Scottish Water
Trusted to serve Scotland

2023/24 ANNUAL REPORT AND ACCOUNTS
PERFORMANCE AND PROSPECTS

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Specialist graduate Patricia Lopes appears on the cover of this report - she is one of our people who feature in our latest campaign adverts. Read her story here.

ANNUAL REPORT & ACCOUNTS 2023/24: PERFORMANCE AND PROSPECTS

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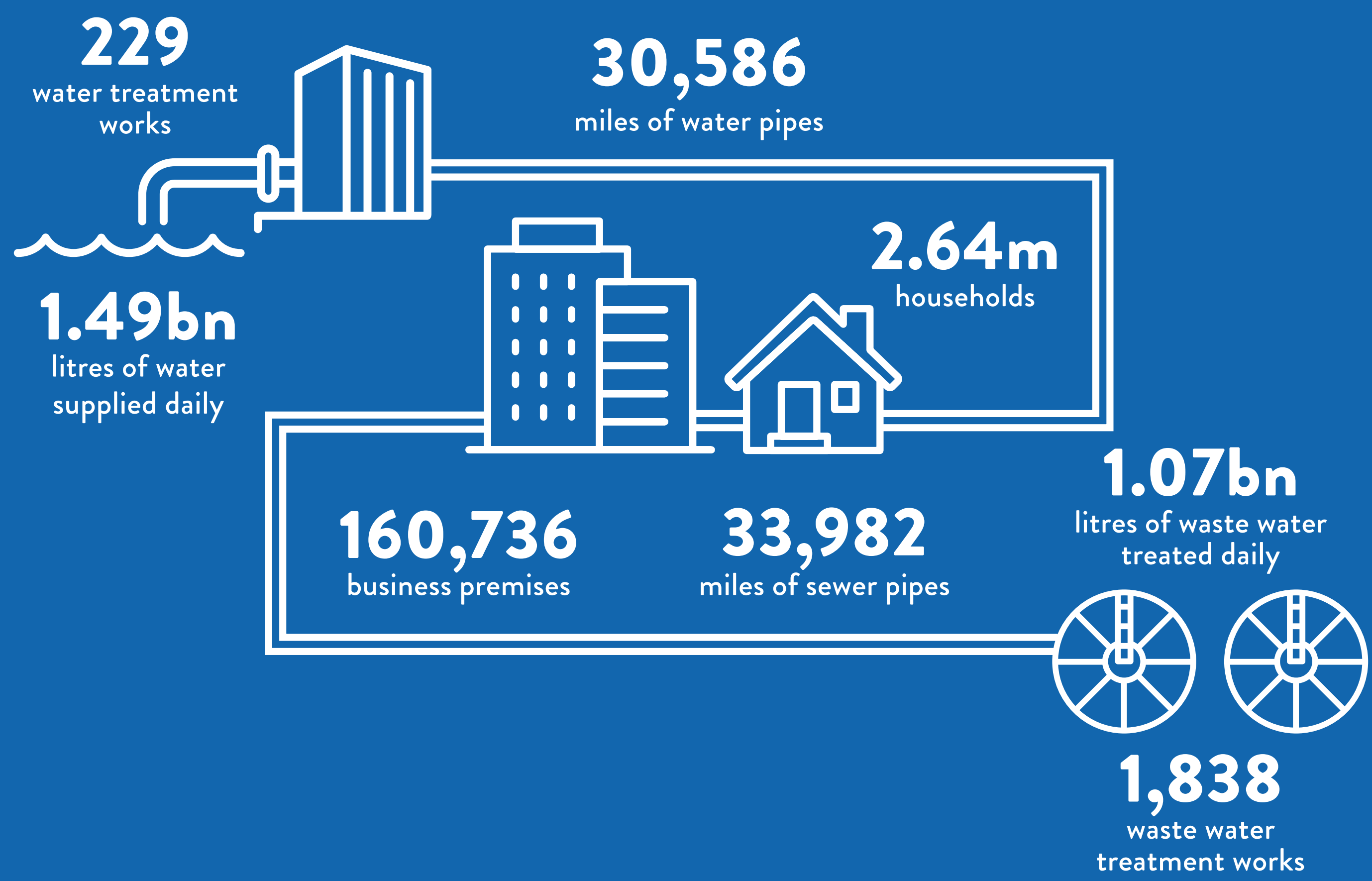
Overview

This Annual Report & Accounts 2023/24: Performance and Prospects provides an open and transparent view of Scottish Water's performance in the last year, the third of our regulatory period. We highlight what has gone well, where we fell short of delivery commitments and provide an overview of our future direction. We are committed to listening to our customers and communities to assess and evaluate our work to drive improvements for the future.

This report includes lessons we have learned and how we will adapt to continue to deliver service excellence. Our strategic plan, Our Future Together, outlines our three strategic ambitions: Service Excellence; Going Beyond Net Zero Emissions; and Delivering Great Value and Financial Sustainability. This report describes our performance in these three areas during the last year and our prospects for the future.

Our vital role covers:



Throughout this report you will see links to other documents that contain more details on specific areas highlighted.

ANNUAL REPORT & ACCOUNTS 2023/24 PERFORMANCE AND PROSPECTS

SCOTTISH WATER'S REGULATED BUSINESS FINANCIAL PERFORMANCE

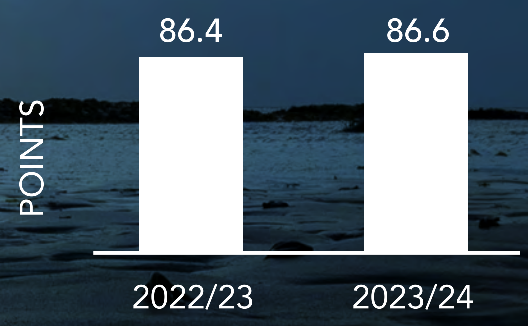
Regulated Funding 2023/24	Regulated Expenditure 2023/24
£1,446m Customer Charges	£789m Regulated investment
£110m Utilisation of cash balances	£458m Regulated operating costs
£196m Net new borrowing	£160m PFI
£24m Other (inc. change in working capital)	£236m Responsive repair and refurbishment costs
	£133m interest
£1,776m Regulated Funding 2023/24	£1,776m Regulated Expenditure 2023/24

CUSTOMER SERVICE PERFORMANCE

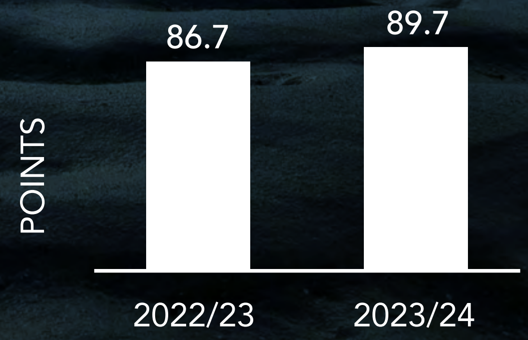
Customer experience

When compared on a like-for-like basis:

Household Customer Experience Measure (hCEM)



Non-household Customer Experience Measure (nhCEM)



WE PROVIDE VITAL WATER AND WASTE WATER SERVICES ESSENTIAL TO DAILY LIFE

Customer contacts

284,808
SERVICE ISSUE CONTACTS

WATER QUALITY PERFORMANCE 2023

Total Compliance Rate

99.92%

ON AVERAGE WE CARRY OUT
1 QUALITY TEST EVERY 2 MINUTES
ON THE WATER WE SUPPLY TO OUR CUSTOMERS' TAPS

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INVESTING IN OUR ASSETS

One of Scotland's biggest critical infrastructure investors

£4.4bn[1]
2021-27

£1.02bn
IN 2023/24

430
SUPPLY CHAIN PARTNERS - MOST BASED IN SCOTLAND

[1] In 2017/18 prices and also includes responsive repair and refurbishment costs.

Challenges and expectations

Ageing assets
Requires doubling of investment over the next 20 years

Changing climate
Extreme weather impact on asset capacity
Impact on raw water sources

Achieving Net Zero

Forecast population change

Evolving customer expectations

How we are going to do it

Transforming our future delivery programme
Efficient delivery of increased investment
Innovating to achieve Net Zero

+

Collaboration with our supply chain to drive value

=

Transformed investment approach
Smarter investment decisions
Maximised benefits for customers, communities and the environment

NET ZERO EMISSIONS

OPERATIONAL AND INVESTMENT EMISSIONS
CALCULATED INCLUDING FROM OUR SUPPLY CHAIN

MAJOR
CONSTRUCTION INDUSTRY INVESTOR

ONE OF THE
LARGEST ENERGY USERS
IN SCOTLAND

2023/24

51%
Reduction in operational greenhouse gas emissions since 2006/07

42GWh
of on-site self-generated renewables

5.68GWh
of energy efficiency delivered

Become more energy efficient (seeking a 20% reduction in energy use by 2030)

Use lower carbon energy products, with a goal to operate 100% of our assets using renewable energy (through generation or hosting)

2025: no new petrol or diesel cars in fleet & no new fossil fuel light commercial vehicles
2030: no new fossil fuel commercial vehicles

Maximise the energy recovered from bioresource

Embracing low carbon construction

Embracing innovation

Working with our supply chain

Develop natural carbon sinks

Embracing the circular economy

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CHAIR'S STATEMENT
DEIRDRE MICHIE OBE

Deirdre Michie

I was delighted and honoured to be appointed as Chair of Scottish Water at the start of 2024. Having been a member of the Board for several years, I have a good understanding of Scottish Water's vital and varied role as a publicly owned, independently regulated and commercially led organisation. I also very much appreciate the commitment and determination of our people to deliver service excellence. My predecessor, Dame Susan Rice, and current and previous members of the Board have done great work that we will continue to build on, in the knowledge that expectations of our delivery, rightly, remain high.

The water sector faces extremely challenging headwinds. However, there are great opportunities for Scottish Water to keep raising the bar. We must constantly think outside the box, embracing innovative ways to increase resilience and do all we can to adapt to climate change. It's clear we need to be thinking and operating differently now, if we are to deal with these challenges at the same time as ensuring that the day job of providing Scotland with water and waste water services is delivered well.

Climate change and more extreme weather affects us all – none of us are immune to this wherever we live. In the UK, the Met Office highlighted how one of the defining features of weather patterns this winter was the dramatic change from very cold to unseasonably warm conditions. Parts of north Scotland had both the UK's highest and lowest temperatures in the space of just 11 days in January – dropping to -14C then surging to a high of 19.9C – a new January record for the UK. For us at Scottish Water this brings new and unpredictable challenges. It means ensuring we can continue to minimise the impacts on customers, communities and the environment during severe and changing weather patterns. We also recognise we must develop more sustainable solutions to ensure that as a nation we adapt effectively to a changed climate.

We all have a part to play

Of course, the climate emergency is a global issue. Joined-up thinking across nations - and indeed countries and continents - involving all sectors to generate new ideas and solutions will be needed, both in relation to mitigation and adaptation. Everyone has a part to play – being responsible for our country's water and waste water services, Scottish Water obviously has a key role. I have seen first-hand that we have the desire and skills to lead and be an organisation where others look to us and want to work with us to make a real and lasting difference. We cannot deliver this overnight, nor can we do it alone, but we will need to move at pace and with an urgency that reflects the seriousness of the situation we face.

Visible, transparent and accountable

The Board has made a conscious decision to hold its meetings at Scottish Water sites across Scotland to ensure we meet and listen to our people and stakeholders, as their views and experience will help shape our decision-making. Increasing our connection to, and collaboration with our diverse stakeholders - including the supply chain, other sectors beyond water and like-minded businesses – will help drive and deliver solutions. Transparency is vital – and while we may not have all the answers to every challenge or the investment needed for every project – we will listen and be open, honest and accountable about the work we prioritise.

A key example of this is the concern many people have about our water environments, including a growing awareness and interest in Combined Sewer Overflows (CSOs) which are designed and licensed to discharge at times of very heavy rainfall to reduce flooding risk.

Taking action on key issues

Through our Improving Urban Waters Routemap we are stepping up our action to reduce and prevent sewage-related debris in our environment. We are increasing the number of monitors in place at CSOs to help us better predict and prevent overflow incidents, understand when CSOs are operating, and to be able to share this information with the public. We will publish increased amounts of data on when and where discharges take place and for how long. Being clear and transparent about such difficult issues and what is needed to address them, will be key to us maintaining the hard-earned pride and trust of our customers.

Ambition and desire to drive innovation

I am confident Scottish Water faces the future with ambition and a desire to move forward, while dealing with the ongoing challenges that a complex organisation like ours must take on. Such issues range from delivering a first-class safety, health and wellbeing focus and culture, to making certain we address modern slavery concerns, such as in relation to the provision of photo voltaic (PV) panels. We need to maintain a strong emphasis on ensuring capital investment in our asset base is delivered on time and within budget.

We must also focus on the future through the next strategic review of charges to underpin investment in the years ahead. And of course, we must ensure that we have a workforce with the best skills and tools possible for the job, to deliver these services now and for future generations.

In facing these unprecedented times, we must be bold in how we innovate, collaborate and embrace different ways of thinking and working. It's a tough path that we are choosing to take because we know we must protect and enhance the environment and look after the interests of current and future generations of customers. As a Board we will strive to work with Alex and the team to drive innovative ways to overcome the challenges that face us, with determination and commitment to play our vital role in helping Scotland to adapt and flourish.

Deirdre Michie
June 2024

Milngavie Reservoir

CEO STATEMENT
ALEX PLANT

Alex Plant

In June 2023 I joined Scottish Water with enthusiasm, optimism and a desire to build on the strong platform that my predecessor Douglas Millican had left me. One year on nearly all our key performance areas ended 2023/24 in target, demonstrating that we continue to provide a high level of service to our customers.

As I look to the year ahead, I am convinced we are on the right course to drive performance, deliver significant levels of investment, and strengthen our customer focus. It will take time to embed new ways of working and encourage behaviour change that can help us to steward precious natural resources more effectively. We look to organisations and people across Scotland to work with us to effect this change. It will require collaboration and determination, but I am confident it can be done. Performance this year has held up well. We delivered an overall improvement compared to last year despite having to cope with challenging weather conditions, high inflation levels that reduced our buying power, and less revenue than had been expected for this regulatory period.

As has become the norm, extremes of weather affected much of our work across the year. As the climate continues to change, it becomes ever harder for us to maintain the core service we provide our customers – just getting the day job done becomes much tougher. When our customers face an issue, as they inevitably will at times, we continue to strive to resolve these quickly and efficiently. However, we cannot just keep working harder to recover from incidents. The scale of these climate change-related challenges need longer term solutions which only increased investment, innovation and new ways of doing things can help us adjust and adapt.

The record temperature highs of last summer saw significant increases in water usage. The hot and dry period of weather in May and June put pressure on our water treatment works, networks and our people as they worked hard to maintain service and supply. We also saw average reservoir levels across Scotland drop to just 72% capacity. This is 14% below average for that time of year. This extended hot and dry spell also impacted our leakage levels as ground conditions changed, leading to a surge in bursts. This continued through the winter months when Scotland experienced several very cold weeks, with pipes freezing followed by quick thawing and further bursts. Despite repairing a higher volume of leaks in comparison to the last five years we ended 2023/24 with an increase to 462 million litres per day (Ml/d) compared to 454 Ml/d the year before. Plans are in place to address this and to return to our trend of long-term reduction in leakage from the network.

We also saw more significant rainfall events last year which caused customer flooding impacts. Several severe storms over a short period led to extensive damage to homes and to several of our assets. Storm Babet was particularly intensive and left our waste water treatment works at Brechin flooded and others damaged, suffering power cuts or inaccessible roads. Our contingency planning and learning from previous issues meant we responded well and quickly to minimise customer impact.

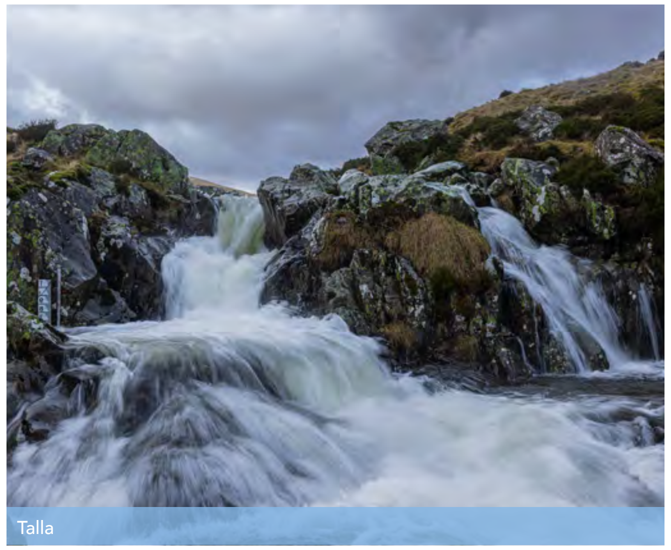
By and large we are managing to respond for now but the nature of the climate we now experience, and the impact this has on almost all our services, has significant negative consequences for the future, unless we adapt. We are stepping up our efforts to look forward, assess the bigger picture and do everything we can to become more resilient in the future.

Adaptation to climate change – an essential priority

Most of our water and waste water assets were not designed to cope with the type of weather conditions which are now the norm. Many are ageing and will need extra maintenance in the coming years to remain serviceable before ultimately needing to be replaced. This backdrop makes it ever harder to continue to improve drinking water quality, provide a secure water supply, improve environmental performance and deliver value for money.

We have laid out how we plan to address these issues in our first ever **Climate Change Adaptation Plan**. It is a comprehensive overview of what we must do to make our services and infrastructure more resilient to new weather norms. It highlights what could happen should we fail to act, including sector-leading analysis on the impact the changing climate will have on our assets. The Plan includes an estimate that over the next 25 years we will need an additional £2 billion to £5 billion above existing expected investment to maintain services. It's a hugely important document, and one that I am very proud of. It will form a key part of our evidence base as we develop our refreshed Long-Term Strategy, and our priorities for the next Strategic Review of Charges in 2027.

All of this underlines the importance of a stable funding and investment trajectory to maintain services. Deferring necessary investment now will just increase the costs for future generations, and lead to service levels declining. It also means we must raise our game to be bolder, more innovative and more collaborative; ensuring we are delivering value for money for every pound we invest. We must maintain the confidence of customers, stakeholders and partners so we remain trusted to deploy this increased investment well.


Talla

Smarter ways of working

We continue to look at innovative ways to work smarter and more sustainably. This includes working collaboratively with our supply chain, regulators, central and local government, community groups, campaigners and others to drive better, lower carbon solutions. It is not just about increasing capacity of assets such as tanks underground, we must develop far more nature-based solutions such as 'blue-green' infrastructure that can positively reshape our urban landscape to cope with changed rainfall patterns and make our communities more resilient.

An innovative example of this is the work we are doing with the City of Edinburgh Council to introduce nature-based solutions in Craigleith, an area with a complex history of flooding. Craigleith is showing how we can reduce the risk of flooding from the sewer network and surface water through storing water more effectively, slowing down flows during heavy rainfall, and increasing amenities like walkways and gardens for local communities.

Additionally, to adapt to climate change we must work collaboratively with landowners, farmers, industry and developers to support sustainable growth, encourage healthy, resilient natural landscapes and safeguard our precious water resources.

Managing our waste water services well

Whilst our performance on waste water has been improving over many years, there are times when our network capacity can be exceeded. Heavy prolonged rainfall can lead to our sewer systems reaching their capacity. When this happens, we need to operate our CSOs which act as a vital release valve to prevent the system backing up and flooding customers' homes and businesses. When a CSO operates in such circumstances, it discharges primarily rainwater, roads run-off and grey water (such as water from baths, washing machines, sinks) directly into watercourses.

As outlined in our **Improving Urban Waters Routemap** we are already looking at ways to improve data from these overflows to better predict and prevent spills. We have a planned spend of £500 million over six years to address priority discharges and install monitors on 1,000 discharge points by the end of 2024. I am pleased we are ahead of schedule with this and by the end of this year, we plan to start a public service with information on near real time data on overflow data, letting people know where and when discharges are taking place.

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Reducing Environmental Pollution Incidents (EPIs) continues to be a focus for us. Overall we had fewer incidents in the year than in 2022/23. However, we saw a slight rise in instances of the more serious category EPIs. To help address this we are already expanding our intelligent sensor network to predict and prevent incidents and help us speed up our response: all focused on safeguarding the environment.

When issues do occur, our resilience plans kick in to prevent or reduce any customer impact. Learning from previous incidents helps us better predict and plan. As the magnitude and frequency of extreme weather events increases, we know we must become even more resilient and find more sustainable solutions.

Many of our assets are old and not designed for today's climate. This is evident in our repair bill for the year which was 38%[2] higher than last year[3]. This rate of increase in repairs is not sustainable and underlines the need for continued investment to replace assets that are at the end of their useful life and thus maintain services in the future.

Going beyond Net Zero

There is no doubt reducing our emissions footprint is both a significant challenge but also a fantastic opportunity to innovate, collaborate and demonstrate to others how to deliver noticeable benefits.

At the halfway point of SR21 (2021-27), we are on track to meet our goal of Net Zero Emissions by 2040. We have removed around 27,000 tonnes of CO_2 emissions through using less energy, generating renewables, transitioning our fleet to Net Zero and capturing carbon across our land. In parallel, we are reducing emissions from our investment programme by selecting lower carbon options and using lower carbon construction materials.

We plan similar levels of reduction over the next three years: embracing the circular economy in areas such as using bioresource to create biogas, using heat from sewers, and turning grit from waste water into building materials. We are working with our partners to align our ambitions and unlock further innovation in this critical area. A key activity over the next year will be to progress our plan for new bioresource facilities to reduce significantly the amount of natural gas we use and increase our renewable power generation capacity.

[2] This is Tier 1a and Tier 2 repairs (planned and responsive repairs) and excludes responsive refurbishment.

[3] Half of the 38% increase was spent on water service reservoir repairs.

Delivering efficient investment

Expenditure on Scottish Water assets totalled £1.02 billion in the year, including repairs costs of £0.2 billion. We are delivering projects faster: a great achievement for Scottish Water and our delivery partners who oversee one of Scotland's biggest investment programmes.

The economic, environmental and social impact of our work is evident, with state-of-the-art projects which are blueprints for investing for resilience, addressing climate change and delivering wider benefits. I want Scottish Water to be seen as a leader in sustainability, both in what we do and in how we inspire others.

The **Water Industry Commission for Scotland (WICS)** highlighted how we maintained performance and key levels of service in line with previous years in its latest report on the outcomes we are delivering. It also reported how we are reducing operating costs and recovering slippage in capital investment expenditure. Inevitably we cannot invest in every project we would like to and we must make smarter prioritisation decisions as the envelope of investment is smaller than envisaged at the beginning of this regulatory period.

Moreover, like everyone, we are paying more for goods and services and construction price inflation is outstripping already high levels of general inflation. This erodes our buying power, and means that now, more than ever, we must ensure we are investing efficiently - making smart decisions to maximise benefits for customers, communities and the environment.

Alex Plant at Top Up Tap

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Setting customer charges

We know any increase in customer charges is difficult, so we have a duty to ensure we invest every pound wisely and sustainably. We also must avoid future generations facing ongoing and significant bill increases and/or diminished service standards. For these reasons, we increased our charges for this year by 8.8% - an average increase of around 70 pence a week for our customers. This was a difficult decision that our Board wrestled with in trying to get the balance right in terms of the investment sustainability of Scottish Water, the ongoing cost challenges facing our customers and the interests of future generations. Around half of households in Scotland receive financial support, as they automatically have either a discount, exemption or reduction applied to their water and waste water charges.

We understand price increases are unwelcome, but this increase was needed to help recover ground lost over the past two years when charges were set at a lower level in recognition of the cost-of-living crisis. Looking at charge levels since 2010, even considering this latest increase, the overall rise has been on average 10% below inflation. The Board opted in recent years to keep increases below the level allowed in our regulatory settlement, recognising the unprecedented circumstances of the pandemic and cost-of-living crisis.

We must sustain investment to make our services more resilient and to support a flourishing Scotland. The pressures of changing weather patterns are here to stay, and it is inevitable that the upward pressure on setting charges in the future will remain. It would not be right to duck these issues now and "kick the can down the road" on addressing investment needs. To do so would mean the vital services we provide will suffer, and future generations would be left to deal with even more expensive and reactive solutions. And that just wouldn't be fair.

Measure it to help manage it

Of course, we know our customers want to play their part in how they use and manage water. Scottish Water customers use around 40% more water than customers in Yorkshire[4] - I believe there is much we can do here. We need to look at ways to encourage real and lasting behaviour change – otherwise at current usage rates demand will outstrip supply by 2050. Along with our renewed focus on increasing how we detect leakage on our own assets, we hope this will also help us inform customers who may be suffering hidden leaks within their properties. This can prevent damage to homes and help reduce overall leakage levels.

Recognising this, we are working on plans to enable 3,000 households to monitor their water use, so together we and customers can understand how water is being used and where any losses are happening. When leaks are detected, we will work with homeowners to fix any issues. We want to see how measuring water can influence customers to use their water more wisely and how we can reduce leakage using the new information we gather. This way, we would be working collectively to protect our most precious natural resource, help our customers, and open up a pathway to a more efficient water system in future.

Customers at the heart

I was delighted our customer satisfaction levels remained stable in the face of the various challenges we faced this year. We never take any of our customers for granted and are always striving to ensure their services run as smoothly as possible. It is always good to hear praise for our people of course, and we were delighted when Scottish Water was revealed as the only water company to appear in the top 10 of the latest UK Customer Satisfaction Index[5], an independent benchmark of customer satisfaction on a consistent set of measures across 13 different industries including finance, retail, tourism, transport and utilities.

I am keen to ramp up awareness of our public ownership status, as our research shows that this is not always understood by customers. When they are aware, they tend to have a higher level of confidence and trust in our services and are more likely to want to help us reduce water usage and keep our sewers clear. Our latest customer campaign highlights how our services are 'piped by us, owned by you'. It has been very positively received and raises our profile as a leader in sustainability, encouraging us all to value water more.

Our new approach to educating children across Scotland – the next generation of employees, householders and water users – launched in September. Generation H_2O aims to encourage young people to understand more about our most precious natural resource, look after it throughout the stages of the water cycle, and consider careers in Science, Technology, Engineering and Mathematics (STEM).

[4] Data from DiscoverWater (en-GB)

[5] The index named the top ten UK organisations across five categories and Scottish Water was named 10th for complaint handling)

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Policy landscape

I am hugely appreciative of the constructive working relationships we have with our regulators and the Scottish Government. We have a shared vision and desire to deliver the best water services possible and help make Scotland more resilient to climate change.

We are making good progress on finalising the outcomes we aim to deliver by the end of this regulatory period, SR21, to ensure we are adequately resourced and focused on delivering the standard of services customers expect. This is also helping lay the groundwork for SR27, the next regulatory period, where we will prioritise the investment, collaboration and innovation needed to play our full role in helping Scotland flourish.

The Team Scotland approach, where colleagues working within and beyond the water sector work together to realise a shared vision for the water sector is a fantastic asset for Scotland. It means that all parties recognise their respective obligations to protect and enhance our environment and help increase public awareness of the value of water. This collaborative approach is an essential element of ensuring the longer-term challenges and opportunities facing us are recognised, considered and that we have a joined-up response.

A great example of this is the recent announcement that the UK Government will ban wipes containing plastic to protect the environment. This is something we have been calling for through our Nature Calls campaign, and which Water UK has also campaigned for over many years. Whilst progress has slowed because of the timing of the UK general election, I remain hopeful new legislation will be brought forward across all four nations of the UK which should help reduce future sewer blockages and the consequent risk of environmental harm.


Alex Plant

Proud of our people

Our people are central to all that we do now – and all that we will need to achieve in the future. I have made a point of visiting teams in as many parts of Scotland as possible in my first year and the dedication, pride and desire to help customers shines through - from Shetland to Stranraer. The work they do every day of the year is complex, difficult and essential for all of us.

All our 4,680 people, along with our contractors, deliver a phenomenal service in often difficult circumstances. Whether working to repair a burst pipe, unblock a sewer, answering a call from a customer with low water pressure or redesigning or rezoning networks to make way for a new housing development, our people have the right skills, mindset and passion to get the job done. I am proud of them all and thankful for their efforts. I would also like to extend my personal thanks to Alan P Scott, who retired last year, for his many years of service to Scottish Water in a number of senior roles, and his contribution to the success of the company.

I was delighted when we reached an agreement to modernise our pay and grading structure and improve reward and recognition for our people. One of the biggest challenges I faced in my first year was when our joint trade unions voted to take industrial action, linked to concerns they had about aspects of the new pay and grading system. With huge work on all sides a deal acceptable to all was reached. The outcome is a pay and grading system fit for the modern era, the previous arrangements having been in place since Scottish Water was formed more than 20 years ago and which no longer reflected the modern workplace.

Renewed focus

I close by saying that I very much look to the future with confidence, with a commitment to keep customers at the heart of all we do, and with a renewed focus on doing all we can to protect and enhance our precious natural environment.

Alex Plant
June 2024

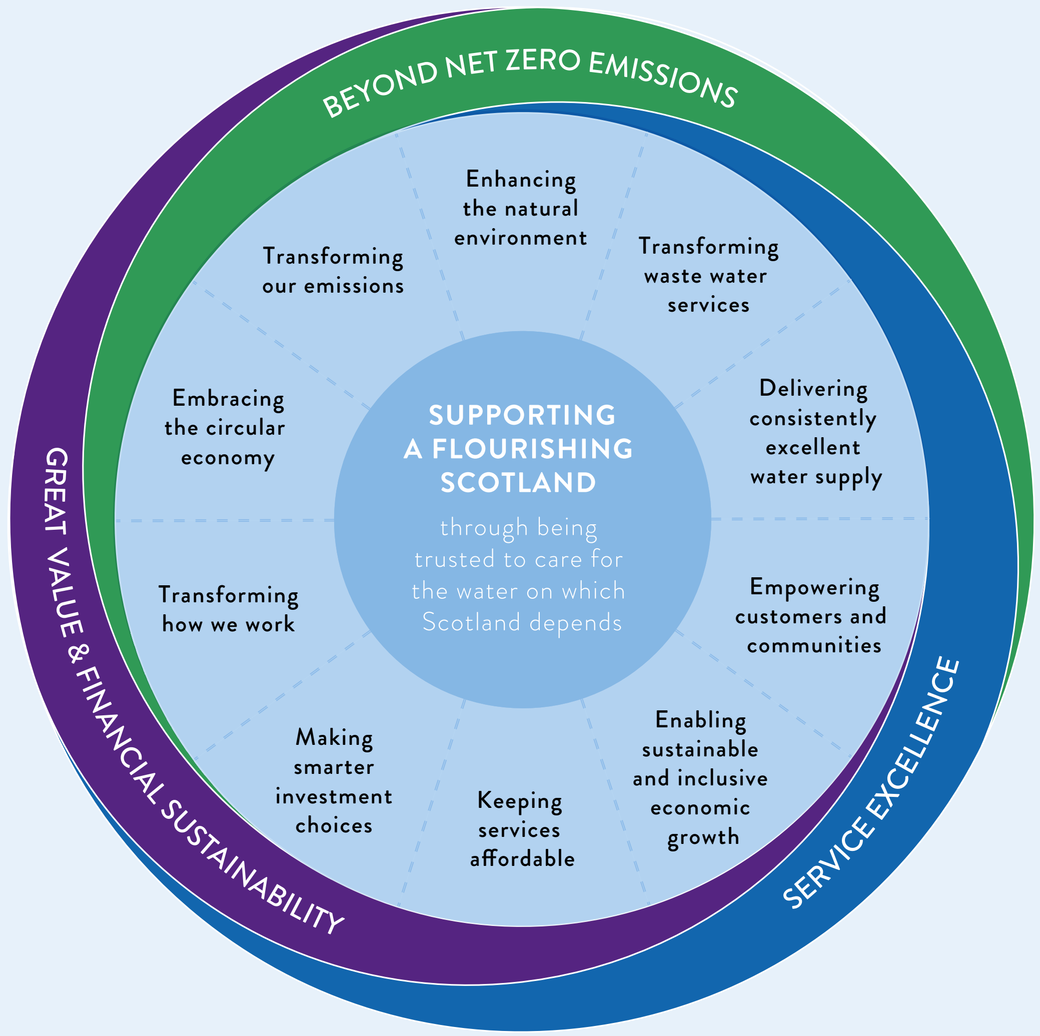
WHO WE ARE AND WHAT WE DO

Scottish Water is a public sector body, classified as a public corporation of a trading nature, answerable to the Scottish Parliament through Scottish Ministers. We are publicly owned, commercially run and independently regulated. This ownership model allows any surplus generated to be reinvested in the provision of services to our customers.

CORE SERVICES AND PURPOSE

Our core services are covered by the Water Industry (Scotland) Act 2002. Charges for these services must be approved annually by the Water Industry Commission for Scotland (WICS). In delivering these services effectively we have to make use of our resources to achieve Ministerial Objectives at the lowest reasonable overall cost. As the economic regulator for the Scottish water industry, the WICS' mission is to manage an effective regulatory framework that encourages the industry in Scotland to provide a high quality service and value for money to customers. The role of the Scottish Government is as policy maker, owner and banker.

Our purpose is to support a flourishing and resilient Scotland through being trusted to care for the water on which we all depend. We supply water and waste water services to households and are also the wholesaler to 22 Licensed Providers who operate in the water and waste water retail market for business customers in Scotland. Using Scotland's natural resources, our assets and the skills of our people, we are committed to improving our services for customers and communities while protecting and enhancing Scotland's environment.



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DELIVERING MINISTERIAL OBJECTIVES IN THE 2021-27 REGULATORY PERIOD

Scottish Ministers set objectives for Scottish Water and for this current regulatory period, 2021-2027, they are:

- Maintain and improve the security of its network and systems, to protect them from malicious attack.
- Make substantive progress towards the climate change targets.
- Align with the Scottish Government's circular economy strategy and assess the potential for resource recovery from waste water.
- Improve compliance with environmental licences and limit the amount of plastics reaching the water environment through the sewer network.
- Prepare a strategy to inform the long-term asset replacement needs ensuring asset maintenance is fully integrated in the investment programme.
- Maintain or improve current levels of service over the long term, engaging to establish appropriate standards for the 2021-27 period and beyond.
- Work with stakeholders to transform how rainwater and waste water are managed to improve flooding and surface water management.
- Prepare and implement plans to manage its private finance initiative contracts which end in the 2021-27 period.
- Identify and provide new strategic capacity to meet the demand of all new housing development and domestic requirements of commercial and industrial development.
- Take an integrated and collaborative approach to decisions to maximise the impact of resources and to achieve better outcomes for people and communities.
- Comply with drinking water quality duties and address failures to ensure compliance with drinking water quality standards, taking steps to improve resilience and remove lead from the network.

For the full list of Ministerial Objectives click here.

SERVICE EXCELLENCE

We strive to deliver consistent and reliable high quality service that meets or exceeds our customers' expectations. To do this we work to understand and anticipate our customers' needs and to be responsive and helpful to find solutions that add value to their experience. Our customers' views help us shape how we deliver services now, and how we should think about our future plans. Most of our customers enjoy uninterrupted services and, when things go wrong, we work as quickly as possible to return service to normal.

Our customer experience satisfaction levels were generally strong through the year, however, increased media coverage in general and more specifically on waste water management, such as the use of Combined Sewer Overflows (CSOs) and environmental pollution, had a notable impact on our customer perceptions as tracked through YouGov surveys[6]. Whilst not all specifically about Scottish Water, the coverage saw our satisfaction levels fluctuate throughout the year, with the lowest level of Satisfaction noted in January at 81.2% and the lowest level of Trust noted in February 2024 at 59.45%. The main shift was towards ambivalence rather than dissatisfaction, an issue we aim to address by becoming even more visible in communities to do even more to build relationships with customers and highlight the vital water and waste water services we provide.

We introduced several measures which benefited customers. These included the launch of a new App and text service enabling customers to track an engineer en-route to their properties.

We have almost 20,000 customers on the Priority Service Register **(Additional Support - Scottish Water)** and this was enhanced this year with a new partnership with Kidney Care UK. Customers on kidney dialysis can use as much as 7,500 litres of water every week and, along with the charity, we promoted the register which ensures people in need are given priority when service issues arise.

FOCUS
Operational Issues Dashboard

Glendevon Reservoir

[6] In this survey we track perceptions, expectations and satisfaction through ongoing survey of 500 nationally representative customers each month.

CUSTOMERS AND COMMUNITIES

Changing weather patterns continued to bring challenges to our delivery of water and waste water services to customers. The summer, with record high temperatures, led to drinking water quality issues and a surge in demand. In winter we experienced a succession of storms which led to a rise in bursts and flooding. We did, however, see a decrease in customer contacts on service issues such as no water and low pressure.

Our assets are ageing and it has become harder to maintain the level of service our customers are used to. We continue to invest at record levels, but we have seen an increase in repair costs, approximately half of this increase relates to Treated Water Storage. However, we acknowledge that delivering the level of service customers expect has become much harder and requires ongoing sustained investment and new ways of doing things.

2023/24 Performance

Overall Performance Measure (OPA)

We use OPA to score our performance across a range of activities vital to maintaining high standards of customer service and to protect the environment. Our OPA, a points-based score, for the year was 402, one point higher than the previous year.

Customer Experience Measure (CEM)

Our Household Customer Experience Measure ((hCEM) tracks and helps us improve how we interact with and are regarded by customers. The year ended with a hCEM score of 86.6, compared with 86.4 the year before, this was in the middle of our target range which is a good result given the year's challenges. Our non-household CEM was 89.7, up from 86.7 the previous year and slightly above target range which is a significant improvement. Our dCEM, the service measure for the development community which has been live since April 2023, was 75.9. This was lower than we had hoped for and is linked to the lower than forecast volume of connected properties for 2023/24.

FACTS

READ THE CASE STUDY
UK Customer Satisfaction Index Success

There was a reduction in contacts from customers reporting service issues, down by 49,940 to a total of 284,808 in 2023/24 when compared to the previous year. This was mainly due to a reduced number of issues caused during the colder winter months when there were fewer prolonged storms and freezing weather conditions which can cause bursts.

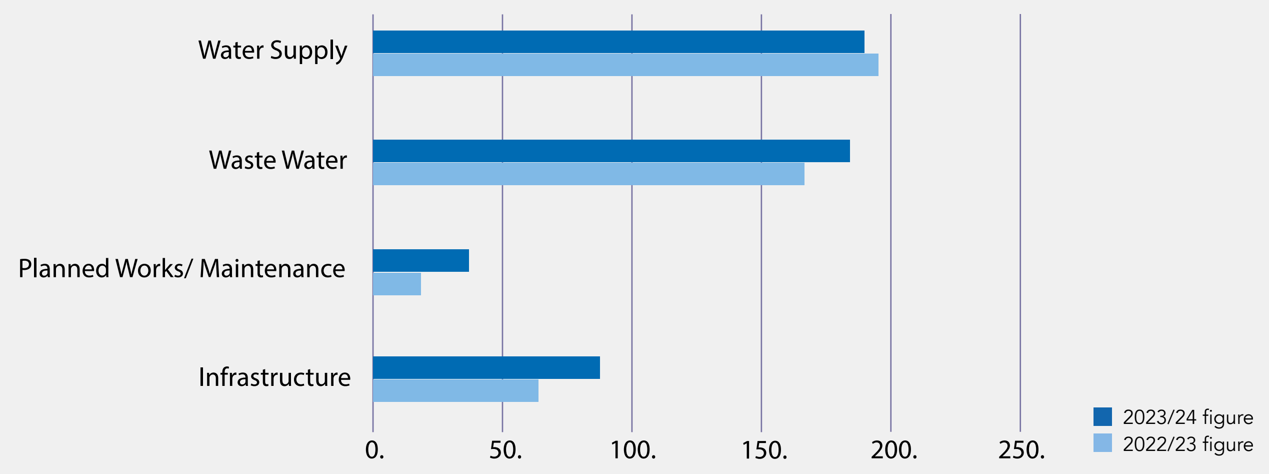
We saw an increase in formal complaints from household customers. There were 397 in the year, 90 more than the year before. For non-household customers the numbers decreased from 163 to 138 and for developers it also fell, from 6 to 2.

Collectively, when all 537 formal complaints are taken together, waste water issues notably recurring sewer flooding saw – the biggest rise, up by 27 complaints this year compared to last.. We aim to respond to complaints within five days and did so for 100% of those received in the last year.

THE NUMBER OF FORMAL COMPLAINTS WE RECEIVED HAS DECREASED SIGNIFICANTLY OVER THE YEARS. THIS YEAR WAS THE 3RD LOWEST NUMBER TO DATE

2006-2007	6077
2007-2008	4007
2008-2009	5093
2009-2010	4560
2010-2011	4101
2011-2012	3647
2012-2013	2397
2013-2014	2114
2014-2015	1499
2015-2016	1291
2016-2017	1015
2017-2018	831
2018-2019	615
2019-2020	522
2020-2021	617
2021-2022	614
2022-2023	476
2023-2024	537

Complaints Top 4 Categories



There were no upheld regulatory complaints from the Scottish Public Services Ombudsman or Drinking Water Quality Regulator.

Freedom of Information requests

We received 1,160 Freedom of Information (FOI) requests, 22% more (213) than the previous year. The highest number of these related to waste water issues, including data regarding Combined Sewer Overflows (CSOs).

Wholesale

We are the Wholesaler to 22 Licensed Providers (LPs) who operate in the water retail market for business customers in Scotland. The market serves 225,457 business properties with a water or a waste water service, with 160,736 water accounts and 192,672 waste water accounts.

We continued to provide an excellent level of service to our LPs and their customers whilst harnessing technology to develop the service for the future. In our annual LP survey, overall satisfaction improved to 6.1 out of 7 (compared with 5.9 last year). We again surveyed LPs in the autumn using R-MeX (Retailer Measure of Experience) methodology to benchmark our performance against our peers and were rated second out of 16 wholesalers operating in Great Britain.

Community Engagement

Our Capital Investment programme is one of Scotland's largest. We carry out significant engagement with communities, community representatives and customers about the projects in their areas via online briefings, public information events and face-to-face customer discussions, supported by our website. Our aim is to inform, listen to and understand concerns about any impact of our work and work alongside them to address and mitigate against any issues raised. We are increasingly engaging with stakeholders earlier, well ahead of work starting, to gain their views and ensure any concerns or recommendations are considered.

FOCUS
Engagement Events

One of the biggest concerns communities have during projects is the possible impact of traffic management on where they live, work or visit. We have started trialling more targeted local radio and social media advertising to ensure a greater audience reach. With impressive results to date we will look to expand this further.

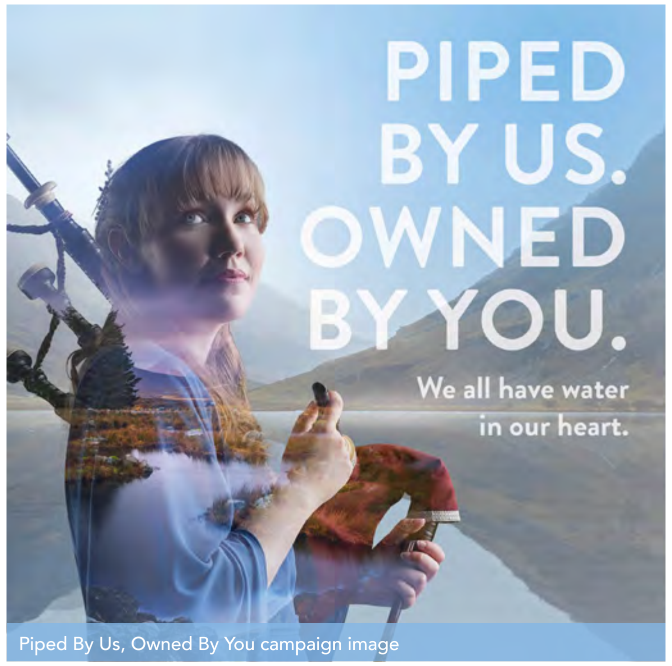
READ THE CASE STUDY
Communication Key to Flood Project Success

CAMPAIGNS
2023/24

We are committed to engaging with our customers in as many ways as possible. We continue to look for new ways to help them play their part in working with us to keep water services running as effectively as possible while protecting the environment.

Piped by Us, Owned by You

We launched a major new campaign to highlight the vital role we play in the lives and work of the people of Scotland. It also reiterates that we are publicly owned and hope it encourages people to play an owner's part, to help protect our assets and sources. Promoted on various media and communication platforms, it features a number of our people who work in various roles. Research carried out by YouGov found customers who knew we are publicly owned placed more value on the water they use and are willing to play their part when asked to reduce blockages and use water more efficiently by adopting positive behaviours.



Piped By Us, Owned By You campaign image

FOCUS
Campaign results

READ THE CASE STUDY
Scientist promoting STEM roles and diversity with ad appearance

Pride event

Social Value

We have moved beyond simply measuring value through monetary means, instead we are engaging with customers to include them in decisions made that impact their community. Understanding that we can all play an owner's part and protect our precious natural resource means a more sustainable future for all. Our nationwide education programme, **Generation H_2O**, has made a splash since going live in September with more than 24,300 young people learning ways to value their water.

Learn to Swim lesson

Our Learn to Swim partnership between Scottish Water and Scottish Swimming creates supportive environments for people to learn to swim regardless of ability or skill level. Our vision is to create 'Generation Swim' – confident, safer and competent swimmers who will also experience wider health and social benefits swimming offers. Olympic, World and Commonwealth champion swimmer Duncan Scott & Paralympic and World champion Toni Shaw are ambassadors for the programme. There are currently around 80,000 youngsters taking part in Learn to Swim lessons every week.

READ THE CASE STUDY
Cerys inspires next wave of swimmers

Independent Customer Group

We established the Independent Customer Group (ICG) to ensure the needs and expectations of customers and communities are taken on board. The ten members come from a range of backgrounds and the group is accountable to Scottish Water's Chair.

FOCUS
ICG Chair update

Community Empowerment Act

No asset transfers were completed in the last year under the Community Empowerment (Scotland) Act 2015. We ended the year with five active cases which could be pursued this coming year. The act helps empower community bodies through the ownership or control of land and buildings.

Health & Safety Performance

We strive to create an environment where it is second nature for us all to consider the health & safety implications of our actions, continually improving safety standards and reducing the risk of accidents. A key performance metric is RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) and while we have one of the lowest injury rates when compared to other water UK companies, we experienced an increase in our RIDDOR rate from 0.07 last year to 0.12 this year. The number of serious incidents however reduced from eight in 2022/23 to seven this year, all of which occurred within the supply chain.

We are continuing to work with our supply chain to review areas for improvement including, how we control access to our sites and improving the health & safety learning among and management of sub-contractors. We have already started to reshape the Health & Safety governance of relevant contractors and we are looking to improve risk assessment, collaboration and learning across our supply chain.

DELIVERING EXCELLENT WATER SUPPLY

We were pleased to be awarded approved status under the Drinking Water Quality Regulator Risk Management Approval Scheme. This provides independent assurance we follow good practice industry approaches to identify and manage risks to water quality and the continuity of supply.

This status was the cumulation of three years' transformation work to rebuild our water supply risk management processes and risk assessments to be fit for a digital age. We are now one of five water companies in the UK with this approval. As in recent years, there were several periods of 2023/24 which brought us challenges, most related to extreme weather conditions.

Storm Agnes and Storm Babet caused widespread issues for us in October, when severe weather warnings were in place across most of the country. Ahead of the storms, we set up a Severe Weather Team which worked 24/7 to monitor issues and ensure we had teams available to respond.

At some sites where the weather impacted on raw water quality we took pre-emptive action to reduce the risk to water quality by stopping abstraction and bringing in alternative supplies. A number of our supply systems were damaged by flood water including our Ballater Water Treatment Works which was inundated and the loss of a treated water main when the bridge at Benmore near Dunoon was washed away.

Despite the challenges, we maintained customers' supplies, helped by our pre-emptive planning and on the ground responses. This included putting 37 water treatment and pumping sites on standby power to protect services from power outages across the country. We also ensured we had potable water tankers available on standby at key sites.

In January, we experienced a prolonged period of freezing weather and heavy snow in the north of Scotland resulting in 76 of our water supply assets being hard to access. During this time, there was only one interruption to supply. This affected 200 properties in the Durness area and was due to very deep snow, which took three hours to plough through. Once we were able to gain access and reset the power system all properties were back in supply within six hours.

At the end of this cold period a rare red weather warning was issued for Storm Isha due to high winds and heavy rainfall. During this event 78 water assets were put on generator and 42 tankers deployed across the country to support over 20 sites and keep customers in supply. During the storms, 80 of our network operators who were not on standby assisted in efforts to access sites and restore services to customers.

Storm Isha also brought a rapid rise in temperatures and quick thaw, leading to a rise in bursts across the water network and at customer properties pushing demand up. While we planned for this and had teams out pro-actively looking for and repairing leaks, the concurrent impacts of managing storms and a leakage outbreak placed a significant strain on our operational teams.

Disruptive weather is increasing in frequency with little respite between events. While we have dedicated and committed teams who respond to the challenges well, the sustainability of our operational response requires to be reviewed. We need to ensure we can resource efficiently our day-to-day activities and operational responses and identify where improvements to the assets can secure resilience and reduce the operational demands. One area we have investigated this year is the expansion of permanent standby power at waste water treatment works and pumping stations and the installation of quick hook up facilities for mobile generators. A prioritised programme of improvements will improve resilience for customers and make our operational response more sustainable.


Storm conditions

READ THE CASE STUDY
Storms cause spillway damage at iconic dam

DELIVERING CONSISTENTLY HIGH WATER QUALITY


Top Up Tap

Top Up Tap

Our Water Quality

Our Water Quality total compliance[7] was 99.92%. Changes in the regulations, with the introduction of new parameters, changes to standards and changes to the frequency of samples taken means that it is more difficult to compare year-on-year performance, or performance against other UK companies. However - excluding the new parameters of Chlorate and halo acetic acids (HAA) which were introduced under the 2023 regulations - performance remains similar to last year.

The biggest impact on total compliance was microbiological performance at Treated Water Storage Points. Once water is treated at our water treatment works it is fed into our pipe network. Here we use storage tanks to ensure the water is available when needed. We have over 1,200 of these Treated Water Storage Points and we have seen an increasing number of these tanks failing our strict water quality standards. This is mostly due to their age and persistent heavy rainfall resulting in ingress into tanks and deterioration of water quality. The Drinking Water Quality Regulator for Scotland issued an Enforcement Notice in relation to how we manage these tanks in September 2023. We are making good progress in terms of quantity, quality and timing of carrying out improvements. We recognised this risk as a key area and delivered record investment this year and will sustain this for the rest of the regulatory period to address this risk to water quality.

We have continued to assess our supply demand balance, taking into account climate change. This assessment indicates we currently have a supply deficit of 60 Ml/d which will grow to 240 Ml/d by 2050 with big changes expected over the next 10 years. **Scottish Water Adaptation Plan.** This, and the increase in demand from customers, has resulted in us increasing the development of options to restore the supply demand balance and expanding drought resilience improvements where needed.

FOCUS
New regulatory standards

FOCUS
Interruptions to Supply

FOCUS
Continuity of Supply

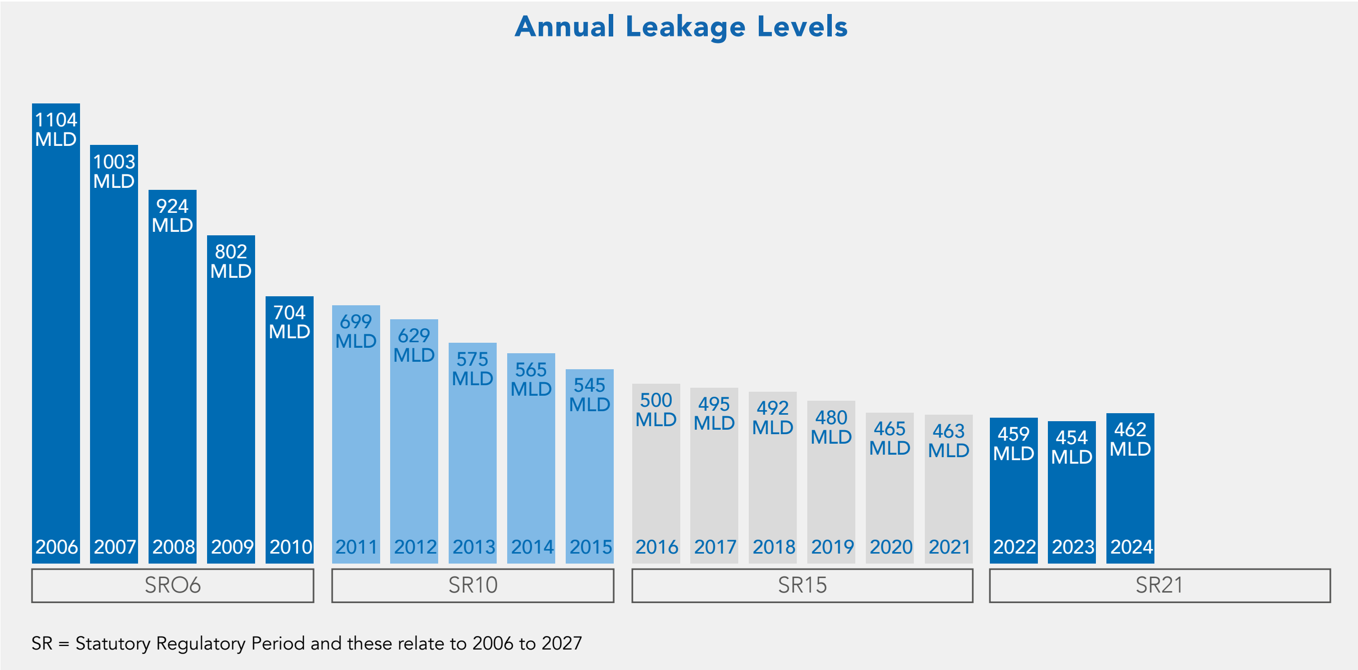
FACTS

[7] Following changes to the Water Quality Regulations in January 2023, which introduced seven new parameters, a modification has been applied to Drinking Water Quality compliance score. There is a slight variance between sample numbers submitted to DWQR and OPA as it is not possible to retrospectively update data already submitted

Our 'Your Water, Your Life' campaign encourages people to top up from the tap. This helps to reduce single use plastics and promotes that reusing your water bottle and topping up from the tap is good for the planet, your pocket and your health. "We continue to support people to stay hydrated when out and about with our Top Up Taps, with 119 now installed. To date we estimate the taps have saved the equivalent of 8.6 million single use plastic bottles (330ml size) - issuing a total of 2.8 million litres.

Strathclyde Park Top Up Tap

Leakage



Leakage from our water supply network has reduced significantly over the long-term, however it remains one of our most important operational issues. As with many aspects of our work, a changing climate and more extreme weather impacts on our infrastructure resulting in leaks which need to be found and fixed as quickly as possible. Despite strong performance on reducing leakage in recent years, this year saw an increase in the amount of water lost from the system compared with the previous year and a higher final total than forecasted.

A spell of very cold weather between December and January in 2022/23 saw our leakage rate rise in many areas. We recovered well from these events but were impacted by an unseasonably cold period in March. As a result, we started the financial year 2023/24 at a higher leakage rate than expected. An extended warm and dry period then followed and we saw further increased losses and during this time there was a 25% increase in leak repairs. Despite committing a high level of resources to achieve greater leakage savings it was not possible to suppress the rise in incidents before a greater than average winter increase in leaks. While this last winter was not as severe as some previous ones it was cold enough over a sustained period to impact our network and we had a 40% increase in leak repairs in January 2024 as a result.

We ended 2023/34 with leakage at 462 Ml/d – an increase of 8 Ml/d on the year before. This is the first annual increase since 2007 when leakage started being recorded. We are responding by looking across all areas of our activity and trialling new approaches to return to our long-term trend of reducing leakage year on year.

This means for the coming year we are committed to doing more to reduce leakage, to at least 452 Ml/d. A large proportion of the leaks we now have are small in size and nature, so harder to find and fix, and we are deploying a range of approaches and innovations to hunt them down. This includes technology to monitor the network round-the-clock – especially during the night when customer use levels are lower and anomalies can be easier to detect.

An estimated 30 per cent of leakage occurs on the supply pipe connecting the house to our water mains and more is lost within the home through leaking taps, fittings and toilets. We are launching a trial later this year which will see us install monitors to record and analyse the flow of water to around 3,000 domestic properties in different parts of the country. A major part of this project is to understand how effectively we can identify leakage within these properties. We will test ways to try and encourage and support customers to fix leaks on their supply pipe or on the plumbing within their home. Further to helping find leaks and water loss within the home the monitors will also help our customers understand how they use water within their homes, so they can see the benefits of taking steps to always use it wisely.

Street Works

READ THE CASE STUDY
Four-legged helpers looking for leaks

FOCUS
Pipe leakage

Prospects

Achieving certification for our water supply risk management system this year has given us a solid platform to continue to mature and develop our assessment and management of risk to the water supply. With direct access to our systems we will continue to share our understanding of risks with the Drinking Water Quality Regulator for Scotland.

We will use our learning from our risk system and service incident reports to identify and develop new or improved operational and asset risk controls, including bespoke response plans for known hotspots to help us prevent issues and respond faster when they occur. We continue to predict future rainfall patterns, expected in a climate change future, which is increasing our understanding of water resource availability and how that water resource will be shared in a climate change future.

We will plan landscapes at catchment scale to ensure we determine where we are able to restore peatland, plant trees and to improve watercourses to make catchments more resilient to climate change. This will also help conserve water resource, improve water quality and help manage flood risk. To do this, we will work with a range of partners including SEPA, farmers, estates, fisheries, forestry, the hydro sector, the whisky sector and local authorities. We will be carrying out more inspections and maintenance of our water assets to understand our risk profile, identify assets in need of investment and to inform the optimum long-term maintenance approach and investment demand.

FOCUS
Scottish Water Horizons

TRANSFORMING WASTE WATER SERVICES

Every day we collect, treat and return over 1 billion litres of waste water safely back to the environment. These activities are an essential part of how we support daily life in Scotland. Ensuring customers' domestic used water, trade effluent and surface water is effectively managed whilst protecting the environment is one of our most important responsibilities and areas of performance. It is an area of our service which has faced increased levels of scrutiny around performance, environmental and social impact. It is also increasingly affected by climate change.

FOCUS
Waste water compliance

Sewer Flooding

A total of 394 properties were impacted by internal sewer flooding – compared with 364 last year. Most of these incidents were caused by blockages and collapses. But there is an emerging rising trend in incidents which are caused by lack of capacity in our network – 54 of these in the last year compared with 48 in 2022/23. To address this, we will need additional investment to create additional capacity and become more resilient as the weather changes.

READ THE CASE STUDY
Edinburgh's Marchmont Road Project

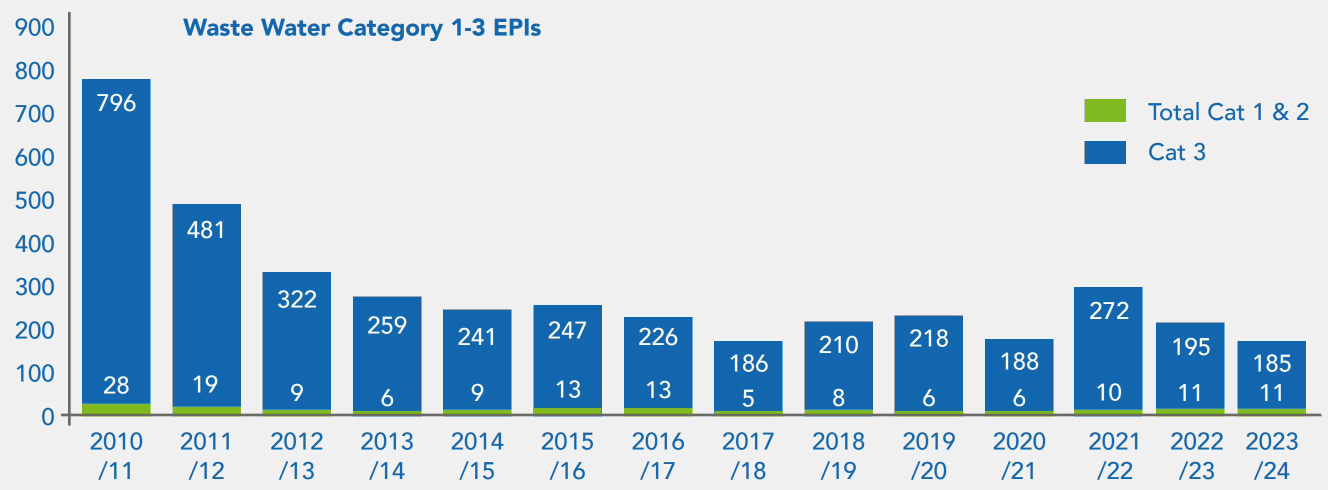
Environmental Pollution Incidents

We saw 196 Environmental Pollution Incidents (EPIs) in 2023/24 - ten fewer than the previous year. There was though an increase in the more serious Category 1 and 2 EPIs, up to 11 which is 3 more than the year before. Most of these incidents are associated with the waste water network, notably due to sewer blockages which are more likely during extreme weather events such as prolonged and heavy rainfall which we are experiencing more often. We are seeing an increase in EPIs caused by the deteriorating quality of assets which require increased investment to find lasting solutions.

We are focused on reducing the number of incidents which occur on our waste water network through increased use of intelligence, including real time monitors and more targeted planned maintenance. Progress has been made this year as part of the ongoing **Improving Urban Waters Routemap** and we are gaining data driven insights that will enable operations to become more proactive.

We will continue to promote responsible behaviours and raise awareness of the role our customers play in helping to keep sewers working as they should. Network monitoring will support this work by helping to identify where targeted campaigns are required to influence and inspire impactful behaviour change.

Water and waste water EPIs over the last 14 years:

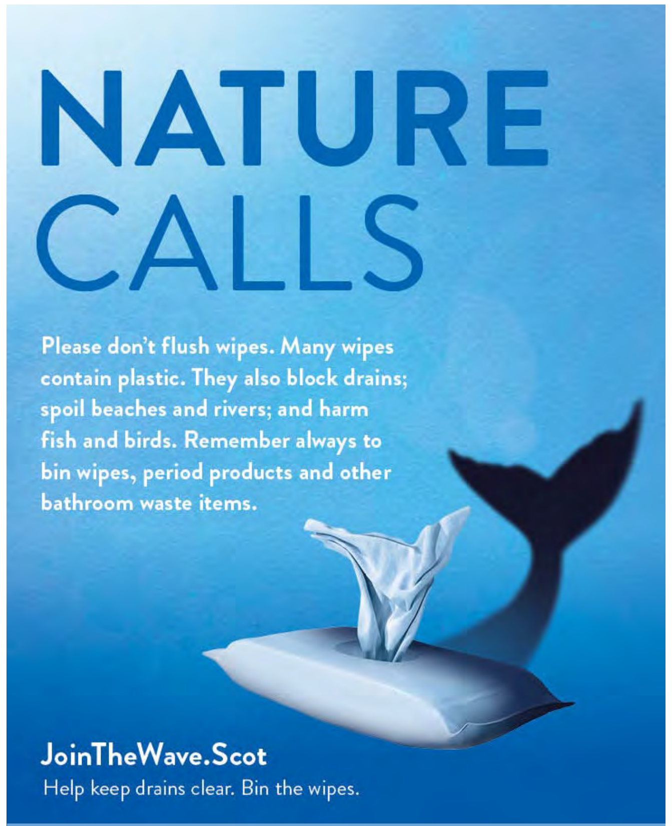


Nature Calls

Our Nature Calls campaign encourages customers to think twice about what they put down sinks and toilets and, ultimately, the public sewer network. It called for a ban on wipes made with plastic - the cause of 80% of blockages. We welcomed an announcement the UK will ban wet wipes containing plastic to help protect the environment. New legislation will be brought forward across all four nations and is expected to be ready in Scotland by the end of 2024, with the ban taking effect in mid-2026. Public support for a ban was demonstrated through our customer analysis of our Nature Calls campaign and Scottish Government consultation, with 95% of people agreeing that wet wipes made with plastics should be banned. We worked with a range of organisations, including Water UK, the Marine Conservation Society and Surfers Against Sewage, as well as campaign groups and elected representatives, to tackle this issue.

FOCUS
Blockages

For 2024 our focus will be on localised activity for Nature Calls, supported by national advertising. We are also working in partnership with NHS Scotland - one of the biggest users of disposable wipes in the UK – which will promote our messaging on their premises.



Nature Calls campaign image

Bathing Waters Performance

SEPA's latest bathing water quality data showed improvement with 37 (42%) rated as 'good' and 38 out of 89 (43%) rated as 'excellent'. This is the highest performance to date and highlights sustained improvements in bathing water quality achieved through partnership projects with communities and organisations including ongoing work by our specialist teams. We will continue to support SEPA to look at ways to maintain and further improve performance across all of Scotland's bathing waters.

Prospects

Changing weather patterns which bring long dry periods and intense rainfall events cause different challenges for our services and infrastructure – much of which was never built to deal with the extreme weather we now experience regularly. Internal and external flooding, more frequent sewer discharge from overflows and pollution incidents all contribute to heightened public awareness of environmental protection and the need for us to upgrade a system that has many ageing assets. During the year we focused on the continued transformation of the waste water system, delivering on the commitments outlined in the £500 million Improving Urban Waters Routemap and gaining a better understanding of how the network interacts with the environment to deliver longer-term solutions.

FOCUS
Low carbon solutions

STORM CHALLENGES

Challenges from series of storms

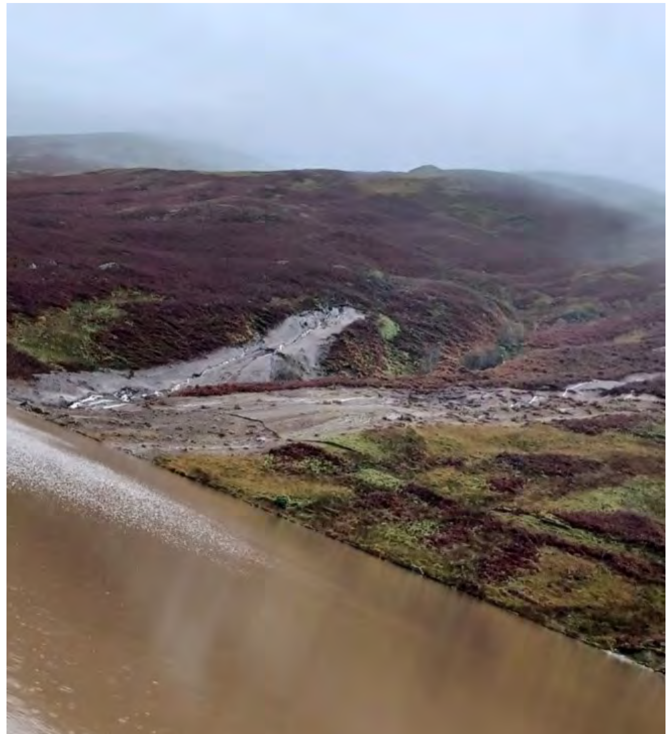
The series of winter storms had an inevitable impact on our services. Storm Agnes brought heavy rainfall in October and ahead of time additional resources were put in place for waste water response teams to respond to any challenges and place resources at known sewer flooding hotspots. This meant the impacts on customers were minimised and customers affected by internal flooding were supported speedily. More than 600 tasks were raised for our waste water response teams over two days. Residents from one property in Coatbridge were temporarily moved due to extreme flooding.

Similar action was taken during Storm Babet in mid-October with extra resources on standby, Our Brechin Waste Water Treatment Works was completely inundated with flood water. Our teams worked round the clock to bring the site back into service. We liaised with SEPA to keep them briefed on the restoration of normal treatment for an extended period with regards the restoration of normal treatment capability.

Elsewhere a section of a large sewer pipe, along with rock armour coastal defence was washed away near the Barry Burn in Montrose. The rising main transports waste water to Hatton waste water treatment works, between Carnoustie and Arbroath. It required a complex repair given the coastline location and the time of year with high spring tides. When the damage occurred, flows through the pipeline were stopped and our monitoring showed there was no continuing pollution at the site while repairs took place. Storm tanks and screens were monitored to ensure they worked to settle and remove debris from the waste water, which was then discharged to the River Tay via outfalls which are designed and licensed to operate in emergencies. We were able to repair the damage in three weeks, gaining praise from SEPA for the speed of the work carried out to protect the environment as quickly as possible.

In January, Storm Isha led to weather related Environmental Pollution Incidents being raised for 24 sites due to heavy rainfall. The high winds also led to the roof at our waste water treatment works in Allers near East Kilbride being blown off.

Overall during these high intensity storms the number of blockages was low given the severity of rainfall and we believe our pre-emptive work played a part in this. Whilst the number of internal sewer flooding incidents resulting from this weather pattern was similar to the previous year, the number of properties affected increased significantly, demonstrating the impact from increased rainfall intensity, which we will need to assess and plan for.


Landslip at Loch Finlas


Storm Babet damage


January stormy conditions

Transforming our Waste Water Systems

During the year we have continued to transform our waste water system, delivering on the commitments outlined in the £500 million Improving Urban Waters Routemap and gaining a better understanding of how the network interacts with the environment to deliver longer-term solutions.

We committed through the Improving Urban Waters Routemap to install 1,000 CSO monitors and to report in near real-time overflows by the end of 2024 and are ahead of schedule with our installation. By the end of 2024 we will deliver a new online service which makes near real-time information about overflow discharges available for all monitored waste water overflows. We are working with a range of partners including SEPA, Surfers Against Sewage and the Marine Conservation Society to ensure data is accessible.


Outflow River Clyde

We have installed Waste Water Intelligent Networks to gather and analyse real time data in four locations. This capability has helped us detect the build-up of materials which can lead to blockages in the network and help us take action to clear these areas before they impact our customers and the environment. These have helped detect over 40 potential issues Scotland-wide to date.

Building on this we are now developing this capability in 12 further catchments. We have completed the planning and design and are now installing the monitors in addition to the 1,000 mentioned above. **Urban Waters Routemap**.

We are required by SEPA to annually report waste water overflow data for selected licensed assets. In line with our commitment in the Improving Urban Waters Routemap we also publish this data publicly. In March we published our latest annual data on overflows from the public waste water system. Additionally, there are locations where we have a licence requirement to have a monitor, but these are not included in the annual report to SEPA. For the first time this year we also published this data where it was available. Not all these existing monitors are providing the data that is required so we are also replacing 370 of our existing monitors with modern and effective new monitors.

Surface Water Management

Many areas are seeing more flash flooding during severe weather events, particularly bigger towns and cities. To date, surface water has been drained through underground pipes, but the more intense storms we see now can overwhelm these. Population growth and a reduction in available green spaces can also put pressure on these networks. Today, we ensure every flooding project we work on will seek to identify measures to manage surface water before it enters sewers. This requires long-term, cross-sector planning and we are working with local councils, SEPA and the Scottish Government to find lasting solutions and investment for these. This includes jointly planning and delivering 'blue-green' solutions to manage stormwater, mimic natural drainage, slow down flow, and prevent it from entering the sewer network. This approach reduces flood risk and increases biodiversity. **River basin management planning | Scottish Environment Protection Agency (SEPA).**


Nature-based flooding solutions

READ THE CASE STUDY
New neighbourhood drive to capture rainwater run-off

FOCUS
Craigleith solutions

READ THE CASE STUDY
Nigg Waste Water Treatment Works advance process

FOCUS
Recycling grit into soil

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TRANSFORMING HOW WE WORK

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We are rightly proud of what we have done to continue the vital services we provide for the people of Scotland. But the landscape and climate are changing and we want to secure the best water and waste water service for future generations, and we know we have to continue investing more to maintain and replace our ageing assets. We want to optimise our operations and introduce new methods and materials while always looking for the best value for money.

We recognise the need for continued collaboration with many stakeholders and increased investment to tackle the challenges ahead, particularly in the face of climate change.

Our Transformation projects are on track to exceed £100 million net benefits in this SR21 regulatory period, which will be reinvested in services for our customers.

In the past year, we've focused on several key projects that have had a significant positive impact on our efficiency and service delivery. These included:

Transforming how we Invest:

Non-Complex Service Delivery: This new application ensures the delivery of the replacement, repair, and refurbishment of electrical, mechanical and infrastructure assets which are low value but high-volume activities. The full transformation began in late 2019 and to date has delivered over 16,000 needs which have improved services to benefit customers across the country This next phase will enable our delivery partners to access our digital system and update delivery information as well as improving the way this data links with information with our finance and asset management systems. It has reduced the average decision making time from 6 months to just one week, ensuring our assets are kept safe for our people and operating to protect our environment and customer service.

Transforming how we Serve:

Exemplar (waste water asset technology): Exemplar is delivering benefits by capturing the end-to-end process of running some of our biggest waste water treatment works. It is now in operation at 17 sites across Scotland to improve how these assets run. Exemplar uses digital technology and connects operators to data from smart sensors that operate 24/7 that allow the treatment works to be optimised and drive greater efficiency. These sensors provide detailed real-time information into how each works is operating. It allows any adjustments to be made in the treatment process, reducing energy consumption and costs by enabling smarter, proactive and more effective decision-making. It has delivered a 0.5.Gigawatt hours (GWh) reduction in energy consumption and over £500,000 in annual savings while ensuring we protect the environment.

Supporting Our People:

Customer Insights: A new internal insights dashboard gives our teams a near real-time picture of what customers are contacting us about and in what areas. This is helping us determine how these issues relate to our network. This visualisation data helps inform decision making, saving our people time and giving them access to improved data and enhances our readiness to respond when issues arise. It is also saving customers' time and helping us find the source of issues and enable us to complete repairs more quickly. This, together with the increases in priority services registration, is allowing us to better understand and take action where our customers need the most support'.

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Prospects

We are committed to exploring new ways of working and fostering continued and new partnerships to address the evolving challenges posed by climate change. Our priorities include improving how we prevent and respond to incidents by harnessing new methods of gaining and sharing data and analytics and improving automation to better predict, prevent and pro-actively respond to emerging trends and service risks. This will enable a shift in how we manage our assets, deliver services to customers and support our people to help them respond quicker and more easily. Our commitment to innovation and collaboration will continue to drive positive change and ensure a legacy for the future.

FOCUS
Transformation Ambition

RESEARCH AND INNOVATION PROGRAMME

We fund an internal research and innovation programme which aims to build knowledge and capability that enables us to transform our water and waste water assets to be resilient to future challenges e.g. climate adaptation and maximise future opportunities like the circular economy.

The programme engages with collaborators in Scotland, the rest of UK and abroad on specific challenges and opportunities. We are partners of Spring which is accelerating Water Sector Transformation. **Spring Innovation**

Our highlights from the last year included:

- Resource recovery factory demonstrator to explore the benefits of resource recovery technology on waste water treatment to enhance treatment capability, reduce energy and emissions and generate valuable recovered resources to support a flourishing Scotland. Initial focus is on grit recovery for recycled aggregates, screenings for energy and biochar production and algae photoreactors to recover phosphorous and nitrogen for fertiliser;
- Circular Economy business models working with our supply chain to refurbish and re-manufacture pumps to reduce cost, carbon and replacement time;
- Development of a nature-based treatment solution for small scale waste water treatment to replace ineffective septic tanks and create community amenity;
- Exploring advanced thermal conversion technologies for more sustainable uses of biosolids;
- Industry leading work on understanding the extent of process emissions from different types of waste water treatment works. Utilising infra-red scanning technology from oil and gas sector to monitor emissions at site scale — a world first — and working with innovative Artificial Intelligence to create a decision support tool to optimise treatment to reduce emissions at some of our bigger assets.


Process emissions monitoring at a Waste Water Treatment Works

FACTS

FOCUS
Industry leading partnership

ENABLING SUSTAINABLE AND INCLUSIVE ECONOMIC GROWTH

Our investment programme enables economic activity and growth as well as employment. The Scottish Government's Hydro Nation Report 2022 stated Scotland's water sector, including Scottish Water, is worth an estimated £3.7 billion to the Scottish Economy and provides almost 17,000 jobs. **Hydro Nation: annual report 2022**

We are committed to playing our part in ensuring Scotland flourishes and continue to invest in water and waste water assets to enable housing and other economic development. In the last year we completed 14,346 new water connections and 12,896 waste water connections. This is a significant reduction on last year from 22,647 and 21,708 for water and waste water respectively. Despite the drop in connected properties, the volume of applications received has remained relatively static year-on-year with 4,998 technical applications received compared to 4,801 the previous year.

There were two key factors for the reduction in the number of reported connected properties. Firstly, the development market has slowed in the year – and the latest Scottish Government figures have reported an 11% reduction in the number of house completions and 24% reduction in the number of house starts. Secondly, the way we calculate connected properties has changed to be more representative of the build out rate of developments.

Robroyston Water Main Upgrade

ANNUAL REPORT & ACCOUNTS 2023/24 PERFORMANCE AND PROSPECTS

BEYOND NET ZERO EMISSIONS

Overview

We remain on track to reach our 2040 Net Zero target. Applying the learning from the previous year, we have achieved our emissions reduction target, delivering cumulative reductions of 27,723 tCO_2e since 2021 which is in line with what we had forecast. In 2023/24, we delivered 12,042 tCO_2e[8] of reduction activities.

We published our first **Climate Change Adaptation Plan** which outlines the efforts it will take to make services and assets resilient to the impacts of climate change that we predict and highlights the consequences on water supplies, water quality, sewer systems, infrastructure and the environment without adaptation. We continue to respond to the changing climate by assessing risks and building resilience into our operations and investment plans where possible. But, with growing impacts on assets and services from the changing climate, the new plan highlights the steps that must be taken to go further and faster in adapting our assets and services to ensure they remain reliable, resilient and sustainable.

We delivered cumulative emissions reduction in the last three years of 27,723 tCO_2e which is equal to:

Driving 101 million miles or 60,000 return journeys from Land's End to John O'Groats in an average diesel car

18,000 return flights from London to New York

Photovoltaic panels at Craigie drinking water service reservoir, near Newmachar, Aberdeenshire

[8] This relates to a range of our internal initiatives such as peatland restoration or renewable energy projects which can be equated to a carbon benefit. It does not directly relate to Scottish Water's annual Carbon Footprint.

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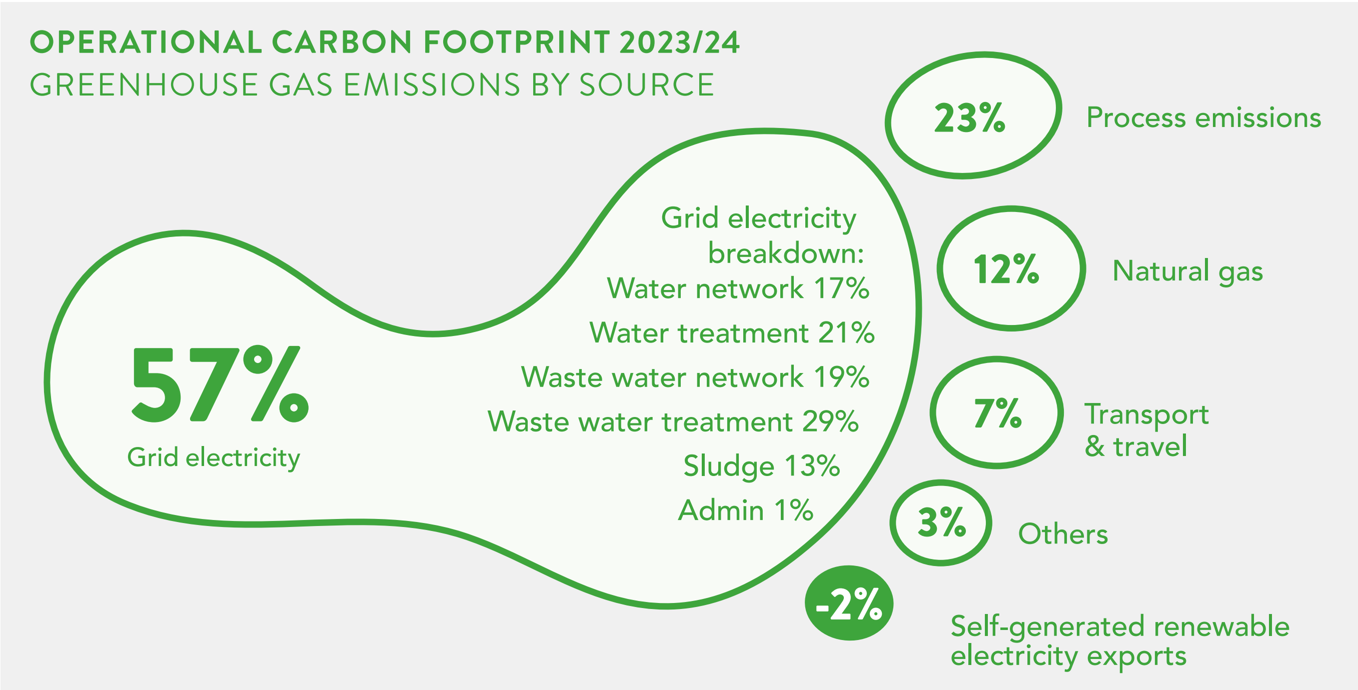
Reducing Emissions

Our operational greenhouse gas emissions – our carbon footprint - was 225,000 tCO_2e. Whilst we took action to reduce emissions, changes to the emission factors for grid electricity resulted in our reported emissions increasing by 5,000 tCO_2e from the previous year[9].



We have updated our forecast as to when we expect to achieve operational Net Zero – to do this we need to progress hosted wind farms on our land, invest in new technology to replace ageing sludge driers and for the electricity grid to decarbonise. These, along with current intelligence on progress of process emissions reductions and forecast increase in carbon capture on our land show that we should achieve operational Net Zero in the mid-2030s.

Our Streamlined Energy and Carbon Reporting (SECR) outlines our energy and carbon emissions and also other efficiency measures.

READ MORE
Streamlined Energy and Carbon Reporting (SECR)

Beyond Net Zero Emissions Principal Risks

TCFD Risk Disclosures table

Energy Efficiency and Renewables

We delivered 48 projects to improve energy efficiency across our asset base, enabling 5.68GW reduction. Over the last three years we have delivered 19GW reduction from our work on energy efficiency. A total of 42GWh of renewable energy was generated on our assets, with our PFI partners generating a further 20GWh.

We progressed our solar and hydro programme, delivering 13 projects with a generating capacity of 5.8GW. This included our first waste water hydro scheme at Hamilton Waste Water Treatment Works. Over the last three years we have delivered 14.7GW of renewable generation capacity.

READ THE CASE STUDY
Innovative Hydropower Scheme hits Hamilton

FOCUS
Reducing our Process Emissions

[9] Our reported 2022-23 carbon footprint was found to contain an error that slightly under-reported the amount of electricity consumed by several PFI schemes. The revised 2022-23 footprint is 220,000 tCO2e, a 1% increase on what we previously reported.

ANNUAL REPORT & ACCOUNTS 2023/24 PERFORMANCE AND PROSPECTS

Fleet

Our fleet travelled 18.4 million miles last year delivering service for customers. This is an increase from the previous year as we had additional journeys relating to drought and storm responses over the year. We continued to make good progress with the transition of our fleet to Net Zero, with a further 214 electric vehicles delivered. We now have 473 electric vehicles ranging from vans to lease cars and expanded our number of charging points to 291.

We also took delivery of our first large electric panel vans as a pilot to test their range and payload for our needs. Heavy transport emissions are challenging for us to address given the volume of these vehicles we need to use. On our investment programme, the use of sustainable hydro-treated vegetable oil (HVO) is now widely deployed across construction sites, being used for onsite vehicles and power generation.


EV vans on Orkney

Carbon Capture

We will always prioritise the elimination or minimisation of emissions but recognise that some of our emissions will be difficult to reduce with current technology. We are planning to mitigate emissions we cannot eliminate through carbon capture on our landholdings via initiatives such as peatland restoration and woodland creation.

Applying the learning from 2022/23, we had a record year for peatland restoration, with 316 hectares restored in our water catchments, even though some work was hampered by winter storm damage. As well as capturing carbon, this reduces raw water quality risk. As part of the programme we have updated our carbon inventory to reflect the change in the peat condition.

A total of 66 hectares of new native woodland was planted on former grasslands and 507 hectares of land reached sufficient maturity and density through natural regeneration to be re-classified as native woodland at the Loch Katrine estate. Our current understanding of carbon capture on our estate is circa 6,000 tCO_2e, based on our natural capital accounts and work we have done since working to improve intelligence in this area. With operational emissions of 225,000 tCO_2e, taking carbon capture into account our net emissions would be 219,000 tCO_2e.

These activities will have a significant positive impact on biodiversity. This year we published our triennial **Biodiversity Report**, which included our first set of natural capital accounts and biodiversity baseline.

FOCUS
Creating a new woodland

READ THE CASE STUDY
Loch Katrine Land Management Plan

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Supporting the Hydrogen Economy

Hydrogen is a key fuel in the wider Net Zero transition, and water is a key component. To support the growing hydrogen economy, our business arm Scottish Water Horizons is working with stakeholders and production companies on over 40 projects across the country with a potential hydrogen capacity of over 3GW. We are working with them to provide feasibility assessments, design, build and operation, and maintenance services on a range of water sources. This includes potable treated water, untreated raw water and final effluent from waste water.

Investment Emissions

Investment emissions - the embodied emissions in the concrete, steel and other materials we use as well as activities to construct our assets - remain an important and challenging part of our Net Zero commitment. Over the last year we increased our work with supply partners to deliver further emissions reduction activities across our investment programme. As our work builds momentum, it has been encouraging to see innovation pilots become more widely adopted. An example of this is how one of our partners started to supply HVO to small construction sites, which we have now adopted more widely, leading to further emission reductions on construction sites. Another success was our pilot scheme to reduce carbon at control units that manage our pumps and other equipment. We piloted new technology which led to a 60 per cent reduction in carbon and are now setting up a framework to enable wider adoption. We also now have access to low carbon steel reinforcement which we can use in our projects to further reduce emissions.

To encourage knowledge sharing, we established a Net Zero Heroes network. This brings over 60 people together regularly from Scottish Water and our supply chain partners to share best practice. It includes people who have enabled and implemented carbon savings and carbon capture opportunities and others who have improved Net Zero reporting or delivered an exemplary project to help us with our sustainability ambitions. We have also initiated work with some of our key equipment suppliers to better understand how their products will decarbonise over time. This has allowed us to update our pathway to Net Zero investment emissions, which we forecast delivering for 2040.

Challenges

Whilst we made progress in the year, there were several challenges which we will build the learning from into our future plans:

- Our renewables programme was impacted by people retention in a very active recruitment environment as the UK grows its renewable capacity.
- To address **modern slavery** concerns in our supply chain we will not be starting any new solar PhotoVoltaic (PV) schemes until a revised supply chain is established. As a result, our planned programme for the rest of this regulatory period has been reduced.
- It was a record year for peatland restoration but weather (notably winter storms) and commercial challenges delayed two projects.

Prospects

Over the next year and beyond we will continue to deliver our carbon reduction plans in line with our Net Zero Routemap. We will focus on:

- Developing and delivering opportunities to reduce emissions, particularly in energy efficiency, renewable energy and our vehicle fleet;
- Working with our partners on the development of hosted wind farms on our land;
- Progressing work to improve measurement and control of nitrous oxide emissions at large waste water treatment works;
- Working with our supply chain partners to introduce low carbon designs and materials and to expand the "art of the possible" to reduce investment emissions;
- Progress changes to how we capture data to allow us to better measure Carbon;
- Progress woodland creation and peatland restoration on our land holding to improve carbon capture to balance our forecast residual emissions;
- Engage with other UK and international water companies and other sectors to share and grow our knowledge on how to reduce emissions.

Our Task Force on Climate-Related Financial Disclosures (TCFD) provide information about what we are doing to mitigate the risks of climate change.

TCFD Disclosures

GREAT VALUE AND FINANCIAL SUSTAINABILITY

Our Investment Programme

Our investment programme is one of the largest infrastructure programmes in Scotland – and we continue to invest at record levels. Investment in vital water and waste water infrastructure in the last year rose by £95 million – up to £789 million from £694 million. When we include our responsive repair, refurbishment and replacement of our assets our overall investment has risen to £1.02 billion.

Our ability to deliver year-on-year increase in investment is supported by our people and partners and by continuing to transform, innovate and work with communities and customers. Our internal measure, which tracks project progress from start on site to completion, ended the year within the target range and our performance on getting projects in to service for customers continued to improve and was on target. We have worked hard to ensure our list of vital upcoming projects are ready to be delivered and aim to continue to maintain our sustainable delivery momentum. Our procurement strategies aim to create, support, develop and evolve a resilient, sustainable and growing supply chain in Scotland.

FOCUS
Procurement strategies

70%
OF SUPPLY CHAIN CLASSIFIED AS SMALL OR MEDIUM-SIZED ENTERPRISES

430
SUPPLY CHAIN PARTNERS

90%
PROCUREMENT SPEND THROUGH BUSINESSES BASED IN SCOTLAND

£1.3bn
SPENT ON GOODS AND SERVICES IN THE LAST YEAR

Marchmont works

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HELPING SCOTLAND FLOURISH

Our capital programme continues to support housing and business growth across the country. Among our biggest for this year were:

Tay Street Perth

WASTE WATER

Our largest investment was in Perth, where a series of waste water projects totalling £108 million will provide new sewer networks and treatment capacity for an additional 40,000 people as the city expands. Our holistic planning process has integrated existing flooding needs into the project, including a new Super Sewer providing additional capacity for new housing in our existing network and storage in times of storm to prevent internal flooding. At other sites in the city we are laying strategic new trunk sewers which will allow multiple developers to connect new housing developments to our sewer network. We are also upgrading Perth Waste Water Treatment Works to increase its capacity by over 50% using state of the art technology to boost treatment capacity and speed up processes.

Craighead Waste Water Treatment Works

WATER

We continue to invest in our water treatment plants to ensure a constant supply of high-quality drinking water. An example is our project at Craighead Waste Water Treatment Works, which serves the area around Huntly in Aberdeenshire. The site has reached the end of its economic life and is not suitable for refurbishment and a new £18 million works is being delivered to provide up to two million litres of water a day - about the same volume as an Olympic sized swimming pool. We used innovative solutions to help design and plan the works including laser scanning the site to produce a base model, allowing the design to be completed quickly using 3D models and digital rehearsals of the construction phase helping identify potential health & safety hazards to address. We also used emerging manufacturing techniques with much of the treatment processes being fabricated off-site before being transported to the new site in modules for assembly – saving time and money. As part of our standardisation processes, we are now working on a second water treatment works at Herricks – which serves the Keith area in Moray - currently under construction using the same design which delivers significant efficiencies including speeding up the time to site, the time to begin the project and a reduction in costs due to re-use of a successful design.

West Feal official planting team

PROTECTING THE ENVIRONMENT

We know our work can be disruptive – and throughout the delivery of our projects, protecting the environment is always considered and made a priority. In the last year this has included protecting of resting sites for otters, bats and badgers in line with legislation. We have introduced improved digital mapping for fieldwork to capture and share environmental information to do all we can to protect and preserve nature.

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READ THE CASE STUDY
Protected Pine Marten gets plush new home

Investment Delivery Risks and Challenges

Construction market conditions continue to be challenging for us, as with many organisations across Scotland and beyond. We have seen price volatility over the last year, albeit not to the same extent as the previous two years. The price of materials continues to be significantly higher than prior to Covid and the political unrest in both the Middle East and Russia/Ukraine which have had significant impacts on certain commodities. Our framework contractual arrangements continue to give us a level of protection from

CASE STUDY: Weather-proofing water sampling kiosk

Cairngorms National Park can see temperatures drop to - 17C in winter – which can challenge us when water quality samples need to be taken.

To overcome this we worked with supply partners to develop new state-of-the-art vertical solar technology which optimises solar power year-round using improved angling to follow the path of sunlight and equipment to support a low energy heater and fan to keep the asset from freezing.

This winter we were able to carry out normal sampling at our kiosk at Tomnavoulin – the first year this has happened.

This saved us time, money and helped us ensure ongoing high water quality and we will look to using this latest technology on other remote and exposed sites.

done to replace ageing assets and to adapt. To continue to be financially sustainable we will need ongoing investment, and, for our part, we will have to look at ways to work more efficiently. We are committed to sustaining our levels of investment year-on-year over the regulatory period. We expect our total annual investment level for 2024/25 to be in the region of £1.04 billion to £1.10 billion.

We know we must grow the capability and capacity of our assets to help us transform and adapt. We will look to enhance service and deliver on growth as well as repair, refurbish and replace existing assets. Increased investment is also needed to ensure we significantly reduce the whole life carbon of our projects to support Net Zero ambitions.

We expect to see continued asset failure – due to ageing assets and extreme weather - impacting the services we deliver to customers and communities. As such our investments will continue to be prioritised to achieve the best customer and environmental benefits possible. We continue to work towards reducing the time taken and the costs incurred to deliver our work. To ensure we continue to deliver value for money we regularly review a collection of measures and their trends, continually improving processes taking any relevant action as a result of monitoring the measures. We will monitor our business performance to help us manage our investment policies for future years and allow us to manage service levels and risks.

We procure material and equipment from local, national and international suppliers for use in service delivery and capital investment. We have close working relations with

have confidence we are spending their money wisely.

READ THE CASE STUDY
Weather-proofing water sampling kiosk

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PEOPLE

We strive to be a great place to work and ensure we attract, develop and retain key talent. We are a major employer across Scotland and at the end of March 2024 we directly employed 4,680 people. We also rely on an extended network of people in our supply chain and partners to help us deliver our services.

Modernising our Pay and Grading System

A major milestone in the last year was reaching an agreement with our trade unions after long-running negotiations, to implement our new pay and grading approach This addressed concerns raised by our people that the previous, 20-year-old approach no longer served us well. Implementing this fundamental change allowed us to make a consolidated pay award to all collectively bargained our people in December (the vast majority of people), along with early implementation of the latest Scottish Living Wage. Our people moved to the new approach from 1st April. Modernising our pay and grading approach provides greater clarity on how everyone's role contributes within the organisation, what is expected of each of us, and how pay will work in future. This change should also provide Scottish Water with increased agility as jobs evolve to meet the needs of a transforming organisation.

Conference

Skills Development

Our talent programmes of graduates and apprentices form a key part of our strategy to build skills and resources for the future. We are committed to being a diverse, equal and inclusive organisation and are increasingly focused on attracting people from a wider range of backgrounds. This includes more considered use of language in recruitment advertising in target areas, partnering with organisations that specifically cater for candidates from under-represented groups and a focus on adjustments and flexibility in our selection process and working practices, such as from neurodiverse applicants. During 2023/24 we had 163 apprentices and 82 graduates in various roles across Scotland. In the last year we recruited 41 graduates, 58% of whom were women and 67 apprentices, 25% of whom were women. We also work closely with our partners on the development of skills and resources, this resulted in a further 167 apprentices and 92 graduates being recruited into our partner organisations

Diversity, Equality and Inclusion

We are proud of our Belong Network that encompasses employee-led groups, and continues to grow in size and scope. We have ten groups, with our Neurodiversity group (previously part of our disABILITY Forum) now a fully-fledged member of the network. Each group is supported by dedicated Network Leads, core members and Senior Sponsors and has aims and objectives that are shaped by the communities they represent. The Network offers a safe environment where people can talk to someone they trust with similar lived experience and provide social networks and practical support. When business changes are being proposed, the groups are engaged and consulted with, and they also help shape and inform.

FACTS

Our Multicultural Network Belong Group has championed signing **Business in the Community's 7-point Race at Work Charter**, which includes appointing an executive sponsor for race. We look forward to continuing to make progress on the commitments within this framework.

Absence

The overall absence rate for the year remained steady at 2.63% - compared with 2.79% the previous year. We monitor absence levels and reasons to ensure we provide the appropriate support and aid intervention. In line with many organisations, our mental health-related absences continue to increase, which is reflective of wider society. The higher figures may be an indication of increased willingness to open up about mental health challenges.

We produce a monthly Scottish Water Cares bulletin for our people to raise awareness, through articles and videos, on a range of health and wellbeing issues to help with reducing preventable ill-health.

Statutory Trade Union Facility Time

In the last year 2,734 hours were used as Trade Union Facility Time – a significant increase on the previous year's 1,384. This is paid time-off during working hours for our people who are also trade union representatives to allow them to carry out trade union duties. Much of the increase was due to negotiations regarding our new pay and grading structure.

WaterAid

We are working in partnership with international charity WaterAid to raise awareness and funds to provide clean water, decent toilets and good hygiene normal for everyone, everywhere within a generation. Many of our people and alliance partners have raised funds for several African countries taking part in various fund-raising activities which have included sponsored auctions, walks, marathons and monthly payroll lottery. In 2023/24, we raised £215,851 for the charity.

Prospects

We are creating an updated Employee Experience and Insights strategy to enable us to measure the things that matter most to our people today. Since the pandemic, technology and practice in Employee Experience has developed significantly. Some of our current mechanisms for seeking our peoples' views are no longer keeping pace with best practice. This work will support action planning at a corporate and team level to ensure correct policies and practices are in place for a consistent employee experience across all areas of the organisation to ensure our peoples' voices are listened to.

Water Safety Day

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DIGITAL INNOVATION - HELPING OUR PEOPLE HELP OUR CUSTOMERS

The decisions we make with information create better outcomes for our customers. We are determined that our people must be empowered to make the best decisions underpinned by fit-for-purpose, trusted and easily accessible data.

One of our stand out initiatives of the year was the integration of advanced sensor technology across our waste water network. These sensors play a critical role in early detection of potential blockages and pollution risks. Our focus on predictive maintenance has improved the way we are able to manage our assets. For example, at key waste water treatment works and pumping stations, our people are trained in the use of a range of sensors, smart devices and data analytics to not only monitor but predict the future health of assets. In Inverness, innovative leakage detection techniques have significantly cut down water loss - highlighting our commitment to efficiency and sustainability. The approach taken with these initiatives allows our people to take action quicker to prevent potential asset failures.

Digital platforms are now the primary touchpoint for most of our customer interactions. Recognising this shift, we are keen to do more to ensure customers have access to real-time information via our website and social media channels, especially in critical situations such as a loss of supply.

In an era where data security is paramount, we have strengthened our cyber-security frameworks and compliance measures. Through enhanced training of our people, updated protocols, and cutting-edge technology, we safeguard our data and systems against potential threats, ensuring reliability and trust.

Partick Pumping Station Glasgow

ANNUAL REPORT & ACCOUNTS 2023/24 PERFORMANCE AND PROSPECTS

FINANCIAL SUSTAINABILITY

	Regulated Company Financial Highlights		Group Financial Highlights	
Revenue	£1,446m	↑ £81m or 6%	£1,935m	↑ £98m or 5%
Surplus before tax	£36m	↓ £24m or 40%	£55m	↓ £6m or 10%
Capital additions	£696m	↑ £51m or 8%	£703m	↑ £49m or 7%
Cash	£280m	↓ £110m or 28%	£362m	↓ £125m or 26%

Scottish Water's regulated business supplies water and waste water services to households and is also the wholesaler to the 22 retailers (Licensed Providers) who operate in the water retail market for businesses in Scotland.

Business Stream, our retail subsidiary, operates as a Licensed Provider competing with other Licensed Providers in the Scottish and English markets to supply water and waste water retail services to business customers.

Business Stream is operated in accordance with the Governance Code (agreed with the WICS). The code sets out the operating regime that Scottish Water and Business Stream must comply with to enable the operation of the licensed retail market. Business Stream has the same Chair as Scottish Water but has its own independent Board and management team. Scottish Water exercises governance over Business Stream through Scottish Water Business Stream Holdings Ltd in accordance with the above code.

The group also provides non-regulated commercial services primarily through Scottish Water Horizons Holdings Ltd.

An overview of year-on-year Group performance, on a statutory accounting basis, is provided on pages 46. Year-on-year performance of the three main business segments covering regulated services, Business Stream and non-regulated services is detailed on pages 47 to 50. Performance of regulated services, on a regulatory accounting basis, and future prospects for the business are provided on pages 51 to 55.

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Financial Performance – Group Overview

The tables below summarise the key components of surplus before tax, net debt and taxation by trading segment.

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Inter-Company eliminations £m		Consolidated Total £m	
	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23
Revenue	1,446	1,365	676	657	21	35	(208)	(220)	1,935	1,837
Operating Costs	(1,267)	(1,155)	(664)	(654)	(19)	(26)	208	209	(1,742)	(1,626)
Operating Surplus	179	210	12	3	2	9	-	(11)	193	211
Finance Costs	(143)	(150)	4	1	1	(1)	-	-	(138)	(150)
Surplus before Tax	36	60	16	4	3	8	-	(11)	55	61

The group surplus before tax for the year to 31 March 2024 decreased by £6 million to £55 million (2023: £61 million). This was due mainly to a £24 million reduction in Scottish Water regulated activities reflecting charges rising at a slower rate than inflation and increased asset repair costs which included £44 million associated with repairs to several of its water service reservoirs. This reduction was offset by a £12 million increase in Business Stream and a £6 million increase in non-regulated services and inter-company eliminations.

Consolidated capital investment increased £49 million to £703 million (2023: £654 million) reflecting increased investment in Scottish Water's regulated activities.

In the year to 31 March 2024, consolidated net debt increased by £320 million to £4,342 million. The increase was driven by a £125 million decrease in cash balances to £362 million and net new borrowing in the year of £195 million to £4,704 million. The movements are summarised in the table below by trading segment.

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Consolidated Total £m	
	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23
Cash	280	390	38	53	44	44	362	487
Debt	(4,704)	(4,509)	-	-	-	-	(4,704)	(4,509)
Net Debt	(4,424)	(4,119)	38	53	44	44	(4,342)	(4,022)

The cash balance within Scottish Water's regulated business is primarily required for the funding of its investment programme.

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Group Taxation

Scottish Water was awarded the Fair Tax Mark for the fourth time in December 2023. The Fair Tax Mark is reviewed on an annual basis with the expectation it will be awarded in future years, demonstrating the continued commitment from Scottish Water to play fair by tax.

The consolidated tax charge on the income statement in the year was £15 million (2023: £20 million). The effective tax rate for the year to was 28% (2023: 34%).

The table below sets out the tax charge by trading segment compared to the previous year:

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Inter-Company eliminations £m		Consolidated Total £m	
	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23
Current year tax charge	-	(4)	6	2	-	4	-	-	6	2
Deferred tax charge	10	23	(1)	(3)	-	-	-	(2)	9	18
Total	**10**	**19**	**5**	**(1)**	**-**	**4**	**-**	**(2)**	**15**	**20**

Group Pension Arrangements

Scottish Water is a participating employer in the Scottish Local Government Pension Schemes across three funds – Strathclyde Pension Fund, the North-East Scotland Pension Fund and the Lothian Pension Fund. These funds are administered by Glasgow, Aberdeen and Edinburgh City Councils respectively. Business Stream is also a participating employer in the Strathclyde Pension Fund.

Under IAS 19 a snapshot is taken of pension fund assets and liabilities at a specific point in time. Driven by the value of the assets increasing by 9% in the year to 31 March 2024, the overall impact was an actuarial gain of £167 million resulting in a pension asset of £840 million at 31 March 2024. However, under the relevant accounting standards the pension asset is restricted to reflect the amount the employer is entitled to as an unconditional refund of the surplus or reduction in future contributions to the pension fund.

This has been calculated as £56 million for Scottish Water and £0 million for Business Stream (£25 million and £2 million respectively at 31 March 2023). As such the full pension asset of £840 million is not recognised but is restricted to a pension asset of £56 million.

In addition, Scottish Water has an unfunded liability of £76 million as at 31 March 2024. This relates to discretionary benefits provided to some employees that took voluntary redundancy between 1996 and 2007.

The actuarial movements, net of deferred tax, are presented in the consolidated statement of comprehensive income with further detail in note 22 to the financial statements (on pages 138 to 143).

Financial Summary of Year-on-Year Performance

Scottish Water Regulated Business

Revenue

Revenue for the year to 31 March 2024 increased by £81 million or 5.9% to £1,446 million[10] (2023: £1,365 million) This is analysed by category in the table opposite. The increase reflects an average charge increase of 5.0% for household and wholesale customers applied on 1 April 2023 and new connections to services. Cumulatively, for the first three years (2021 to 2024) of this six-year regulatory period, charges were 4.4% below CPI inflation.

	FY24 £m	FY23 £m	Inc/(dec) £m
Household	1050	991	59
Wholesale	382	359	23
Other	14	15	(1)
Total revenue	**1,446**	**1,365**	**81**

[10] This excludes Infrastructure charge income of £13m (2023: £20m) and disposal proceeds from sale of assets of £3m (2023: £1m) which is included in the regulatory accounting basis set out on page 48 below.

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Operating Costs, PFI and Depreciation

Total operating costs in the year increased £112 million or 9.7% to £1,267 million (2023: £1,155 million). The table below reconciles regulatory operating and PFI costs, shown in the regulatory section on page 51 with total operating cost per the statutory accounts.

	FY24 £m	FY23 £m	Inc/(dec) £m
Regulatory operating costs	459	416	43
PFI costs	160	177	(17)
Repair costs	318	230	88
Cloud computing arrangement costs	22	17	5
Depreciation and amortisation	339	300	39
Gain on sale of assets	1	-	1
IAS 19 pension & employee cost[11]	(11)	37	(48)
PFI costs – finance costs to lease liability[12]	(21)	(22)	1
Total operating cost per statutory accounts	**1,267**	**1,155**	**112**
Scottish Water non-regulated costs	3	3	-
Total company operating cost per statutory accounts	**1,270**	**1,158**	**112**
Cost of sales	1,151	1,031	120
Administrative expenses	116	124	(8)
Total	**1,267**	**1,155**	**112**

[11] The £11m decrease to cost of sales and administrative costs is due to the IAS19 'current service cost total' being lower than actual pension contributions charged during the year. The IAS19 current service costs are based on the forecast charge, determined by our actuaries at the start of the year, which reflected the discount rate assumptions as at 31 March 2023 (4.75%; March 2022: 2.70%).

[12] PFI costs, for statutory reporting purposes, are treated as finance leases. The adjustments reclassify part of the costs incurred in the year to finance charges and part to the repayment of the finance lease liability. In addition, there is a depreciation charge in respect of the 'leased' PFI assets.

Regulated operating costs increased £43 million or 10% to £459 million (2023: £416 million) due to higher employee costs, increased bad debt charges and higher energy costs. However, these increases were partially offset by a £25 million refund of rates charges following the successful appeal of the 2017 Water Undertaking revaluation.

In 2023/24, 53% of electricity costs were exposed to market prices. Before the start of the 2022/23 financial year Scottish Water forward purchased its electricity requirements. Given the electricity market conditions prior to the 2023/24 financial year, which were heavily influenced by the war in Ukraine, Scottish Water changed its electricity procurement strategy by moving to a combination of month ahead and day ahead purchases. As a consequence electricity costs were significantly lower than would have been the case if they had been forward purchased at the start of the year. However, electricity costs were still approximately a third higher than in 2022/23 at £78 million (2023: £56 million).

PFI costs decreased in the year by £17 million or 10%, to £160 million (2023: £177 million) reflecting a full year benefit from the absorption of the former North-East Scotland PFI activities into Scottish Water's waste water operations in October 2022 and reductions in PFI costs indexed to gas prices. These reductions were slightly offset by inflationary impacts on the remainder of PFI contracts which broadly increase by RPI inflation annually.

Repair costs in the year increased by £88 million or 38% to £318 million (2023: £230 million) due to higher volumes of repairs, driven by its ageing asset base (particularly treated water storage assets), the increasing impacts of extreme weather, and inflationary pressures on costs. £44 million of the increase was associated with repairs to several of its treated water service reservoirs.

Depreciation and amortisation charges increased in the year by £39 million or 13% to £339 million (2023: £300 million), due to the profile of capital investment and completed projects coming into beneficial use. Cloud computing arrangements costs were £5 million higher at £22 million (2023: £17 million) reflecting further transition to cloud based digital infrastructure.

Finance Costs

Net finance costs in the year decreased £7 million to £143 million (2023: £150 million). The decrease was mainly driven by higher interest income from funds on deposit. The table opposite details the elements of net finance costs.

As at 31 March 2024, the weighted average interest cost of the outstanding long-term debt within Scottish Water's regulated business increased to 3.2% (March 2023: 3.1%). This was due to the repayment of £137 million loans that had a weighted average interest rate of 5.6% with new loans drawn down during the year from the Scottish Government of £333 million with a weighted average interest rate of 4.3%.

	FY24 £m	FY23 £m	Inc/(dec) £m
Interest charges	146	139	7
Interest receipts	(13)	(4)	(9)
PFI finance lease costs (IFRIC 12)	11	13	(2)
Pension scheme finance costs (IAS 19)[13]	(1)	2	(3)
Net finance costs	**143**	**150**	**(7)**

[13] The adjustment to finance costs relates to the finance charge credit calculated on the net pension scheme liabilities using the opening discount rate of 4.75%.

Surplus Before Tax

The surplus before tax decreased £24 million or 40% to £36 million (2023: £60 million) for the year to 31 March 2024.

Capital Investment

On a statutory accounting basis, investment for the year was £696 million, £51 million higher than in 2022/23 reflecting the planned increase to the investment programme. The table opposite reconciles planned investment on a regulatory accounting basis as highlighted at page 53 with investment as stated in the statutory accounts.

	FY24 £m	FY23 £m	Change £m
Planned investment on a regulatory accounting basis	**789**	**694**	**95**
Less planned repairs charged to the Income Statement	(117)	(56)	(61)
Add refurbishment costs included in responsive refurbishment costs	35	18	17
Add developer contributions	33	33	-
Less investment funded mainly from infrastructure charges and the settlement of contractual claims etc	(22)	(27)	5
Less cloud-based projects charged to Income Statement	(22)	(17)	(5)
Company capital additions as at 31 March 2024 per note 9	**696**	**645**	**51**

Cash

The cash balances in the year within Scottish Water decreased by £110 million to £280 million (2023: £390 million) reflecting a net cash outflow of £306 million, due mainly to the growth in the investment programme, partially offset by net new borrowing from the Scottish Government of £195 million.

Any large infrastructure organisation that provides an essential service requires significant access to cash to maintain its activities and to respond to unforeseen events. Our cash balances each year are largely a function of when borrowing is drawn down from the Scottish Government relative to when it is invested and, unlike similar infrastructure businesses, Scottish Water does not have access to any other form of credit facilities. Its risk appetite determines that the regulated business should always hold a minimum cash balance of £120 million, which is equivalent to approximately four weeks expenditure. The balance of its cash has been committed for future investment delivery as set out in note 23 on page 143.

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Business Stream

Strategic and Financial Framework

Business Stream is the largest Licensed Provider operating in the Scottish retail market and one of the retailers licensed to operate in the English market. The commercial strategy remains to retain and grow market share by identifying opportunities that will provide scale and add value through a combination of acquisition and organic growth.

Within the Scottish Water group, the licensed and commercial activities are generally self-financing with any profits generated being retained and invested in future developments of the business. Where additional financing is required to fund operations and planned expansion, Business Stream is limited to borrowing from Scottish Water Business Stream Holdings Ltd (SWBSH), subject to the appropriate board approvals.

Performance Review

Despite the challenging external environment, Business Stream has retained its market share at around 20%, cementing its position as one of the largest retailers in the UK water market. Business Stream's priority continues to be focused on providing ongoing support to its customers and people as they navigate these challenges.

In March 2024, following the tender process, Business Stream was successful in retaining the Scottish Government Public Sector Procurement contract, the single largest contract in the UK water market worth around £320 million. The contract is for four years (three years plus a one-year extension option) starting from 1 April 2024 and covers all Scottish public sector bodies including Local Authorities, NHS Scotland, Scottish Fire and Rescue, Police Scotland, Scottish Prison Service, universities and colleges, and Central Government.

Financial Performance

Revenue from this business segment for the year to 31 March 2024 totalled £676 million (2023: £657 million) (per note 3 to the financial statements). Representing 32% (2023: 32%) of the group revenue, before inter company eliminations. The surplus before tax within this segment was £16 million (2023: £4 million), with current year profits reflecting efficiencies gained through the Transformation project which was substantially completed by March 2023.

Despite the continuing challenges within the economy and significant investment to date, Business Stream's balance sheet remains strong and debt free, with net assets of £123 million as at 31 March 2024. Due to regulatory changes, Business Stream was required to prepay an additional month's wholesale charge to Scottish Water (c.£20 million) from May 2023. In line with financial projections, this was funded through a draw down on lending facilities. Debt as at 31 March 2024 was £25 million (2023: nil). Borrowing facilities were renewed during the year and replaced with a more flexible £30 million Revolving Credit Facility with SWBSH.

Cash balances at 31 March 2024 for the Business Stream 'Group' were £38 million (31 March 2023: £53 million).

Non-regulated business activities

Overview

Non-regulated business activities are predominantly undertaken by Scottish Water Horizons Holdings and mainly operate through Scottish Water Horizons.

Revenue from this business segment to March 2023 totalled £21 million (2023: £35 million) (per note 3 to the financial statements). Representing 1% (2023: 2%) of the group revenue, before inter company eliminations. The reduction in revenue reflects the absorption of the former North-East Scotland PFI activities into Scottish Water's waste water operations in October 2022. The surplus before tax within this segment was £3 million (2023: £8 million). The profits generated within the group are invested in the future development of the business.

Investment during the year within Scottish Water Horizons totalled £5 million with a focus on low carbon investments. This included successfully completing the first renewable energy project on a PFI site at Newbridge Waste Water Treatment Works, with further solar, hydro-electric and battery storage schemes being progressed. Six solar schemes were delivered during the year, which collectively have the capacity to generate 3.4GWh of energy output and save over 500 tonnes of carbon per year.

Cash balances within the Horizons group of companies remained stable at £44 million. Horizons continues to evaluate new commercial opportunities that will generate additional cash and strengthen financial stability including assessing opportunities to incubate and sell-on business activities and associated assets.

Financial Performance Scottish Water – Regulated Services

Performance compared to plan and the Final Determination

The financial performance of our regulated activities is measured on a regulatory accounting basis, which includes items subject to a long-term normative charge (LTNC)[14]. The following tables and commentary have therefore been presented on that basis and compared to the Final Determination (FD) prepared by the Water Industry Commission for Scotland (WICS).

The Regulated Income & Expenditure Statement and Capital Investment for the year to 31 March 2024 compared to the Final Determination[15] is presented below.

Scottish Water's Regulated Income & Expenditure Statement	Actual 2023/24 £m	WICS financial model underpinning FD 2023/24 £m	Inc/(dec) 2023/24 £m	Cumulative Inc/(dec) 21-24 £m
Total revenue	**1,462**	**1,608**	**(146)**	**(185)**
Regulatory operating costs	(459)	(637)	18	32
PFI costs	(160)			
Interest charges	(133)	(185)	52	107
Costs before items subject to LTNC	**(752)**	**(822)**	**70**	**139**
Total available to support investment before LTNC items	**710**	**786**	**(76)**	**(46)**
Responsive repair & refurbishment costs	(225)[16]	(276)	51	106
Developer contributions	(30)	(35)	5	9
Tax paid	(1)	(5)	4	13
Total LTNC Items	**(256)**	**(316)**	**60**	**128**
Surplus after charging LTNC items	**454**	**470**	**(16)**	**82**

[14] LTNC Items - Responsive repair and refurbishment costs, developer contributions and tax.

[15] Updated for outturn inflation and realignment of operating expenditure. After the Final Determination was published, Scottish Water realigned operating expenditure to reflect improvements to its systems of cost capture. This change has the effect of reducing the allowed for operating expenditure by c. £50m per year and increasing the allowed costs for responsive repair and refurbishment expenditure by c. £50m per year.

[16] The LTNC for responsive repair & refurbishment costs has been revised based on updated trends. This has resulted in an increase of £10 million to £225 million per year over the period from 2021-27.

Revenue

Revenue for the year at £1,462 million was £146 million lower than anticipated in the FD. Charges in the FD were based on CPI inflation plus 2% per annum but charge increases for 2023/24 were held to 5%, 6.1% lower than the October 2022 CPI inflation of 11.1%.

Cumulatively, for the first three years of the regulatory period, charges were 4.4% below CPI inflation and 10.5% below the charge path anticipated in the FD. Consequently, revenue, on a cumulative basis since the start of the regulatory period, was £185 million lower than that anticipated in the FD.

Operating Costs, PFI and Interest

Costs before items subject to LTNC for the year at £752 million, were £70 million lower than anticipated in the FD, driven by lower interest charges of £52 million and lower operating and PFI costs of £18 million.

As set out in the 2022/23 Performance and Prospects, planned costs before items subject to LTNC were expected to be £803 million. Actual out-turn was £51 million lower at £752 million. The main contributors, compared to plan, were the successful appeal of the 2017 Water Undertaking revaluation resulting in a refund of rates charges totalling £25 million, lower electricity costs and gas prices[17] compared with the market expectations when we set the plan, and lower interest charges driven by improved interest rates paid on funds on deposit. Reduced PFI costs resulting from folding the former North-East Scotland PFI activities into Scottish Water's waste water operations in October 2022 also contributed to the out-performance of the FD.

Costs before items subject to LTNC, on a cumulative basis since the start of the regulatory period, were £139 million lower than that anticipated in the FD.

The Table below reconciles the total available to support investment of £710 million, shown in the table above, to the Scottish Water surplus before tax in the financial statements of £36 million, referenced in the financial summary of year-on-year performance above and on the financial statements on page 110.

	FY24 £m
Regulated funding for planned investment before LTNC adjustments (per table above)	**710**
Deduct actual expenditure on LTNC items	(269)
Less depreciation & amortisation charges	(339)
Less Scottish Water Cloud computing costs	(22)
Add back developer contributions less infrastructure charge income awaiting investment	20
Disposal proceeds less gain or loss on disposal of assets	(3)
Planned maintenance costs less refurbishment costs capitalised	(83)
Retirement benefit obligation:	
Operating costs	11
Finance costs	1
PFI finance lease costs (IFRIC 12) adjustment	10
Scottish Water Surplus Before Tax per statutory accounts	**36**

[17] Which reduce contractual indexation within the Levenmouth PFI contract.

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Long-Term Normative Charge Items (LTNC)

Responsive repair and refurbishment expenditure is difficult to predict over a short-term time horizon as there can be significant variability in the annual level of expenditure associated with, for example, significant water main bursts or collapsed sewers. A LTNC has been applied to remove variability with the expectation that the long-term normative charges will balance with actual expenditure incurred over the 2021-27 period.

Actual expenditure in the year for responsive repairs and refurbishment was £236 million compared to the LTNC charge for the year of £225 million, which itself was £51 million lower than the FD assumption of £276 million. Cumulatively, the LTNC for responsive repairs and refurbishment was £106 million lower than the level assumed in the FD. Over the remainder of the 2021-27 regulatory period the business expects to experience increases to responsive repair and refurbishment costs as assets continue to age.

Developer contributions and taxation also experience significant annual variability and hence we have adopted a similar normative charge approach in these with normative charges of £30 million per annum for developer contributions and £1 million per annum for tax paid.

The normative charge for taxation has reduced by £29 million per annum to reflect the UK autumn statement announcement of enhanced capital allowances being made permanent from 1 April 2023. The tax reduction reflects the new 100% first year capital allowance applying to expenditure on new plant and machinery and the new 50% first year special rate allowance on long-life assets.

In the year actual expenditure for developer contributions and taxation was £33 million and zero respectively. Consequently, total actual expenditure on LTNC items in the year was £269 million, £13 million higher than the LTNC.

Over the 2024 - 27 period rebasing of LTNCs will be required to reflect actual expenditure trends and up-to-date forecasts. These updates will continue to be highlighted within our interim and annual reports.

Surplus to support planned investment

The total surplus available to support planned investment, after charging for LTNC items, for the year was £454 million. This was £16 million lower than that anticipated in the FD for the year reflecting the performance highlighted above. Cumulatively, since the start of the regulatory period, the surplus to support planned investment was £82 million higher.

Capital Investment

Our gross planned investment, on a regulatory accounting basis, in the year was £789 million, which was £117 million or c. 17% higher than the FD. When combined with responsive repair and refurbishment costs, total regulated investment was £1,025 million in the year.

The table below compares performance to the investment expectations in the FD.

Investment on a regulatory accounting basis	Actual 2023/24 £m	Final Determination 2023/24 £m	Inc/(dec) 2023/24 £m	Cumulative inc/(dec) 21-24 £m
Planned investment	789	672	117	86[18]
Responsive repair & refurbishment costs	236	276	(40)	(201)[19]
Total	**1,025**	**948**	**77**	**(115)**

[18] In 2021/22 planned investment (excluding completion) was £505 million, £31 million lower than the Final Determination Level. Completion investment in 2021/22 was £118 million, £173 million lower than the Final Determination level. In 2022/23 planned investment (including completion) was £694 million, £173 million higher than the Final Determination level.

[19] Cumulatively to 2022/23 responsive repair & refurbishment costs were £344 million, £161 million lower than the Final Determination Level.

Prospects for the regulated business 2024/25

We remain committed to deliver our Strategic Plan, increase investment to replace our ageing assets, achieve our Net Zero ambitions and take all possible steps to drive for further efficiency to provide great value for customers by targeting at least a 1% year-on-year real reduction (CPI-1%) in costs in line with the challenging target set in the FD.

The planned regulated income & expenditure for the year to March 2025 compared to the Final Determination is presented below.

Scottish Water Regulated Income & Expenditure Statement	Plan 2024/25 £m	Final Determination 2024/25 £m	Inc/(dec) 202024/25 £m	Cumulative Variance £m
Total revenue	**1,587**	**1,728**	**(141)**	**(326)**
Regulatory operating costs	(500)	(646)	(23)	9
PFI operating costs	(169)			
Interest charges	(146)	(188)	42	149
Costs before items subject to LTNC	**(815)**	**(834)**	**19**	**158**
Total available to support investment before LTNC items	**772**	**894**	**(122)**	**(168)**
Responsive repair & refurbishment costs	(225)	(279)	54	160
Developer contributions	(30)	(36)	6	15
Tax paid	(1)	(6)	5	18
Total LTNC Items	**(256)**	**(321)**	**65**	**193**
Surplus after charging LTNC items	**516**	**573**	**(57)**	**25**

ANNUAL REPORT & ACCOUNTS 2023/24 PERFORMANCE AND PROSPECTS

Customer charges for 2024/25 have increased by 8.8% reflecting our current and future investment needs to protect services and to recover revenue lost over the past two years when charges were set at lower levels in recognition of the Covid 19 pandemic and the cost-of-living crisis. Despite this increase, charges still remain slightly below CPI since the start of the regulatory period and c. 8.7% below the charge path outlined in the FD. To remain aligned with the overall charge increase in the FD, future charges will need to remain above CPI inflation for 2025/26 and 2026/27.

However, due to the profile of charge increases, over the regulatory period revenue will be at least c £0.5 billion lower than the FD as shown in the chart below.

Costs for 2024/25, before items subject to LTNC, reflect business plans to out-perform the FD by £19 million. Headline operating and PFI costs will increase in 2024/25, mainly reflecting the one-off successful appeal of the 2017 Water Undertaking revaluation in 2023/24 and continued inflationary pressures. However, relative to the FD, these pressures should be offset by lower net interest charges and further efficiency improvements supported by our Transformation programme.

Over the 2021-27 regulatory period, our expectation is that our costs before LTNC items, will be c. £0.2 billion lower than the FD.

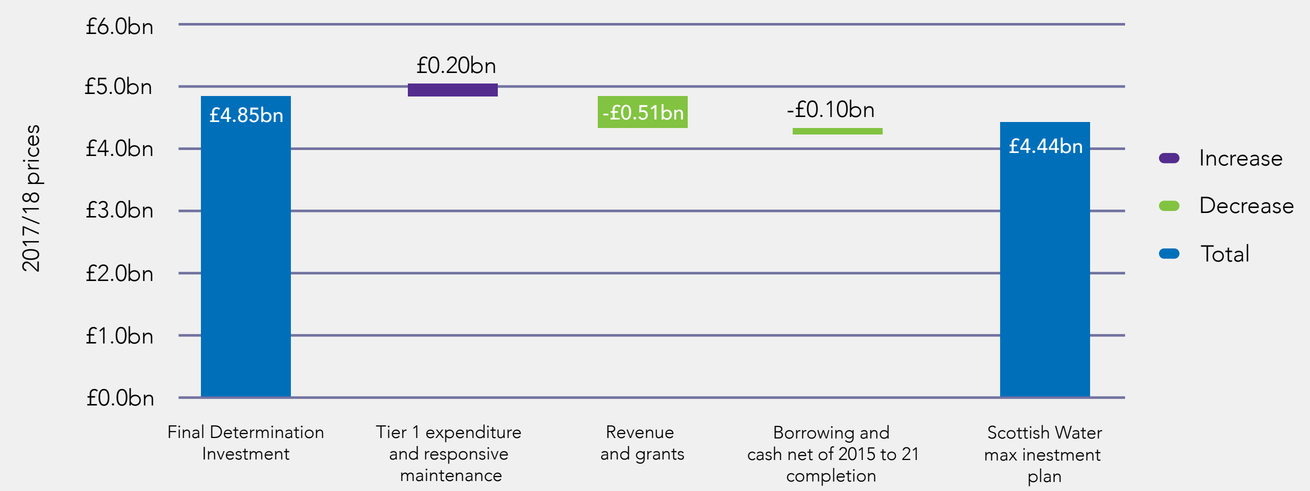
For LTNC items the level for responsive repair and refurbishment has increased to £225 million, reflecting increasing repairs on our ageing assets, but the level for developer contributions has been maintained at £30 million. Tax payments have been reduced to £1 million reflecting lower forecast tax payments following the autumn statement in November 2023 outlined above.

Net new borrowing from the Scottish Government in 2024/25 is planned to be £170 million. Planned investment combined with responsive repair and refurbishment costs are forecast in a range of £1,040 million to £1,100 million, the expected cash balance at the end of 2024/25 is within a range of £120 million to £200 million, the lower end being in-line with the risk appetite for a minimum cash balance available to deal with unexpected shocks.

Currently, Scottish Water's investment plan of £4.44 billion[20] assumes that charges over the 2021-2027 regulatory period will align with the FD level of CPI+ 12.6% but this is £0.4 billion less than the FD level as shown in the waterfall diagram below.. If charges for 2025/26 and 2026/27 were set at a level of CPI + 2% then the amount of investment would fall by a further £0.15 billion[21].

[20] In 2017/18 prices*
[21] In 2017/18 prices**

Finial Determination V Scottish Water Model



OUR APPROACH TO RISK MANAGEMENT

Scottish Water operates within a complex and dynamic environment, managing asset-intensive infrastructure within a highly regulated industry. Strong and systematic risk management is integral to our activities. It ensures awareness and understanding of the environment in which we operate and the influences within and outwith our control that we need to consider.

We take a responsible and innovative approach to risk management. Our mature, integrated Risk Management System is designed to support the business in maintaining an effective situational awareness in the ever-changing environment in which we operate[22].

Core to our approach to managing risk are the three pillars illustrated in Our Approach to Risk Management diagram opposite. These ensure our people have (i) an appropriate awareness and understanding of our risk environment and the risks within it; (ii) are competent and capable of managing risks effectively, and (iii) that we maintain an efficient and effective risk management framework to support the documentation, evaluation and monitoring of our risks.

Our approach is designed to enhance the assessment and prioritisation of activities, enabling bolder, more effective decision-making on both a proactive and reactive basis. It is by supporting the reduction of threats and maximising opportunities, that the system enables Scottish Water to achieve, and seek to outperform, our organisational objectives and our strategic ambitions.

[22] The scope of Scottish Water's Risk Management System includes both Scottish Water and our subsidiary, Scottish Water Horizons Limited. In compliance with the Water Services (Governance Code) Directions 2013, it excludes operational risk management for Scottish Water Business Stream Limited. The Board of Scottish Water Business Stream Holdings Limited oversees the financing risks associated with Business Stream, while Business Stream's Board is responsible for its own risk management.

RISK GOVERNANCE AND ASSURANCE FRAMEWORK

Scottish Water takes a responsible approach to risk assurance and compliance. As such, we operate a robust and effective risk governance framework that is underpinned by the application of the three-line assurance model. This is illustrated in the Risk Governance and Assurance Framework diagram opposite.

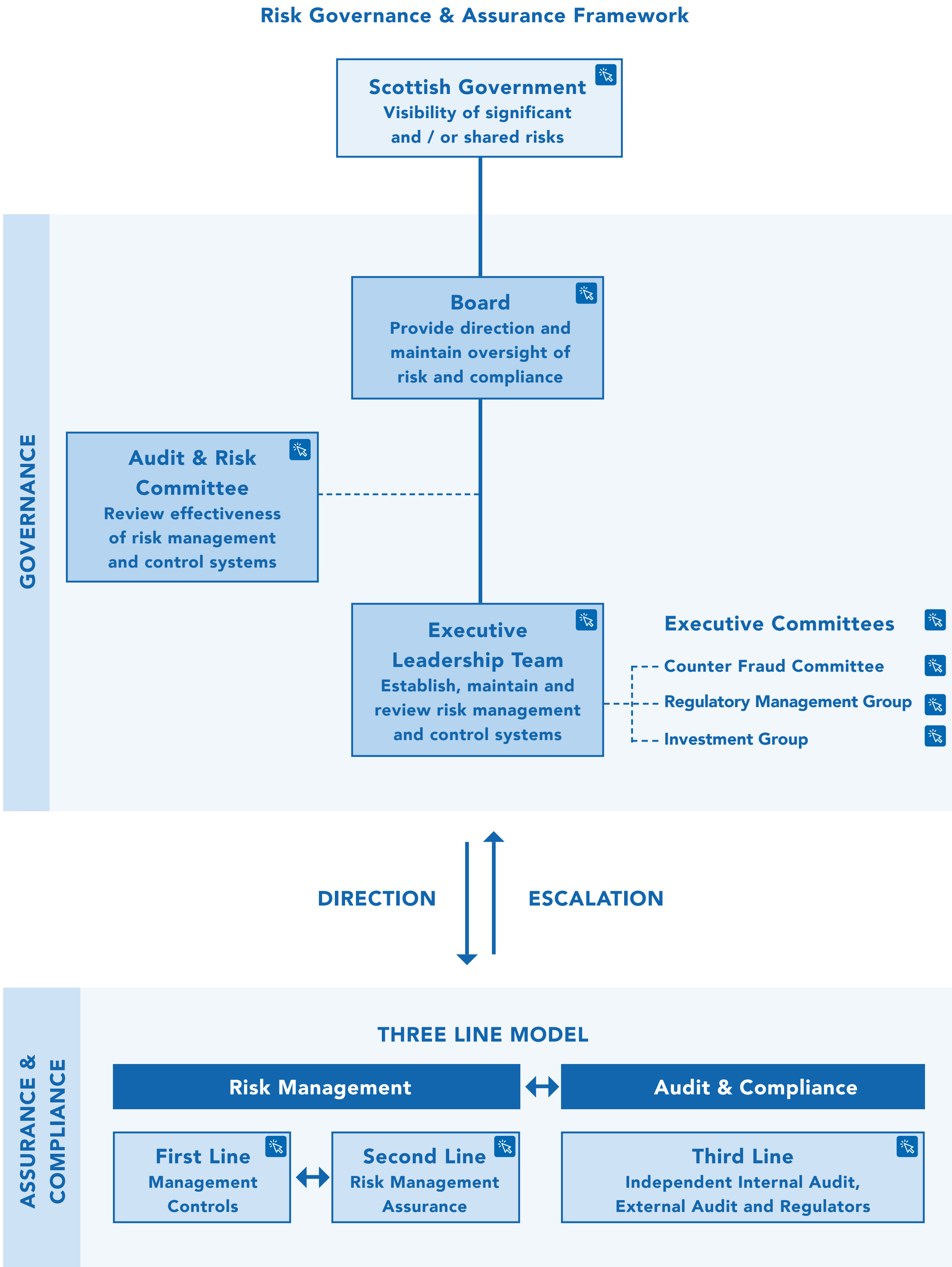
Governance
Overall leadership and accountability for the risk governance framework and direction resides with the Board; supported by the Audit & Risk Committee, the Executive Leadership Team and its sub-groups. The Risk Governance and Assurance Framework diagram opposite, illustrates the roles of the different governance groups in ensuring effective risk management activities are in place.

First Line - Leaders & Managers
Our people and our management community are responsible for ensuring the identification, assessment and management of risk on a day-to-day basis.

Second Line - Risk Management
Risk Management activities are championed by the Corporate Risk Function, led by the Head of Corporate Risk Management who reports to the Group Legal Counsel & Director of Governance.

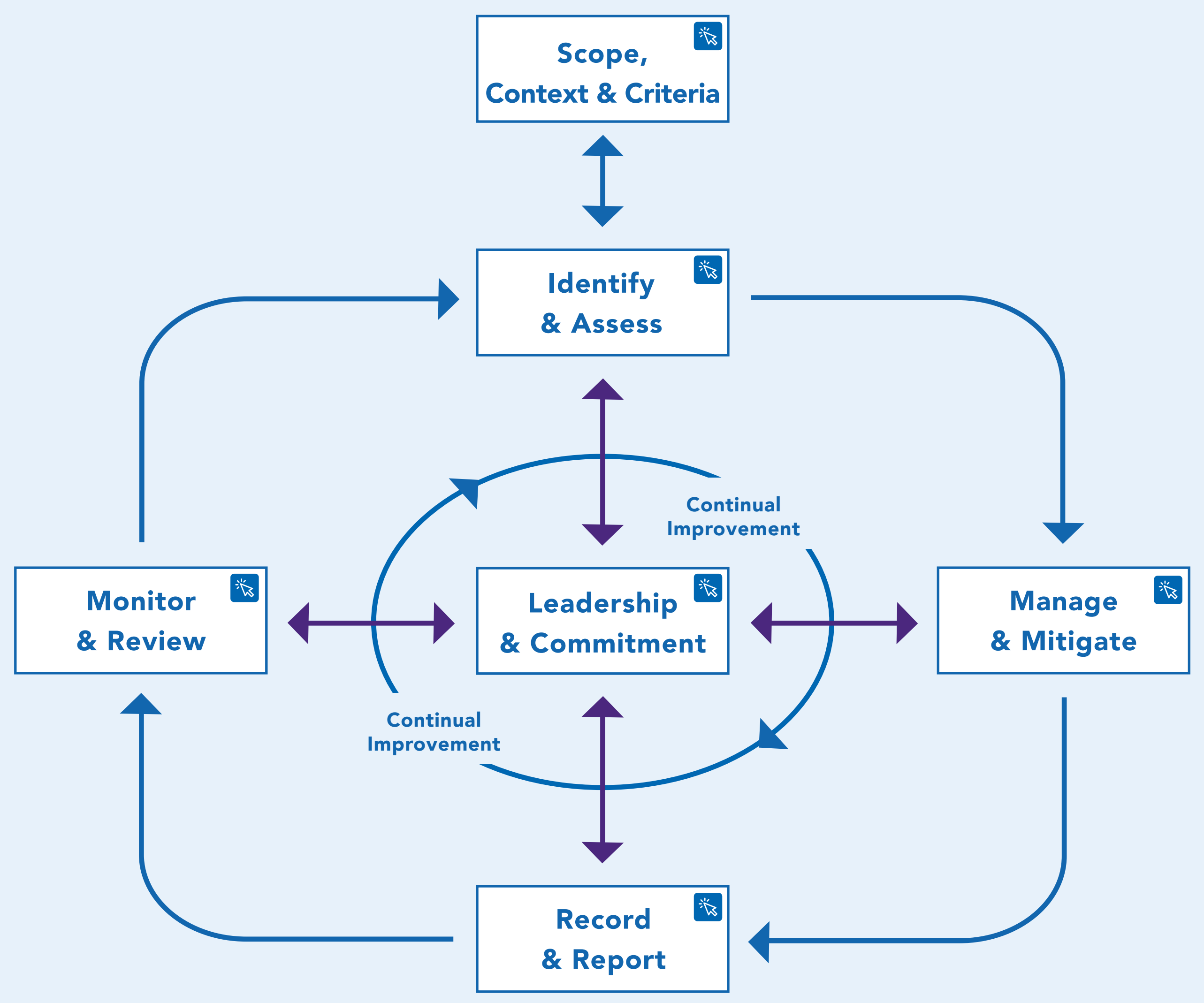
The Head of Corporate Risk Management is responsible for the operation of our risk management system, risk reporting and advice to the Executive Leadership Team, Audit & Risk Committee and Board.

Third Line - Audit & Compliance
Specialist teams across the organisation undertake independent auditing activities to provide assurance on risk controls. This is supplemented by internal and external audits and escalation processes, including an externally supported whistleblowing facility.



RISK MANAGEMENT SYSTEM

Our risk management system aligns, as illustrated in the Risk Management System Overview below, to the key principles of the ISO31000:2018 Risk Management Guidance. Our approach is tailored to meet the needs of our organisation, and the environment in which we operate, and is reviewed every three years to ensure continued effectiveness and ongoing alignment with best practice. Our next review of the system will take place in 2024/25.



Risk Culture
The foundation of our approach is ensuring an effective risk culture, which supports the identification, management and escalation of risk. This culture is supported through:

- A clear articulation and consistent communication of our risk appetite;
- A shared understanding by our people of our expectations of them, through the Scottish Water Character traits; Bold, Responsible, Inspiring and Caring;
- Continual demonstration of the expected behaviours by our leaders;
- The ongoing work of a number of active risk champions and communities, both within and across business areas that support the sharing of knowledge and continual improvement in our approach to risk management; and,
- Tailored and targeted communications, awareness, training and mentoring.

Risk Process
Everyone across our organisation has a responsibility to support the identification, management and escalation of risk. To enable our people to take a consistent approach to assessing the impacts of the risks, both threats and opportunities, we utilise a corporate risk scoring matrix. This approach helps us to determine the consequence(s), likelihood and ranking of each risk identified, in a comparative manner.

Our risk information is held within a digital system, which allows for structured monitoring and review of risk data, and supports analysis and understanding of trends, patterns and aggregate risk positioning.

Our approach adheres to the principle of subsidiarity, with risks managed at the lowest appropriate level, while still ensuring visibility of both the risk and the actions taken to manage it. In line with this approach the regular review, reporting and management of the organisation's risks and opportunities are a critical part of our management system. Formal reviews are carried out as a minimum, quarterly across business functions and reported to the Executive Leadership Team, Audit & Risk Committee and Board.

In addition, to support visibility of shared risk and mitigation strategies, and enable escalation of these within the wider Scottish Government risk framework, the Board provides an annual report on the organisation's key risks to the Scottish Government.

Risk Appetite
Clear articulation of our risk appetite is critical to support our understanding of risk and to enable appropriate decision making.

We define risk appetite as "the level of risk we are willing to accept in the pursuit of our business objectives". Risk appetite is reviewed and approved by the Board in advance of each regulatory period, or where there is a material change to our operating environment.

We consider risks aligned to five Risk Appetite Perspectives: 'Managing our Assets', 'Working with People', 'Managing External Influences', 'Developing the Business' and 'Scottish Water Subsidiaries'.

We maintain Risk Appetite Statements aligned to these perspectives for key business areas. These statements are underpinned by measurable Risk Appetite Definitions that assist in providing a view as to whether we are operating within our appetite, or whether additional risk activities may be required.

Performance against risk appetite is reviewed across the year, with biannual updates reported to the Executive Leadership Team, Audit & Risk Committee and Board.

As part of our routine risk management processes, a review of our risk appetite is underway, to support and inform the next regulatory period commencing in 2027.

RISK ENVIRONMENT 2023/24

Scottish Water, like many other organisations, continues to operate within a dynamic and challenging environment. The external nature and number of many of the risks we face, including climate change uncertainty, macroeconomic volatility, supply chain instability and cyber security, present ongoing challenges for the organisation in influencing and pro-actively managing these risks.

Critical assets continue to be a profiling risk across 2023/24 and beyond, as ongoing investment is targeted towards our ageing asset base. This risk, alongside others, is compounded by the changing climatic environment, financial constraints arising from the cost-of-living crisis and increasing customer expectations on current and future service provision.

In order to effectively mitigate the risks we face, we are seeking bold and innovative approaches to complement our traditional engineering-based solutions. This will include a focus on partnership working, engaging both the public and private sectors to work collaboratively toward resolutions that include, where appropriate the use of blue-green infrastructure, and working with our customers and communities to support understanding of their impacts and influences in areas such as water conservation and waste disposal and recycling. While we have ambitious plans to enable change and support the management of our key risks, these initiatives are not without risk themselves; as we are dependent on achieving effective external support and sufficient momentum to effect change.

For the 2023-24 period, the numbers and nature of **principal risks** assessed by the Board remain broadly as they were in our 2022-23 report; with a similar degree of volatility within the individual risk trends noted over the past year.

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PRINCIPAL RISKS & UNCERTAINTIES

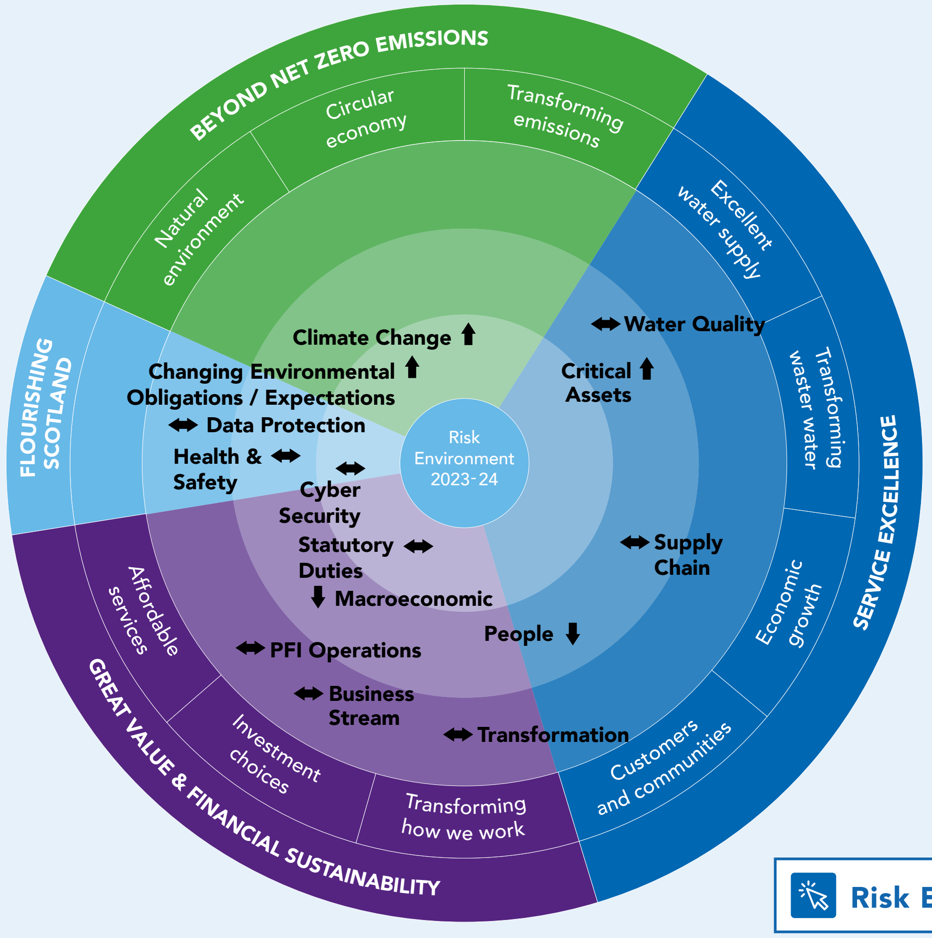
In the preparation of this report, the Board has carried out a robust assessment of the principal risks and uncertainties facing Scottish Water and its subsidiaries. The assessment included quantitative stress-testing including scenario modelling, and qualitative scenario testing incorporating reverse stress-testing.

The risks identified are those considered to be the most material to our business and performance. These are risks which could threaten our business model, future performance within our regulatory settlement, with risks associated with the short and long-term financing of Scottish Water also reviewed.

Our Principal Risks diagram below, shows these risks in the context of Scottish Water's strategic ambitions and objectives. The diagram denotes each risk against the strategic ambition upon which it may have the greatest impact and illustrates the risk in relative terms; the greater the consequence, the closer the risk is to the centre. The principal risk tables below, pages 62 - 77, detail where the risk may also impact upon other ambitions.

Clicking on any of risks in the diagram will take you to the risks entry in the principal Risk Table (below).

Our Principal Risks



Risk Environment

Other Notable Risks

In addition to the principal risks and uncertainties detailed, we actively manage several other high consequence but lower likelihood risks. These include operational risks arising from key dependencies on third parties, such as electricity and/or telecom providers in the event of a partial or national power outage or telecom failure. Similarly, reputational and financial impacts can arise from damage by Scottish Water to critical national infrastructure managed by third parties, such as oil and gas transmission pipes and railways. Operational risks can also arise from third party impacts on Scottish Water's assets, resulting in damage or preventing safe access to carry out critical activities.

We also manage risks to revenue, water availability, evolving regulatory processes and risks arising from contractors not fulfilling their obligations.

HORIZON SCANNING & EMERGING RISKS

We define emerging risks as "future events which present uncertainty and are challenging to fully assess due to lack of information and changing or unpredictable environments".

We undertake regular horizon scanning to monitor the internal and external business environment and identify emerging risks. This supports the identification and review of emerging aspects of known risks as well as new emerging risks.

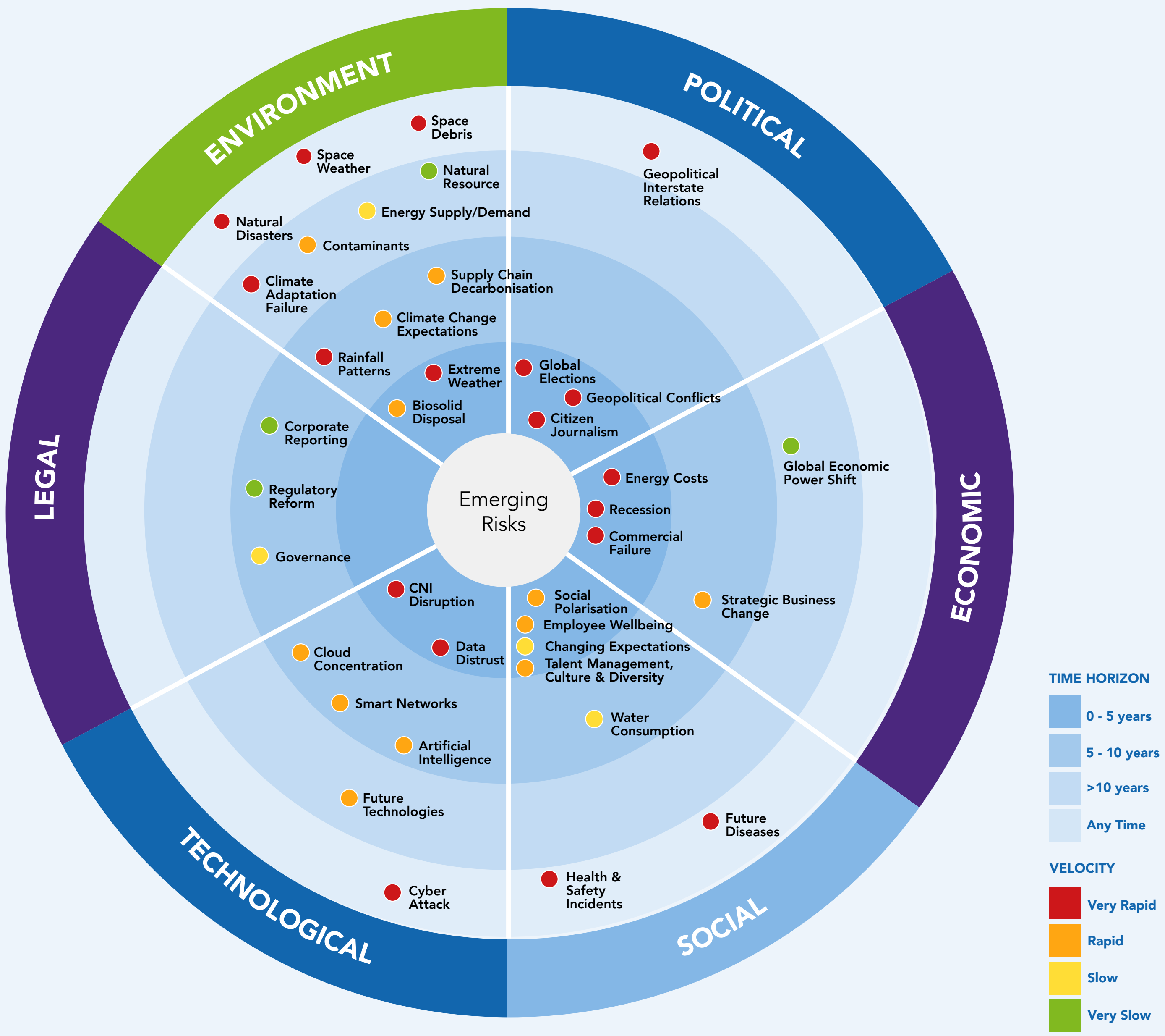
The volatile nature of the current global and domestic environment can make anticipating future trends and patterns challenging. We have augmented our understanding by extending our stakeholder network both internally and externally, to further test and validate our findings.

Our analysis indicates that these risks are more likely to have a longer-term impact. However, there is always the potential for the velocity (i.e. the speed at which risks could impact the organisation) to significantly increase in the shorter term, which could affect our performance.

These risks are reviewed, monitored and reported a minimum of four times per annum through our existing risk processes - and tested annually through our Board horizon scanning review to inform strategic direction.

The Emerging Risk (Threats/Opportunities) Radar detailed below provides a representation of key emerging risks, both opportunities and threats. These are plotted over four-time horizons, with associated velocity indicators.

Emerging Risk (Threats/Opportunities) Radar



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GREAT VALUE & FINANCIAL SUSTAINABILITY

Our Principal Risks

Emerging Threats (-) & Opportunities (+)

Potential Outcome	Strategic Ambitions (Principal Impact in Bold)	Key Mitigations	Risk Appetite
RISK	**STATUTORY DUTIES: Inability to access full regulatory financing for 2021-27**		**TREND: Stable**
Reduced ability to deliver our statutory duties, including Ministerial Objectives, increasing the prospect of service deterioration and/or enforcement action.	**Great Value & Financial Sustainability,** Service Excellence, Beyond Net Zero Emissions.	• Identify and understand external financial pressures influencing customers and Scottish Water costs. • Ensure alignment of our charge setting process with Scottish Government's budget setting process. • Work with the Scottish Government to determine how financing may be secured if it is not feasible to increase charges to the extent envisaged in the Water Industry Commission Scotland's (WICS) Final Determination. • Monitor and manage asset performance and understand impacts should investment require to be delayed.	We will always have sufficient financing through revenue and borrowing in order to undertake our activities. We should always have immediate access to a minimum of approximately four weeks of operating cash to the regulated business from the group (excluding Business Stream) to enable us to protect the organisation from unplanned shocks and potential shortfalls in revenue.
RISK	**MACROECONOMIC: Prolonged macroeconomic volatility and financial uncertainty**		**TREND: Reducing**
Increasing cost base, domestic and wholesale revenue impacts.	**Great Value & Financial Sustainability,** Service Excellence.	• Monitor UK and Scottish Government budget announcements and analyse impacts. • Ensure modelling remains up-to-date with current economic forecasts. • Monitor and, where possible, proactively manage cost base. • Maintain communications with the Convention of Scottish Local Authorities (CoSLA), Local Authorities, Licensed Providers and Scottish Government.	We will always have sufficient financing through revenue and borrowing in order to undertake our activities. We should always have immediate access to a minimum of approximately four weeks of operating cash to the regulated business from the group (excluding Business Stream) to enable us to protect the organisation from unplanned shocks and potential shortfalls in revenue.
RISK	**PFI OPERATIONS: PFI plant or operations fail to deliver in accordance with the contract terms**		**TREND: Stable**
Financial and operational impacts.	**Great Value & Financial Sustainability,** Service Excellence.	• Maintain ongoing strong relationships with PFI companies. • Monitor and manage PFI company performance. • Ongoing review of contingency plans for both the financing and operation of these contracts. • Manage the return of PFI Assets to Scottish Water, through an integrated approach between PFI Companies and Scottish Water, as PFI contracts approach end of life.	Scottish Water seeks to deliver services in an efficient and cost-effective manner including via a number of PFI waste water contracts.

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Potential Outcome	Strategic Ambitions (Principal Impact in Bold)	Key Mitigations	Risk Appetite
RISK	**BUSINESS STREAM: Competitive market conditions and complex operating environments**		**TREND: Stable**
Reducing value of the business and increased demand on Scottish Water Group cash.	**Great Value & Financial Sustainability.**	• Improve cash flow and profitability. • Deliver the benefits set out in the Business Stream Transformation business case. • Stabilise following migration of customers onto the new billing platform, minimising the impact on billing, cashflow and aged debt. • Manage macro-economic impact on customer bad debt and cash flow. • Agree terms for an enduring, flexible funding package to support strategic goals.	Business Stream will maintain a financially viable retail business.
RISK	**TRANSFORMATION: Opportunities arising from the development and implementation of large-scale transformational programme**		**TREND: Stable**
Achievement of our ambitions set out within the Strategic Plan; A Sustainable Future Together.	**Great Value & Financial Sustainability,** Service Excellence, Beyond Net Zero Emissions.	• Regularly update and refresh the Transformation project portfolio to ensure alignment with Scottish Water's key priorities. • Keep under review the scale of transformational change required to deliver our strategic plan and ambitions. • Prioritise and sequence the Transformation portfolio of activities reviewing and refining six-monthly. • Manage business priorities to ensure adequate resource levels. • Continuously engage with internal and external stakeholders. • Deliver our change projects and programs and track business benefits.	We will seek to maximise any opportunities and minimise any threats arising from transformational change. We will explore how we can do things differently in order to create value and enhance sustainability.

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SERVICE EXCELLENCE

Our Principal Risks

Emerging Threats (-) & Opportunities (+)

Potential Outcome	Strategic Ambitions (Principal Impact in Bold)	Key Mitigations	Risk Appetite
RISK	**CRITICAL ASSETS: Failure of a critical asset or assets**		**TREND: Increasing**
Impact to health and/or significant customer concerns.	**Service Excellence,** Great Value & Financial Sustainability.	• Continue to develop detailed knowledge and understanding of our critical assets. • Undertake operational inspections, maintenance and emergency planning activities to minimise the risk and consequences of failure. • Identify investment needs for promotion in our future investment programmes, including ageing assets. • Meet the requirements of the Network and Information Systems Regulations (NIS) and the Scottish Government Public Sector Action Plan. • Ensure management of detailed emergency and business continuity response plans.	Delivering a continuous service to our customers is paramount.
RISK	**WATER QUALITY: Delivery of water which does not comply with standards**		**TREND: Stable**
Impact to health and/or significant customer concerns.	**Service Excellence.**	• Ensure skilled and trained employees operate our water assets. • Undertake routine monitoring of the water in our catchments, and in our treatment and distribution activities. • Undertake routine testing on water quality, beyond regulatory requirements, to manage drinking water quality and minimise associated risks. • Direct risk management activities through the Water Supply Risk Management Group including overseeing improvements related to Drinking Water Safety Plans. • Actively manage emerging themes / concerns via the Water Quality Improvement Group and implement appropriate actions to address. • Deliver significant investment to maintain and further improve water quality. • Ensure management of detailed emergency and business continuity response plans.	As a water utility company, the provision of safe drinking water remains our highest priority.
RISK	**SUPPLY CHAIN: Failure arising from fragile and structurally challenging supply chains**		**TREND: Stable**
Operational, financial and customer service impacts.	**Service Excellence,** Great Value & Financial Sustainability.	• Engage with chemical suppliers/manufacturers to understand product availability and ensure sight of emerging concerns. • Explore options for more resilient supply outwith UK markets. • Continue dialogue with Water UK on chemical supply chain resilience. • Explore commercial opportunities to self-manufacture some key chemicals. • Explore innovative technologies to minimise reliance on chemical treatment. • Ensure regular risk based review and testing of Business Continuity Plans.	We should always endeavour to have an ethical and sustainable supply chain to meet our investment needs.

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Our Principal Risks

Emerging Threats (-) & Opportunities (+)

Potential Outcome	Strategic Ambitions (Principal Impact in Bold)	Key Mitigations	Risk Appetite
RISK	**PEOPLE: Failure to retain, attract & incentivise key people and/or skills; Our people may not have sufficient resilience or capacity and / or are not effectively engaged**		**TREND: Reducing**
Impact on our ability to deliver core services effectively and drive transformational change.	**Service Excellence,** Great Value & Financial Sustainability, Beyond Net Zero Emissions.	• Implement reward framework and policy agreed with the Scottish Government. • Monitor and refresh People policies in line with best practice. • Refresh core reward structure, reflecting need to attract and retain essential skills and talent. • Review recruitment processes to enhance talent attraction. • Maintain regular engagement surveys through new digital engagement system adopted, adapt improvement plans. • Build on change capability and adaptive capacity and resilience. • Ongoing monitoring of short and long term absence, supporting and addressing cases. • Review risks related to essential skills and roles which could impact key activities. • Continue talent identification, with development and succession plans for key roles. • Review and refresh approach to performance conversations, supporting our people to contribute their best.	We will ensure a sufficient capacity of engaged, enabled, diverse and energised people to the required areas of the business at the appropriate times, with the required skills and competency. We will provide appropriate support to enable our people to work in a safe, healthy and well manner wherever their work location.

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BEYOND NET ZERO EMISSIONS

Our Principal Risks
Emerging Threats (-) & Opportunities (+)

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Potential Outcome	Strategic Ambitions (Principal Impact in Bold)	Key Mitigations	Risk Appetite
RISK	**CLIMATE CHANGE: Failure to adapt to extreme and unpredictable weather events on assets and infrastructure, and changes to water resource supply and demand**		**TREND: Increasing**
Operational and customer service impacts.	**Beyond Net Zero Emissions,** Service Excellence.	• Continue to develop the climate change vulnerability assessments. • Further update and undertake climate change risk assessments and apply these to service risk assessments. • Deliver the adaption pathways set out in Scottish Water's Climate Adaption Strategy and plans. • Include carbon costing in appraisals. • Deliver investment in water assets, including 25-year water resource and resilience planning and improved system connectivity, raw water monitoring, catchment management and capability studies. • Deliver investment in waste water assets, including surface water management plans, treatment capability assessments and improved service resilience through flood protection of assets. TCFD Risk Disclosures table	As a water utility company, the provision of safe drinking water remains our highest priority, and delivering a continuous service to our customers is paramount. Scottish Water seeks to treat and return waste water in a way that does not harm the environment or cause nuisance to our customers.
RISK	**CHANGING ENVIRONMENTAL EXPECTATIONS/OBLIGATIONS: Failure to meet increasing environmental expectations and obligations, including discharges to the environment from combined sewer overflows**		**TREND: Increasing**
Reputational damage, perceived/actual non-compliance, and enforcement action.	**Beyond Net Zero Emissions,** Service Excellence, Great Value & Financial Sustainability.	• Deliver Improving Urban Waters Routemap, including improved monitoring capability at priority locations, network intelligence and reporting to SEPA and the public. • Continue to improve communication strategies and customer and stakeholder engagement, e.g. 'Nature Calls' and 'Piped by Us, Owned by you' campaigns. • Undertake assessment to better understand and inform our current network and waste water treatment workflow compliance position. • Ensure licences are varied to reflect changing parameters. • Ensure continued engagement with SEPA to review and agree approach. • Communicate the role of waste water system environmental interactions, performance and scale of potential change required.	Scottish Water seeks to treat and return waste water in a way that does not harm the environment or cause nuisance to our customers. We should avoid any action which would result in a serious loss of confidence.

Scottish Water Adaptation Plan
TCFD Disclosures
Carbon Footprint

FLOURISHING SCOTLAND

Our Principal Risks
Emerging Threats (-) & Opportunities (+)

Potential Outcome	Strategic Ambitions (Principal Impact in Bold)	Key Mitigations	Risk Appetite
RISK	**HEALTH & SAFETY: Harm arising from our assets, activities and actions**		**TREND: Stable**
Impact on the health & safety of our people, contractors, supply chain, customers and the public.	**Service Excellence.**	• Operate an effective Health & Safety Management System and processes. • Continue to review, progress and deliver initiatives within our Strategic Health & Safety Improvement Plan including those related to contractor management. • Ongoing maintenance, maturity and optimisation of processes to maintain and strengthen our Health & Safety performance. • Further embed health and safety in our culture and processes via engagement and awareness raising. • Review and refresh mandatory Health & Safety training packages. • Continue routine Health & Safety Site Inspections. • Investigate all accidents and incidents and track necessary remedial actions, including learnings for continuous improvement. • Conduct a strategic review of contractor H&S performance, and with supply chain to develop and implement a Contractors H&S Performance Improvement Plan. • Undertake regular health & safety reporting to key governance groups.	We will ensure the health & safety of our people, contractors, supply chain, customers and the public remain paramount. Our behaviours, activities and assets should therefore not place at risk the health, safety or wellbeing of Scottish Water people, contractors, supply chain, customers and the public.

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FLOURISHING SCOTLAND

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Potential Outcome	Strategic Ambitions (Principal Impact in Bold)	Key Mitigations	Risk Appetite
RISK	**CYBER SECURITY: Deliberate external or internal attack (physical/ virtual)**		**TREND: Stable**
Loss of key information technology and/or operational technology impacting operations, finances and reputation.	**Service Excellence** Great Value & Financial Sustainability.	• Continue to build on the organisational wide education and awareness programme rolled out. • Undertake regular application of security patching. • Utilise security tooling including External Expert Vulnerability and Threat Management service. • Undertake routine security gap analysis; plans in place to further increase maturity level. • Comply with Network and Information Systems (NIS) Regulations and comply with Scottish Government Public Sector Cyber Resilience Action Plan. • Maintain ISO27001 (Information Security Management) certification for Scottish Water Data Centres. • Continue activities to fully understand dependencies and implications of cyber-attacks on third parties i.e. supply chain or revenue partners. • Participate in UK & Scottish Government and industry cyber incident exercises. • Review and test detailed disaster recovery & business continuity plans.	Scottish Water seeks to ensure the integrity and security of the IT estate.
RISK	**DATA PROTECTION: Failure to maintain a suitable and sufficient framework**		**TREND: Stable**
Non-compliance with legislative obligations and reputational harm.	**Service Excellence.**	• Continue to review and communicate data protection policies, processes and guidelines in place. • Maintain ongoing awareness raising of data protection and requirements under the Data Protection Act 2018. • Manage and maintain corporate privacy notices. • Review and roll out updated processes to ensure data breaches are identified, reported and investigated in a timely manner to extract learning and identify opportunities to continually improve our data privacy position. • Continue to embed and review practices.	Scottish Water seeks to safeguard customer and employee data by complying with relevant standards.

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TCFD RISK DISCLOSURES

Beyond Net Zero Emissions
Scottish Water Adaptation Plan
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TCFD Disclosures

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Potential Outcome	Strategic Ambitions (Principal Impact in Bold)	Key Mitigations	Risk Appetite	Background
RISK	**WATER QUALITY:** **Increase in temperatures, increasing risk of drought and extreme rainfall can impact water quality**		**TREND: Increasing**	Climate driven increases in the temperature of water sources, erosion and land run-off from extreme dry and wet weather can increase the risk of algal blooms that subsequently need to be addressed though treatment. Some of our assets are not currently capable of providing the required levels of treatment for the forecast raw water quality.
Deterioration of raw water quality, impact on asset treatment capability and customer service.	**Service Excellence,** Beyond Net Zero Emissions.	• Understand changes to raw water quality under future climate scenarios. • Understand capabilities and options to optimise current treatment processes. • Continue to deliver sustainable land management to protect raw water sources. • Invest in further treatment capability to meet deteriorating raw water quality.	As a water utility company, provision of safe drinking water remains our highest priority, and delivering a continuous service to our customers is paramount.	
RISK	**ASSET INTEGRITY:** **Extreme weather events preventing access to operate and/or damage to assets"**		**TREND: Increasing**	Extreme weather events can prevent or impact the operation of assets and may be exacerbated by climate change. Examples include direct storm damage, flooding of an asset or site inoperability due to a power outage, inability to access a site or supply key materials.
Operational and customer service impact.	**Service Excellence,** Beyond Net Zero Emissions.	• Carry out site risk assessments. • Review operational resilience plans to reflect climate risks. • Improve site resilience through flood protection, resilient communications, power supplies and remote access. • Review interdependent risks and extend resilience planning to supply chain, power, transport and other third party service dependencies.	As a water utility company, provision of safe drinking water remains our highest priority, and delivering a continuous service to our customers is paramount. Scottish Water seeks to treat and return waste water in a way that does not harm the environment.	
RISK	**WASTE WATER FLOODING:** **Increased and/or more intense rainfall events**		**TREND: Increasing**	Flooding events (internal & external) and environmental pollution incidents can be caused by a number of factors. Changing climate however is likely to exacerbate these events primarily through overloading the capacity of our assets (increased rainfall / ingress / infiltration).
Overloaded capacity of assets, customer service and environmental impact.	**Service Excellence,** Beyond Net Zero Emissions.	• Ensure assets are maintained to enhance capacity and avoid blockages, collapses and siltation, etc. • Deliver growth projects. • Reflect future climate risk into drainage modelling and hydraulic design. • Continue strategy of removing and preventing stormwater entering assets.	Scottish Water seeks to treat and return waste water in a way that does not harm the environment or cause nuisance to our customers.	
RISK	**WATER SUPPLY/DEMAND:** **Reduced rainfall and hotter weather with increased customer demand**		**TREND: Increasing**	Climate impacts on water supply may result in drought triggers being applied and restrictions in water use for both domestic and non-domestic customers.
Supply/demand imbalance and drought triggers/restrictions in water use for domestic and non-domestic customers.	**Service Excellence,** Beyond Net Zero Emissions.	• Build updated climate projections into long term water resource planning. • Complete the risk assessments of water supply systems. • Improve system resilience through improved inter-connectivity. • Maintain and implement drought plans as required. • Manage demand through leakage reduction. • Engage customers through messaging such as "use water wisely".	As a water utility company, provision of safe drinking water remains our highest priority, and delivering a continuous service to our customers is paramount.	
RISK	**INCREASED REVENUE:** **New supplies for growth in industries such as hydrogen and increased domestic connections through climate related migration**		**TREND: Increasing**	In addressing climate impacts and in achieving Net Zero targets, new industries such as the hydrogen industry may open up a new wholesale revenue stream. Opportunity for provision of new supplies to new customers (climate migrants and private water supplies) may also result in an increased revenue.
Additional wholesale revenue.	**Great Value & Financial Sustainability.**	• Engage with new industries to determine location for facilities i.e. where headroom capacity is available. • Understand and maintain plans for growth. • Deliver growth projects.	We will always have sufficient financing through revenue and borrowing in order to undertake our activities.	

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GOING CONCERN AND VIABILITY STATEMENTS

The Members of Scottish Water's Board have concluded that it is appropriate to adopt a going concern basis in preparing the financial statements. The going concern basis confirms that there are adequate resources to remain in operation for at least one year from the date that the financial statements are signed.

The viability statement, required under the 2018 UK Corporate Governance Code, takes a longer-term perspective of the group's operational sustainability. The two statements are set out below.

Going Concern

Scottish Water's business model, activities and the factors that could impact on its future development and performance are described in the strategic report on pages 17 to 78. The principal risks and uncertainties are described on pages 60 to 75.

Scottish Water operates under an annual borrowing limit set by the Scottish Government. The annual borrowing limit controls the amount by which Scottish Water can increase its externally sourced finance. In addition, Scottish Water's charging structure is reviewed through a regulatory process and charges are approved annually by the Water Industry Commission for Scotland.

As at 31 March 2024, Government loans totalled £4.7 billion and Scottish Water group held cash and cash equivalents of £362.1 million.

In considering the basis of accounting, cash flow forecasts have been prepared for a period of at least 12 months from the date of approval of these financial statements which consider various scenarios, taking into consideration severe but plausible impact downside risks. These forecasts include the assessment of the group's strategic and financial frameworks, including the borrowing limit, operational positions and the level of the capital investment programme. Under all the scenarios, Scottish Water will be able to operate within its available facilities.

The Members, taking all relevant factors into account, consider that Scottish Water will have adequate resources to continue in operational existence for the next 12 months. Accordingly, the accounts continue to be prepared on a going concern basis.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Members have assessed the prospects of the group over a longer period than the 12 months required by the "Going Concern" provision. The Members consider that a 6-year period is appropriate because it is consistent with its near-term rolling investment planning horizon. Members confirm that they have a reasonable expectation that the group will be able to continue in operation and meet its financial obligations as they fall due over the next 6 years to March 2030.

In making their assessment, the Members considered the resilience of the group, taking account of its strategic and financial frameworks, including the borrowing limit, operational positions and the level of the capital investment programme. They considered the potential impacts, in severe but reasonable scenarios, of the principal risks, set out on pages 60 to 77, and the probable degree of effectiveness of current and available mitigating actions.

The key processes used by Members for their assessment are summarised below:

The main business and strategic planning processes cover the regulatory period to March 2027, based on key assumptions in respect of the funding of the business. In December 2020, the WICS published their Final Determination for the 2021-27 period. In addition, Scottish Water published its 25-year Strategic Plan for the period to 2045. Business planning is a continual process which forecasts the performance and liquidity of the group over the regulatory period with additional focus on the affordability and phasing of the 6-year rolling investment programme. The planning process considers base, downside and severe downside financial and economic scenarios.

Quantitative stress and scenario testing which consider the primary individual and combined quantitative risks relating to liquidity.

Qualitative scenario testing which gives a qualitative understanding of plausible but severe risk scenarios which could threaten the viability of the group and informs related management actions. The scenarios tested are based on the principal risks and include widespread contamination of water supply giving rise to emergency response and recovery, a critical infrastructure breakdown and cyber-attack.

In conclusion for this assessment, Members have assessed the prospects and viability of the group over a 6-year period to March 2030.

BOARD MEMBERS

Executive Members

Alex Plant, Chief Executive

Alex took up the role of Chief Executive on June 1, 2023. He was previously Director of Strategy and Regulation at Anglian Water, where he worked from 2014. Prior to working in the water sector, he held roles at Cambridgeshire County Council, Civil Aviation Authority, HM Treasury and Inland Revenue. He has also held several non-executive director roles including with NHS Cambridgeshire and Centre for Cities. Alex is a graduate of Nottingham University.

Peter Farrer, Chief Operating Officer

Peter was appointed as Chief Operating Officer in 2013 having formerly been Customer Service Delivery Director, General Manager of Asset Planning and Business Performance and General Manager of Operations. Prior to this he held various operational and engineering roles within Scottish Water's predecessor organisations, East of Scotland Water and Lothian Water and Drainage. He has 39 years' experience in the water industry since graduating from Heriot Watt University as a Civil Engineer in 1984. He is a Chartered Civil Engineer, gained an MBA from the Edinburgh Business School in 2001 and is a Fellow of the Institution of Civil Engineers and a Vice President of the Institute of Customer Service.

Alan Dingwall, Chief Financial Officer

Alan Dingwall joined Scottish Water as Chief Financial Officer in June 2024 after a career in different industries in a range of finance and commercial leadership positions. Prior to working at Scottish Water, he spent a decade with Serco, a provider of public services to local and central governments in a range of environments including healthcare, justice, defence and transport. Alan brings a passion for public services and supporting customers and communities, as well as strong business and commercial instincts. He has worked at Board level in executive positions and as a non-executive director.

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Non-executive Members

Deirdre Michie OBE

Deirdre was appointed Chair of Scottish Water on 1st January 2024. Deirdre is a senior leader and business executive in the global energy industry with significant experience in both executive and non-executive roles. Deirdre's experience covered the energy value chain before Deirdre was appointed as CEO of Offshore Energies UK (OEUK) in 2015, a position that she held for almost 8 years. During her tenure at OEUK, Deirdre was instrumental in landing the landmark North Sea Transition Deal, aimed at helping to deliver UK net zero by 2050. She was also a leading member of several UK and Scottish industry and business government forums including the Women's Business Council. Deirdre is also a Board member of Opportunity North East Ltd. Deirdre was awarded an OBE for her services to the energy Industry (2018), an Honorary Doctorate from Robert Gordon University (2021) and a Fellowship from the North East of Scotland College (2019).

Graham Dalton

Graham is a chartered civil engineer and fellow of the Royal Academy of Engineering with 35 years of experience planning, building and operating large-scale infrastructure in the UK, Middle East and Far East. From 2016 to 2022 he was Chief Executive of the Defence Infrastructure Organisation responsible for the Defence Estate in the UK and overseas. Previously, he was Chief Executive of the Highways Agency where he built the Agency's capabilities in network operation, asset management and commercial performance before leading the change to a Government - Owned Company - Highways England - in 2015. Graham's earlier career was spent with consulting engineering firm Mouchel, and with contractor Bovis. Graham is also a non-executive director of Energy and Utility Skills Ltd and a Policy Fellow of the Institution of Civil Engineers.

Steve Dickson

Steven brings more than 30 years communications, media and digital experience having worked for BT since 1989. Recent roles included leading teams across Europe, the Americas and Asia Pacific focusing on global contracts, strategic controls and revenue assurance. He was a member of the leadership team at BT Group Business Services. He is also a non-executive director on the board of the Scottish Courts & Tribunals Service and a Member of the Armed Forces Pay Review Body. Previously, Steven was a member of the National Executive Committee for the Prospect Union, having occupied various executive positions since 2013 and was a senior negotiator on the BT Pay and Reward Committee from 2006 until his retirement. He also served a three-year term on the governance board of BT's pension scheme in 2018.

Iain Lanaghan

Iain is an experienced Non-Executive Director and former Main Board finance director. He is also Lead NED of the UK Supreme Court and NED and Audit Chair of the North Sea Transition Authority. His previous Non-Executive Director and Audit Chair roles have included the UK MOD Defence Equipment & Support Agency and UK National Nuclear Laboratory. Previously, he was Finance Director of FirstGroup plc, Faroe Petroleum plc, PowerGen International and Atlantic Power. He is a member of the Institute of Chartered Accountants of Scotland, having qualified with KPMG in London.

Non-executive Members

Ken Marnoch

Ken has over 35 years' experience working in the energy industry having worked for Shell since graduating from Heriot-Watt University in 1988. Initially based offshore in the North Sea and onshore in Aberdeen, and subsequently 17 years in assignments overseas. His recent roles include leading regional and country businesses in the Gulf of Mexico, USA and Brunei, South-East Asia focusing on corporate responsibility, safety, bottom-line delivery, digitalisation and investment in people. His international career has also included leading Internal Audit, major asset and infrastructure project delivery, strategic planning, managing Government and corporate joint ventures and delivering significant organisational change.

Ian McAulay

Ian McAulay is an experienced senior executive in the global water, environmental and energy sectors. Over 40 years he has worked with many utility companies, including Scottish Water, in delivering major infrastructure and operational enhancement investment programmes. In the UK he most recently spent ten years as CEO of Viridor and Southern Water leading all aspects of the businesses. Before that, he was Global Chief of Strategy for MWH living and working across the world. He is Chair of Papilo Ltd and Isle Utilities Ltd, a board member of the Institute of Water and was awarded a Fellowship of the Institution of Civil Engineers in 2020.

Catriona Schmolke CBE

Catriona joined the Board of Scottish Water in November 2021 and is a member of the Audit & Risk Committee. Catriona is an experienced Non-Executive Director, chartered engineer and brings more than 35 years knowledge of working in the infrastructure sector. Prior to her Non-Executive Director appointments, Catriona was global Senior Vice President with Jacobs, where she operated internationally, delivering purposeful transformation and organisational change in the areas of safety and sustainability including Environmental, Social, and Governance (ESG). As an Operations Vice President she was accountable for projects in both public and private sectors including Environmental, Utilities, Nuclear, Mining, Transport and Industrial. In 2020 she was recognised by the National Safety Council of America for safety leadership. Catriona is the Chair of Artus Air Ltd and a Non-Executive Director with NPL Ltd and NES Fircroft Ltd. In the 2024 King's New Years Honours, Catriona received a CBE for services to engineering.

CORPORATE GOVERNANCE REPORT

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Members

The Chair and other Non-executive Members are appointed by Scottish Ministers. Executive Members are appointed by Scottish Water after receiving consent to their appointment from Scottish Ministers. The Members as at the date of this report and their biographies are set out on pages 79 to 81.

Executive Board appointments are based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board, including gender. Non-executive Board appointments are made by the Public Appointments team of the Scottish Government. That team operates in accordance with the Code of Practice and the Diversity Delivers strategy published by the Ethical Standards Commissioner. Both the Code and the strategy are applicable to all public appointments.

The Board of Scottish Water currently comprises of 9 members: 7 Non-executive Board Members and 2 Executive Members. The Board has a formal schedule of matters specifically reserved to it for decision-making. Reporting to the Board are the Chief Executive and the Executive Members, who have responsibility for the management of Scottish Water, and the Board Committees detailed below.

In accordance with the best practice recommended in the UK Corporate Governance Code, there is a clear division of responsibilities between the Chair and the Chief Executive. Scottish Water also benefits from the expertise of its Non-executive Board Members whose range of experience brings independent judgement on issues of strategy and performance, which are vital to the success of Scottish Water.

During the financial year of 2023/24, the Board met on 9 occasions to review Scottish Water's operational and financial performance, business strategy and risk management.

UK Corporate Governance Code

UK Corporate Governance Code Scottish Water complies with the revised UK Corporate Governance Code published by the Financial Reporting Council (FRC) in July 2018, so far as applicable to its status as a Statutory Public Corporation. As Scottish Water is not a company registered under the Companies Act, the Financial Conduct Authority (FCA) listing rules are not applicable and an Annual Consultative Meeting (ACM) with stakeholders is held in place of an Annual General Meeting. The 2023 ACM was held at Novotel Edinburgh Park on 29th August 2023. The arrangements for appointment and termination of Board Members and their remuneration are derived from the underlying statutory regime and set out in the Members' Remuneration Report. No Senior Independent Director has been appointed as other arrangements are in place to consult with stakeholders. The Audit & Risk Committee Report on pages 86 to 90 covers the appointment of the external auditor.

Board and Committees

Attendance at the Board and the two principal Board Committees is shown in the table below.

	Board		Audit & Risk Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Dame Susan Rice	9(*6)	6	-	-	-	-
Alex Plant	9(*7)	7	-	-	-	-
Peter Farrer	9	9	-	-	-	-
Graham Dalton	9	9	5	5	-	-
Steven Dickson	9	9	-	-	4	4
Iain M Lanaghan	9	9	5	5	-	-
Ken Marnoch	9	8	-	-	4	4
Ian McAulay	9(*3)	3	-	-	4(*1)	1
Deirdre Michie	9	7	-	-	-	-
Douglas Millican	9(*2)	2	-	-	-	-
Alan Scott	9(*5)	5	-	-	-	-
Catriona Schmolke	9	9	5	5	-	-

*Dame Susan Rice's term ended on 31st December 2023
*Douglas Millican retired on 31st May 2023
*Alex Plant commenced on 1st June 2023
*Alan Scott retired on 31st December 2023
*Ian McAulay's term commenced on 1st January 2024

Audit & Risk Committee

The Audit & Risk Committee reviews the financial reports of Scottish Water and considers the results of the auditor's examination and review of the financial statements. It meets with management and with internal and external auditors to review the effectiveness of internal controls, governance and business risk management. The Chair of the Audit & Risk Committee reports to the Board on internal control and risk management matters following each Audit & Risk Committee meeting. The Committee adheres to the requirements of the Audit and Assurance Committee Handbook. Each year the Committee presents a report of its activities to the Board prior to the Board's consideration of this report.

A more detailed report of the Audit & Risk Committee's activities is provided on pages 86 to 89.

Remuneration Committee

The Remuneration Committee monitors the contract terms, remuneration and other benefits for each of the Executive Members, including performance-related incentive schemes. The Committee has access to external independent advice as it considers appropriate. A more detailed report of the Remuneration Committee's activities is provided on page 90.

Board and Committee Performance

An internal review of Board and Committee effectiveness was undertaken during the financial year of 2023/24 and actions arising from it are being implemented. All actions arising from the external review of Board and Committee effectiveness undertaken in 2020/21 have been implemented. Formal annual evaluation processes are in place for all Members, including the Chair. Induction and ongoing training is provided for Members with specific emphasis on finance, regulation and risk analysis.

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Executive Leadership Team

Executive Leadership Team The Chief Executive is responsible for the management and operation of Scottish Water within the strategy determined by the Board and is supported by an Executive Leadership Team which he chairs. The members of the Executive Leadership Team who are also Executive Members are:

Douglas Millican[23] Chief Executive
Alex Plant[24] Chief Executive
Peter Farrer Chief Operating Officer
Alan Scott[25] Strategy Director

Internal Control

The Members of the Board recognise their responsibility for establishing, maintaining and reviewing the systems of internal control and risk management from a financial and operational perspective. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business and operational objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The systems of internal control are compliant with the relevant sections of the UK Corporate Governance Code and the Scottish Water Governance Directions 2023. They are based on an ongoing process designed to identify those risks material to the achievement of Scottish Water's policies, aims and objectives, to evaluate those risks and to manage them effectively in accordance with good risk management practices.

Risk Management

Scottish Water operates a systematic approach to managing risk which is detailed more fully in pages 56 to 59. These risk management processes have been in place for the full year under review and up to the date of approval of this report and financial statements.

Control Activities

Scottish Water's Internal Control Framework incorporates:

- Policy-making and strategic direction at Board level. There is a formal schedule of matters reserved for decision by Board Members.
- An organisational structure which clearly defines lines of authority and accountability.
- A statement of general principles pertaining to rules and procedures for the regulation of the business.
- Financial authority limits governing delegation of authority by the Board.
- Regular review by the Board and management of service, quality and financial performance compared to plan.
- Development of procedure manuals for staff instruction and guidance.
- Project approval, monitoring and control processes specifically developed for capital expenditure.
- Close monitoring undertaken by the Board and management of safety, health and wellbeing issues.

High quality personnel are viewed as an essential part of the control environment. Ethical behaviour is incorporated into conditions of employment. Demanding recruitment criteria, pre-employment vetting and, where required, additional government security checks, combine with the development and training of our people to support ethical standards.

Control Effectiveness Review

Reviewing control effectiveness is a continuous process throughout the financial year. The Board gains assurance as to the effectiveness of internal control through a collaborative approach, based on the work of internal and external audit, other internal and external review agencies, and Executive Members' reports. The controls assurance process is co-ordinated by Internal Audit and incorporates independent assessment by audit, and annual statements of assurance from senior management.

[23] Doulgas Millican retired on 31st May 2023
[24] Alex Plant commenced on 1st June 2023
[25] Alan Scott retired on 31st December 2023

Information and Communication

Scottish Water has developed an annual budgeting and financial and performance reporting system that compares results with budget on a monthly basis, providing information for internal and external reporting. Key performance targets have been agreed with regulators and the Scottish Government.

Performance against these targets is reported monthly to the Board and quarterly to the regulators and the Scottish Government. Scottish Water has an ongoing programme of developing systems to assist customer service and decision-making in financial and operational areas of the business. The overall aim is to produce relevant, reliable and timely operational, financial, and compliance related information, consistent with the objectives of the business, to enable management to exercise effective control and direction.

Scottish Water has a Consultation Code setting out how it consults with external stakeholders in relation to proposals for, and the undertaking of, significant core business activities.

Members of the Board meet quarterly with officials from the Scottish Government to discuss a range of business issues.

External Auditor

KPMG LLP, chartered accountants and registered auditors, were appointed as auditor by the Auditor General for Scotland in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Independence of External Auditor

The Auditor General for Scotland is responsible to the Scottish Parliament for securing the audit of the financial statements of Scottish Water. The Auditor General for Scotland appointed KPMG LLP as the auditor of Scottish Water for the financial years 2016/17 to 2021/22. In May 2022, KPMG LLP was re-appointed as Scottish Water's auditor for the financial years 2022/23 to 2026/27. Under the terms of KPMG LLP's appointment, they may not carry out any non-audit work for Scottish Water without the prior approval of Audit Scotland, and must comply with Scottish Water's policy on provision of non-audit services see page 89.

AUDIT & RISK COMMITTEE REPORT

Annual statement by the Chair of the Audit & Risk Committee

I am pleased to present this report covering the role and function of the Group Audit & Risk Committee for the year ended 31 March 2024. During the year I was supported by 2 other Non-executive Members: Catriona Schmolke and Graham Dalton.

I have relevant financial experience and my Committee members have been selected with the aim of providing the wide range of financial, governance and commercial expertise necessary to fulfil the Committee's duties and obligations. Scottish Water's Managing Legal Counsel, was Secretary to the Committee.

Group Audit & Risk Committee Role and Responsibilities

The Group Audit & Risk Committee was established by the Board to support it in its responsibilities for issues of governance, risk and control and associated assurance and assessment through a process of constructive challenge. Although Scottish Water is not a listed company it does adopt and follow, as far as is appropriate, the accounting and disclosure practices of a listed company.

The governance framework adopted by the Committee links the objectives of Scottish Water's business strategy through the stages, outlined below, with the sources of assurance received from senior management and other assurance providers on the operation of key financial and risk management controls.

The Committee's main responsibilities are to oversee and report to the Board on:

- The strategic processes for the assessment of governance, risk and control and their effectiveness;
- The risk management framework, including risk appetite and horizon scanning;
- The accounting policies, the financial statements, principal risks, the interim and full year Annual Report & Accounts: Performance and Prospects;
- The planned activity and results of both internal and external audit, including approval of the annual and 3 year Internal Audit plans and strategy;
- The management response to issues identified by internal and external audit activities;
- The effectiveness of the internal control environment;
- Assurances on the corporate governance requirements for the organisation;
- Anti-fraud activities, whistleblowing processes, arrangements for special investigations and activities and reports by the Counter Fraud Committee;
- Scottish Water's arrangements for complying with legislation and Directions issued by the WICS, including the regulatory Annual Return;
- The annual plan and report prepared by the Compliance Officer;
- The annual statement published by Scottish Water under the Modern Slavery Act 2015; and
- The annual tax strategy and statement.

The Terms of Reference of the Committee are approved by the Board and, in accordance with the Scottish Government Audit and Assurance Committee Handbook, are reviewed annually by the Committee. The Committee Terms of Reference are available on the Scottish Water website.

Scottish Water's subsidiary, Scottish Water Business Stream Limited (Business Stream) operates as a Licensed Provider, competing with other Licensed Providers in the Scottish and English markets to supply water and waste water retail services to business customers. Business Stream has its own Board of Directors and is operated in accordance with the Governance Code agreed with the Water Industry Commission for Scotland (WICS). The Governance Code sets out the operating regime that Scottish Water and Business Stream must comply with to enable the operation of the licensed retail market.

Business Stream has the same Chair as Scottish Water but has its own independent Board, Audit & Risk Committee and management team. Scottish Water exercises governance over Business Stream through Scottish Water Business Stream Holdings Limited (SWBSH) in accordance with the Governance Code. As a consequence of the restrictions within the Governance Code upon disclosure of Business Stream's activities, the Group Audit & Risk Committee is in large part reliant on the Board of Business Stream to provide much of the necessary assurance, with further assurance provided through governance of Business Stream by SWBSH, as detailed below.

Committee Meetings

The Committee meets at least 4 times per year, 2 of which are co-ordinated with external reporting timetables.

During 2023/24 the Committee met on 5 occasions, with an extra meeting in May 2023 to review the draft Annual Report & Accounts: Performance and Prospects.

In addition to the Committee members, the Scottish Water Board Chair, Chief Executive, Director of Finance, Head of Internal Audit, General Manager - Financial Control, Group Legal Counsel & Director of Governance, Head of Corporate Risk Management, and the external audit partner also attended the meetings by invitation. The Committee invites other senior management to present to the Committee on a regular basis on a variety of topics relevant to its work. In line with the Scottish Government's Audit and Assurance Committee Handbook, the Committee meets in private, excluding any Executive Members, with the external auditor and the Head of Internal Audit at least on an annual basis, or more frequently if required.

The Committee's Activities

The Committee agrees an annual work programme including reports to be received from senior management, Internal Audit and the external auditor during the year.

As well as the normal financial reporting activities, the Committee's main activities during the year included the following:

- Reviewing compliance with the 2018 UK Corporate Governance Code;
- Assessment of corporate strategic and operational risks, risk management controls including risk appetite, risk management and control systems, the monitoring and review thereof, including sources of assurance and associated public reporting covering going concern and future viability;
- Discussing the work, the issues and management actions in Internal Audit reports;
- Outcomes of investigations resulting from fraud allegations, whistleblowing and results from the Audit Scotland National Fraud Initiative;
- Forming its view of the "fair, balanced and understandable" and viability reporting obligations;
- Operation of the 2021-27 Capital Investment Value Assurance Framework;
- Update on risk management forward planning and risk horizon scanning; and
- Discussing specifically requested papers on cyber security and Network and Information Systems (NIS) compliance and supply chain structural risk.

Financial Reporting

To inform the Committee's reports to the Board, the Committee reviewed and considered the following areas in respect of financial reporting and the preparation of the interim Accounts and the Annual Report & Accounts: Performance and Prospects:

- The appropriateness and quality of accounting policies;
- Compliance with financial reporting standards and clarity of associated disclosures; and
- Material areas in which primary judgements have been applied.

To assist in the discharge of its duties the Committee considers reports from the General Manager - Financial Control and reports from the external auditor on the outcomes of their half-year review of interim financial statements, including confirmation that the Accounts are prepared on a going concern basis.

The Committee also considered and was satisfied with the papers prepared by the General Manager - Financial Control and the external auditor covering the financial statements for full year 2023/24. These included a section from management supporting the going concern basis which the external auditor confirmed was appropriate. Our view was supported by statutory and regulatory provisions applicable to Scottish Water, namely that:

- The WICS published the Final Determination for 2021-27;
- The Scottish Government want the industry to be financially sustainable for the long term which requires Scottish Water to be adequately funded to meet its statutory obligations and that Scottish Water can count on those resources being available;
- Under the Water Industry (Scotland) Act 2002, Scottish Water is deemed to have exercised its core functions effectively in making use of those resources to achieve the Ministerial Objectives and do so at the lowest reasonable cost;
- The WICS has a duty, under the same legislation, to ensure Scottish Water's receipts are sufficient to meet the expenditure required for Scottish Water to exercise its core functions; and
- The legislation therefore ensures, as far as possible, that Scottish Water will be sufficiently funded to meet its core functions, including the power to apply to the WICS to increase Scottish Water's charges if there is a material change in Scottish Water's ability to finance expenditure on core functions.

Business Stream's Chief Financial Officer, the Chair of its Audit & Risk Committee and the external auditor are also in attendance when the Committee reviews the consolidated interim and annual financial statements. The Board of SWBSH receives reports from Business Stream's management covering financial performance and specific risks facing Business Stream.

The primary areas of judgement considered by the Group Audit & Risk Committee in relation to the 2023/24 Accounts were:

- Risks within the corporate risk register which could impact on the financial statements and judgements therein;
- The primary areas of focus included the sensitivities on future household cash collection rates and wholesale revenue collection and the associated level of bad debt provisioning;
- The delivery costs associated with Scottish Water's capital investment programme and the associated expenditure classifications; and
- The key assumptions associated with determining the actuarial valuation of pension obligations, and the ring-fencing of the Scottish Water element of each pension fund.

After discussion of these with management and the external auditor the Group Audit & Risk Committee was satisfied that the issues raised had been properly dealt with and that appropriate disclosures have been included in the accounts. The external auditor carried out their work using an overall materiality of £29.1 million, representing 1.75% of total annualised expenses incurred in 2023/24, in the consolidated income statement. However, the Committee agreed with the external auditor that the firm would report any misstatements identified during the audit above £1.455 million, as well as misstatements below that amount that, in their view, warranted reporting for qualitative reasons.

In addition, the Head of Internal Audit, the Head of Corporate Data & Compliance and the General Manager – Strategic Direction Sustainability carried out a review to verify that the Annual Report & Accounts 2023/24: Performance and Prospects is fair, balanced and understandable, the results of which were considered by the Committee prior to recommending Board approval of the Annual Report & Accounts 2023/24: Performance and Prospects.

Consequently, and supported by a comprehensive management and statutory accounts process, with written confirmations provided by senior management on the 'health' of the financial and risk control environment, the Committee and the Board are satisfied that the Annual Report & Accounts 2023/24: Performance and Prospects, taken as a whole, are fair, balanced and understandable, and provide the information necessary to assess Scottish Water's performance, business model and strategy.

Scottish Water's Internal Control and Risk Management Processes

Over the year the Committee received papers from Scottish Water Group Finance and the Group Legal Counsel & Director of Governance associated with the 2018 Corporate Governance Code, one of which included a risk management assessment control schedule. This schedule included a detailed 23-point checklist supported by a detailed record of evidence sources and satisfaction ratings of that evidence.

Evidence sources were grouped into 6 categories including risk register and management processes, policy and procedure processes, assurance statements and independent reviews.

In addition, the Committee reviews the framework of internal controls and the processes by which the organisation's control environment is evaluated. To support this, the Committee receives and considers:

- Reports from Internal Audit on the effectiveness of internal controls and issues requiring improvement, including reported fraud allegations;
- Observations from the external audit on the internal control environment and any specific control issues identified;
- Corporate risk reports summarising key risks in the corporate risk register including mitigating actions, risk trends, and summarising compliance with Scottish Water's risk appetite;
- Reports covering the quantitative and qualitative stress testing of the principal risks facing the Scottish Water group of companies;
- Topical in-depth risk assessments;
- Bi-annual report from the Counter Fraud Committee;
- An annual report from the Compliance Officer;
- An annual corporate governance report;
- An Internal Audit annual opinion and report;
- An annual report on regulatory compliance;
- An annual statement of compliance with the Modern Slavery Act 2015; and
- An annual Tax strategy.

During the year the Committee requested specific reports on cyber security and NIS compliance, and capital investment value for money assurance framework.

The Committee provides the Board with an annual report on the effectiveness of the internal control framework. To support this, the Committee receives an annual report and opinion from the Head of Internal Audit.

Internal Audit

The Committee approves annually the Internal Audit Charter and the annual and 3 year Internal Audit plans, with any subsequent changes requiring Committee approval. It also reviews the scope and results of Internal Audit reviews and its effectiveness throughout the year, including implementation of an annual quality improvement action plan following the external quality assessment by the Institute of Internal Auditors in 2019.

The Committee approved the deferral of the 2024 external quality assessment to 2025 for the implementation of new International Professional Practices Framework standards. At each main Committee meeting reports were received from the Head of Internal Audit.

These reports included progress in delivering the Internal Audit plan, audit findings and management action plans to address these, performance in implementing management action plans, fraud allegation investigations and details of relevant Audit Scotland reports. In addition to the private meetings with the Committee members, the Chair of the Audit & Risk Committee also meets the Head of Internal Audit outside of the formal Committee meetings.

External Audit

The Auditor General for Scotland is responsible for the appointment of the Scottish Water external auditor and the auditor's remuneration. The Auditor General undertook a tender and assessment exercise for Scottish Water, and many other public sector organisations, which resulted in the appointment of KPMG as Scottish Water's external auditor for a five-year period from 2022/23 to 2026/27.

The Committee received from KPMG an audit plan, including their assessment of key risks and confirmation of their independence. Following completion of their interim review and annual audit, the Committee receive an internal control report highlighting any internal control weaknesses and the management actions to address these.

Annually the Committee assess, with input from management, and provide feedback to Audit Scotland on the effectiveness of the external auditor. In addition to the private meetings with the Committee members, the Chair of the Audit & Risk Committee also meets the external audit partner outside of the formal Committee meetings.

Auditor Independence

During 2015/16 the Committee approved a policy on provision of non-audit services to Scottish Water by the firm appointed as external auditor and this was extended to all subsidiaries in 2016/17. The Committee monitors implementation of the policy through receipt of a report every six months, or as required, analysing fees paid for any non-audit work by the external auditor, with additional commentary on assignments and on work carried out or to be done relating to safeguards of independence.

Having considered compliance with our policy, the Committee is satisfied KPMG has remained independent.

Iain M Lanaghan
Chair of the Audit & Risk Committee

REMUNERATION COMMITTEE REPORT

Annual Statement by the Chair of the Remuneration Committee

I am pleased to present the first Members' remuneration report in my role as Chair of the Remuneration Committee, for the year ended 31 March 2024. In preparing the report, I am thankful for the support of former committee chair and now Scottish Water Chair, Deirdre Michie, and fellow Remuneration Committee non-executive members Steve Dickson and Ian McAulay. Ian joined the Board and the Remuneration Committee in January 2024.

The Remuneration Committee meets regularly to consider the remuneration arrangements for Executive Members, and other related remuneration matters, making recommendations to the Board. Such recommendations must balance value for money in rewarding performance and delivery, with the ability to develop, retain and recruit capability in a competitive market for talent and experienced business leaders.

There were four meetings of the Committee in 2023/24. At each meeting a quorum of independent, Non-executive Members was present. No Executive Member was present during discussions about their own remuneration. As required, the Committee receives internal advice and information from the Chair of Scottish Water, the Chief Executive, the Director for People, the Reward, Policy & Employee Relations General Manager, and the Group Legal Counsel & Director of Governance.

We maintain and operate a simple remuneration structure of base salary and benefits, an annual out-performance incentive plan (AOIP) and a single long-term incentive plan (LTIP), which provide a clear link between pay and Scottish Water's key strategic priorities.

The key decisions made by the Committee over the 2023/24 period were as follows:

Decisions / remuneration for 2023/24

- Confirming the 2023/24 AOIP payment calculated at 35.30% of salary out of the 40% maximum opportunity for the three Executive Members and the former Chief Executive.
- Confirming 2021-24 LTIP value, calculated at 31.19% of salary out of the 45% maximum opportunity for Executive Members, such payment vesting for a further three years and becoming payable in 2027.
- Noting management's implementation of a new pay and grading structure for collectively bargained employees, following extensive trade union negotiations.
- Agreeing "good leaver" status for the former Chief Executive and the former Strategy Director, with pro-rata eligibility for the relevant incentive schemes.
- Agreeing pay progression of 1.5% and a base salary increase of £1,500 with effect from 1 April 2023 for two Executive members, aligned with the Scottish Government's Public Sector Pay Policy for 2023. No equivalent increase was paid to the former Chief Executive.
- Confirming payment of the daily fee rate for non-Executive Members as set out in the Scottish Government's Public Sector Pay Strategy.

Decisions / remuneration for 2024/25

- Setting the structure and performance criteria for the 2024/25 AOIP.
- Setting the structure and performance criteria for the 2024-27 LTIP performance period.
- Agreeing the base salary for the new Chief Financial Officer of £210k per annum and benefits aligned with those for existing Executive Members.

Our Remuneration Policy and our Annual Report on Remuneration is set out on page 91.

Ken Marnoch
Chair of the Remuneration Committee

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MEMBERS' REMUNERATION REPORT

The presentation of this Remuneration Report complies with the HM Treasury Financial Reporting Manual 2023/24 (December 2022) and as far as is appropriate, also adopts the same UK Corporate Governance Code practice as quoted companies even though Scottish Water is not a quoted company.

1. Statement of Executive Remuneration Policy

a. General Policy

Scottish Water's purpose is to support a flourishing Scotland through being trusted to care for the water on which Scotland depends. Building on past success, we seek to provide levels of service, out-performance and efficiency which meet or exceed the expectation of customers, regulators and the Scottish Government.

Scottish Water will continue to provide a working environment that matches the expectations placed on our people to deliver best value outcomes in an empowered organisation. Remuneration and incentivisation policies are a major contributor to achieving Scottish Water's goals. This requires terms of employment for all employees that, taken together, ensure the organisation is seen as a fair employer that encourages excellence, rewards performance and empowers its people while providing scope for personal development.

The overall remuneration policy aims are to:

- Attract, develop, motivate and retain talent and capability at all levels of the organisation; and
- Incentivise and reward good individual and corporate performance.

b. Remuneration elements

The Remuneration Policy for Executive Members consists of five principal elements:

- Base salary;
- Annual out-performance incentive plan (AOIP);
- Long term incentive plan (LTIP);
- Pension; and
- Allowances and expenses (for business needs, car, relocation, etc.).

c. Relative importance of performance incentives

Scottish Water is a performance-driven business, where Executive Members' remuneration should be closely linked to corporate performance and out-performance. The aim is to pay a base salary that is competitive, and appropriate for a public corporation. Incentive pay is earned for exceeding demanding targets, with the required degree of out-performance reviewed on an annual basis.

d. Base Salary

Scottish Water is publicly owned and accountable to the Scottish Parliament and Scottish Ministers. Within the context of public sector ownership, the company seeks to attract, retain and motivate leadership talent in competition with private sector utilities and other public and private sector organisations across the UK economy.

Scottish Water subscribes to the remuneration database of Korn Ferry and uses this as required to review the remuneration of comparator organisations and industry in general against its own. This is one of the largest remuneration databases in the UK with each job subjected to the same method of job sizing.

Specific benchmark analysis is carried out approximately every three years. The most recent review was in January 2022, where the Remuneration Committee commissioned Korn Ferry to refresh this market analysis against other UK water companies and comparable UK PLCs with roles of equivalent scale. Results showed that Executive Members' base salaries ranged between 55% and 81% of industry medians, with the overall average position being 67%.

This is a deterioration from the comparative position last calculated in November 2018 (average 70% against median). This is a concern and so we continue to discuss with the Scottish Government steps we can take to ensure we can attract and retain the capability, experience and talent pipeline we need, while delivering on the pay expectations of a responsible public sector employer.

Strategic Outcome	Measure	Target	Weight	Performance
Great Value & Financial Sustainability[26]	Tier 1 costs[27]	• Sliding scale with 50% on plan and 100% for £30 million below plan	30%	Costs were £70 million below plan
	PCL (progress of projects from the Development List to the Committed List)	• Zero below target zone • 50% at bottom of target zone (100% of plan) • 100% at top of target zone (110% of plan)	10%	117%
	Indicator of Progress of Overall Delivery (IPOD)	• Zero > 3 months either side of plan • 50% +/- 3 months of plan • 75% +/- 2 months of plan • 100% +/- 1 month of plan	10%	+0.6 months
Service Excellence	New Outcome Performance Assessment (OPA)	• Zero below 395 points • 50% at 395 points • 100% at 410 points	15%	402 pts
	Household Customer Experience Measure (hCEM)	• Zero below 85.0 points • 50% at 85.0 points • 100% at 87.8 points	7.5%	86.6 pts
	Non-household Customer Experience Measure (nhCEM)	• Zero below 85.4 points • 50% at 85.4 points • 100% at 88.7 points	7.5%	89.7 pts
Net Zero	Operational emissions routemap delivered successfully and achieving emissions reductions	• Zero below 20,000 tCO_2e • 50% at 20,000 tCO_2e • 100% at 40,000 tCO_2e	20%	27,723 tCO_2e

Notes:
[26] Tier 1 costs is a gateway on the incentive plan and must be sufficient to fund AOIP payments; costs' target plan baseline will be updated for inflation and regulatory out-turn assumptions.
[27] Operating costs, PFI and interest relative to WICS Final Determination expectations, (as adjusted by out-tun inflation), excluding responsive repair and refurbishment, developer contributions and tax.

e. Annual Out-performance Incentive Plan

The Remuneration Committee maintains the right to withhold or vary AOIP payments (potentially to zero) should events undermine the financial stability or reputation of Scottish Water. Such variation may be carried out at any time prior to AOIP payments being made and may affect all or only some of the AOIP recipients. During 2023/24 there was no requirement to exercise these step-in rights.

The potential maximum annual incentive attainable for out-performance by Executive Members is 40% of base salary and is non-pensionable. Targets, out-performance targets, and actual performance in 2023/24 are set out below.

Performance assessment is based on the incentive framework agreed by the Scottish Government in December 2020, aligned to our strategic plan. Performance focuses on Scottish Water's three strategic Ambitions of Great Value & Financial Sustainability; Service Excellence; and Net Zero Emissions.

The awards generated by this performance are detailed in the single figure table of the Members' Remuneration Report.

Non-executive Members are not eligible for annual incentive payments.

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f. Long Term Incentive Plan to incentivise out-performance

The LTIP structure addresses two key elements:

1. Our Strategic Outcome of Beyond Net Zero Emissions stretches across multiple regulatory contracts and so the LTIP must reflect that longer-term commitment.
2. Since first application of an LTIP scheme in 2006-10, the per-year equivalent payment potential reduced steadily for participants, as plan and regulatory period durations lengthened. The SR21 scheme restores the annual equivalent value and thus the overall potential of the reward package, in alignment with the earlier stated aims of our Executive Remuneration Policy.

   Duration & Potential Value

   Scottish Water's LTIP operates through a Performance period (during which the incentive is assessed by reference to the performance criteria); and a Vesting period (during which the amount identified in the performance period is held for payment at the end of vesting).

Each of these periods lasts three years and allows the LTIP to reflect the rolling nature of truly long-term performance measures, such as Net Zero Emissions. The Vesting period allows Remuneration Committee to verify that payments earned over a three-year Performance period are not based on short-term decisions, which later prove unsupportive of long-term performance. This allows the Remuneration Committee, if necessary, to intervene and moderate the level of incentives actually paid out.

The first payment for this new LTIP is potentially made after six years in 2027, with a value of up to 45% of a participant's salary. Further payments of 45% are possible every three years thereafter.

Non-executive Members are not eligible for long-term incentive payments

Year	2021	2024	2027	2030	2033	2036
Performance Period	LTIP1 start	LTIP1 end; LTIP2 start	LTIP2 end; LTIP3 start	LTIP3 end; LTIP4 start	LTIP4 end; LTIP5 start	LTIP5 end; etc
Vesting Period		LTIP1 start	LTIP1 end; LTIP2 start	LTIP2 end; LTIP3 start	LTIP3 end; LTIP4 start	LTIP4 end; etc.
Payment			LTIP1	LTIP2	LTIP3	LTIP4
New maximum quantum (Directors). See below.			45% of salary	45% of salary	45% of salary	45% of salary

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The LTIP generated for the 2021-24 performance period is as follows:

Strategic Outcome	Measure	Target	Basis	Weight	Performance[30]
Great Value & Financial Sustainability	Overall positive Tier 1 financial surplus – Tramline Measure	Positive performance for the period within top half of Tier 1 financial tramlines	Aggregate Tier 1 surplus must be above zero for LTIP to pay out	Yes/No gateway on LTIP payments	Yes - Tier 1 financial surplus delivered
	Transformation plan	Integrated transformation plan in operation and has delivered on planned activities for the performance period	Assessment informed by stakeholder views on the extent of progress being made to transform Scottish Water	Yes/Partial/No decision by Remuneration Committee on the extent of LTIP payable.	Yes – Remuneration Committee assessment of good progress towards Scottish Water's transformation
Net Zero Emissions	Net Zero Emissions routemap targets	Meet or exceed 3-year operational emissions reduction targets for the performance period	• 50% at 20,000 tCO_2e reduction[28] • 100% at 40,000 tCO_2e reduction[29]	Sliding scale between 20,000 and 40,000 tCO_2e targets	27,723 tCO_2e reduction

Notes:
[28] tCO_2e reduction rate in line with Net Zero Emissions by 2040
[29] tCO_2e reduction rate in line with Net Zero Emissions by 2030
[30] LTIP performance to 31 March 2024 could generate a payment to current and former Executive Members during 2027 of 31.19% of salary. The potential payments, on a pro rata basis, based on service in the three-year period from 1 April 2021 to 31 March 2024, equate to £23k for Mr Plant, £57k for Mr Millican, £64k for Mr Farrer and £58k for Mr Scott. When, and if these payments are made, they will be included within the Single Total Figure Table for the year in which the payment is made.

The degree to which the LTIP is payable considers stakeholder feedback on transformation progress. This not only links long-term incentives clearly to Scottish Water's business transformation but provides a credibility check to maintain the integrity of the overall LTIP mechanism. Remuneration Committee will make a holistic assessment of stakeholder sentiment, and over the long term it will be important for all stakeholders to verify that our progress warrants LTIP payments, while incentivising the continuing delivery of our strategic transformation.

In addition to the above checks, the Remuneration Committee maintains the right to withhold or vary LTIP payments (potentially to zero) should events undermine the financial stability or reputation of Scottish Water. Such variation may be carried out at any time prior to LTIP payments being made and may affect all or only some of the LTIP recipients.

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g. Pension

All employees, including Executive Members, are eligible to participate in the Scottish Local Government Pension Scheme (SLGPS) which is a contributory, defined benefit scheme operating under regulations determined by the Scottish Parliament. These regulations require Scottish Water to offer this pension to all employees and in the case of the Executive Members participation is via the Lothian Pension Fund. All pension scheme members may request flexible retirement from age 55, reducing their hours or grade to receive all or part of their pension while continuing to work.

All members may also choose to take full Early Retirement from age 55 with a reduction in pension value applied by the pension fund.

The value of pension provided through the SLGPS is set out in section 2.c of the Members' Remuneration Report.

Non-executive Members are not eligible to receive pension benefits.

h. Benefits

A car is provided to all Executive Members for business needs. For those opting out of car provision, a car allowance is payable instead. Non-executive members are not eligible for a car or car allowance.

Executive Members are covered by the Scottish Water Life Assurance Scheme that covers all employees.

The value of benefits received is set out in the relevant column of the single figure table in the Members' Remuneration Report.

i. Approach to recruitment remuneration

The remuneration of any new Executive Member will be agreed with the Scottish Government prior to appointment of that Member. The Remuneration Committee will recommend a recruitment package, encompassing those elements that apply to other Executive Members and that are detailed elsewhere in this remuneration policy. Recent experience has demonstrated that recruitment of new Executive Members is extremely challenging. The level of reward relative to comparable industry, constrains the available field of candidates.

If recruitment of an Executive Member requires compensation for relocation this would normally be calculated as per Scottish Water's relocation policies and would be included in any recommendation made, as would any other aspect of proposed remuneration.

The appointment and remuneration of the Chair of Scottish Water and Non-executive Members is agreed by Scottish Ministers, with regard to the daily fee framework of the Scottish Government's Pay Policy for Senior Appointments. Fees paid reflect the time commitment anticipated for each role and are detailed in the Members' Remuneration Report.

j. Payments on loss of office

Executive Members are expected to work the notice periods in their service contracts. In circumstances where it is in the operational interests of Scottish Water for an Executive Member to leave before the end of their notice period, the Remuneration Committee will consider options such as 'garden leave' or paying in lieu for all or part notice on a case-by-case basis.

The Remuneration Committee may decide that a portion of the incentive payment is payable to former Executive Members in certain "good leaver" circumstances, including departure due to redundancy and efficiency, ill-health or normal age retirement, agreed early retirement, retirement or departure with substantial notice and responsibility transition, or death in service.

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j. Payments on loss of office continued

Any incentive payment so determined will be paid no earlier than would have been the case had the Member not left Scottish Water. If an Executive Member leaves the employment of Scottish Water for any other reason and before incentive payments under the AOIP or LTIP would be due, their payment will normally be forfeit. Good leaver status is not automatically awarded.

Where an Executive Member leaves for reasons of efficiency or redundancy, any severance payment that may apply will be on the same terms as for any other employee leaving under such circumstances and will be as set out under the approved redundancy scheme in operation at the time. Where the Executive Member is a member of the SLGPS then access to pension benefits on leaving will be determined by the regulations of that pension scheme, as for any other SLGPS member.

No compensation is payable to any Non-executive Member if their appointment is terminated early.

k. Consideration of employment conditions elsewhere in the company

The Remuneration Committee requests and receives information as required on pay and terms and conditions for all employees in order to provide context for decisions on executive pay. This information includes comparison of the salary and total pay of the Chief Executive versus that received by other employees; as well as consideration of the ratio between the lowest and highest potential total pay in the organisation.

Remuneration Committee considers information within Scottish Water's biennial Public Sector Equality Duties (PSED) report, available through our website. Alongside detailed information on our approach to diversity, equity and inclusion, this report sets out our gender pay gap. Last updated in 2023, Scottish Water's hourly pay gap at both the mean and the median was substantially smaller than for Scotland as a whole and is in favour of women at the median, while being in favour of men at the mean.

When determining incentive payments to be made under the AOIP, the Remuneration Committee considers the proportion of potential payment resulting to Executive Members from corporate out-performance and how that same out-performance drives incentive payments to other employees. Any review of executive pay is informed by reports on employee and manager pay progression, consideration of public sector pay policy and an understanding of the pay adjustment opportunities available to other employees as may be negotiated with the company's recognised trades unions.

Under the Water Industry (Scotland) Act 2002, Schedule 3, one of the non-executive members appointed to the Board of Scottish Water must be a person appearing to the Scottish Ministers to have special knowledge of the interests of employees. A non-executive fulfilling this requirement was appointed to The Board and The Remuneration Committee from 1st May 2021, replacing the previous non-executive with such special knowledge.

l. Service contracts

Details of current Executive Members' permanent contracts are set out below.

Executive Member	Name	Date of Contract
Chief Executive	Alex Plant	1 June 2023
Chief Operating Officer	Peter Farrer	1 April 2013
Chief Financial Officer[31]	Alan Dingwall	3 June 2024

Executive Members are required to give 6 months' notice of resignation. Scottish Water is required to give Members 12 months' notice of termination.

Non-executive Members
Non-executive Members do not have service contracts. Expiry dates of current Non-executive appointments are as follows:

Deirdre Michie, Chair	31 December 2027
Iain Lanaghan	31 March 2025
Steven Dickson	30 April 2025
Catriona Schmolke	31 October 2025
Graham Dalton	31 March 2026
Kenneth Marnoch	31 March 2026
Ian McAulay	31 December 2027

[31] Recruitment of a new Chief Financial Officer was completed in May 2024 with an employment start date of 3 June 2024.

2. Members' Remuneration Report

The auditors are required to report on information contained in sections 2.a to 2.d of the Remuneration Report.

a. Single Total Figure Table

Fee levels for Non-executive Members, including the Chair, for 2023/24 will increase on a per day basis with effect from 1 April 2024, in line with Public Sector Pay Strategy 2024 for Senior Appointments.

Executive Members		Salary/ Fees £000	Benefits[32] £000	AOIP[33] £000	Total £000	Pension[34] £000	Total £000
Alex Plant[35]	2024	246	83	87	416	67	483
	2023	-	-	-	-	-	-
Douglas Millican[36]	2024	40	2	13	55	-	55
	2023	245	12	80	337	-216	121
Peter Farrer	2024	206	11	73	290	-91	199
	2023	201	11	66	278	-110	168
Alan Scott[37]	2024	151	6	54	211	-51	160
	2023	199	8	65	272	24	296
Non-executive Members[38]							
Chair Deirdre Michie[39]	2024	47			47		47
	2023	22			22		22
Dame Susan Rice[40]	2024	79			79		79
	2023	105			105		105
Iain M Lanaghan	2024	28			28		28
	2023	27			27		27
Kenneth Marnoch[41]	2024	23			23		23
	2023	22			22		22
Ian McAulay[42]	2024	6			6		6
	2023	-			-		-
Graham Dalton	2024	22			22		22
	2023	22			22		22
Steven Dickson	2024	22			22		22
	2023	22			22		22
Catriona Schmolke	2024	22			22		22
	2023	22			22		22
Former Members							
Samantha Barber[43]	2023	27			27		27
Total Remuneration	**2024**	**892**	**102**	**227**	**1,221**	**-75**	**1,146**
	2023	914	31	211	1,156	-302	854

SEE NOTES TOP OF NEXT PAGE

Notes:
[32] Benefits include the value of car benefit or car allowance and annual life assurance premiums associated with the Scottish Water Life Assurance Scheme as described in the Executive Remuneration policy. The value of each benefit is described in a separate table below. In 2024 benefits also include payments made to Mr Plant in relation to his relocation to Scotland to take up the post of Chief Executive.
[33] Annual Out-performance Incentive Plan as described in the Executive Remuneration Policy.
[34] The value of pension benefits accrued is calculated in accordance with section 6.5.8 (d) of the HM Treasury's Government Financial Reporting Manual 2023/24. This requires the "real" increase in accrued benefits, as detailed in section 2c below, to be multiplied by 20, plus the "real" increase in any accrued lump sum and reduced by the contribution made by the individual member. The reduction in Mr Farrer's and Mr Scott's pension benefits accrued is driven by the impact of applying an inflation adjustment of 6.7%, reflecting CPI at September 2023, relative to their actual salary increase in the year of 2.25%.
[35] Figures for Mr Plant reflect his time in post as Chief Executive from 1 June 2023.
[36] Figures for Mr Millican reflect his time in post as Chief Executive until retirement on 31 May 2023, and his flexible retirement from 1 October 2022 after which he opted to accrue no further pension benefits.
[37] Figures for Mr Scott reflect his time in post as Strategy Director until retirement on 31 December 2023.
[38] Annual fees are set on appointment and then adjusted with regard to the daily fee framework of the Scottish Government's Pay Policy for Senior Appointments and the time commitment indicated within appointment terms. In addition to preparation and attendance at Board and Committee meetings, non-executive members are flexible in the hours they work and, in their availability, to provide experienced, high value advice and guidance to Scottish Water.
[39] Deirdre Michie was appointed Chair with effect from 1 January 2024, prior to which she was Remuneration Committee Chair from 1 April 2023 until 31 December 2023.
[40] Dame Susan Rice stepped down from the Board with effect from 31 December 2023 at the end of her appointment term.
[41] Kenneth Marnoch was appointed Remuneration Committee Chair with effect from 1 January 2024.
[42] Ian McAulay was appointed to the Board with effect from 1 January 2024.
[43] Samantha Barber stepped down as Remuneration Committee Chair and resigned from the Board with effect from 31 March 2023, before the end of her appointment term.

b. Details of benefits received 2023/24

Name	Car benefit or car allowance £000	Life assurance premium £000	Relocation[44] £000	Total £000
Alex Plant	8	2	73	83
Douglas Millican	2	0		2
Peter Farrer	10	1		11
Alan Scott	5	1		6

Notes:
[44] Mr Plant was eligible for relocation assistance up to £30k but this has been managed down to £13k with £2k being utilised in 2023/24 to help secure an immediate temporary residence. Consequently, any future relocation payments will be restricted to £11k. Mr Plant also received an accommodation allowance of £29k and a contribution of £42k towards Land and Building Transaction Tax (LBTT) associated with the purchase of his new permanent residence. Mr Plant will be subject to income tax on these payments in line with HMRC guidelines.

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c. Total pension entitlements to end of financial year

The Executive Members Mr Plant and Mr Farrer are eligible to participate in the Lothian Pension Fund, a defined benefit scheme.

The table below presents pension accruals under the regulations of the SLGPS and Mr Scott's accrued benefits until his retirement on 31 December 2023.

	Increase in accrued benefits during the year net of inflation			Accumulated total accrued benefits at 31 March 2024[49]		Transfer Values[50]		
Name	Years in Scheme	Pension £000	Lump sum £000	Pension £000	Lump sum £000	At 31 March 2024 £000	At 31 March 2023 £000	Increase in 2023/24 net of Members' own contributions and inflation £000
Alex Plant[45]	0.8	5	-	5	-	75	-	43
Peter Farrer	39.7	-3	-8	109	190	2,391	2,176	47
Alan Scott[46]	10.3	-2	-	28	-	464	398	23

Notes
[45] All figures shown for Mr Plant are calculated from his start date of 1 June 2023. Entitlement to the accrued pension of £5k is dependent on him completing 2 years continuous service.
[46] All figures shown for Mr Scott are calculated on his retirement date of 31 December 2023.
[47] Members of the pension scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.
[48] The normal retirement age of Executive Members is determined by the rules of the Scottish Local Government Pension Scheme. For pension accrued up to 31 March 2015 this is age 65. For pension benefits accrued after that date, normal retirement age is set equal to the individual's state pension age. Any pension benefits drawn before normal retirement age are usually reduced in value by actuarial factors reflecting the anticipated longer payment period.
[49] The pension entitlement shown is that which would be paid annually on retirement along with the lump sum, based on service to the end of the year.
[50] The transfer value of accrued pension is calculated in a manner consistent with Actuarial Guidance Note GN11.

d. Pay multiples

The table below shows how the Chief Executive's change in remuneration value compares to the average percentage change in remuneration value of the wider workforce from 2022/23 to 2023/24.

The Government Financial Reporting Manual sets out the method of pay multiple comparison to be used from 2021/22 onwards, so that the Chief Executive total pay figure is compared to that received by other employees at the 25th, 50th and 75th percentile of earnings. Scottish Water reported on mean pay ratios prior to 2019/20, but in that year switched to using the percentile approach and recalculated 2018/19 in the same way, to allow comparison.

Pay for executives and for all other employees is managed with reference to the Public Sector Pay Strategy issued each year. The resultant median ratio of earnings of the Chief Executive to other employees is consistent with this approach.

	Salary	Benefits	AOIP[54]
Chief Executive[51]	6.8%	0.0%[53]	15.0%
All employee median[52]	8.7%	0.0%	7.7%

Notes:
[51] Figures for the Chief Executive are based on a pro-rata combination of the Full Time Equivalent salaries paid to the two individuals who each held that post for part of 2023/24, and AOIP as if calculated on that salary.
[52] Change in employee salary is calculated as the change in the median paid from one year to the next.
[53] Calculation of the change in Chief Executive benefits does not include the one-off relocation, accommodation and LBTT assistance described in the notes to the table in 2(b) above.
[54] Chief Executive and Employee AOIP are driven by the same corporate out-performance, but the employee payment has a fixed maximum value, while the Chief Executive maximum is a percentage of salary and thus is affected by the Full Time Equivalent change in salary for the role holder.

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Remuneration ratio calculations, excluding movement in pension and LTIP[55] £000

	2023/24[56]	2022/23[57]	2021/22[58]	2020/21	2019/20[59]	2018/19
Chief Executive earnings	410	362	360	371	375	367
Employees[60]						
Salary 25th percentile	30.7	28.4	27.2	26.3	-	-
25th percentile earnings	31.7	29.4	28.1	27.2	26.5	25.8
Salary 50th percentile	36.2	33.3	31.6	30.7	-	-
50th percentile earnings	37.1	34.3	32.7	31.7	30.7	29.9
Salary 75th percentile	46.4	42.6	40.5	39.3	-	-
75th percentile earnings	47.5	44.9	42.6	40.6	39.5	38.7
Ratio at 25th percentile earnings	12.9	12.3	12.8	13.6	14.2	14.2
Ratio at 50th percentile earnings	11.1	10.6	11.0	11.7	12.2	12.3
Ratio at 75th percentile earnings	8.6	8.1	8.5	9.1	9.5	9.5

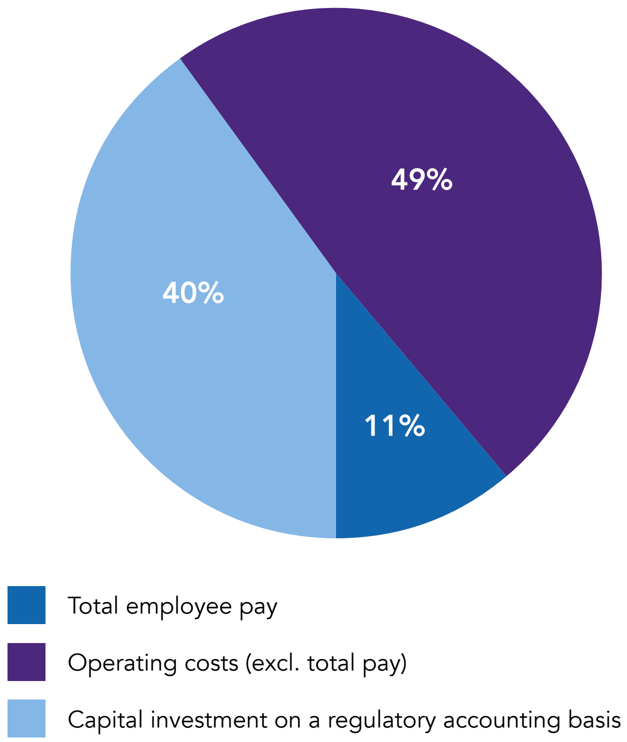
Notes:
[55] The total excludes the calculation of change in pension as the value relies heavily on length of pensionable service and so has little meaning when comparing one person (the Chief Executive) against a group of employees with varying lengths of service, i.e., an individual with greater pensionable service could see a faster increase in calculated pension value than someone with shorter pensionable service, even if they are paid the same during a financial year.
[56] For fair comparison, the Chief Executive earnings figure for 2023/24 is a pro-rata combination of the Full Time Equivalent earnings of the two individuals who each held that post during the period. The Chief Executive earnings figure does not include the one-off relocation, accommodation and LBTT assistance described in the notes to the table in 2(b) above.
[57] The Chief Executive Figure for 2022/23 is not actual earnings but uses the full time equivalent salary on 31st March 2023 of £272,499 as if salary had not reduced for flexible retirement in October 2022.
[58] To allow like-for-like comparison, the Chief Executive figure for 2021/22 uses the total for that year before inclusion of the LTIP payment, which was earned for the out-performance achieved over the six year period covering 2015 to 2021 and is not an annual amount. The LTIP payment and the pay ratios including that amount were disclosed in the 2021/22 report.
[59] The figure for the Chief Executive in 2019/20 uses the single total figure in the table at 2(a) that year, excluding pension, as per note (i), but including the value of waived AOIP in that year of £96k.
[60] Employee percentile earnings shown are for full time equivalent salary, benefits and AOIP earned in the reporting year for those with a full year of service, other than Executive Members. 2021/22 is the first year in which employee percentile salaries are required, but figures for 2020/21 are shown for comparison.

The pro-rata earned remuneration of the individuals who each held the post of Chief Executive in the financial year 2023/24 was £410k (2022/23: £362k). This was 11.1 times (2023/24: 10.6) the median remuneration of other employees, which was £37.1k (2023/24: £34.3k).

The change in ratio is affected by three factors: the increase in employee earnings as a result of the 2023/24 pay award; the higher salary paid to the incoming Chief Executive compared to his predecessor; and the increase in the earned annual incentive payment for all employees, aligned with out-performance against corporate targets. The full range of annual earnings was from £23.3k to £410k (2022/23: £21.3k to £362k). The remuneration range increased due to the same factors described above.

e. Relative importance of spend on pay

The importance of total annual spend on pay is shown in relation to other Operating costs and Capital investment during the year. As Scottish Water is a public sector organisation owned by the Scottish Government, there were no disbursements to shareholders.



f. Implementation of Remuneration Policy in 2024/25

As described in the Executive Remuneration Policy, Scottish Water operates an Annual Out-performance Incentive Plan (AOIP) designed to incentivise and reward the out-performance of targets in plans agreed with regulators. To ensure that the AOIP targets remain suitably challenging, the degree of required out-performance has been increased consistently each year. For the 2021/27 regulatory period and beyond, the Remuneration Committee has agreed an overall performance framework with Scottish Ministers, within which the incentive targets will be set each year. For 2024/25 the AOIP out-performance targets are as follows.

Strategic Outcome	Measure	Targets – all sliding scales	Weight	Note
Great Value & Financial Sustainability[61]	Tier 1 costs[62]	• 50% on achieving the Final Determination cost base and 100% for £30 million below Final Determination	20%	Reference Final Determination cost base of £834 million (as adjusted by out-turn inflation)
	Indicator of Progress of Overall Delivery	• Zero > 3 months either side of plan • 50% +/- 3 months of plan • 75% +/- 2 months of plan • 100% +/- 1 month of plan	8%	No change to target zone from 2023/24 but based on 2024/25 plan
	IFAC (Indicator of Forecast Accuracy at Commitment)	• Zero > 5% either side of forecast cost at commitment • 50% +/- 5% of forecast cost at commitment • 100% +/- 0% of forecast cost at commitment	6%	New measure related to the delivery cost of the investment programme relative to the forecast cost at point of commitment
Service Excellence	Outcome Performance Assessment (OPA)	• Zero below 395 points • 50% at 395 points • 100% at 410 points	20%	No change from 2023/24, still a stretch from forecast out turn
	Household Customer Experience Measure (hCEM)	• Zero below 85.0 points • 50% at 85.0 points • 100% at 87.8 points	5%	No change from 2023/24, still a stretch from forecast out turn
	Non household Customer Experience Measure (nhCEM)	• Zero below 86.0 points • 50% at 86.0 points • 100% at 90.0 points	5%	Increased range from 2023/24, and maximum is above 23/24 out turn
	Developer Customer Experience (dCEM)	• Zero below 76.5 points • 50% at 76.5 points • 100% at 78.7 points	3%	New measure for 2024/25
Net Zero	Operational emissions routemap delivered successfully and achieving emissions reductions	• Zero below 36,000 tCO_2e • 50% at 36,000 tCO_2e • 100% at 42,000 tCO_2e	33%	Narrower range than 2023/24, Weighting increased from 20% to 33%. Total SR21 stretch target is 60,000 tCO_2e reduction by end March 2027

Notes:
[61] Tier 1 costs is a gateway on the incentive plan and must be sufficient to fund AOIP payments; costs' target plan baseline will be updated for inflation and regulatory out-turn assumptions. The Progress to the Committed list is also a gateway on the incentive plan and must be equal to or greater than 97.5%.
[62] Operating costs, PFI and interest relative to WICS Final Determination expectations, excluding responsive repair and refurbishment, developer contributions and tax, as adjusted by out-turn inflation.

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The Executive Remuneration Policy includes operation of a Long Term Incentive Plan (LTIP), with performance periods for 2021-24 and for 2024-27. LTIP earned for 2021-24 is described in section 1(f) above.

Targets for the performance period 2024-27 are set out below and if earned, would be vested to become payable in 2030.

Gateways
• Tier 1 costs (1) to be sufficiently lower than the Final Determination to fund LTIP payments; and • Progress to the Committed List (PCL) to be equal to or greater than 97.5%. • Transformation plan has delivered on planned activities for the performance period. Assessment informed by stakeholder views on the extent of progress being made to transform Scottish Water. Yes/Partial/No decision by Remuneration Committee on the extent of LTIP payable.

Ambition	Weight	Measure	Basis
Great Value & Financial Sustainability	34%	Tier 1 costs (before LTNC items)[63]	Sliding scale of £0 million to £100 million outperformance over 2024-27 period
Service Excellence	33%	Outcome Performance Assessment (OPA)	Sliding scale of performance in target zones over 2024-27 period (50% for achieving bottom of the target zones, 100% for top)[64]
Net Zero	33%	Operational emissions routemap reductions	Sliding scale from 45,000 tCO_2e reduction to 60,000 tCO_2e reduction[65]

Notes:
[63] Operating costs, PFI and interest relative to WICS Final Determination expectations, (as adjusted by out-turn inflation), excluding responsive repair and refurbishment, developer contributions and tax.
[64] Current OPA target zone is 395 to 410 points, although this can be adjusted annually. Therefore, performance across 2024-27 is an aggregate against the target zones defined for each year.
[65] tCO_2e reduction is cumulative for the SR21 period. 60,000 tCO_2e reduction is more than double the achievement in 2021-24 and is a stretch target on top of Scottish Water's Net Zero routemap.

g. Executive Members' Directorships of other companies

The Remuneration Committee supports active development of Executive Members including their involvement with other companies and public bodies where this is compatible with fulfilling their responsibilities to Scottish Water. In line with this policy, Mr Farrer holds the position of Chair of the Scottish Apprenticeship Advisory Board (SAAB) from which no remuneration was paid. Mr Plant does not have any other Director appointments.

This report was approved by the Board and signed on its behalf by:

Kenneth Marnoch
Chair of the Remuneration Committee
23rd May 2024

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MEMBERS' REPORT

The Members present the Members' report together with the audited consolidated financial statements for the year ended 31 March 2024.

The Government Financial Reporting Manual 2023/24 (FReM), published by HM Treasury, sets out the form and content for the Annual Report & Accounts 2023/24: Performance and Prospects. This includes the requirements to show a Performance Report and Accountability Report. The Members have reviewed the requirements of the FReM and are satisfied that they are covered within the Overview, Strategic and Governance sections of this report.

The Members' report comprises pages 104 to 105 and the sections of this report incorporated by reference are as follows:

Corporate governance report	See pages 82 to 85
Strategic report, including information in respect of: Scottish Water's results, key financial information and service performance, future developments and the principal risks and uncertainties faced by Scottish Water's group of companies	See pages 17 to 78
Going concern and viability statements	See pages 78
Greenhouse gas emissions	See pages 35 to 38
People	See pages 42 to 43
Accounting requirements and basis of account preparation	See Note 1.2, page 118
Financial risk management	See pages 106 to 147

Members and Their Interests

All Members have declared that they had no material interests in any contracts awarded during the year by Scottish Water. A register of Members' interests is maintained at Scottish Water's head office and is open for inspection during normal office hours.

Appointment and Replacement of Members

Schedule 3 of the Water Industry (Scotland) Act 2002 specifies Scottish Water's Board must comprise between 5 and 8 Non-Executive Members and between 3 and 5 Executive Members. One Member must have special knowledge of the interests of the employees of Scottish Water. Non-Executive appointments are made by the Scottish Ministers for 3 to 5 years following an open and transparent public appointment process. Executive Members are appointed by Scottish Water with the consent of the Scottish Ministers for an unidentified period. The Members appointments can be terminated under procedures set out in Paragraph 1 of Schedule 3 of the Water Industry (Scotland) Act 2002. Details of the Members' service contracts are on page 97 of the Members' Remuneration Report.

As at 31 March 2024 there were 2 Executive Members following the retirement of Alan Scott on the 31 December 2023. Recruitment of a new Executive Member was completed in May 2024 with an employment start date of 1 June 2024.

Employee Relations and Involvement

The Scottish Water group of businesses employed an average of 4,750 (2023: 4,543) people during the year. Details of the costs incurred in relation to these employees can be found in note 5 to the financial statements on page 122. Scottish Water is committed to ensuring equality is mainstreamed into all aspects of organisational culture and practice, and all employees have equal opportunities irrespective of race, religion, sex, sexual orientation, disability or age. A number of forums are used to encourage employee involvement. Employees are kept involved through a process of regular team meetings, employee newsletters and representation on consultative forums.

Scottish Water is committed to continually improving its performance in relation to safety, health and wellbeing. Through an extensive safety awareness campaign, safety briefings and ongoing training; awareness of safety, health and wellbeing issues is being encouraged and increased among employees.

Further information can be found in the **People section**.

Research and Development

To ensure that Scottish Water derives benefit from the most up-to-date research being undertaken within the industry, research expenditure is targeted towards collaborative research with other water operators and regulators within the UK. This ensures that access is gained to high value, widely based research programmes in the Environmental, Quality, Engineering, Operational and Regulatory fields. Research into issues common to the UK water industry is procured through membership of the UK Water Industry Research Centre and the Foundation of Water Research. In addition, Scottish Water Horizons has developed and operates specialist innovation development centres at Gorthleck and Bo'ness to test new products and processes associated with the treatment of drinking water and waste water.

Further information can be found in the **Enabling Sustainable and Inclusive Growth** section.

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Political Contributions

No political contributions were made during the year (2023: nil).

Public Services Reform (Scotland) Act 2010

Sections 31 and 32 of the Public Services Reform (Scotland) Act 2010 impose new duties on the Scottish Government and listed public bodies to publish information on expenditure and certain other matters as soon as is reasonably practicable after the end of each financial year.

In accordance with the Public Services Reform (Scotland) Act 2010, Scottish Water will publish the full information as required by the act on the Scottish Water website following the approval of the Scottish Water Annual Report & Accounts 2023/24: Performance and Prospects. The report for this financial year will be available later in 2024.

Members' Responsibilities

The following statement, which should be read in conjunction with the statement of the auditor's responsibilities included in the Independent Auditor's Report on pages 106 to 109, is made with a view to distinguishing the respective responsibilities of the Members and of the auditor in relation to the financial statements.

The Members are required by the Water Industry (Scotland) Act 2002 and directions made thereunder to prepare financial statements for each financial year which give a true and fair view of the state of affairs of Scottish Water and of its income and expenditure for that period. In preparing those financial statements, the Members are required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. ensure appropriate internal controls are in place to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
4. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
5. prepare the financial statements on a going concern basis unless it is inappropriate to do so.

The Members are responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of Scottish Water and to enable them to ensure that the financial statements comply with statute and any financial reporting requirements.

They are also responsible for taking reasonable steps to safeguard the assets of the business and to prevent and detect fraud and other irregularities.

The Members are responsible for the maintenance and integrity of Scottish Water's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Members, as at the date of this report, consider that the Annual Report & Accounts 2023/24: Performance and Prospects taken as a whole is fair, balanced and understandable and provides the information necessary to assess Scottish Water's performance, business model and strategy.

Each of the Members, whose names and functions are listed in the Board Members section on pages 79 to 81, confirms that to the best of their knowledge and belief:

1. the Group and Company financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK using the cost model for property, plant and equipment, and where otherwise appropriate, as interpreted and adapted by the Government Financial Reporting Manual (FReM), give a true and fair view of the assets, liabilities, financial position and surplus of Scottish Water;
2. the Strategic Report includes a fair review of the development and performance of the business and the position of Scottish Water, together with a description of the principal risks and uncertainties that it faces.

Each of the persons who is a Member at the date of approval of this report confirms that:

1. so far as the Member is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. each Member has taken all the steps that they ought to have taken as a Member in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board,

Alex Plant,
Chief Executive
26 June 2024

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INDEPENDENT AUDITOR'S REPORT

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

Reporting on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Scottish Water ("the Company") for the year ended 31 March 2024 under the Water Industry (Scotland) Act 2002. The financial statements comprise the Group and Company Statements of Financial Position, the Group and Company Income Statements, the Group and Company Statements of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Group and Company Statements of Cash Flow and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, and, where otherwise appropriate, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual ("the 2023/24 FReM").

In our opinion the accompanying financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 March 2024 and of the Group's and Company's surplus for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, and, where otherwise appropriate, as interpreted and adapted by the 2023/24 FReM; and
- have been prepared in accordance with the requirements of the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the **Code of Audit Practice** approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. Including a previous appointment, the period of total uninterrupted appointment will be 11 years. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Group and Company. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the Group and Company's current or future financial sustainability. However, we report on the Company's arrangements for financial sustainability in a separate Annual Audit Report available from the **Audit Scotland website**.

Risks of material misstatement

We report in our separate Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Responsibilities of the Accountable Officer and Board Members for the financial statements

As explained more fully in the Members' Responsibilities Statement, the Accountable Officer and Board Members are 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 and Board Members determine 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 and Board Members are responsible for assessing the Group and Company's ability to continue as going concerns, 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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the central government sector to identify that the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers are significant in the context of the Group and Company;
- inquiring of the Accountable Officer and legal officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Group and Company;
- inquiring of the Accountable Officer and legal officer concerning the Company's and Group's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Company's and Group's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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 our auditor's report.

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INDEPENDENT AUDITOR'S REPORT CONTINUED

Reporting on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

The Accountable Officer and Board Members are responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the reporting on the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited parts of the Members' Remuneration Report

We have audited the parts of the Members' Remuneration Report described as audited. In our opinion, the audited parts of the Members' Remuneration Report have been properly prepared in accordance with the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers.

Other information

The Accountable Officer and Board Members are responsible for the other information in the annual report and accounts. The other information comprises the Overview, Strategic Report, Governance Report and the unaudited parts of the Members' Remuneration Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance and Prospects sections on pages 19 to 78 within the Strategic Report and the Corporate Governance Report to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Performance and Prospects and Corporate Governance Report

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

- the information given in the Performance and Prospects sections on pages 19 to 78 within the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those sections have been prepared in accordance with the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers; and
- the information given in the Corporate Governance 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 and directions made thereunder by the Scottish Ministers.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Members' Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Conclusions on wider scope responsibilities

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

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Timothy Cutler (for and on behalf of KPMG LLP)
Chartered Accountants
St Peter's Square
Manchester
M2 3AE

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INCOME STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2024

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Revenue	3	**1,934.9**	**1,836.5**	**1,449.2**	**1,367.7**
Cost of sales		(1,575.4)	(1,444.7)	(1,154.0)	(1,033.7)
Gross surplus		**359.5**	**391.8**	**295.2**	**334.0**
Administrative expenses		(166.8)	(181.1)	(116.2)	(124.1)
Operating surplus	3, 4	**192.7**	**210.7**	**179.0**	**209.9**
Finance income	7	15.8	5.4	13.3	4.3
Finance costs	7	(153.9)	(155.2)	(156.2)	(154.5)
Surplus before taxation		**54.6**	**60.9**	**36.1**	**59.7**
Taxation	8	(15.3)	(20.4)	(9.7)	(18.6)
Surplus for the year	21	**39.3**	**40.5**	**26.4**	**41.1**

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2024

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Surplus for the year	21	39.3	40.5	26.4	41.1
Other comprehensive income:					
Items which will not subsequently be reclassified to the income statement					
Actuarial (loss)/gain on post employment benefit obligations, net of deferred taxation	22	(36.2)	85.0	(34.5)	75.2
Effective portion of changes in fair value of cash flow hedge, net of deferred taxation		–	2.5	–	–
Total comprehensive income/(loss) for the year		3.1	128.0	(8.1)	116.3

The surplus for the period and total comprehensive income for the period are attributable to the owners of Scottish Water.

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STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 2024

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Assets					
Non-current assets					
Property, plant and equipment	9	7,476.3	7,134.6	7,442.2	7,105.3
Intangible assets	10	20.4	21.5	12.0	9.2
Investments	11	–	–	37.6	37.6
Retirement benefit asset	22	55.6	27.1	55.6	24.6
Deferred tax asset	16	3.0	1.8	–	–
		7,555.3	7,185.0	7,547.4	7,176.7
Current assets					
Inventories	12	4.9	4.5	4.4	4.1
Assets held for sale	9	7.9	7.9	–	–
Trade and other receivables	13	344.1	307.2	133.0	113.8
Current tax asset		17.0	16.7	16.5	16.4
Cash and cash equivalents	14	362.1	486.9	280.2	390.3
		736.0	823.2	434.1	524.6
Total assets	3	**8,291.3**	**8,008.2**	**7,981.5**	**7,701.3**
Liabilities					
Current liabilities					
Trade and other payables	15	(541.3)	(520.3)	(436.9)	(406.5)
Other loans and borrowings	18	(23.6)	(22.3)	(23.6)	(22.3)
Current tax liabilities		(2.1)	(1.7)	–	–
Provisions for liabilities	17	(11.7)	(12.1)	(16.0)	(13.9)
		(578.7)	(556.4)	(476.5)	(442.7)
Non-current liabilities					
Trade and other payables	15	(104.7)	(92.5)	(81.8)	(74.4)
Other loans and borrowings	18	(130.0)	(153.7)	(130.0)	(153.7)
Deferred tax liabilities	16	(688.9)	(690.6)	(686.6)	(688.5)
Retirement benefit obligations	22	(76.4)	–	(76.4)	–
Provisions for liabilities	17	(8.0)	(9.2)	(10.6)	(10.0)
		(1,008.0)	(946.0)	(985.4)	(926.6)
Total liabilities		**(1,586.7)**	**(1,502.4)**	**(1,461.9)**	**(1,369.3)**
Net assets		**6,704.6**	**6,505.8**	**6,519.6**	**6,332.0**
Equity					
Government loans	19	4,704.4	4,508.7	4,704.4	4,508.7
Retained earnings	21	1,866.8	1,863.7	1,681.8	1,689.9
Other reserves		133.4	133.4	133.4	133.4
		6,704.6	**6,505.8**	**6,519.6**	**6,332.0**

The financial statements on pages 110 to 147 were approved by the Board of Members on 26 June 2024 and signed on its behalf by:

Alex Plant
Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Cash flow hedging reserves £m	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2022		(2.5)	1,738.2	133.4	1,869.1
Surplus for the year	21	–	40.5	–	40.5
Other comprehensive gain:					
Actuarial gain on post employment benefit obligations, net of tax	22	–	85.0	–	85.0
Effective portion of changes in fair value of cash flow hedge, net of tax		2.5	–	–	2.5
Total comprehensive income for the year	21	2.5	125.5	–	128.0
Balance at 31 March 2023		**–**	**1,863.7**	**133.4**	**1,997.1**
Surplus for the year	21	–	39.3	–	39.3
Other comprehensive loss:					
Actuarial loss on post employment benefit obligations, net of tax	22	–	(36.2)	–	(36.2)
Total comprehensive income for the year		–	3.1	–	3.1
Balance at 31 March 2024	21	**–**	**1,866.8**	**133.4**	**2,000.2**

COMPANY STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2022		1,573.6	133.4	1,707.0
Surplus for the year	21	41.1	–	41.1
Other comprehensive gain:				
Actuarial gain on post employment benefit obligations, net of tax	22	75.2	–	75.2
Total comprehensive income for the year	21	116.3	–	116.3
Balance at 31 March 2023		**1,689.9**	**133.4**	**1,823.3**
Surplus for the year	21	26.4	–	26.4
Other comprehensive gain:				
Actuarial loss on post employment benefit obligations, net of tax	22	(34.5)	–	(34.5)
Total comprehensive loss for the year		(8.1)	–	(8.1)
Balance at 31 March 2024	21	**1,681.8**	**133.4**	**1,815.2**

The 'Statement of changes in equity' above excludes Government loans which, in accordance with the Scottish Water Governance Directions 2009, are recorded on the statement of financial position under Equity. Full details of Government loans are provided in note 19.

STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED 31 MARCH 2024

	Note	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Surplus before taxation		54.6	60.9	36.1	59.7
Depreciation charges	9	344.3	309.9	342.2	305.5
Amortisation of intangible asset	10	14.7	12.8	10.8	9.3
Amortisation of grants		(2.2)	(1.8)	(2.0)	(1.5)
Loss/(surplus) on disposal of property, plant and equipment		0.7	8.3	0.7	(0.6)
Non cash impact on acquisitions of assets and liabilities of subsidiary		–	–	–	3.1
Non cash adjustment for retirement benefit obligations		(10.5)	38.4	(10.9)	37.1
Finance costs – net		138.1	149.8	142.9	150.2
Operating cash flow before changes in working capital and provisions		**539.7**	**578.3**	**519.8**	**562.8**
Changes in working capital and provisions: increase in receivables		(29.9)	(46.2)	(12.2)	(18.0)
Increase in inventories		(0.4)	(0.3)	(0.3)	(0.3)
Increase in payables		28.4	6.1	31.2	29.2
Increase/(decrease) in provisions		2.2	(1.9)	6.5	(3.2)
Cash flows from operating activities		**540.0**	**536.0**	**545.0**	**570.5**
Taxation paid		(5.9)	(7.8)	–	(0.2)
Net cash generated from operating activities		534.1	528.2	545.0	570.3
Cash flows from investing activities					
Purchase of property, plant and equipment		(702.5)	(636.5)	(694.1)	(630.5)
Sale of property, plant and equipment		2.4	0.3	2.5	0.6
Purchase of intangible asset	10	(13.6)	(8.4)	(13.6)	(6.0)
Government grant income received		6.6	1.6	6.5	2.3
Acquisition of assets and liabilities of subsidiary companies		–	–	–	(35.3)
Infrastructure income receipts		13.3	19.6	13.3	19.6
Net cash used in investing activities		(693.8)	(623.4)	(685.4)	(649.3)
Cash flows from financing activities					
Repayments of loans		(137.1)	(153.4)	(137.1)	(122.6)
Proceeds from borrowings		332.8	247.7	332.8	247.7
Interest received		15.1	5.4	12.7	4.3
Interest paid		(153.5)	(153.7)	(155.7)	(153.2)
Payment of finance lease liabilities		(22.4)	(21.0)	(22.4)	(22.8)
Net cash generated / (utilised) from financing activities		34.9	(75.0)	30.3	(46.6)
Net decrease in cash and cash equivalents		**(124.8)**	**(170.2)**	**(110.1)**	**(125.6)**
Cash and cash equivalents at beginning of year	14	486.9	657.1	390.3	515.9
Cash and cash equivalents at end of year	14	**362.1**	**486.9**	**280.2**	**390.3**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2024

1. Accounting policies

1.1 General information

Scottish Water is a public sector body, classified as a public corporation of a trading nature, and is answerable to the Scottish Parliament through Scottish Ministers.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

1.2 Basis of preparation

The financial statements of Scottish Water for the year ended 31 March 2024 have been prepared in accordance with UK adopted and endorsed International Financial Reporting Standards (IFRS) using the cost model for property, plant and equipment, as directed under the Scottish Water Governance Directions and International Financial Reporting Interpretations Committee (IFRIC) interpretations, and where otherwise appropriate, as interpreted and adapted by the Government Financial Reporting Manual (FReM). The FReM is published by HM Treasury and is available from their website.

The consolidated financial statements have been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through the income statement. The financial statements are prepared in a form directed by Scottish Ministers in accordance with section 45(2) of the Water Industry (Scotland) Act 2002. The Company's financial statements have been prepared on the same basis. All company disclosures throughout these financial statements refer to Scottish Water the parent entity and not "Company" per the Company's Act..

Scottish Water's accounting policies, as set out below, have been consistently applied to all the years presented, unless otherwise stated.

Scottish Water's financial statements have been prepared in accordance with IFRS using the cost model for property, plant and equipment and where appropriate as interpreted and adapted by the FReM since 1 April 2008. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Scottish Water's accounting policies (note 2).

The consolidated financial statements are presented in Pounds Sterling which is the functional and presentational currency of Scottish Water and its subsidiaries.

Going concern

The financial statements have been prepared on the going concern basis which the Members consider to be appropriate for the following reasons:

In considering the basis of accounting, cash flow forecasts have been prepared for a period of at least 12 months from the date of approval of these financial statements which consider various scenarios, taking into consideration severe but plausible impact downsides. These forecasts include the assessment of the group's strategic and financial frameworks, including the borrowing limit, operational positions and the level of the capital investment programme. Under all of the scenarios, Scottish Water will be able to operate within its available facilities.

Consequently, the Members are confident that Scottish Water will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Changes in accounting policy

IFRS 16 Leases came into effect for financial periods beginning on or after 1 January 2019 for the subsidiary companies. However, the implementation for public sector was deferred by the Financial Reporting Advisory Board (FRAB) in April 2022 to 1 April 2024. IFRS 16 Leases will be disclosed in full for the first time in the year ending 31 March 2025 and will result in a modification to the accounting policy for Leases assets (note 1.11).

An assessment of the impacts to our Income Statement and Statement of Financial Position has been undertaken which indicates these will be largely immaterial. Our initial assessment of the impact is set out below:

Group
Income Statement
Increase to Cost of sales of c. £0.5 million and additional finance costs of c. £0.7 million.

Statement of Financial Position
An additional right of use asset of c. £17.6 million will be included within Property, Plant and Equipment with a corresponding lease liability within other loans and borrowings of c. £18.8 million.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2024

1. Accounting policies (continued)

1.3 Changes in accounting policy (continued)

Company
Income Statement
Decrease to Cost of sales of c. £0.2 million and additional finance costs of c. £0.5 million.

Statement of Financial Position
An additional right of use asset of c. £12.3 million will be included within Property, Plant and Equipment with a corresponding lease liability within other loans and borrowings of c. £12.6 million.

1.4 Basis of consolidation

Subsidiaries

The consolidated financial information incorporates the results of Scottish Water (the company) and its trading subsidiaries. The consolidated financial information does not include the non trading subsidiaries as permitted under section 405 of the Companies Act 2006. Subsidiaries are all entities over which Scottish Water has the power to direct the relevant activities of the entities, the rights to variable returns and the ability to use its power to influence the returns. Scottish Water Business Stream Limited (Business Stream) is treated as a subsidiary although there are special governance arrangements which were established in conjunction with the Water Industry Commission for Scotland and associated with the conditions attached to Business Stream's licence for the supply of water and waste water services. Scottish Water is, however, satisfied that the controls and governance in place are such that consolidation is appropriate. Subsidiaries are fully consolidated from the date on which control is transferred to Scottish Water; they are de-consolidated from the date when control ceases.

Intercompany transactions, balances and any unrealised gains on transactions between Scottish Water related companies have been eliminated within the consolidated financial statements. Uniform accounting policies have been adopted across the Scottish Water group of companies.

1.5 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Scottish Water.

1.6 Revenue recognition

Revenue is recognised to the extent it is probable that economic benefits will flow to Scottish Water and that the revenue can be reliably measured. Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Revenue is shown net of associated sales taxes and value added tax and after eliminating sales between the Scottish Water related companies. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue.

Revenue comprises charges to customers for water and waste water services, and related services provided during the year in the normal course of business. For measured customers, revenue includes an estimate of the value of water and waste water services supplied to customers between the date of the last meter reading and the year end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

1.7 Research and development expenditure

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects which either do not meet the criteria defined in IAS 38 'Intangible assets' or are deemed to be not material, are recognised as an expense as incurred. Development costs which meet the relevant criteria are capitalised and written off over their expected useful lives. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

1.8 Finance income and costs

Finance income comprises interest receivable on funds invested and recognised in the income statement. Finance costs comprise interest payable on borrowings; interest related to lease liabilities under IFRIC 12 (see note 1.11); and interest on pension scheme net liabilities. Interest income and costs are recognised in the income statement as they accrue, on an effective interest rate method.

Borrowing costs incurred by Scottish Water that are not directly attributable to the acquisition, construction or production of qualifying assets are expensed in the period in which they are accrued.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2024

1. Accounting policies (continued)

1.9 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, unless it relates to items recognised directly in reserves in which case it is recognised in reserves.

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by Scottish Water and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.10 Property, plant and equipment

Property, plant and equipment comprises water and waste water infrastructure assets and other assets, being overground assets including operational properties, plant, machinery and vehicles.

Property, plant and equipment are included at historical cost less accumulated depreciation and impairment. Cost includes the acquisition or construction cost together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs and, where material, borrowing costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to Scottish Water and the cost of the item can be measured reliably. The carrying amount of the replaced parts, with the exception of infrastructure assets, are derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. All items of property, plant and equipment, with the exception of land and assets under construction, are subject to depreciation.

Infrastructure assets

The infrastructure assets comprise a network of water and waste water systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and outfalls. Expenditure on infrastructure assets, which relates to increases in capacity or enhancements of the network, is treated as additions. Expenditure incurred in maintaining and repairing the operating capability of the network is expensed in the year in which it is incurred. Depreciation is calculated for each component of the network with similar characteristics and asset lives.

Other assets

All other property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives.

Depreciation

Depreciation is charged to the income statement to write-off cost, less residual values, on a straight-line basis over the estimated operational lives of the assets, from the month in which the asset comes into beneficial use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Freehold land and assets under construction are not depreciated. The estimated useful lives for assets depreciated are as follows:

Infrastructure assets	80 to 150 years
Non-specialised operational buildings and structures	60 years
Fixtures, fittings and furniture within non-specialised operational buildings	5 years
Specialised operational buildings and structures	15 to 80 years
Plant, machinery and vehicles*	1 to 60 years

* Included within depreciation of plant, machinery and vehicles is depreciation relating to investigations on our assets. Investigations are capitalised and given a one year useful life.

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1. Accounting policies (continued)

1.11 Leased assets

Leases where Scottish Water control through ownership, beneficial entitlement or otherwise, any significant residual interest in the assets at the end of the service concession agreements are treated as finance leases. Private Finance Initiative (PFI) contracts are treated as finance leases, in accordance with IFRIC 12.

Assets held under finance leases are recognised as part of property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, as determined at the inception of the PFI contract. The corresponding liability is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation. Finance charges are charged directly to the income statement. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are categorised as operating leases. Payments made under operating leases are charged to the income statement over the term of the lease on a straight-line basis.

1.12 Impairment of assets

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be justified. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.13 Capital grants and customer contributions

Capital grants and customer contributions in respect of infrastructure assets are deducted from the cost of the non-current asset. Grants and contributions received in respect of non-infrastructure assets are credited to deferred income and are released to the income statement over the expected useful lives of the relevant non-current assets.

1.14 Intangible assets

Intangible assets represent software that is controlled by Scottish Water and/or its subsidiaries and the acquisition of a non-household customer bases, by Business Stream. Intangible assets are recognised at cost and treated as having a finite life. They are stated at cost less accumulated amortisation. Amortisation is charged to the income statement to write off the cost, less any residual value, on a straight-line basis over the expected useful life from the month in which the asset comes into beneficial use.

The expected useful lives and residual values are reviewed annually, and adjusted if appropriate, at the statement of financial position date.

1.15 Investments

Investments in subsidiaries, held as non-current assets, are stated at cost less any provision for impairment. Any impairment is charged to the income statement as it arises.

1.16 Inventories

Inventories and work in progress are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost includes all costs incurred in bringing each asset to its present location and condition. The valuation of work in progress is based on the cost of labour and materials plus appropriate overheads.

1.17 Financial instruments

Financial assets and liabilities are recognised in the statement of financial position when an obligation is identified and released as that obligation is fulfilled. Scottish Water's financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings, as well as trade and other payables that arise directly from operations. Scottish Water's policy is not to trade or speculate in financial instruments but under special circumstances, Scottish Water may use financial instruments to mitigate certain financial risk exposures. As such circumstances are rare, approval is required from Scottish Ministers. All treasury activities are undertaken in accordance with the permitted activities as set out in the Scottish Water Governance Directions.

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1. Accounting policies (continued)

1.17 Financial instruments (continued)

a. Trade receivables
Trade receivables are recorded at net realisable value after deducting a provision where there is evidence that Scottish Water will not be able to collect all amounts due. The provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile of the outstanding debt. Trade receivable balances, with the exception of statutory debt, are written off when Scottish Water determines that it is unlikely that future remittances will be received. Trade receivables do not carry any interest.

b. Cash and cash equivalents
Cash and cash equivalents include cash in hand and deposits with banks, which have a maturity of 3 months or less from the date of acquisition and which are subject to an insignificant risk of change in value.

c. Trade and other payables
Trade and other payables are stated at cost.

d. Interest-bearing loans and borrowings
Borrowings are recognised initially at fair value and are subsequently stated at amortised cost. Overdrafts and non Government loans are classified as current liabilities unless Scottish Water has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

e. Derivative financial instruments
In special circumstances, Scottish Water may use financial instruments to mitigate certain financial risk exposures such as foreign exchange fluctuations. As such circumstances are rare, in addition to the approval of the Scottish Water Board, approval is required from Scottish Ministers under the terms of section 42(3)(b) Water Industry (Scotland) Act 2002.

Financial derivative instruments are recognised at fair value and are re-measured to fair value each reporting period with the exception of derivatives that qualify for cash flow hedge accounting.

f. Cash flow hedges
Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in the income statement.

When the hedging relationship ends or when a hedge no longer meets the criteria for hedge accounting, any hedging gain or loss recognised in OCI is reclassified to the income statement.

1.18 Employee benefit obligations

Employees of the Scottish Water group of companies participate in the Scottish Local Government Pension Scheme (SLGPS) administered by Aberdeen, Glasgow and Edinburgh City Councils, all of which are defined benefit schemes. Pension scheme assets are measured using the bid market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the defined benefit pension schemes expected to arise from employee service in the period is charged to operating surplus. The net interest cost for the period, calculated by applying the discount rate to the net pension scheme liabilities, is included in the finance costs. Actuarial gains and losses are recognised as an item of ‘other comprehensive income’ in the consolidated statement of comprehensive income. Pension scheme deficits and surpluses, to the extent that the surplus is considered recoverable, are recognised in full and presented on the face of the Statement of financial position.

Unfunded liabilities relate to discretionary benefits that exceed those offered by the individual pension funds. Liabilities are recognised at the point awards are made. However, no investment assets are accrued to offset these pension liabilities, requiring the generation of cash to cover actual pension payments as they fall due.

Within the subsidiary companies there are also two defined contribution pension schemes under which the companies pay fixed contributions and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement.

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1.19 Provisions

Provisions are recognised when there is a present obligation for a past event, for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation. Provisions currently relate to income uncertainty, onerous property rental costs and redundancy costs associated with employees who have left Scottish Water under previous voluntary redundancy and early retirement. Pension related liabilities associated with employees who have left Scottish Water under the voluntary severance scheme are recognised in the pension liability (see note 1.18).

1.20 Foreign currency transactions

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transactions. Foreign exchange gains and losses resulting from (i) the settlement of such transactions and (ii) the retranslation to exchange rates ruling at the statement of financial position date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.21 Indebtedness to the Scottish Ministers

Loans from the National Loans Fund, the Scottish Consolidated Fund and other Government borrowings are treated as part of equity, including loan repayments due within one year, in accordance with the Scottish Water Governance Directions.

1.22 Common control transactions

Any business combinations or transfer of assets and liabilities within the group are transferred at book value at the transaction date. These transactions are considered to be common control transactions and are excluded from the scope of IFRS 3 – Business Combinations’.

1.23 Assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered through sale rather than through continuing use. Assets classified as held for sale are presented separately on the statement of financial position and are measured at the lower of carrying value and fair value less cost of sale. Once classified as held-for-sale, property, plant and equipment are no longer depreciated. Impairments are considered at the point of, and following classification as held for sale. Any impairments are recognised through the income statement.

2 Accounting estimates and judgements

The preparation of financial statements to conform to IFRS requires the use of estimates, assumptions and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts for revenue and expenses during the reporting period. 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. Although based on management’s best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates, the effect of which is recognised in the period in which the facts giving rise to the revision arise.

The most critical of these accounting judgement and estimation areas are noted below.

a. Revenue recognition
Revenue relating to metered customers includes an estimate of the value of water or waste water services supplied between the date of the last meter reading and the year end. At the statement of financial position date, the estimated consumption by customers will either have been billed (estimated billed revenue) or accrued (unbilled revenue). Using historical consumption patterns, management apply judgement to the measurement of the quantum of the estimated consumption and to the valuation of that consumption. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have no material impact upon the amount of revenue recognised.

b. Impairment of trade and other receivables
Scottish Water and each of its subsidiaries evaluate the recoverability of their trade receivables as at the reporting date and assess the allowances for doubtful receivables. The group has adopted IFRS 9 ‘Financial instruments’ from 1 April 2018 which requires an expected loss method of impairment of financial assets to be used. This is based on, amongst other factors, actual collection history, forecast rates and customer category. The actual level of receivables collected may differ from those estimated, due to factors such as changes in customer behaviour, potential impact of government policy initiatives and the economic outlook, which could impact positively or negatively on operating results (see sensitivity analysis in note 26).

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2 Accounting estimates and judgements (continued)

c. Carrying value of property, plant and equipment
Property, plant and equipment (PPE) represents the majority of the asset base and a significant proportion of annual expenditure (see financial performance in the overview section). Therefore the estimates and assumptions made in determining the carrying values and related depreciation are critical to Scottish Water's financial performance and position.

The estimated useful economic lives and residual values of PPE are based on management's judgement and experience. Due to the significance of PPE investment, variations between actual and estimated useful lives could impact on operating results both positively and negatively. When management identifies that actual useful economic lives differ materially from the estimates used, the relevant depreciation charge is adjusted prospectively. However, historically, any changes to estimated useful lives and residual values have not resulted in material changes to Scottish Water's depreciation charges.

Management also applies judgement in relation to the expected economic lives of asset investigation related activity. Where investigations take place across a group of assets management apply prudence and consider a short useful life to be appropriate. Investigations related to specific assets are considered part of bringing the asset into beneficial use.

Each financial year, in accordance with IAS 23 'Borrowing costs', Scottish Water calculates the amount of borrowing which would be attributable to the PPE acquired or under construction. To date these amounts have been immaterial and therefore not capitalised.

d. Provisions
The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The evaluation of the likelihood of the contingent events has required the best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseen developments, this likelihood could alter.

e. Retirement benefits
Scottish Water and its subsidiaries are participating employers in 3 Scottish Local Government Pension Schemes (SLGPS) which are defined benefit schemes. Actuarial valuations of the schemes are carried out by the administering authorities triennially in line with SLGPS regulations. The assumptions in relation to the cost of providing post-retirement benefits during the period are set after consultation with qualified actuaries. These assumptions include discount rates, returns on the schemes' assets, pay growth and increases to pension payments (see note 22) and, while these assumptions are believed to be appropriate, a change to the assumptions would impact the surplus of Scottish Water and the carrying amount of pension obligations. These assumptions may differ from the actual results due to changes in market and economic conditions and longer or shorter lives of participants.

3 Segmental analysis

The principal activities of the Scottish Water group of companies are the supply of water and waste water services to household and business customers across Scotland. In view of the integrated nature of Scottish Water's operational activities, the financial statements include all of the costs of water and waste water collection, treatment and distribution within cost of sales.

Scottish Water's reportable segments are the provision of regulated water and waste water services, Business Stream (a Licensed Provider in the supply of water and waste water services to business customers in Scotland and England) and non-regulated businesses. These operating segments reflect the internal management reporting that are reviewed regularly by the Board in order to allocate resources to and assess the performance of the segments.

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	Note	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Revenue					
Scottish Water regulated water and waste water services		1,446.3	1,364.9	1,446.3	1,364.9
Business Stream		676.2	657.4	–	–
Scottish Water non-regulated activities		20.6	34.8	2.9	2.8
		2,143.1	2,057.1	1,449.2	1,367.7
Intercompany elimination		(208.2)	(220.6)	–	–
		1,934.9	**1,836.5**	**1,449.2**	**1,367.7**
Operating Costs					
Scottish Water regulated water and waste water services		(1,267.1)	(1,155.2)	(1,267.1)	(1,155.2)
Business Stream		(663.9)	(655.1)	–	–
Scottish Water non-regulated activities		(19.4)	(26.0)	(3.1)	(2.6)
		(1,950.4)	(1,836.3)	(1,270.2)	(1,157.8)
Less Intercompany elimination		208.2	210.5	–	–
		(1,742.2)	**(1,625.8)**	**(1,270.2)**	**(1,157.8)**
Operating surplus					
Scottish Water regulated water and waste water services		179.2	209.7	179.2	209.7
Business Stream		12.3	2.3	–	–
Scottish Water non-regulated activities		1.2	8.8	(0.2)	0.2
Reversal of IFRIC 12 adjustments on consolidation		–	(10.1)	–	–
		192.7	**210.7**	**179.0**	**209.9**
Total assets					
Scottish Water regulated water and waste water services		7,943.3	7,662.8	7,981.5	7,701.0
Business Stream		258.5	256.8	–	–
Scottish Water non-regulated activities		89.5	88.6	–	0.3
		8,291.3	**8,008.2**	**7,981.5**	**7,701.3**

Group	Capital additions to property, plant & equipment 2024 £m	Capital additions to property, plant & equipment 2023 £m	Depreciation on property, plant & equipment 2024 £m	Depreciation on property, plant & equipment 2023 £m
Scottish Water regulated water and waste water services	695.9	644.4	342.2	305.5
Business Stream	2.0	0.3	0.4	1.5
Scottish Water non-regulated activities	4.9	9.1	1.7	2.9
	702.8	**653.8**	**344.3**	**309.9**

Group revenue by geographical location of customers is as follows:

	Revenue 2024 £m	Revenue 2023 £m
United Kingdom	1,934.6	1,836.3
Rest of the World	0.3	0.2
	1,934.9	**1,836.5**

£0.3 million of revenue has been generated outside the UK (2023: £0.2 million) and this resulted in a current tax charge of £nil (2023: £nil). The revenue was entirely derived from Australia where we have a tax residency and registered branch. There are no offices in Australia and only one member of staff in the country.
All revenue for the company has been generated within the United Kingdom

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4 Group operating surplus

Operating surplus is arrived at after charging/(crediting):

	Note	2024 £m	2023 £m
Scottish Water PFI operating costs		127.5	138.9
Depreciation of property, plant, equipment	9	344.3	309.9
Amortisation of intangible asset	10	14.7	12.8
Loss on sale of property, plant and equipment		0.7	8.3
Release of deferred income in relation to capital grants		(2.2)	(1.8)
Operating lease rentals		4.0	3.1
Auditor's remuneration*			
– audit fee for audit of the company and consolidated financial statements including £221,000 (2023: £162,956) in respect of the audit of subsidiary companies)		0.7	0.6
– other services		–	–
Research and development expenditure		(0.3)	0.5

* The Auditor General for Scotland appoints the auditor for Scottish Water with remuneration agreed by Audit Scotland for the Scottish Water company audit.

5 Staff costs

	Note	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Wages and salaries		210.4	185.9	190.8	167.2
Social security costs		22.9	21.3	20.8	19.3
IAS 19 total service costs[1]	22	34.3	73.7	33.3	71.5
Other pension costs		0.6	0.6	–	–
Employee benefit expense		268.2	281.5	244.9	258.0
Less: charged as capital expenditure		(109.3)	(125.9)	(107.1)	(124.4)
		158.9	**155.6**	**137.8**	**133.6**

[1]The charge in the year prior to adjustments for IAS 19 in 2024 was £45.3 million (2023: £35.2 million)

The average monthly number of people (including Executive and Non-executive Members) employed by Scottish Water, split by activity, during the year was:

	2024	2023
Regulated water and waste water services	4,331	4,127
Business Stream	305	319
Scottish Water non-regulated activities	114	97
	4,750	**4,543**

Off-payroll engagements
The tables below show the total number of off-payroll engagements, by reportable segment, at a cost equal to or greater than £245 per day. The tables show the number that continue to be engaged at the balance sheet date and the number engaged during the year.

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5 Staff costs (continued)

Off-payroll worker engagements as at 31 March 2024, earning £245 per day or greater.

	Regulated water and waste water services[1]	Business Stream	Non-regulated services
No. of existing engagements as at 31 March 2024	125	2	–
of which, at time of reporting…			
Number that have existed for less than one year	25	1	–
Number that have existed for between one and two years	21	–	–
Number that have existed for between two and three years	30	–	–
Number that have existed for between three and four years	8	1	–
Number that have existed for four or more years	41	–	–

All off-payroll workers engaged at any point during the year ended 31 March 2024 earning £245 per day or greater.

No. of temporary off-payroll workers engaged during the year ended 31 March 2024	143	4	–
of which…			
Not subject to off-payroll legislation	143	–	–
Subject to off-payroll legislation and determined as in-scope of IR35	–	2	–
Subject to off-payroll legislation and determined out-of-scope of IR35	–	2	–
No. of engagements reassessed for compliance or assurance purposes during the year	–	–	–
Of which: no. of engagements that saw a change to IR35 status following review	–	–	–

For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2023 and 31 March 2024

	Regulated water and waste water services	Business Stream	Non-regulated services
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	–	–	–
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year.	21	16	17

[1] Scottish Water does not engage with off-payroll workers where Scottish Water is the end client. For regulated water and waste water services the values disclosed include workers engaged via umbrella organisations and agencies which fall outwith the off-payroll worker legislation.

The table below shows the total cost of consultancy and temporary staff by reporting segment in the year.

	2024 £m	2023 £m
Regulated water and waste water services	18.9	16.8
Business Stream	2.3	4.3
Scottish Water non-regulated activities	–	0.1
	21.2	**21.2**

6 Members' remuneration

Information concerning Members' remuneration, incentive schemes and pensions is detailed in the Remuneration Report on pages 91 to 103.

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7 Finance income and costs

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Interest income:					
Short-term deposits		15.1	5.4	12.7	4.3
Interest on pension scheme net assets	22	0.7	–	0.6	–
Finance income		**15.8**	**5.4**	**13.3**	**4.3**
Interest expense:					
Government loans		(141.6)	(137.5)	(141.6)	(137.5)
Other loans		(1.9)	(4.0)	(4.2)	(2.5)
Finance lease liabilities		(10.4)	(11.6)	(10.4)	(12.7)
Interest on pension scheme net liabilities	22	-	(2.1)	–	(1.8)
Finance costs		**(153.9)**	**(155.2)**	**(156.2)**	**(154.5)**
Net finance costs		**(138.1)**	**(149.8)**	**(142.9)**	**(150.2)**

8 Taxation

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Analysis of tax charge recognised in the income statement					
Current tax: UK corporation tax		5.6	6.4	–	–
Adjustment in respect of prior years		0.5	(4.5)	–	(4.5)
		6.1	1.9	–	(4.5)
Deferred tax: Origination and reversal of timing differences – current year		14.5	13.4	13.5	17.9
Origination and reversal of timing differences – prior years		(5.3)	5.1	(3.8)	5.2
	16	9.2	18.5	9.7	23.1
Total tax charge		**15.3**	**20.4**	**9.7**	**18.6**
The charge for the year can be reconciled to the surplus per the income statement as follows:					
Group surplus before tax		54.6	60.9	36.1	59.7
Tax on surplus on ordinary activities at standard UK corporation tax rate of 25% (2023: 19%)		13.7	11.6	9.0	11.4
Adjustment in respect of prior years		(4.8)	0.6	(3.8)	0.7
Impact of change in UK corporation tax rate		–	4.6	–	3.4
Accounting gain with no capital gain		0.2	0.7	0.1	0.6
Depreciation on non qualifying additions		4.0	3.6	4.0	3.0
Other permanent differences		1.4	(0.5)	0.4	(0.5)
Differences relating to closure of company		–	1.7	–	–
Other timing differences		0.8	(2.0)	–	–
Foreign Tax		–	0.1	–	–
Total tax charge for the year		**15.3**	**20.4**	**9.7**	**18.6**

Scottish Water continues to be accredited with the Fair Tax Mark. As a consequence, these financial statements include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the tax the Group pays and the reported total taxation charge along with additional commentary on the main reconciling items.

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8 Taxation (continued)

Group	2024 £m	2023 £m
Additional Disclosure		
The table below reconciles the notional tax charge at the UK corporation tax rate to the total current tax charge for the year:		
Group surplus before tax	54.6	60.9
Tax on surplus on ordinary activities at standard UK corporation tax rate of 25% (2023: 19%)	13.7	11.6
Relief for capital allowances in excess of depreciation	(56.9)	(29.6)
Financial transactions timing differences	2.0	16.5
Increase in tax losses	41.4	3.3
Expenses not deductible for tax purposes	1.4	1.0
Depreciation on non qualifying additions	4.0	3.6
Adjustment in respect of prior years	0.5	(4.5)
Current tax charge for the year	**6.1**	**1.9**

The Group's current tax charge is lower than the UK headline rate of 25% (2023: 19%) primarily due to the availability of capital allowances.

Tax Relief is available in the form of capital allowances in relation to qualifying items of capital expenditure instead of accounting depreciation. This leads to significant differences between the accounting profit and the taxable profit and is designed to encourage investment.

The Finance Act 2021 introduced a super deduction for asset purchases made in the period 1 April 2021 to 31 March 2023, allowing companies to benefit from a 130% first year allowance for capital expenditure on qualifying new plant and machinery assets. In the Spring Budget 2023, the government announced full expensing would be introduced from 1 April 2023 to 31 March 2026 however in the Autumn Statement 2023, the government announced full expensing would be permanent.

The Group's current tax charge for the year includes the benefit of full expensing which is available on expenditure incurred on qualifying plant and machinery assets acquired in the period. Full expensing provides 100% first-year relief to companies on qualifying new main rate plant and machinery investments and 50% first-year allowance for expenditure by companies on new special rate (including long life) assets. On a regulatory basis, Scottish Water invested £789m on our assets and the total investment in this regulatory period to the end of 2026/27 is planned to be £4.4bn in 2017/18 prices.

There are also various other financial transaction adjustments where there is a simple timing difference between recognition of the income or expenses in the accounts and in the related tax computations submitted to HMRC. The main adjustment is the movement in general provisions which are disallowed unless utilised.

The level of capital allowances received in the current year has led to tax losses which can be carried forward to be utilised at a future date against taxable profits.

Some expenses are disallowed for tax purposes. These include amortisation and an element of lease car rentals. Some capital expenditure relating to non qualifying additions that is depreciated in the accounts does not qualify for any corresponding tax deduction.

Adjustments to tax charges in respect of prior years are quite common and are mainly due to different deadlines for completion of the accounts and tax returns. The tax charge for the previous year was calculated for the accounts before the corporation tax returns had been finalised and submitted to HMRC. This creates a prior year adjustment in the following year to reflect any changes between tax in the accounts and the actual tax returns that were submitted.

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Tax charge recognised directly in reserves					
Deferred tax relating to:					
Pension scheme actuarial movements	22	(12.1)	28.3	(11.6)	25.1
Movements in cash flow hedge		–	0.9	–	–
Total	16	**(12.1)**	**29.2**	**(11.6)**	**25.1**

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9 Property, plant and equipment

	Specialised operational properties and structures £m	Assets held for sale (SOPS) £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery and vehicles £m	Assets under construction £m	Total £m
Group Cost							
At 1 April 2022	3,459.3	–	97.6	2,914.8	3,013.9	1,151.8	10,637.4
Additions	0.3	–	–	–	0.7	652.8	653.8
Disposals[1]	(77.9)	–	(1.1)	–	(95.7)	–	(174.7)
Reclassifications	112.0	8.5	9.9	131.2	222.1	(489.7)	(6.0)
Group Asset Transfer	24.7	–	0.2	–	(24.9)	–	–
Disposal of IFRIC 12 assets	(15.4)	–	–	–	(17.3)	–	(32.7)
At 31 March 2023	3,503.0	8.5	106.6	3,046.0	3,098.8	1,314.9	11,077.8
Additions	1.0	–	–	–	0.5	701.3	702.8
Disposals[1]	(59.0)	–	(2.8)	(2.0)	(123.1)		(186.9)
Reclassifications	153.6	–	7.6	189.7	374.1	(738.6)	(13.6)
At 31 March 2024	3,598.6	8.5	111.4	3,233.7	3,350.3	1,277.6	11,580.1
Accumulated depreciation							
At 1 April 2022	1,360.3	–	31.6	601.5	1,830.9	–	3,824.3
Charge for the year	66.8	0.2	2.5	21.8	218.6	–	309.9
Disposals[1]	(77.5)	–	(1.1)	–	(95.6)	–	(174.2)
Reclassifications	(0.4)	0.4	–	–	–	–	–
Group Asset Transfer	17.7	–	0.1	–	(17.8)	–	–
Disposal of IFRIC 12 assets	(7.4)	–	–	–	(17.3)	–	(24.7)
At 31 March 2023	1,359.5	0.6	33.1	623.3	1,918.8	–	3,935.3
Charge for the year	70.7	–	3.3	23.1	247.2	–	344.3
Disposals[1]	(56.7)	–	(1.9)	(2.0)	(123.1)	–	(183.7)
At 31 March 2024	1,373.5	0.6	34.5	644.4	2,042.9	–	4,095.9
Net book value							
At 31 March 2024	2,225.1	**7.9**	**76.9**	**2,589.3**	**1,307.4**	**1,277.6**	**7,484.2**
At 31 March 2023	2,143.5	7.9	73.5	2,422.7	1,180.0	1,314.9	7,142.5

All capital investment is recognised initially within assets under construction. When assets are capable of performing the function for which they were constructed and come into beneficial use, they are reclassified and transferred from assets under construction to the appropriate property, plant and equipment category.

Capital grants received during the year and credited to deferred income were £0.8 million (2023: nil). Capital grants of £5 million were received during the year in respect of infrastructure assets. Grants in respect of infrastructure assets are netted against the gross cost of bringing the asset into beneficial use, in line with IAS 20 'government grants and disclosure of government assistance'. In 2023/24 the amount utilised in relation to infrastructure charges and netted against property, plant and equipment was £18.4 million.

[1] Disposals include the write down of redundant assets no longer in beneficial use.

Assets held for sale
During the year, SWH has continued to progress the sale of specific waste to heat assets. However, negotiations with third-party buyers have extended the timeline for the sale of assets held for sale beyond the originally projected 12-month period. Management is actively pursuing these negotiations and remains confident in the prospects of completing the sale in early 2024/25. Consequently, the assets remain identified for sale within note 9 to the financial statements at a net book value of £7.9 million as at 31 March 2024. Under IFRS 5 – Non-current assets held for sale and disconsinued operations, assets are held for sale at the lower of net book value and fair value; therefore they have been presented within the financial statements at their book value.

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9 Property, plant and equipment (continued)

	Specialised operational properties and structures £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery and vehicles £m	Assets under construction £m	Total £m
Company Cost						
At 1 April 2022	3,440.9	97.6	2,914.8	2,941.9	1,147.4	10,542.6
Additions	–	–	–	–	644.4	644.4
Disposals[1]	(77.3)	(1.1)	–	(95.8)	–	(174.2)
Reclassifications	111.4	9.9	131.2	222.1	(480.6)	(6.0)
Group Asset Transfer	24.7	0.2	–	84.8	–	109.7
Disposal of IFRIC 12 assets	(34.4)	–	–	(74.4)	–	(108.8)
At 31 March 2023	3,465.3	106.6	3,046.0	3,078.6	1,311.2	11,007.7
Additions	–	–	–	–	695.9	695.9
Disposals[1]	(58.9)	(2.8)	(2.0)	(123.1)	–	(186.8)
Reclassifications	151.2	7.6	189.7	374.1	(736.2)	(13.6)
At 31 March 2024	3,557.6	111.4	3,233.7	3,329.6	1,270.9	11,503.2
Accumulated depreciation						
At 1 April 2022	1,356.1	31.6	601.5	1,780.3	–	3,769.5
Charge for the year	65.4	2.5	21.8	215.8	–	305.5
Disposals[1]	(77.3)	(1.1)	–	(95.6)	–	(174.0)
Group Asset Transfer	17.7	0.1	–	58.2	–	76.0
Disposal Cost of IFRIC 12 assets	(14.5)	–	–	(60.1)	–	(74.6)
At 31 March 2023	1,347.4	33.1	623.3	1,898.6	–	3,902.4
Charge for the year	69.0	3.3	23.1	246.8	–	342.2
Disposals[1]	(56.6)	(1.9)	(2.0)	(123.1)	–	(183.6)
At 31 March 2024	1,359.8	34.5	644.4	2,022.3	–	4,061.0
Net book value						
At 31 March 2024	**2,197.8**	**76.9**	**2,589.3**	**1,307.3**	**1,270.9**	**7,442.2**
At 31 March 2023	2,117.9	73.5	2,422.7	1,180.0	1,311.2	7,105.3

[1] Disposals include the write down of redundant assets no longer in beneficial use.

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9 Property, plant and equipment (continued)

Included within specialised operational properties and structures and plant, machinery and vehicles are the following PFI assets which are held under finance leases. These assets are included within the previous tables for both the Scottish Water group and company.

	Group Total £m	Company Total £m
Cost		
At 1 April 2022	492.7	568.8
Disposal of IFRIC 12 assets	(32.7)	(108.8)
At 31 March 2023 and 2024	460.0	460.0
Accumulated depreciation		
At 1 April 2022	297.4	346.2
Charge for the year	12.1	13.2
Disposal of IFRIC 12 assets	(24.7)	(74.6)
At 31 March 2023	284.8	284.8
Charge for the year	12.2	12.2
At 31 March 2024	297.0	297.0
Net book value		
At 31 March 2024	**163.0**	**163.0**
At 31 March 2023	175.2	175.2

10 Intangible asset

Investment intangible assets relate to the acquisition of the non-household customer base of Southern Water Services Limited in April 2017 and, in October 2019, of the non-household customer books of Yorkshire Water Business Services and Three-Sixty, both part of the Kelda Group. The investments are treated as having a finite life and are being amortised on a straight-line basis over the expected useful life, currently set at 8 years. The cost, additions, amortisation charge and carrying value are shown in the table below.

Software intangible assets relate to implementation costs associated with cloud computing software that meet the definition of an intangible asset under IAS38 and software that is controlled by Scottish Water and/or its subsidiaries. Software intangible assets are amortised on a straight-line basis over a period of 3-5 years. The cost, additions, amortisation and carrying value are shown in the table below.

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10 Intangible asset (continued)

	Software £m	Investments £m	Total £m
Group Cost			
As at 1 April 2022	77.3	23.2	100.5
Additions	8.4	–	8.4
Disposals	(6.9)	–	(6.9)
At 31 March 2023	78.8	23.2	102.0
Additions	13.6	–	13.6
Disposals*	(4.7)	–	(4.7)
At 31 March 2024	87.7	23.2	110.9
Accumulated amortisation			
As at 1 April 2022	60.8	13.7	74.5
Amortisation charge	10.3	2.5	12.8
Disposals	(6.8)	–	(6.8)
At 31 March 2023	64.3	16.2	80.5
Amortisation charge	12.2	2.5	14.7
Disposals*	(4.7)	–	(4.7)
At 31 March 2024	71.8	18.7	90.5
Net book value			
At 31 March 2024	**15.9**	**4.5**	**20.4**
At 31 March 2023	14.5	7.0	21.5

	Software £m	Investments £m	Total £m
Company Cost			
As at 1 April 2022	73.3	–	73.3
Additions	6.0	–	6.0
Disposals	(6.9)	–	(6.9)
At 31 March 2023	72.4	–	72.4
Additions	13.6	–	13.6
Disposals*	(4.7)	–	(4.7)
At 31 March 2024	81.3	–	81.3
Accumulated amortisation			
As at 1 April 2022	60.7	–	60.7
Amortisation charge	9.3	–	9.3
Disposals	(6.8)	–	(6.8)
At 31 March 2023	63.2	–	63.2
Amortisation charge	10.8	–	10.8
Disposals*	(4.7)	–	(4.7)
At 31 March 2024	69.3	–	69.3
Net book value			
At 31 March 2024	**12.0**	**–**	**12.0**
At 31 March 2023	9.2	–	9.2

* Disposals include the write down of redundant assets no longer in beneficial use.

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11 Investments

	Company	
	2024 £m	2023 £m
Cost and net book value		
At 31 March	**37.6**	**37.6**

Investment in subsidiaries

Principal subsidiary undertakings	Country of incorporation	% of Ordinary shares and votes held	Principal activity
Scottish Water Horizons Holdings Limited *	Scotland	100.0	Holding company
Scottish Water Business Stream Holdings Limited [1]*	Scotland	100.0	Holding company
Scottish Water Business Stream Limited [2]	Scotland	100.0	Licensed water and waste water services
Scottish Water Horizons Limited [1]	Scotland	100.0	Commercial non regulated water and waste water services
Scottish Water Services (Grampian) Limited [1]*	Scotland	100.0	Service provider
Bandwidth Energy Limited [5]*	Scotland	100.0	Heat from waste water projects
Aberdeen Environmental Services Limited [3]*	Scotland	100.0	Non trading
Aberdeen Environmental Services (Holdings) Limited [4]	Scotland	100.0	Non trading
Aberdeen Holdco Limited	England & Wales	100.0	Non trading

[1] owned by Scottish Water Horizons Holdings Limited
[2] owned by Scottish Water Business Stream Holdings Limited
[3] owned by Aberdeen Environmental Services (Holdings) Limited
[4] owned by Aberdeen Holdco Limited
[5] owned by Scottish Water Horizons Limited

Scottish Water owns shares in a further 9 companies which did not trade during the year ended 31 March 2024. The companies' financial statements have not been consolidated as permitted by Section 405 of the Companies Act 2006, as they did not trade during the year and the issued share capital is immaterial. The companies are:

Scottish Water Ltd
Scottish Water Retail Ltd
Scottish Water Technology Ltd
Scottish Water Utilities Ltd
Scottish Water Wholesale Ltd
OneSource Infrastructure Services Ltd
Water Solutions Ltd
Business Stream Ltd [6]
Scottish Water International Limited [7]

[6] owned by Scottish Water Business Stream Limited
[7] owned by Scottish Water Horizons Holdings Limited

* Bandwidth Energy Limited, Aberdeen Environmental Services Limited, Scottish Water Services (Grampian) Limited, Scottish Water Horizons Holdings Limited, and Scottish Water Business Stream Holdings Limited are exempt from the requirement of the Companies Act 2006 relating to the audit of accounts under Section 479A of the Companies Act 2006.

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12 Inventories

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Raw materials and consumables	5.0	4.8	4.5	4.4
Less provision held	(0.1)	(0.3)	(0.1)	(0.3)
	4.9	**4.5**	**4.4**	**4.1**

All inventories will be recovered within 12 months.

During the year to March 2024, inventories recognised within cost of sales were £2.2 million (2023: £1.9 million).

13 Trade and other receivables

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Net trade receivables	26	205.1	173.2	77.0	62.7
Other receivables		40.7	40.1	37.3	35.6
Prepayments and accrued income		98.3	93.9	18.7	15.6
Amounts due from subsidiaries		–	–	–	(0.1)
		344.1	**307.2**	**133.0**	**113.8**

Management considers the carrying value of trade and other receivables are equal to the fair value.

14 Cash and cash equivalents

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash at bank and in hand	182.3	252.1	100.4	155.5
Short-term bank deposits	179.8	234.8	179.8	234.8
Cash and cash equivalents per the statement of cash flows	**362.1**	**486.9**	**280.2**	**390.3**

The fair values of cash and cash equivalents are not different from those disclosed above.

In Business Stream, during May 2023, letters of credit to the value of £16.7 million (2023: £14.1 million) were renewed in relation to ongoing wholesale prepayments made to wholesalers operating in the English market.

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15 Trade and other payables

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current				
Trade payables	57.7	59.0	11.8	10.5
Non trade payables and accruals	139.1	133.9	138.5	131.7
Accruals	197.9	202.6	143.5	150.6
Payments received in advance	97.0	71.9	76.1	70.6
Other payables	38.6	42.5	1.6	1.0
Deferred income	5.7	5.5	1.6	1.6
Other taxes and social security	5.3	4.9	4.9	4.5
Amounts due to subsidiaries	–	–	58.9	36.0
	541.3	**520.3**	**436.9**	**406.5**
Non-current				
Payments received in advance	82.0	76.0	68.4	66.6
Deferred income	22.7	16.5	13.4	7.8
	104.7	**92.5**	**81.8**	**74.4**

The fair values of trade and other payables are not different from those disclosed above.

16 Deferred taxation

The following are the deferred tax liabilities and assets recognised by Scottish Water and the movements thereon during the current and prior reporting periods:

	Note	Accelerated capital allowances £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
Group						
At 1 April 2022		673.9	(13.0)	(1.8)	(18.0)	641.1
Charge/(credit) to income statement	8	36.3	(8.5)	(6.6)	(2.7)	18.5
Charge to reserves	8	–	28.3	–	0.9	29.2
At 31 March 2023		710.2	6.8	(8.4)	(19.8)	688.8
Charge/(credit) to income statement	8	58.2	0.1	(47.1)	(2.0)	9.2
Charge to reserves	8	–	(12.1)	–	–	(12.1)
At 31 March 2024		**768.4**	**(5.2)**	**(55.5)**	**(21.8)**	**685.9**
Company						
At 1 April 2022		669.3	(10.7)	–	(18.3)	640.3
Charge/(credit) to income statement	8	40.3	(8.2)	(8.5)	(0.5)	23.1
Charge to reserves	8	–	25.1	–	–	25.1
At 31 March 2023		709.6	6.2	(8.5)	(18.8)	688.5
Charge/(credit) to income statement	8	58.0	0.2	(46.3)	(2.2)	9.7
Charge to reserves	8	–	(11.6)	–	–	(11.6)
At 31 March 2024		**767.6**	**(5.2)**	**(54.8)**	**(21.0)**	**686.6**

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16 Deferred taxation (continued)

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Deferred tax assets	(3.0)	(1.8)	–	–
Deferred tax liabilities	688.9	690.6	686.6	688.5
At 31 March 2024	**685.9**	**688.8**	**686.6**	**688.5**

The Members believe that the deferred tax assets will be recoverable against projected taxable profits over the foreseeable future in the companies to which they relate.

Accelerated capital allowances arise when there are temporary differences between the net book values of qualifying tangible assets in the accounts and their equivalent tax written down values. In the Group's case, there is a deferred tax liability because the amount of capital allowances is in excess of deprecation. This liability will be released over the useful lives of the relevant qualifying assets, increasing tax payable in future years, as total capital allowances claimed and accumulated accounting depreciation will eventually equal one another over time. However, due to the long estimated useful lives of the Group's qualifying assets, the Group's ongoing capital investment and the availability of full expensing, it is expected that the total accelerated capital allowances liability is likely to increase, or at least remain similar, for a number of years.

The tax adjustments taken to other comprehensive income primarily relate to remeasurement movements on the group's funded defined benefit pension schemes and the remeasurement movements on the unfunded liability. Given the fully funded position of the pension funds, the retirement benefit obligations primarily relate to deferred taxation on the pension funds' surplus positions which is then offset with deferred tax on the unfunded liability (Note 22). The amount is significantly impacted by financial market conditions and long-term inflation expectations and therefore it is difficult to forecast future movements. Associated deferred tax balances will be adjusted on an ongoing basis over the life of the pension funds.

Deferred tax on retirement benefit obligations can also arise where there are year-on -year differences between the contributions paid and the associated amounts charged to the Income Statement. However, given the fully funded position of the Group's pension funds any such deferred tax movements are not expected to be significant at least until the next pension fund triennial valuations at March 2026.

Tax losses from earlier periods can be carried forward and relieved against future profits. The Group recognises a deferred tax asset as it expects to utilise these brought forward losses against taxable profits by the end of the current regulatory period.

'Other' deferred tax balances arise due to additional temporary timing differences between when income or expenses are recognised in the accounts and when they are allowed for tax purposes. An example would be general provision movements, where tax relief is only given when the balance is utilised specifically rather than when the accounting expense is incurred. The Group expects this deferred tax balance to unfold incrementally although it is difficult to estimate an exact time period in which this will occur.

No deferred income tax is provided on temporary differences arising on investments in subsidiaries because, in each case, the timing of the reversal of the temporary difference is controlled by Scottish Water and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised is £183.1m (2023: £170.6m) for both the Company and the group. No tax is expected to be payable in this regard.

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17 Provisions for liabilities

	Income uncertainty provision £m	Restructure and other provision £m	Total £m
Group			
At 1 April 2022	20.4	0.8	21.2
Charged to the income statement	1.2	–	1.2
Utilised during the year	(1.1)	–	(1.1)
At 31 March 2023	20.5	0.8	21.3
Charged to the income statement	1.4	0.3	1.7
Utilised during the year	(3.0)	(0.3)	(3.3)
At 31 March 2024	**18.9**	**0.8**	**19.7**
Company			
At 1 April 2022	24.7	0.4	25.1
Charged to the income statement	2.1	–	2.1
Utilised during the year	(3.3)	–	(3.3)
At 31 March 2023	23.5	0.4	23.9
Charged to the income statement	5.1	0.2	5.3
Utilised during the year	(2.3)	(0.3)	(2.6)
At 31 March 2024	**26.3**	**0.3**	**26.6**

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Analysis of total provisions				
Current	11.7	12.1	16.0	13.9
Non-current	8.0	9.2	10.6	10.0
	19.7	**21.3**	**26.6**	**23.9**

The income uncertainty provision relates to non-household revenues. The reconciliation process, through the Central Market Agency (CMA), relating to each financial year will normally be finalised 18 months after the end of the relevant financial year. It is expected that the provision will be utilised over 2025 and 2026.

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18 Other loans and borrowings

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current				
Obligations under finance leases	23.6	22.3	23.6	22.3
	23.6	**22.3**	**23.6**	**22.3**
Non current				
Obligations under finance leases	130.0	153.7	130.0	153.7
	130.0	**153.7**	**130.0**	**153.7**
Total				
Obligations under finance leases	153.6	176.0	153.6	176.0
	153.6	**176.0**	**153.6**	**176.0**

(i) Finance lease liabilities – PFI liabilities

Group

Future finance lease commitments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2024 £m	2023 £m	2024 £m	2023 £m
Amounts payable:				
Within one year	32.7	32.7	23.6	22.3
Between one and 5 years	105.4	113.1	95.8	105.8
After 5 years	58.4	83.5	34.2	47.9
Present value of minimum lease payments including finance charges	196.5	229.3		
Less future finance charges	(42.9)	(53.3)		
Present value of minimum lease payments	153.6	176.0	153.6	176.0

Company

Future finance lease commitments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2024 £m	2023 £m	2024 £m	2023 £m
Amounts payable:				
Within one year	32.7	32.7	23.6	22.3
Between one and 5 years	105.4	113.1	95.8	105.8
After 5 years	58.4	83.5	34.2	47.9
Present value of minimum lease payments including finance charges	196.5	229.3		
Less future finance charges	(42.9)	(53.3)		
Present value of minimum lease payments	153.6	176.0	153.6	176.0

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18 Other loans and borrowings (continued)

PFI – Service concession arrangements

Upon its creation in April 2002 Scottish Water inherited 9 concession contracts which had been entered into with 9 private sector consortia (PFI Cos) by its 3 predecessor authorities (i.e. East of Scotland Water Authority, North of Scotland Water Authority and West of Scotland Water Authority).

During the year ended 31 March 2023 both the Aberdeen and Highland PFI sites were absorbed into the regulated activities of Scottish Water. Scottish Water acts as the client body to the 7 remaining private sector consortia that provide waste water and sludge treatment and disposal services to Scottish Water.

Characteristics of the arrangements

Description

The length of these contracts varies between 25 and 40 years with the longest expiring in October 2040. Under the terms of these contracts the private sector have either upgraded or built new waste water and sludge treatment assets, and, in certain circumstances, network assets (e.g. sewers and pumping stations) in order to meet Scottish Water's legal obligations in respect of the treatment and disposal of these products. These consortia are also responsible for the operation and maintenance of these assets over the lifetime of each contract.

Significant terms

The key terms relate to the basis upon which Scottish Water pays for the services provided by the PFI Cos. The levels of such payments are predominantly dependent upon the volume of waste water and sludge treated, although in a minority of contracts there is either a partial availability payment element or some part of the payment is linked to the strength of the waste water. Scottish Water also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated waste water.

The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

Nature and extent of rights and obligations

Scottish Water's primary obligations are to deliver waste water to the PFI Cos and thereafter pay for the treatment services provided, making the appropriate deduction where the PFI Cos fail to meet the appropriate performance standards. The PFI Cos provided the initial construction services through a sub-contract and also entered into a separate sub-contract for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are now in their operational phase.

A majority of the contracts have limited extension options. However, termination during the contractual period can arise for a number of reasons including default (by either the PFI Co or Scottish Water), force majeure, uninsurable events or voluntary termination by Scottish Water. Each contract contains a formula from which termination compensation payable by Scottish Water is derived.

Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes.

The contracts also stipulate a range of handback conditions linked to the remaining life of certain assets.

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19 Government loans

	Group and Company	
	2024 £m	2023 £m
Government loans	4,704.4	4,508.7

Scottish Water's borrowing powers are defined in Section 42 of the Water Industry (Scotland) Act 2002.

Government loans, both short and long-term, are recorded on the statement of financial position under Capital and Reserves in accordance with the Scottish Water Governance Directions. Other debt is recorded under short and long-term payables following best practice.

a. Analysis of borrowings by type and maturity

Group and company	Up to 1 year £m	1-2 years £m	3-5 years £m	6-10 years £m	Over 10 years £m	Total £m
Scottish Consolidated Fund	85.5	98.0	196.0	461.1	3,498.5	4,339.1
National Loans Fund	82.4	25.0	110.0	135.0	2.5	354.9
Public Works Loan Board	0.7	4.4	2.7	2.1	0.5	10.4
At 31 March 2024	**168.6**	**127.4**	**308.7**	**598.2**	**3,501.5**	**4,704.4**
At 31 March 2023	137.1	168.6	326.0	504.9	3,372.1	4,508.7

b. Fair values

The carrying amounts and fair value of the Government borrowings are as follows:

	Book value	Book value	Fair value	Fair value
	2024 £m	2023 £m	2024 £m	2023 £m
Scottish Consolidated Fund	4,339.1	4,048.4	3,281.3	3,266.1
National Loans Fund	354.9	448.9	388.5	498.3
Public Works Loan Board	10.4	11.4	12.1	13.7
	4,704.4	**4,508.7**	**3,681.9**	**3,778.1**

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20 Analysis of net debt

	Note	As at 1 April 2023 £m	Decrease in cash £m	Increase in debt £m	As at 31 March 2024 £m
Group					
Cash and cash equivalents	14	486.9	(124.8)	–	362.1
Government loans	19	(4,508.7)	–	(195.7)	(4,704.4)
Net debt		**(4,021.8)**	**(124.8)**	**(195.7)**	**(4,342.3)**
Company					
Cash and cash equivalents	14	390.3	(110.1)	–	280.2
Government loans	19	(4,508.7)	–	(195.7)	(4,704.4)
Net debt		**(4,118.4)**	**(110.1)**	**(195.7)**	**(4,424.2)**

21 Retained earnings reserve

	Note	Retained earnings excluding actuarial gains/(losses) £m	Actuarial gains/ (losses) on pension obligations £m	Retained earnings including actuarial gains/(losses) £m
Group				
At 1 April 2022		1,660.8	77.4	1,738.2
Retained surplus for the year		40.5	–	40.5
Actuarial gain net of deferred taxation	22	–	85.0	85.0
At 31 March 2023		**1,701.3**	**162.4**	**1,863.7**
Retained surplus for the year		39.3	–	39.3
Actuarial loss net of deferred taxation	22	–	(36.2)	(36.2)
At 31 March 2024		**1,740.6**	**126.2**	**1,866.8**
Company				
At 1 April 2022		1,494.0	79.6	1,573.6
Retained surplus for the year		41.1	–	41.1
Actuarial gain net of deferred taxation	22	–	75.2	75.2
At 31 March 2023		**1,535.1**	**154.8**	**1,689.9**
Retained surplus for the year		26.4	–	26.4
Actuarial loss net of deferred taxation	22	–	(34.5)	(34.5)
At 31 March 2024		**1,561.5**	**120.3**	**1,681.8**

22 Pensions

Employees of Scottish Water participate in the North East Scotland Pension Fund, the Lothian Pension Fund and the Strathclyde Pension Fund, which are part of the Scottish Local Government Pension Scheme administered by Aberdeen, Edinburgh and Glasgow City Councils respectively. The schemes provide defined benefits based on career average pensionable pay. Actual pension costs for the last two years for each fund, as a % of pensionable pay, were 18.2%, 20.7% and 19.3% respectively.

Scottish Water has an unfunded liability relating to benefits provided to some employees taking voluntary redundancy between 1996 and 2007, over and above those provided by the three pension funds. This unfunded liability was charged to the Income Statement when the awards were made. However, there are no investment assets built up to meet the unfunded liabilities and cash must be generated to meet actual pension payments as they fall due.

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22 Pensions (continued)

The principal risks to Scottish Water impacting the pension liability are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the three funds. These are mitigated to a certain extent by the statutory requirements to charge to the Consolidated Income Statement any increase in the present value of liabilities expected to arise from employee service in the period and the net interest cost as described in the accounting policies note.

Employee pension contributions are determined according to the level of an employee's full-time equivalent pensionable pay. A key feature of the pension arrangements is that contribution rates are applied in tiers ranging from 5.5% to 12% depending on the employee's rate of pensionable pay on 31 March. It is anticipated that this approach to employees' contribution rates will ultimately result in a 2:1 ratio between Scottish Water's contributions and employees' contributions in a fully funded scheme.

A full actuarial valuation was carried out at 31 March 2023 for all 3 funds and updated at 31 March 2024 by a qualified independent actuary, to take account of the requirements of IAS 19.

The major assumptions used by the actuaries were:

	2024 %	2023 %
Long term rate of increase in pensionable salaries	2.80	2.90
Rate of increase in pensions payment	2.80	2.90
Discount rate	4.80	4.75
CPI inflation rate	2.80	2.90

Actual asset returns for period from 1 April 2023 to 31 March 2024	
North East Scotland Pension Fund	9.87%
Lothian Pension Fund	6.11%
Strathclyde Pension Fund	9.90%

The weighted average duration of the funded defined benefit obligation for scheme members is 19.2 years (2023: 18.2 years)

The mortality assumptions used to calculate the scheme liabilities as at 31 March 2024 are consistent with those used for the actuarial valuations of the Funds at 31 March 2023.

The average future life expectancies at age 65 are shown in the table below:

	North East Scotland Years	Lothian Years	Strathclyde Years
Retiring at 31 March 2023			
Male	21.1	20.6	20.1
Female	23.4	23.1	22.1
Retiring at 31 March 2043			
Male	22.8	22.0	21.1
Female	25.5	25.2	24.8

The sensitivities regarding the principal assumptions used to measure the liability in the Funds for the Group at 31 March 2024 are:

Assumption	Change in assumption	Approximate Impact on IAS 19 liabilities	Approximate Impact on IAS 19 asset
Rate of increase in pensionable salaries	+/- 0.1% per annum	Increase / decrease by c. 0.30%	Decrease / increase by c. £5m
Discount rate	+/- 0.1% per annum	Decrease / increase by c. 1.73%	Increase / decrease by c. £27m
CPI Inflation rate	+/- 0.1% per annum	Increase / decrease by c. 1.52%	Decrease / increase by c. £24m
Longevity	Increase life expectancy by 1 year	Increase by c. 3.00%	Decrease by c. £47m

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22 Pensions (continued)

Scottish Water's share of the assets in the schemes and the expected rate of return were:

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Total fair value of assets		2,335.2	2,141.0	2,281.4	2,093.9
Present value of scheme liabilities		(1,495.4)	(1,545.3)	(1,460.1)	(1,513.9)
Gross pension asset		**839.8**	**595.7**	**821.3**	**580.0**
Adjustment in respect of asset not recognised		(784.2)	(568.6)	(765.7)	(555.4)
Pension asset recognised		**55.6**	**27.1**	**55.6**	**24.6**
Related deferred tax liability	16	(13.9)	(6.8)	(13.9)	(6.2)
Net Funded pension asset		41.7	20.3	41.7	18.4
Unfunded Pension Liability		**(76.4)**	**–**	**(76.4)**	**–**
Related deferred tax liability	16	19.1	–	19.1	–
Net Unfunded pension liability		(57.3)	–	(57.3)	–

Assets are valued at fair value. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted to their present value.

Reconciliation of opening and closing retirement benefit liabilities and assets:

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Movements in liabilities during the year:					
Opening value of total liabilities		(1,545.3)	(2,222.3)	(1,513.9)	(2,166.6)
Total service cost	5	(34.3)	(73.7)	(33.3)	(71.5)
Interest on pension scheme liabilities	7	(72.8)	(60.4)	(71.3)	(58.8)
Contributions by members		(11.5)	(10.6)	(11.2)	(10.3)
Actuarial gain		19.8	763.9	21.5	735.7
Benefits paid		66.3	52.3	65.7	52.1
Unfunded benefits paid		6.0	5.5	6.0	5.5
Closing value of total liabilities		**(1,571.8)**	**(1,545.3)**	**(1,536.5)**	**(1,513.9)**
Movement in assets during the year:					
Opening fair value of total assets		2,141.0	2,170.4	2,093.9	2,123.7
Interest on pension scheme assets	7	73.5	58.3	71.9	57.0
Contributions by members		11.5	10.6	11.2	10.3
Contributions by the employer		27.9	35.6	27.3	34.6
Contributions in respect of unfunded benefits		6.1	5.9	6.1	5.9
Actuarial gain/(loss)		147.5	(82.0)	142.7	(80.0)
Benefits paid		(66.3)	(52.3)	(65.7)	(52.1)
Unfunded benefits paid		(6.0)	(5.5)	(6.0)	(5.5)
Closing fair value of assets		**2,335.2**	**2,141.0**	**2,281.4**	**2,093.9**
Gross surplus in the schemes at 31 March		**763.4**	**595.7**	**744.9**	**580.0**
Adjustment in respect of asset not recognised		(784.2)	(568.6)	(765.7)	(555.4)
Recognised gross (defict) / surplus in the schemes at 31 March		**(20.8)**	**27.1**	**(20.8)**	**24.6**
Being:					
Funded Pension asset recognised		55.6	27.1	55.6	24.6
Unfunded Pension Liability		(76.4)	–	(76.4)	–
Net Pension (Deficit) / Surplus		**(20.8)**	**27.1**	**(20.8)**	**24.6**

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22 Pensions (continued)

In 2022/23 the recognised pension surplus of £27.1m was shown as a non-current asset. During 2023/24 it was identified that the unfunded pension liability which has always been recognised by Scottish Water when the pension was in a deficit position, should not have been netted against the funded asset for 2022/23. This is the first year Scottish Water had a net pension surplus. As such in 2022/23 an unfunded liability of £81.2m should have been reflected in the non current liability section of the Balance Sheet.

The 2022/23 financial statements have not been restated as the Statement of Financial Position impact of recognising the unfunded obligation is negligible as a proportion of net assets and the impact on other comprehensive income is not relevant as the actuarial gain or loss does not follow any trends, is subject to market fluctuations and is not a key metric. In addition, there is no cashflow impact or impact on the Income Statement. The impact is not qualitatively material and the detail provided in this note is considered sufficiently informative for users of these financial statements..

Return on assets

As required by IAS 19, the expected return on assets for all asset categories is equal to the discount rate. It is assumed that assets with higher volatility will no longer generate higher returns.

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Actual return on pension scheme assets		221.0	(23.7)	214.6	(23.0)
Actuarial (loss)/gain in other comprehensive income in the consolidated statement of comprehensive income					
Gross actuarial gain calculated in the pension fund*		167.3	681.9	164.2	655.7
Adjustment in respect of asset not recognised		(215.6)	(568.6)	(210.3)	(555.4)
Gross actuarial (loss)/gain recognised in the pension fund		(48.3)	113.3	(46.1)	100.3
Deferred tax movement	16	12.1	(28.3)	11.6	(25.1)
Net actuarial (loss)/gain recognised in other comprehensive income in the consolidated statement of comprehensive income	21	**(36.2)**	**85.0**	**(34.5)**	**75.2**

Amounts recognised in the consolidated income statement

		Group		Company	
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Total service cost	5	34.3	73.7	33.3	71.5
Interest on pension scheme	7	(0.7)	2.1	(0.6)	1.8
		33.6	75.8	32.7	73.3

There were no (2023: nil) unpaid contributions outstanding at the year end included in other payables (note 15). It is estimated that Scottish Water will make contributions of £35.1 million to the pension funds in financial year 2024/25.

* Includes unfunded liability of £76.4 million in the year ended 31 March 2024

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22 Pensions (continued)

History of experienced gains and losses

	2024 £m	2023 £m
Group		
Difference between the expected and actual return on scheme assets:		
Amount reflecting the gain /(loss) on investment performance	88.1	(82.0)
Amount reflecting Experience gains on scheme assets	59.4	–
Fair value of assets	2,335.2	2,141.0
Experience losses on scheme liabilities:		
Amount	(12.5)	(89.5)
Present value of liabilities	1,571.8	1,545.3
Changes in demographic assumptions underlying the present value of scheme liabilities:		
Amount	5.5	21.5
Changes in financial assumptions underlying the present value of scheme liabilities:		
Amount	26.8	831.9
Adjustment in respect of asset not recognised	(215.6)	(568.6)
Total variance between pension fund actuarial assumptions and actual experience	**(48.3)**	**113.3**
Gross surplus in the schemes at 31 March	763.4	595.7
Adjustment in respect of asset not recognised	(784.2)	(568.6)
Recognised gross (defict) / surplus in the schemes at 31 March	**(20.8)**	**27.1**
Being:		
Funded Pension asset recognised	55.6	27.1
Unfunded Pension Liability	76.4	–
	(20.8)	**27.1**

	2024 £m	2023 £m
Company		
Difference between the expected and actual return on scheme assets:		
Amount reflecting the gain /(loss) on investment performance	85.5	(80.0)
Amount reflecting Experience gains on scheme assets	57.2	(80.0)
Fair value of assets	2,281.4	2,093.9
Experience losses on scheme liabilities:		
Amount	(8.8)	(87.5)
Present value of liabilities	1,536.5	1,513.9
Changes in demographic assumptions underlying the present value of scheme liabilities:		
Amount	4.9	21.1
Changes in assumptions underlying the present value of scheme liabilities:		
Amount	25.4	802.1
Adjustment in respect of asset not recognised	(210.3)	(555.4)
Total variance between pension fund actuarial assumptions and actual experience	**(46.1)**	**100.3**
Gross surplus in the schemes at 31 March	744.9	580.0
Adjustment in respect of asset not recognised	(765.7)	(555.4)
Recognised gross (defict) / surplus in the schemes at 31 March	**(20.8)**	**24.6**
Being:		
Funded Pension asset recognised	55.6	24.6
Unfunded Pension Liability	(76.4)	–
	(20.8)	**24.6**

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22 Pensions (continued)

An actuarial gain of £167.3 million has been calculated resulting in a funded pension asset of £839.8 million at 31 March 2024 and an unfunded liability of £76.4 million. The pension asset is as a result of a higher discount rate, lower expectation of long term CPI growth and higher asset returns than forecast at 31 March 2023.

To comply with IFRIC 14 and IAS 19 the pension asset is restricted to reflect the amount the employer is entitled to as an unconditional refund of the surplus or reduction in future contributions to the pension fund. Management review of the Local Government Pension Scheme regulations concluded that there are no likely circumstances which would result in the Employer having an unconditional right to a refund in the event of a fund surplus. Actuarial advice was sought in relation to the benefit to the Employer in the form of reduced future contributions. IAS 19 defined this to be the present value of future service costs, less the present value of projected future contributions. If this is positive then this is the maximum value of the pension asset that the Employer can recognise. This has been calculated as £55.6 million in total being £55.6m in relation to North East Scotland Pension Fund for Scottish Water. No asset is recognised in respect of Lothian pension Fund or Strathclyde Pension Fund for Scottish Water or Scottish Water Business Stream.

As such the full funded pension asset of £839.8 million is not recognised but is restricted by £784.2 million to a funded pension asset of £55.6 million with an actuarial loss of £48.3 million.

In addition an unfunded liability of £76.4 million is recognised as a non current liability.

23 Commitments

a. Capital commitments

Scottish Water has contracted capital commitments of £747.4 million (2023: £536.1 million) relating to property, plant and equipment at the statement of financial position date. These commitments are expected to be settled within the following two financial years.

b. Operating lease commitments

Scottish Water leases various operational properties and offices under non-cancellable operating lease agreements. The lease terms are between 1 and 99 years, with the majority of lease agreements being renewable at the end of the lease period at market rates.

Scottish Water also leases vehicles under cancellable operating lease agreements. Scottish Water is able to give notice at any time within the lease period for the termination of these agreements. Termination costs are incurred on early termination. The lease expenditure charged to the consolidated income statement during the year is disclosed in note 4.

The total minimum lease payments under non-cancellable operating leases are as follows:

	2024 £m	2023 £m
Within one year	3.7	2.1
Between one and five years	8.8	4.5
After five years	20.1	14.9
	32.6	21.5

24 Contingent assets and liabilities

Contingent liabilities

Scottish Water has the following contingent liabilities in respect of companies limited by guarantees:

Central Market Agency

The Central Market Agency (CMA), a company limited by guarantee, co-ordinates the non household retail market for business customers in Scotland. As a market participant, Scottish Water is liable to pay charges to the CMA to cover part of the operating, financing and any other capital costs of the organisation. These charges are set annually in advance and approved by the CMA Board. Scottish Water's liability, as a member, for the debts and liabilities of the CMA is limited to £1.

Water Regulatory Advisory Service

Water Regulatory Advisory Service Limited (WRAS) is a company established by all UK water companies as a company limited by guarantee to provide guidance on the development and application of the Water Regulations (England and Wales) and the Water Byelaws (Scotland). WRAS operates on a subscription basis. Scottish Water's liability, as a member, in the event of the company going into default, is limited to £1. Scottish Water may withdraw from the company by giving one year's notice.

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25 Related party transactions

Scottish Water has related party relationships with the Scottish Government, with its subsidiaries (note 11), and with its Members and Executive Management. Details of transactions between the group and other related parties are disclosed below.

Scottish Government

Scottish Water is a public corporation of a trading nature sponsored by the Scottish Government. During the year Scottish Water had various material transactions with the Scottish Government, namely the drawdown and repayment of loans and associated interest charges. Details of the loans from the Scottish Government are shown in note 19.

During the year Scottish Water had various material transactions with entities for which the Scottish Government is regarded as the parent. The main entities which fall into this category are the Local Authorities, the Scottish Environment Protection Agency, the Drinking Water Quality Regulator, the Water Industry Commission for Scotland and the Central Market Agency. However, as permitted under IAS 24 'Related Party Disclosures' paragraph 25, Scottish Water is exempt from the disclosure requirements of IAS 24, paragraph 18 in respect of these government related entities.

Subsidiaries

During the year Scottish Water entered into the following transactions with its subsidiaries (note 11):

	2024 £m	2023 £m
Wholesale water and waste water services to Business Stream	206.6	202.8
Sale of waste water services to other subsidiaries	0.8	0.7
Purchase of waste water services from other subsidiaries	(1.6)	(14.1)
Seconded staff costs charged to subsidiaries	7.4	3.4
Other operating costs charged to subsidiaries	1.4	1.3
Purchase of renewable development and vesting services	(2.9)	(2.3)
Aberdeen PFI absorbtion into regulated activities	–	(2.8)

Key management personnel

The key management under IAS 24 'Related Party Disclosure' is defined as those persons who have authority and responsibility for planning, directing and controlling the entity's activities, directly or indirectly. Scottish Water's key management comprises the Executive Members and Non-executive Members. The remuneration of the Members is determined by Scottish Water's Remuneration Committee in accordance with its stated policy. Further information about the remuneration and pension details of individual Members is provided in the Members' Remuneration Report on pages 91 to 103. Scottish Water's non-executive members hold additional roles within other organisations (see Members on pages 79 to 81).

26 Financial instruments and risks

The management of Scottish Water and the execution of strategy are subject to a number of risks as detailed below. All risks are reviewed by the Board and appropriate processes are in place to monitor and mitigate them. See the Strategic report on pages 17 to 78 and Corporate Governance report on pages 82 to 85.

a. Qualitative risk disclosures
Credit risk

Credit risk is the risk that Scottish Water is exposed to loss if another party fails to perform its financial obligation to Scottish Water. Credit risk arises from cash, cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. Scottish Water monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure that they are within Board approved limits and that there are no significant concentrations of credit risk. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

Liquidity risk

Liquidity risk is the risk that Scottish Water will have insufficient funds to meet its liabilities. Scottish Water's policy is to ensure that it has adequate financial resources to enable it to finance its day-to-day operations and capital investment programme, based on cash flow projections, while adhering to the annual limits set by the Scottish Government for new borrowings. Scottish Water's borrowing powers are defined in Section 42 of the Water Industry (Scotland) Act 2002.

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26 Financial instruments and risks (continued)

Interest rate risk

All of Scottish Water's Government borrowings are at fixed interest rates. Therefore Scottish Water is not deemed to bear any interest rate risk.

Currency risk

In special circumstances, Scottish Water may use financial instruments to mitigate certain financial risk exposures such as foreign exchange fluctuations. As such circumstances are rare, in addition to the approval of the Scottish Water Board, approval is required from Scottish Ministers under the terms of section 42(3)(b) Water Industry (Scotland) Act 2002.

b. Categories of financial assets and liabilities and fair values

Scottish Water's financial assets and liabilities comprise trade and other receivables (note 13), cash and cash equivalents (note 14), borrowings (notes 18 and 19) and trade and other payables (note 15). No trading in derivative financial instruments was undertaken.

Basis of determining fair value

The financial assets of Scottish Water fall into the 'loans and receivables' category. The financial liabilities of Scottish Water fall into the category of 'financial liabilities measured at amortised cost'.

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing partners, other than in a forced or liquidation sale, and excludes accrued interest.

The carrying amounts of financial assets and liabilities, excluding borrowings, are equal to their fair values. Borrowings are held at cost in the statement of financial position but the fair value is disclosed in notes 18 and 19.

Credit risk

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk.

The trade receivables total includes an allowance for impairment. Trade receivables comprise receivables from business customers and receivables from domestic household customers.

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Trade receivables:				
Trade receivables	726.1	689.7	554.4	528.9
Less provision for impairment of trade receivables	(521.0)	(516.5)	(477.4)	(466.2)
Net trade receivables	205.1	173.2	77.0	62.7
The following table shows the development of the provision for impairment of trade receivables:				
Balance at 1 April	516.5	503.4	466.2	454.4
Charge for the year	24.7	30.4	20.9	19.0
Amounts written down during the year	(20.2)	(17.3)	(9.7)	(7.2)
Balance at 31 March	521.0	516.5	477.4	466.2
Trade receivables is analysed between:				
Household receivables	529.5	506.5	529.5	506.5
Less provision for impairment	(474.4)	(463.2)	(474.4)	(463.2)
Net household receivables	55.1	43.3	55.1	43.3
Business customer receivables	196.6	183.2	24.9	22.4
Less provision for impairment	(46.6)	(53.3)	(3.0)	(3.0)
Net business customer receivables	150.0	129.9	21.9	19.4

Household water and waste water services are billed to customers by the 32 Councils as an element of the annual Council Tax bills. The Councils are responsible for the collection and transfer to Scottish Water of the amounts due in accordance with the statutory regulations. Household charges are billed by individual financial year and are payable within the same year. Provision is made against outstanding debt, in respect of prior years, based primarily on historical collection rates and the near-term business outlook. Household water and waste water debt is a statutory debt recoverable from the occupier by the Councils. Debt since the establishment of the former Water Authorities in 1996 continues to be collected. As at 31 March 2024 trade receivables in respect of household customers totalled £529.5 million with a provision of £474.4 million (2023: £506.5 million and £463.2 million respectively).

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FOR THE YEAR ENDED 31 MARCH 2024

26 Financial instruments and risks (continued)

The sensitivities regarding the principal assumptions used to measure the level of the household bad debt provision are:

Assumption	Change in assumption %	Approximate impact on bad debt charge £m
Overall household collection rate	+/- 0.01%	Increase / decrease by c. £1.9m
In-year household bad debt provision charge	+/- 0.10%	Increase / decrease by c. £1.1m

As at 31 March 2024 trade receivables from business customers totalled £196.6 million (2023: £183.2 million). The ageing analysis of trade receivables from business customers and the related provisioning is as follows:

	Total £m	Current £m	< 3 months overdue £m	3-12 months overdue £m	> 12 months overdue £m
Group					
Gross receivable	196.6	64.6	51.3	45.3	35.4
Provision	(46.6)	(1.1)	(3.4)	(9.1)	(33.0)
Net trade receivable as at 31 March 2024	150.0	63.5	47.9	36.2	2.4
Gross receivable	183.2	47.1	59.0	41.2	35.9
Provision	(53.3)	–	(3.9)	(17.7)	(31.7)
Net trade receivable as at 31 March 2023	129.9	47.1	55.1	23.5	4.2

	Total £m	Current £m	< 3 months overdue £m	3-12 months overdue £m	> 12 months overdue £m
Company					
Gross receivable	24.9	19.9	0.4	1.4	3.2
Provision	(3.0)	–	(0.1)	(0.6)	(2.3)
Net trade receivable as at 31 March 2024	21.9	19.9	0.3	0.8	0.9
Gross receivable	22.4	15.7	1.5	2.5	2.7
Provision	(3.0)	–	(0.1)	(0.9)	(2.0)
Net trade receivable as at 31 March 2023	19.4	15.7	1.4	1.6	0.7

27 Ultimate controlling body

Scottish Water is a public sector body, classified as a public corporation of a trading nature, and is answerable to the Scottish Parliament through Scottish Ministers.

28 Regulatory information

The Water Industry Commission for Scotland (WICS) has the general function of promoting interests of customers in relation to the provision of core services. The WICS determines Scottish Water's price limits and approves Scottish Water's annual charges scheme.

The WICS monitors Scottish Water's performance on efficiency and customer service and approves the code of practice. Each year the WICS publishes reports on the exercise of its functions. In preparing these reports, the WICS assesses the performance by using information supplied by Scottish Water and by making comparisons with information obtained on other regulated water companies. In carrying out this performance monitoring, the WICS may make regulatory amendments to figures published in Scottish Water's audited financial statements to ensure like for like comparisons with other companies.

DIRECTION BY THE SCOTTISH MINISTERS
IN ACCORDANCE WITH SECTION 45(2) OF THE WATER INDUSTRY (SCOTLAND) ACT 2002

Under the Scottish Water Governance Directions 2009, which are available on the Scottish Government website, Scottish Water is required to disclose details of certain types of expenditure which exceed given thresholds and which are not disclosed elsewhere in the Annual Report and Accounts. The required information is presented in the following table:

Project expenditure	Threshold	Project	Cost
Capital expenditure on major works including improvements to existing assets	£10 million	Ayrshire strategic resillience Perth – Growth PSTN replacement Perth strategic waste water infrastructure Highland PFI FMV	£18,646,000 £10,452,000 £18,737,000 £15,208,000 £10,313,000
Purchase of individual capital items, including land, with a life of more than one year	£1 million	None	
Advertising	£1 million	None	
Sponsorship	£10,000	Scottish Amateur Swimming Association	£250,000
Gifts	£200	None	–

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