rateable value (RV)-based charges have now come into effect. We have published 2018-19 Default Directions for primary services to support the transition of RV-based charges. Licensed Providers are now expected to work with their customers and communicate the impact on water charges.

The English non-household retail market opened in April 2017 and there are currently 29 national Licensed Providers and 5 self-suppliers in the English market. We are proposing to undertake a review of the water and sewerage non-household retail market during 2018-19 to make sure that it continues to serve the interests of customers. We will adopt an interim approach to licensing during this review.

Sharing our experience

We actively support the Scottish Government's 'Hydro Nation' initiative. This year, we continue to have contact from regulatory offices across Europe and internationally, who want to learn more about the Scottish water industry's journey and experience.

The Commission continues to be regarded as a model for regulation of a public-sector entity, both in the UK and internationally. We are taking the opportunity to share our experience and expertise with this wider audience in line with the Scottish Government's Hydro Nation commitments and our duties under the Water Resource Act 2013. To promote the success of the public sector regulatory model we have hosted delegations from other jurisdictions and participated in international events and conferences. We have increased our collaboration with international organisations such as the OECD's Network of Economic Regulators. We are also continuing our membership of WAREG, a network of European Regulators focused on sharing knowledge and experience in regulation.

We received approval in January 2018 for funding of a European Commission sponsored project to deliver the technical assistance required to build a robust regulatory information framework for Romania. During 2018/19, we will work with stakeholders in the Romanian water industry to strengthen economic regulation in Romania as part of a capacity building project for the Romanian Public Services Regulatory Authority (ANRSC).

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

Managing our office

We are a small office of 23 employees, responsible for regulating an industry of vital importance to the Scottish people and to the Scottish economy.

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

Our methodology for delivering our statutory duties, and the skills required to meet our key objectives, has changed significantly over the last year or so. There is now a greater focus on project delivery: for example, in delivering the Strategic Review of Charges, initiatives in the retail market and for assignments under the Hydro Nation initiative. To address these changes, we have reviewed how our office is structured and how we incentivise our employees. Our restructuring in 2017 seeks to unify the activities of the office, creating an integrated structure and promote joint working amongst our staff. By simplifying the existing structure, we can provide greater integration of the roles and recognise the overlap of skill sets between analytical and support employees. The revised structure allows for clearer succession planning and transparency. Importantly, it also allows for equal progression opportunities for all employees, supported by one grading structure, aligning analytical and support staff.

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

Financial statements

Year ended 31 March 2018

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Performance report

1. Overview

The Water Industry Commission for Scotland (the Commission) presents the financial statements for the year from 1 April 2017 to 31 March 2018. The financial statements have been prepared in a form directed by the Scottish Ministers in accordance with the Water Industry Act 1999, as amended by the Water Industry (Scotland) Act 2002 and the Water Services etc. (Scotland) Act 2005. The Commission is required to make a report to the Scottish Ministers at the end of each year on its activities during the year and arrange for the report to be published.

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

1.1 History and statutory background

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

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

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

1.2 Principal activities

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

1.3 Performance over the period

Strategic Review of Charges

Our Methodology for the Strategic Review of Charges 2021-27 was published in April 2017 and set out the direction of travel for Scottish Water to look beyond compliance and meet the needs and expectations of the customers and communities it serves. Scottish Water is now being required to take full ownership of its strategy and its finances and to evidence that it is focused on delivering the very best outcomes for customers and for Scotland.

The Methodology also outlines the enhanced role that the Commission has asked the Customer Forum to play. The Forum is a conduit for the views of customers and communities. It is charged with reaching an agreement with Scottish Water on charges and service level priorities. Its agreement should reflect fully the decisions taken by the Commission on the ranges for the key inputs to the Strategic Review of Charges. We want the new Customer Forum to build on the excellent work of its predecessor and expand on its predecessor's customer engagement and outreach.

The Methodology also sought to remove all economic regulatory barriers to innovation. Scottish Water should respond and continually innovate to meet the expectations of its customers both now and long into the future.

Customers are entitled to expect a water and sewerage service that is delivered in an efficient and effective way. The Commission is responsible for monitoring Scottish Water's progress in reducing both its operating costs and its capital investment costs and assessing carefully what the company should achieve.

The Output Monitoring Group (OMG) currently 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 to ensure that Scottish Water is making appropriate progress towards the timely delivery of the objectives of the Scottish Ministers. The OMG assesses the progress of

Scottish Water in delivering the key milestones of the investment programme against its targets set out in the Delivery Plan and publishes reports on a quarterly basis.

Retail

The competitive retail market is evolving. During 2016-17, and for the first time since market opening, the incumbent retailer's market share has fallen below 50% and has remained below 50% during 2017-18. There are 27 Licensed Providers, as at August 2018, competing to offer greater choice and value-added services to Scotland's business customers.

We continue our efforts to improve the licence framework and Governance Code to ensure that they are fit for purpose in a changing market. An industry led code of practice has been developed to protect business customers. The Commission asked for an independent audit of the market. The audit showed that, overall, Licensed Providers are complying with their regulatory obligations. We have intervened in some limited circumstances to ensure that Licensed Providers continue to behave well.

Hydro Nation

The work of the Commission continues to be regarded as a model for regulation of a public-sector entity – not only by the Scottish Government but also by organisations, academics and other commentators in the rest of the UK and abroad. We are taking the opportunity to share our experience and expertise with this wider audience in line with the Scottish Government's Hydro Nation commitments and our duties under the Water Resource Act 2013 (the Commission was added to the list of bodies specified in the Water Resource Act 2013 in October 2017). During the last three years, we have had increasing contact from regulatory colleagues across Europe and internationally who want to learn more about the Scottish water industry journey and experience. We have increased our collaboration with international organisations such as the OECD Network of Economic Regulators. We are also continuing our membership of European Water Regulators (WAREG), a network of

European Regulators focused on sharing knowledge and experience in regulation.

Recently, we have been working to strengthen economic regulation in Romania as part of a capacity building project for the Romanian Public Services Regulatory Authority (ANRSC). In January 2018, we received approval for funding of a European Commission sponsored project to deliver the technical assistance required to build a robust regulatory information framework for Romania.

The involvement of the Commission 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.

Governance

The General Data Protection Regulation (GDPR) was introduced to the UK on 25 May 2018. The GDPR forms part of the data protection regime in the UK, together with the new Data Protection Act 2018 (DPA 2018). The regulation sets out how organisations should handle personal data. The Commission has a duty to comply with both the GDPR and the Public Records (Scotland) Act 2011 (PRSA). The National Records of Scotland, who work with all public bodies, monitor compliance with the PRSA. They aim to ensure public bodies have processes in place to manage their records appropriately. During the year, we focussed a significant level of effort in preparation for the GDPR, including staff training and an information audit. We made good progress towards compliance in advance of the 25 May 2018 deadline.

Risks

A strategic risk register is in place, overseen by the Commission and the Audit and Risk Committee (the Committee), in accordance with the approved risk management strategy. Following the implementation of a revised risk strategy during 2016-17, the Commission has made significant progress this year integrating the new strategy into the organisation and

developing the management and reporting of risk internally. During 2017-18, our employees received training on risk management to encourage a risk based approach to the work they do. Our new strategy and procedures assisted with the management of work required in relation to our most highly scored risks.

On 8 November 2017, the deputy first minister John Swinney announced the publication of the Public-Sector Action Plan on Cyber Resilience, which set out the key actions that should be implemented to ensure higher standards of cyber resilience amongst Scotland's public bodies. The risks associated with the additional work activities involved in implementing the necessary actions from the Plan were captured, monitored and evaluated using our new risk processes, providing oversight on progress made on the implementation of the key actions.

We achieved Cyber Essentials Plus accreditation following a pre-assessment and independent technical audit from an approved vulnerability assessor, providing assurance that the Commission's systems meet the required security standards.

1.4 Future developments

The Customer Forum will have a broader remit and an increased budget for the Strategic Review of Charges 2021-27. The Commission, Citizens Advice Scotland and Scottish Water have asked the Customer Forum to reach out to communities across Scotland to understand their priorities. The Customer Forum will also work with Scottish Water to seek to apply behavioural insights to the improvement of customer service and our understanding of what customers want.

Scottish water industry stakeholders have asked the OECD to conduct an independent review of the 2021-27 Strategic Review of Charges process. They will undertake a Peer Review and report on lessons learned towards the end of 2019. The OECD will also provide useful insights on behavioural economics and the development of the industry approach to capital maintenance.

The pace of change within the Retail Market has increased further with the opening of the English retail market in April 2017. We intend to keep the regulatory framework under review to make sure that it continues to serve the interests of customers in Scotland.

With regards to Hydro Nation, we will be focussing our efforts on our work with the ANRSC in Romania to deliver the objectives set out in our business case to the European Union's Structural Reform Support Service. We will also continue our efforts seeking out appropriate opportunities to share our expertise and support the development of regulation in other jurisdictions.

2. Performance analysis

2.1 Overall financial performance

As set out in the financial statements, there was a net surplus for the year of £141,112 (2016-17: net deficit of £157,544). Expenditure for the financial year 2017-18 was £3,429,371 (2016-17: £3,662,768). The decrease in expenditure relates to the Commission requiring less external advice than the previous year in relation to the Strategic Review of Charges. In addition, a Market Audit was carried out in 2016-17 to allow wider consideration of compliance with the Code of Practice to ensure customer protection and the cost for this work was in the region of £220k. The reduction in expenditure in these areas was partially off-set by increased staff remuneration costs. An increase of over £300k in this area was principally the result of an increase in headcount, as well as other salary increases during the year, in line with the Scottish Government's Pay Policy.

The end of year expenditure position was under the internal budget by approximately £800k (20%), largely as a result of a lower consultancy usage than expected and the timing of work being carried out. A deficit was expected in the year, to be funded from the existing cash balance. However, it is anticipated that the cash balance will be utilised during the next six years, as outlined in our Corporate Plan for the period

2018-24, which was approved by the Scottish Ministers in April 2018. We routinely review our budget requirements every three years for approval by the Scottish Ministers.

The cash balance of £2,421,458 (2016-17: £1,613,461), includes £423k relating to income from a European Union funded project that officially began in April 2018. This has been included within current liabilities as deferred income and will be released to the income statement as and when the work is carried out.

The balance on the General Reserve as at 31 March 2018 was £1,142,605 (2016-17: £10,493). The balance sheet position of the pension liability has improved significantly in the year, resulting in this increase of the General Reserve. Further information on the pension is outlined in section 2.3 below and note 12 to the financial statements.

2.2 Changes in non-current assets

During the year, there was an investment of £23,340 (2016-17: £18,821) in information technology assets. There was no other capital expenditure in the year.

2.3 Pensions

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

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

In accordance with IAS 19 (Revised) – the Fund's actuaries undertook a valuation as at 31 March 2018. The accounting balance sheet position as at 31 March 2018, and the projected charge to the income statement for 2018-19, are based on a roll forward from the 2017 formal valuation. This differs to the balance sheet position as at 31 March 2017 and the charge to the income statement for 2017-18, which were based on a roll forward from the 2014 formal valuation. This 'step change' can lead to sizeable asset and liability 're-measurement experience' items in the reconciliation of the balance sheet from 31 March 2017 to 31 March 2018.

As a result, the balance sheet position has significantly improved over 2017-18. The Fair Value of assets has increased by £283k and liabilities have decreased by £554k. Full details of the pension valuation can be found in note 12.

2.4 Supplier payment performance

It is the Commission's policy to pay all invoices not in dispute within 30 days from receipt of the invoice or in accordance with the agreed contractual terms if otherwise specified. However, the Commission aims to pay suppliers as soon as possible following receipt of an invoice. During 2017-18, the average length of time taken to pay an invoice was 14 days (2016-17: 9 days), this is higher than the Scottish Government's 10-day payment pledge, but during 2018-19 we will be reviewing our processes and procedures for improving efficiency in this area.

2.5 Sustainability

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

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

The Commission endeavours to behave in a carbon aware manner, with the location of our

office allowing employees and visitors to have better access to sustainable forms of transport. We have maintained our recycling policy during this financial year and our travel policy and use of the Scottish Government's travel services framework allow us to ensure only necessary travel is made and in the most economic and efficient manner. Last year we established an environmental committee, comprised of volunteers in the office, who have implemented

several innovative ways to monitor and reduce our carbon usage. The remit of the committee will continue to be developed.

The Commission's carbon footprint relating to transport and travel has increased due to additional international travel associated with our Hydro Nation activities. Details of the carbon footprint of the office of the Commission can be found in the table below.

Area	2017-18		2016-17	
	Non-financial information	Financial information	Non-financial information	Financial information
Energy	Electricity: 14.7 tonnes CO ₂ Gas: 8.9 tonnes CO ₂ Total carbon from energy: 23.6 tonnes CO ₂	Electricity: £5,254 Gas: £1,533	Electricity: 30.7 tonnes CO ₂ Gas: 7.5 tonnes CO ₂ Total carbon from energy: 38.1 tonnes CO ₂	Electricity: £6,065 Gas: £1,290
Waste	Waste to landfill: 5.4 tonnes CO ₂ Paper waste recycled: 0.03 tonne CO ₂ Total carbon from waste: 5.4 tonnes CO ₂	£910	Waste to landfill: 5.4 tonnes CO ₂ Paper waste recycled: 0.3 tonne CO ₂ Total carbon from waste: 6.3 tonnes CO ₂	£812
Water	0.2 tonnes CO ₂	£2,482	0.1 tonnes CO ₂	£2,123
Transport and travel	108 tonnes CO ₂	£117,102	28 tonnes CO ₂	£75,509

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

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

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

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

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

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

2.6 The Public Services Reform (Scotland) Act 2010

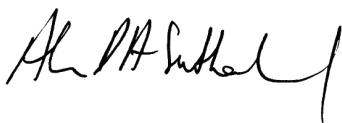
The Public Services Reform (Scotland) Act 2010 imposed duties on the Scottish Government and on public bodies such as the Commission to publish specific information on their expenditure. The Act also requires us to publish two statements outlining the steps we have taken to promote and increase sustainable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

2.7 Social responsibility, anti-bribery and corruption

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

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

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



14 September 2018

Alan D A Sutherland, Accountable Officer

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

Accountability report

1. Corporate Governance report

1.1 Directors' report

The Accountable Officer authorised the financial statements for issue on 14 September 2018. The financial statements were approved by the Commission on 24 August 2018.

The Commission

The Commission meets regularly throughout the year and, as at 31 March 2018, comprises the Chair, three further non-executive members, and the Chief Executive, Alan Sutherland. Members of the Commission are appointed by the Scottish Ministers. The length of appointments may vary to ensure continuity of Commission membership, but is usually three or four years.

Gordon Hughes resigned as Chair to the Commission on 31 March 2017 and was replaced on an interim basis by Professor Donald MacRae on 1 May 2017. Professor MacRae was subsequently appointed as Chair of the Commission on 1 May 2018. Information on the Commission's non-executive members can be found below.

Name	Position	Initial appointment date	Re-appointment date	Current end date
Donald MacRae	Chair	01/05/2018	-	30/04/2022
Donald MacRae	Member	01/07/2016	-	30/04/2018
Libby Gawith	Member	01/01/2012	01/01/2016	31/12/2019
Ross Finnie	Member	01/07/2012	01/07/2016	30/06/2020
Jo Armstrong	Member	01/07/2016	-	30/06/2020

Directors

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

Interests held by the Commission

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

Data loss

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

Significant events since the end of the financial year

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

1.2 Statement of Accountable Officer's responsibilities

Under the Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005, 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 financial statements are prepared on an accruals basis and must give a true and fair view of the of the Water Industry Commission for Scotland 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 the 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 Water Industry Commission for Scotland. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the Water Industry Commission for Scotland's assets, are set out in the Scottish Public Finance Manual (SPFM) published by the Scottish Ministers.

The Accountable Officer confirms that the annual report and financial statements are fair,

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

1.3 Governance statement

Scope of responsibility

The SPFM is issued by 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.

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

The purpose of the governance framework

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

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

The governance framework has been in place at the Commission for the year ended 31 March 2018 and up to the date of approval of the annual report and financial statements.

The Commission's governance framework and review of effectiveness

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

(i) The Commission

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

(ii) Audit and Risk Committee

The Committee meets at least four times a year and monitors and reviews risk, the control environment and corporate governance. During the year, the Committee was chaired by Ross Finnie. In addition, membership of the Committee includes two non-executive members who are not Commission 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 Committee. The external and internal auditors are invited to attend all meetings and are given the opportunity to speak confidentially to the Committee members. The Committee operates independently and reports to the Commission. The Committee presented the annual report of

the Committee to the May 2018 Board meeting, which outlined the work undertaken by the Committee to review the Commission's control systems and financial reporting processes to measure and manage the risk inherent in the delivery of the organisation's objectives. The report did not highlight any concerns or issues.

(iii) Internal audit

The work of the internal auditor is submitted to the organisation's Audit and Risk Committee and includes regular reports and the Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement. For the financial year 2017-18, the Commission's internal audit function was carried out by BDO LLP.

During the financial year, internal audit carried out four reviews:

- A review of the Commission's budgeting and management reporting procedures identified only one "low" rated recommendation and internal audit could provide substantial assurance over the design and operational effectiveness of the controls in place relating to budgeting and management reporting.
- A review of the key HR procedures identified two "medium" rated recommendations and one "low" rated recommendation. The Commission noted the points raised and have incorporated the suggested changes into our processes.
- A review of the processes underpinning the Strategic Review of Charges which identified 2 "low" rated recommendations and concluded that "there is a sound system of internal control designed to achieve system objectives" and that "the controls that are in place are being consistently applied".
- A review of our initial work on Hydro Nation, which identified one "medium" rated recommendation, which provided us with assurance that we are heading in the right direction in this area, while giving us some useful areas for consideration for future work.

(iv) Risk management

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

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

Significant governance issues

The review of effectiveness of the Commission's governance framework, as 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.

2. Remuneration and staff report

2.1 Background

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

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

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

2.2 Directors' salary and pension entitlements

The total remuneration of the Chief Executive in the year was £157,302 (2016-17: £153,357). The total remuneration of the Directors was as follows:

	2017-18			2016-17		
	Gross Salary £(000)	Pension benefits £(000)	Total £(000)	Gross Salary £(000)	Pension benefits £(000)	Total £(000)
Alan Sutherland, Chief Executive	155 - 160	8	165 - 170	150 - 155	58	210 - 215
Katherine Russell, Director of Hydro Nation and External Relations	130 - 135	44	175 - 180	125 - 130	45	170 - 175
Ian Tait, Director of Network Regulation	110 - 115	76	185 - 190	105 - 110	47	155 - 160

The accrued pension benefits for 2016-17 have been re-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. Last year the pension benefits were disclosed as the increase in cash equivalent transfer value.

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 2017-18 (2016-17: £nil). The total remuneration of the Chief Executive and other Directors was £400k-£405k (2016-17: £390k-£395k). 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 Director's are as follows:

	Accrued pension as at 31 March 2018 and related lump sum (£000)	Change in pension net of inflation and related lump sum (£000)	Cash Equivalent Transfer Value*		
			At 31 March 2018 (£000)	At March 2017 (£000)	Increase net of members' contributions (£000)
Alan Sutherland	30 – 35 <i>plus lump sum of 25 - 30</i>	0 – 2.5 <i>plus lump sum of 0 – 2.5</i>	465	443	18
Katherine Russell	25 – 30 <i>plus lump sum of 10 - 15</i>	0 – 2.5 <i>plus lump sum of -2.5 - 0</i>	343	299	27
Ian Tait	25 – 30 <i>plus lump sum of 25 - 30</i>	2.5 – 5.0 <i>plus lump sum of 2.5 – 5.0</i>	426	357	53

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

2.3 Commission remuneration

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

	2017-18	2016-17
	Total £(000)	Total £(000)
Gordon Hughes	-	35 – 40
Donald MacRae	30 - 35	-
Ross Finnie	10 - 15	10 - 15
Libby Gawith	10 - 15	10 - 15
Jo Armstrong	10 - 15	10 - 15

Commission Members are not members of the pension scheme. The Commission also paid £2,327 on behalf of Commission Members in the year in respect of PAYE and National Insurance contributions due on travel to work expenses in 2017-18 (2016-17: £3,251). No benefits in kind were paid in the year.

2.4 Staff report

Fair pay disclosure

The range of staff remuneration within the Commission is £15-20k to £155-£160k (2016-17: £15-20k to £150-£155k). Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. The remuneration of the highest paid Director of the Commission for the year to 31 March 2018 was £157,302 (2016-17: £153,357). This was 5 times the annualised median remuneration of the workforce, which was £30,741 (2016-17: £27,755). The highest paid Director of the Commission is the Chief Executive.

	2017-18	2016-17
Highest paid Director's total remuneration £(000)	157,302	153,357
Median total remuneration (£)	30,741	27,755
Ratio	5.1	5.5

Average number of persons employed

The average number of full-time equivalent persons employed during the year was 23 (2016-17: 20), including the Chief Executive. These were employed in the following areas:

	Year ended 31 March 2018	Year ended 31 March 2017
Chief Executive and Directors	3	3
Other employees	20	17

All employees are employed on permanent contracts.

Staff composition

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

	Male	Female	Total
Directors	2	1	3
Other employees	9	11	20

Staff costs are disclosed in more detail in note 4.

Equal opportunities and diversity

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

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

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

Health and safety

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

Sickness absence

The average length of time that each employee was absent due to sickness was 6 days (2016-17: 5 days).

Exit packages

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

3. Parliamentary accountability and audit report

3.1 Funding

The Commission has a corporate plan in place, agreed with the Scottish Ministers and published on our website. The Commission agrees with the Scottish Government the issues to be addressed in the plan and the timetable for its preparation and review. The finalised plan reflects the Commission's strategic aims and objectives as agreed by the Scottish Ministers, indicative budgets and any priorities set by the 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 the Scottish Ministers of the Commission's Corporate Plan, the Sponsor Directorate instructs Scottish Water to pay the amount determined to the Commission on a monthly basis. In addition, fees are payable by Licensed Providers on a cost recoverable basis, sufficient to meet the costs incurred by the Commission in exercising its functions relating to water services and sewerage services.

The corporate plan, or elements thereof, is updated between Strategic Reviews as and when considered necessary and a copy is provided to the sponsor unit prior to the start of the Strategic Review period.

3.2 Losses and special payments

There were no losses or special payments in the year (2016-17: £nil).

3.3 Gifts

No gifts were made during the year.

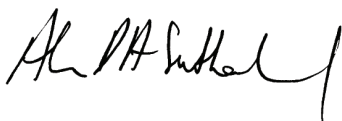
3.4 Contingent liabilities

There were no contingent liabilities to disclose (2016-17: £nil).

3.5 Auditors

Under the Public Finance and Accountability (Scotland) Act 2000, our independent auditors are appointed for the Auditor General by Audit Scotland. Audit Scotland has been appointed as the Commission's external auditors for a five-year period from 2016-17 to 2020-21. The 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 2017-18 are £12,910 (2016-17: £12,710).

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.



14 September 2018

Alan D A Sutherland, Accountable Officer

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

Independent auditor's report

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

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 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.

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 2018 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 2017/18 Government Financial Reporting Manual (the 2017/18 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 2018 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 2017/18 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 of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). 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 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. 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.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer 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 achieve 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.

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

Other information in the annual report and accounts

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

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

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland:

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Stephen O'Hagan

14 September 2018

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

Statement of comprehensive net expenditure

For the year ended 31 March 2018

	Note	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Income			
Income from activities	2	3,570,148	3,501,467
Expenditure			
Staff costs	4	1,732,820	1,410,890
Depreciation	6	31,675	31,380
Other expenditure	5	1,664,876	2,220,498
		3,429,371	3,662,768
Operating surplus /(deficit)		140,777	(161,301)
Interest receivable		1,341	3,757
Net surplus/(deficit) for the year after interest		142,118	(157,544)
Corporation tax payable		(1,006)	-
Net surplus/(deficit) for the year after tax		141,112	(157,544)
Other comprehensive net income			
Actuarial gain/(loss)	12	991,000	(1,058,000)
Total comprehensive net income/(expenditure) for the year		1,132,112	(1,215,544)

All income and expenditure relates to continuing activities.

The notes on pages 31 - 43 form part of these financial statements.

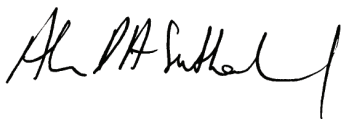
Statement of financial position

As at 31 March 2018

	Note	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Non-current assets			
Property plant and equipment	6	75,692	84,027
Total non-current assets		75,692	84,027
Current assets			
Other receivables	7	101,776	146,929
Cash and cash equivalent		2,421,458	1,613,461
Total current assets		2,523,234	1,760,390
Total assets		2,598,926	1,844,417
Current liabilities			
Trade payables and other current liabilities	8	(595,531)	(143,104)
Total current liabilities		(595,531)	(143,104)
Non-current liabilities			
Provisions	9	(48,790)	(41,820)
Total net assets, excluding pension liabilities		1,954,605	1,659,493
Pension scheme liability	12	(812,000)	(1,649,000)
Net Assets		1,142,605	10,493
Equity			
General Reserve		1,142,605	10,493

The notes on pages 31 - 43 form part of these financial statements.

The Accountable Officer authorised these financial statements for issue on 14 September 2018.



14 September 2018

Alan D A Sutherland, Accountable Officer

Statement of cash flows

For the year ended 31 March 2018

	Note	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Cash flows from operating activities			
Operating surplus/(deficit)		140,777	(161,301)
<i>Adjustments for non-cash items</i>			
Difference in pension costs compared to contributions	12	109,000	(1,000)
Depreciation on tangible non-current assets	6	31,675	31,380
Finance costs		45,000	20,000
Increase in provision	9	6,970	6,970
<i>Movements in working capital</i>			
Decrease/(Increase) in trade and other receivables	7	45,153	(101,376)
Increase /[(Decrease) in trade payables and other current liabilities	8	452,427	(156,456)
Net cash inflow from operating activities		831,002	(361,783)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(23,340)	(18,821)
Net cash outflow from investing activities		(23,340)	(18,821)
Cash flows from financing activities			
Interest received		1,341	3,757
Corporation tax due		(1,006)	-
Net inflow from financing activities		335	3,757
Net increase/(decrease) in cash and cash equivalents		807,997	(376,847)
Cash as at 1 April		1,613,461	1,990,308
Cash as at 31 March		2,421,458	1,613,461
Net increase/(decrease) in cash and cash equivalents		807,997	(376,847)

The notes on pages 31 - 43 form part of these financial statements.

Statement of changes in equity (SCE)

For the year ended 31 March 2018

	£
Balance at 1 April 2016	1,226,037
Total comprehensive net expenditure for the year 2016-17	(1,215,544)
Balance as at 31 March 2017	10,493
Total comprehensive income for the year 2017-18	1,132,112
Balance as at 31 March 2018	1,142,605

The general reserve is analysed in note 10.

The notes on pages 31 - 43 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

The financial statements are prepared in a form determined by the 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 the 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 2018-19, 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 following Adopted IFRS have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

IAS 7 Statement of cash flows (Disclosure initiative)
IFRS 16 "Leases"

1.4 Furniture and fittings and information technology

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

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

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

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

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

1.5 Financial assets

Classification

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

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

Recognition and measurement

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

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

1.6 Financial liabilities

Classification

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

Recognition and measurement

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

1.7 Cash and cash equivalents

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

1.8 Provisions

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

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

1.9 Income

Funding is by way of the statutory contribution paid by Scottish Water, as directed by the Scottish Ministers. Licensing activity is funded by a levy charged to licensed providers. All income is recognised in the statement of comprehensive net expenditure in the period to which it relates.

In addition, during the year we received grant income from the European Union in relation to a project with the Romanian Public Services Commission (ANRSC). At 31 March 2018, this income was included within deferred income and will be released monthly, in relation to the amount of work carried out on the project.

1.10 Value added tax

Most of the activities of the Commission are outside the scope of Value Added Tax (VAT) and, in general, the Commission is not required to declare output tax to HMRC on the income that it receives. Correspondingly, the Commission is not entitled to recover VAT that it incurs on costs (input tax) in relation to these activities that fall outside the scope of VAT. Such irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. The Commission became VAT registered from 1 January 2015 to recognise the provision of services being carried out in relation to the opening of the retail market in England, which are subject to VAT. Input tax is recovered on all costs directly associated with this work and these activities also permit the Commission to recover a percentage of the VAT incurred on other applicable overhead costs.

1.11 Operating Leases

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

1.12 Employee benefits

Employees of the Commission are members of the Local Government Pension Scheme (the Scheme) administered by Falkirk Council. The Scheme is a tax approved, defined benefit occupational pension scheme and the scheme regulations are made under the Public Service Pension Schemes Act 2013 and, in the case of the Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014, under the Superannuation Act 1972. The Scheme is contracted out of the State Second Pension scheme and meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008.

The Scheme is accounted for on a defined benefit basis under IAS 19. Assets and liabilities of the Scheme are held separately from those of the Commission. The Scheme's assets are measured

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

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

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

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

1.13 Termination benefits

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

1.14 Segmental reporting

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

2. Income

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Scottish Water statutory contribution	2,064,512	2,032,000
Levy on licensed providers	1,501,237	1,469,467
Hydro Nation	4,399	-
	3,570,148	3,501,467

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 2018 £
Contribution to overheads by activity:	
Network Regulation	774,875
Retail	1,116,469
Total contribution to overheads	1,891,344
Net Hydro Nation costs	(147,590)
Overheads	(1,493,642)
Surplus for the year	250,112
Reconciliation to statement of comprehensive net expenditure:	
IAS 19: difference in pension costs compared to contributions:	(109,000)
Net surplus for the year after interest and taxation	141,112

4. Staff related costs

Staff costs comprise:	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Wages and salaries	1,384,307	1,092,896
Social security costs	138,630	115,689
Pension costs	209,883	202,305
Staff costs per statement of comprehensive net expenditure	1,732,820	1,410,890

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

5. Other expenditure

Staff costs comprise:	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Travel and subsistence	257,846	274,013
Office accommodation	115,903	128,323
General operating costs	264,143	251,069
Regulation and licensing costs	888,543	1,450,321
Customer consultation costs	-	12,976
Recruitment	38,772	43,378
Information technology	52,150	38,211
Finance charges	47,519	22,207
	1,664,876	2,220,498

The prior year office accommodation costs have been restated, resulting in a decrease of £6,570. This amount relates to insurance, and has been reclassified to general operating costs.

The operating costs for the year are stated after charging the external audit fee of £12,910 (2016-17: £12,710) and, within office accommodation, an operating lease rental of £49,175 (2016-17: £49,175).

Finance charges principally relate to the net interest cost of the pension scheme (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 2017	192,105	277,656	469,764
Additions	23,340	-	23,340
Disposals	-	-	-
At 31 March 2018	215,445	277,656	493,101
Depreciation			
At 31 March 2017	174,001	211,733	385,734
Charge for the year	12,536	19,139	31,675
Eliminated on disposals	-	-	-
At 31 March 2018	186,537	230,872	417,409
Net book value at 31 March 2018	28,908	46,784	75,692
Net book value at 31 March 2017	18,104	65,923	84,027

	Information technology £	Furniture and fittings £	Total £
Cost			
At 31 March 2016	180,285	277,656	457,941
Additions	18,821	-	18,821
Disposals	(7,001)	-	(7,001)
At 31 March 2017	192,105	277,656	469,761
Depreciation			
At 31 March 2016	173,183	188,172	361,355
Charge for the year	7,819	23,561	31,380
Eliminated on disposals	(7,001)	-	(7,001)
At 31 March 2017	174,001	211,733	385,734
Net book value at 31 March 2017	18,104	65,923	84,027
Net book value at 31 March 2016	7,102	89,484	96,586

7. Other receivables

	As at 31 March 2018 £	As at 31 March 2017 £
Current receivables		
Prepayments	86,302	137,882
Other receivables	15,474	9,047
Total other receivables	101,776	146,929

	As at 31 March 2018 £	As at 31 March 2017 £
Intra-government receivables:		
Central Government	-	1,382
Local Authorities	13,313	11,913
Bodies external to government	88,463	133,634
Total other receivables	101,776	146,929

The receivable disclosed as due from local authorities as at 31 March 2017 and 31 March 2018, relates to rent prepaid to Stirling Council, the new landlord of the Commission's office premises. Last year this was disclosed under the heading "bodies external to government".

8. Current liabilities

	As at 31 March 2018 £	As at 31 March 2017 £
Trade payables	18,211	14,987
Taxation and Social Security	3,474	3,251
Accruals	150,983	124,866
Deferred income	422,863	-
Total current liabilities	595,531	143,104

	As at 31 March 2018 £	As at 31 March 2017 £
Intra-government payables:		
Local Authorities	4,179	2,700
Central Government	12,081	11,724
Bodies external to government	579,271	128,680
Total current liabilities	595,531	143,104

The deferred income relates to grant income received from the European Union in relation to a project with the ANRSC. This is categorised within "bodies external to government".

9. Provisions for liabilities and charges

	As at 31 March 2018 £	As at 31 March 2017 £
Balance at 1 April 2017	41,820	34,850
Provided in the year	6,970	6,970
Balance at 31 March 2018	48,790	41,820

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 2016		1,798,037	(572,000)	1,226,037
Changes in reserves 2016-17				
Actuarial gains		-	874,000	874,000
Change in assumptions underlying the present value of the scheme liabilities		-	(1,932,000)	(1,932,000)
Net deficit for the year		(138,544)	(19,000)	(157,544)
Balance as at 31 March 2017		1,659,493	(1,649,000)	10,493
Changes in reserves 2017-18				
Actuarial gains	12	-	(77,000)	(77,000)
Change in assumptions underlying the present value of the scheme liabilities	12	-	1,068,000	1,068,000
Net surplus/(deficit) for the year		295,112	(154,000)	141,112
Balance as at 31 March 2018		1,954,605	(812,000)	1,142,605

11. Commitments and contingent liabilities

11.1 Capital commitments

There were no capital commitments at 31 March 2018 (2016-17: £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.

	2017-18 £	2016-17 £
Not later than one year	49,176	49,176
Later than one year and not later than 5	98,352	147,528

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 £207k (2016-17: £202k) into the Fund. Under the Superannuation Regulations, contributions are set to meet 100% of the overall liabilities of the Fund. We have been advised that specific (minimum) rates for employer contributions in 2018-19 will be 28.3%.

In accordance with IAS 19 the Commission commissioned the Fund's actuaries to undertake a valuation as at 31 March 2018. This calculation was based on rolling forward valuation data at 31 March 2017 (the last formal valuation) to 31 March 2018 based on several financial assumptions. The main financial assumptions used included:

12.2 Financial Assumptions

	Year ended 31 March 2018 %	Year ended 31 March 2017 %
Pension Increase Rate	2.3	2.4
Salary Increase Rate	2.8	3.9
Discount rate	2.7	2.7

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

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

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

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)
Fair value of employer assets	6,114	-	6,114
Present value of funded liabilities	-	7,716	(7,716)
Present value of unfunded liabilities	-	47	(47)
Opening position as at 31 March 2017	6,114	7,763	(1,649)
Service cost			
Current service cost	-	316	(316)
Total service cost	-	316	(316)
Net interest			
Interest income on plan assets	168	-	168
Interest cost on defined benefit obligation	-	213	(213)
Total net interest	168	213	(45)
Total defined benefit cost recognised in deficit	168	529	(361)
Cashflows			
Plan participants' contributions	76	76	-
Employer contributions	205	-	205
Contributions in respect of unfunded benefits	2	-	2
Benefits paid	(89)	(89)	-
Unfunded benefits paid	(2)	(2)	-
Expected closing position	6,474	8,277	(1,803)
Re-measurements			
Change in demographic assumptions	-	(23)	23
Change in financial assumptions	-	(472)	472
Other experience	-	(573)	573
Return on assets excluding amounts included in net interest	77	-	(77)
Total re-measurements recognised in Other Comprehensive Income (OCI)	(77)	(1,068)	991
Fair value of employer assets	6,397	-	6,397
Present value of funded liabilities	-	7,165	(7,165)
Present value of unfunded liabilities	-	44	(44)
Closing position as at 31 March 2018	6,397	7,209	(812)

12.4 Change in the fair value of plan assets, defined benefit obligation and net liability for the year end 31 March 2017

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)
Fair value of employer assets	4,928	-	4,928
Present value of liabilities	-	5,500	(5,500)
Opening position as at 31 March 2016	4,928	5,500	(572)
Service cost			
Current service cost	-	201	(201)
Total service cost	-	201	(201)
Net interest			
Interest income on plan assets	180	-	180
Interest cost on defined benefit obligation	-	200	(200)
Total net interest	180	200	(20)
Total defined benefit cost recognised in deficit	180	401	(221)
Cashflows			
Plan participants' contributions	78	78	-
Employer contributions	200	-	200
Contributions in respect of unfunded benefits	2	-	2
Benefits paid	(146)	(146)	-
Unfunded benefits paid	(2)	(2)	-
Expected closing position	5,240	5,831	(591)
Re-measurements			
Change in financial assumptions	-	1930	(1930)
Other experience	-	2	(2)
Return on assets excluding amounts included in net interest	874	-	874
Total re-measurements recognised in Other Comprehensive Income (OCI)	874	1,932	(1,058)
Fair value of employer assets	6,114	-	6,114
Present value of funded liabilities	-	7,716	(7,716)
Present value of unfunded liabilities	-	47	(47)
Closing position as at 31 March 2017	6,114	7,763	(1,649)

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

	Assets £(000)	Obligations £(000)	Net (liability)/ asset £(000)	% of pay
Current service cost	-	326	(326)	(34.6%)
Total service cost	-	326	(326)	(34.6%)
Interest income on plan assets	176	-	176	18.7%
Interest cost on defined benefit obligation	-	199	(199)	(21.1%)
Total net interest cost	176	199	(23)	(2.4%)
Total included in income statement	176	525	(349)	(37.0%)

Employer's contributions for the period to 31 March 2019 will be approximately £266,000.

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 2018	Approximate % increase to Employer	Approximate monetary amount £(000)
0.5% decrease in Real Discount Rate	13%	908
0.5% increase in the Salary Increase Rate	2%	140
0.5% increase in the Pension Increase Rate	11%	757

13. Related party transactions

The Commission is a non-departmental public body sponsored by the Scottish Government. The Scottish Government is regarded as a related party. There have been no transactions between the Commission and the Scottish Government.

In addition, the Commission has had transactions with other central and local government bodies: Scottish Water, Falkirk Council, Stirling Council and Audit Scotland.

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

Related party	Income (£)	Expenditure (£)	Year-end receivable (£)	Year-end payable (£)
Anglian Water	325,603	2,056	2,056	-

All Commission members and Directors complete and update a register of interests on an annual basis. During the year 2017-18, 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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