

Income and expenditure account - consolidated

For the year ended 31 March 2009

	Notes	2009 £m	2008 £m
Turnover	2	1,094.6	1,051.7
Cost of sales		<u>(632.7)</u>	<u>(579.5)</u>
Gross surplus		461.9	472.2
Administrative expenses		<u>(101.8)</u>	<u>(100.2)</u>
Surplus on ordinary activities before interest	2, 3	360.1	372.0
Net interest payable	6	(149.9)	(140.5)
Other finance (costs)/income	7	<u>(1.4)</u>	<u>5.3</u>
Surplus on ordinary activities before taxation		208.8	236.8
Taxation	8	<u>(63.9)</u>	<u>(41.4)</u>
Retained surplus for the financial year		144.9	195.4

Statement of total recognised gains and losses

	Notes	2009 £m	2008 £m
Surplus for the financial year		144.9	195.4
Actuarial (loss)/gain recognised in respect of pension funds	21	<u>(134.7)</u>	<u>64.0</u>
Total gains and losses recognised since last Annual Report		10.2	259.4

Balance Sheets

As at 31 March 2009

	Notes	Group		Company	
		2009 £m	2008 £m	2009 £m	2008 £m
Fixed assets					
Tangible fixed assets	9	4,253.8	3,820.1	4,249.2	3,819.4
Investments	10	-	-	37.6	34.6
Current assets					
Stocks	11	3.2	3.9	2.9	3.9
Debtors	12	168.6	187.9	97.1	181.0
Cash at bank and in hand	13	75.2	80.2	15.9	29.9
		247.0	272.0	115.9	214.8
Creditors: amounts falling due within one year	14	<u>(299.0)</u>	<u>(313.3)</u>	<u>(279.2)</u>	<u>(295.1)</u>
Net current liabilities		(52.0)	(41.3)	(163.3)	(80.3)
Total assets less current liabilities		4,201.8	3,778.8	4,123.5	3,773.7
Creditors: amounts falling due after more than one year	14	(70.8)	(75.2)	(65.0)	(74.9)
Provisions for liabilities and charges					
Deferred taxation	15	(300.8)	(242.3)	(301.6)	(243.3)
Other provisions	16	(19.1)	(14.8)	(18.7)	(14.8)
Net assets excluding pension liability		3,811.1	3,446.5	3,738.2	3,440.7
Pension liability	21	<u>(160.9)</u>	<u>(34.2)</u>	<u>(160.5)</u>	<u>(34.3)</u>
Net assets		<u>3,650.2</u>	<u>3,412.3</u>	<u>3,577.7</u>	<u>3,406.4</u>
Capital and reserves					
Government loans	17	2,842.9	2,615.2	2,784.4	2,615.2
Income and expenditure account reserve	18	673.9	663.7	659.9	657.8
Other reserves		<u>133.4</u>	<u>133.4</u>	<u>133.4</u>	<u>133.4</u>
		3,650.2	3,412.3	3,577.7	3,406.4

These financial statements were approved by the Board of Members on 3 June 2009 and signed on their behalf by

Richard Ackroyd
Chief Executive

Cash flow statement - consolidated

For the year ended 31 March 2009

	Notes	2009 £m	2008 £m
Net cash inflow from operating activities	(i)	648.3	639.3
Returns on investments and servicing of finance			
Net cash outflow from returns on investment and servicing of finance	(ii)	<u>(149.3)</u>	<u>(140.4)</u>
		499.0	498.9
Taxation paid		(5.9)	(4.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(721.2)	(636.5)
Sale of tangible fixed assets		3.0	9.9
Government grants and other contributions		<u>0.3</u>	<u>2.9</u>
Net cash outflow before management of liquid resources and financing		(224.8)	(128.9)
Financing			
Net cash inflow from financing	(iii)	<u>219.8</u>	<u>196.3</u>
(Decrease)/increase in cash		<u>(5.0)</u>	<u>67.4</u>

Reconciliation of net cash flow movement to movement in net debt

(Decrease)/increase in cash	(5.0)	67.4
Cash inflow from increase in debt financing	<u>(219.8)</u>	<u>(196.3)</u>
Movement in net debt	(224.8)	(128.9)
Net debt at 1 April	<u>(2,553.0)</u>	<u>(2,424.1)</u>
Net debt at 31 March	<u>(2,777.8)</u>	<u>(2,553.0)</u>

Analysis of net debt

	As at 1 April 2008 £m	Decrease in cash £m	(Increase)/ decrease in debt £m	As at 31 March 2009 £m
Cash at bank and in hand	80.2	(5.0)	-	75.2
Debt due within one year	<u>(187.0)</u>	-	<u>7.4</u>	<u>(179.6)</u>
Net borrowings due within one year	(106.8)	(5.0)	7.4	(104.4)
Net borrowings due after more than one year	<u>(2,446.2)</u>	-	<u>(227.2)</u>	<u>(2,673.4)</u>
Net debt	<u>(2,553.0)</u>	(5.0)	<u>(219.8)</u>	<u>(2,777.8)</u>

Notes to the consolidated cash flow statement

For the year ended 31 March 2009

	2009 £m	2008 £m	
(i) Reconciliation of operating surplus to net cash inflow from operating activities			
Operating surplus	360.1	372.0	
FRS 17 adjustment	(3.4)	3.7	
Depreciation charges	266.6	251.8	
Amortisation of grants and PFI assets	0.5	0.5	
Surplus on disposal of tangible fixed assets	(1.5)	(9.3)	
Decrease/(increase) in debtors	18.1	(32.7)	
Decrease/(increase) in stocks	0.7	(0.4)	
Increase in creditors	8.9	50.3	
(Decrease)/increase in provisions	(1.7)	3.4	
Net cash inflow from operating activities	648.3	639.3	
(ii) Returns on investment and servicing of finance			
Interest received	3.1	4.0	
Interest paid	(152.4)	(144.4)	
Net cash outflow from returns on investment and servicing of finance	(149.3)	(140.4)	
(iii) Financing			
Borrowings due within one year	- repayment of loans	(412.3)	(190.0)
	- increase in loans	413.6	295.8
Borrowings due after one year	- repayment of loans	(81.1)	(68.0)
	- increase in loans	299.6	158.5
Net cash inflow from financing	219.8	196.3	

Notes to the financial statements

For the year ended 31 March 2009

1 Accounting policies

The consolidated financial statements have been prepared on the going concern basis under the historical cost convention, in a form directed by Scottish Ministers in accordance with section 45(2) of the Water Industry (Scotland) Act 2002. The financial statements comply with all applicable United Kingdom accounting standards and the Companies Acts 1985 and 2006, except as disclosed below in relation to 'Capital grants and customer contributions'. There have been no significant changes to Scottish Water's accounting policies during the year.

The Members consider that the accounting policies set out below are the most appropriate and have been consistently applied.

Basis of consolidation

a. Subsidiary companies

The consolidated financial information incorporates the results of Scottish Water (the Company) and of its trading subsidiary companies, using the acquisition method of accounting. The consolidated financial information does not include the non trading subsidiary companies as permitted under section 229 of the Companies Act 1985 (note 10).

Intercompany transactions, balances and any unrealised gains on transactions between Scottish Water group companies have been eliminated within the consolidated financial statements.

b. Joint Arrangement Non Entity

The nature of the contractual agreement between Scottish Water and the other shareholders in Scottish Water Solutions Limited is such that the parties are engaged in joint activities that do not constitute an entity carrying on a trade or business in its own right. Consequently, Scottish Water Solutions Limited has been accounted for under FRS 9 Associates and Joint Ventures as a JANE, (Joint Arrangement Non Entity). On this basis Scottish Water accounts directly for its own gross assets, liabilities and cash flows in the joint arrangement.

Income recognition

Turnover comprises charges to customers for water and wastewater services, excluding value added tax. For measured customers, turnover includes an estimate of the value of water and wastewater 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 and expenditure account throughout the year.

Tangible fixed assets and depreciation

Freehold land and assets under construction are not depreciated.

The infrastructure network which comprises a network of water and wastewater systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are considered to have an infinite life. Expenditure to maintain the network infrastructure is dealt with under a renewals accounting approach whereby the annualised planned expenditure to maintain the operating capacity of this infrastructure is treated and charged as depreciation to the income and expenditure account. The actual expenditure incurred on infrastructure assets is capitalised, as is any expenditure that increases the capacity of the network.

Depreciation is provided on other tangible fixed assets to write-off cost, less residual values, on a straight-line basis over their estimated operational lives, from the date of beneficial use as follows:

Non operational buildings and structures	60 years
Specialised operational buildings and structures	20 to 80 years
Plant, machinery, vehicles and fencing	1 to 20 years
Fixtures and fittings, furniture and temporary buildings	5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be justified. The resulting impairment charge is included within depreciation.

Capital grants and customer contributions

Capital grants and customer contributions in respect of infrastructure assets are deducted from the cost of the fixed asset. This treatment is not in accordance with the Companies Act 1985 but has been adopted to show a true and fair view since, as explained above, infrastructure assets have an infinite economic life and hence no basis exists on which to recognise such contributions as deferred income. Grants and contributions received in respect of non-infrastructure assets are credited to deferred income and are released to the income and expenditure account over the expected useful lives of the relevant fixed assets.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Stocks

Stocks and work in progress are stated at the lower of cost or net realisable value. 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.

Leased assets

Leases where substantially all the risks and rewards of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income and expenditure account over the term of the lease on a straight-line basis. Scottish Water has no amounts due under finance leases.

Research and development costs

Research and development expenditure is charged to the income and expenditure account in the year in which it is incurred.

Notes to the financial statements

For the year ended 31 March 2009

1 Accounting policies

Private Finance Initiative (PFI) costs

All costs incurred in relation to the development of PFI schemes are charged to the income and expenditure account as incurred. However, costs relating to other tangible fixed assets belonging to Scottish Water and transferred to the PFI operator are treated as a debtor and amortised over the length of the service contract. PFI land transferred to the operator is not amortised. Rental costs arising under PFI operating leases are expensed to the income and expenditure account over the terms of the lease.

Indebtedness to the Scottish Ministers and other long term loans

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

Overdrafts and other loans are included under creditors, as appropriate, in accordance with the Companies Act.

Financial instruments

Scottish Water's financial instruments comprise borrowing, cash and liquid resources, and various items such as debtors and creditors that arise directly from operations.

Financial instruments are recognised in the balance sheet when an obligation is identified and released as that obligation is fulfilled. Cash, debtors and creditors are held at cost. Borrowings are held at cost in the balance sheet, but disclosed at fair value in note 17. Fair values were estimated by independent appraisal using a valuation technique based on prevailing market interest rates at the end of the financial year. Interest on loans and cash is recognised and reported in the period in which the payment is made or received.

Scottish Water's policy is not to trade or speculate in financial instruments. All treasury activities are undertaken in accordance with the permitted activities as set out in the Corporate Governance Direction made under the Water Industry (Scotland) Act 2002.

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences which have originated but not reversed at the balance sheet date, subject to certain exceptions. Deferred tax assets are recognised to the extent that they are recoverable.

Full provision has been made without discounting.

Pensions

Employees of Scottish Water participate in the Local Government Pension Scheme administered by Aberdeen, Glasgow and Edinburgh City Councils, all of which are defined benefit schemes.

Pension scheme assets are measured using the bid 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 rise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. 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 balance sheet net of related deferred tax.

Bad debts

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile of the outstanding debt.

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.

Related party transactions

Scottish Water has taken advantage of the exemption provided by FRS 8, which permits the non-disclosure of transactions and balances with related parties that have been eliminated on consolidation.

Notes to the financial statements

For the year ended 31 March 2009

2 Segmental analysis

All turnover and surplus before taxation arises from continuing operations within the United Kingdom.

Scottish Water group principal activities are the supply of water and wastewater 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 wastewater collection, treatment and distribution within cost of sales. An analysis of turnover, operating surplus and net assets by activity is provided below:

	Turnover		Operating surplus		Net operating assets	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Regulated water and waste water services	1,029.7	986.7	345.2	354.2	4,022.3	3,595.7
Business Stream	355.4	351.5	13.5	14.9	29.3	31.5
Non regulated trading activities	31.5	27.9	3.4	2.9	(2.7)	2.0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,416.6	1,366.1	362.1	372.0		
Less Intercompany elimination	(322.0)	(314.4)	(2.0)	-		
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,094.6	1,051.7	360.1	372.0	4,048.9	3,629.2

Reconciliation of net operating assets to net assets

Net operating assets		4,048.9	3,629.2
Corporation tax		(2.1)	(2.6)
Deferred tax		(300.8)	(242.3)
Non Government loans		(10.1)	(18.0)
Cash		75.2	80.2
Pension liability		(160.9)	(34.2)
		<hr/>	<hr/>
Net assets		3,650.2	3,412.3

The segmental analysis has been amended to reflect internal management reporting. This change has been made in preparation for the transition to International Financial Reporting Standards and reflect the requirements of IFRS 8 'Operating Segments'. The comparative figures for Business Stream (previously titled 'Licensed water and waste water services') and the Non regulated trading activities have been adjusted to reflect the transfer of the 'Business Solutions' division to Business Stream.

3 Operating surplus

	2009 £m	2008 £m
Operating surplus is arrived at after charging/(crediting):		
PFI operating costs	132.6	127.5
Infrastructure maintenance charge	104.2	90.0
Depreciation of tangible fixed assets	162.4	161.8
Amortisation of assets transferred to PFI service companies	1.6	1.6
Gain on sale of tangible fixed assets	(1.5)	(9.3)
Release of deferred income in relation to capital grants	(1.1)	(1.1)
Operating lease rentals		
- land and buildings	1.8	1.7
- other	1.9	2.0
Auditors remuneration		
- audit services	0.2	0.2
- other	-	-
Research and development expenditure	0.3	0.3

4 Staff costs

	2009 £m	2008 £m
Wages and salaries	113.5	105.8
Social security costs	9.3	8.8
FRS17 pension costs	12.5	17.9
Other pension costs	0.1	-
	<hr/>	<hr/>
	135.4	132.5
Less: charged as capital expenditure	(36.8)	(31.2)
Less: seconded staff charged to Scottish Water Solutions Limited	(4.2)	(6.9)
	<hr/>	<hr/>
	94.4	94.4

Notes to the financial statements

For the year ended 31 March 2009

4 Staff costs (continued)

The average number of people (including Executive and Non-executive Members) employed by Scottish Water during the year was 3,737 (2008: 3,683):

	2009	2008
Regulated water and waste water services	3,278	3,158
Non regulated trading activities	213	236
Scottish Water Solutions Limited secondees	92	163
	<u>3,583</u>	<u>3,557</u>
Business Stream	154	126
	<u>3,737</u>	<u>3,683</u>

The number of people employed at 31 March 2009 was 3,738 FTE (2008: 3,727).

5 Members' remuneration

Information concerning Members' remuneration, incentive schemes and pensions is detailed in the Remuneration Report on pages 32 to 36. No Member or director had, during the year or at the end of the year, any material interest in any contract of significance in relation to Scottish Water's business.

6 Net interest payable

	2009 £m	2008 £m
Interest receivable		
Interest from short-term deposits	<u>3.1</u>	<u>4.0</u>
Interest payable		
Government loans	(151.6)	(142.6)
Other loans	<u>(1.4)</u>	<u>(1.9)</u>
	<u>(153.0)</u>	<u>(144.5)</u>
Net interest payable	<u>(149.9)</u>	<u>(140.5)</u>

7 Other finance (costs)/income

	2009 £m	2008 £m
Expected return on pension scheme assets	53.3	55.4
Interest on pension scheme liabilities	<u>(54.7)</u>	<u>(50.1)</u>
Other finance (costs)/income	<u>(1.4)</u>	<u>5.3</u>

8 Taxation

Analysis of tax charge in the year

	2009 £m	2008 £m
Current tax: UK corporation tax on surplus for the current year	4.7	4.9
UK corporation tax adjustment in respect of prior years	0.7	-
Deferred tax: Origination and reversal of timing differences	<u>58.5</u>	<u>36.5</u>
Tax on surplus on ordinary activities	<u>63.9</u>	<u>41.4</u>

Factors affecting current tax charge

The total current tax charge for the year is lower than the standard rate of corporation tax in the UK of 28% (2008: 30%). The differences are explained below.

Surplus on ordinary activities before taxation	208.8	236.8
Tax on surplus on ordinary activities at standard UK corporation tax rate of 28% (2008: 30%)	58.4	71.0
FRS 17 pension and financing adjustments excluded for tax purposes	(0.5)	(0.5)
Decrease in general provisions not deductible for tax purposes	(1.0)	(1.4)
Other timing differences	1.2	0.3
Capital allowance in excess of depreciation	(39.3)	(40.2)
Chargeable gains	0.8	0.6
Tax losses	<u>(14.2)</u>	<u>(24.9)</u>
Current tax charge for the year	<u>5.4</u>	<u>4.9</u>

Notes to the financial statements

For the year ended 31 March 2009

9 Tangible fixed assets

Group	Specialised operational properties & structures £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery & vehicles £m	Assets under construction £m	Total £m
Cost						
At 1 April 2008	1,956.0	61.5	2,098.6	1,036.2	871.0	6,023.3
Additions	-	-	-	0.5	701.3	701.8
Disposals	(5.3)	-	-	(1.9)	-	(7.2)
Transfers	110.5	2.8	166.2	200.8	(480.3)	-
At 31 March 2009	2,061.2	64.3	2,264.8	1,235.6	1,092.0	6,717.9
Depreciation						
At 1 April 2008	596.7	23.6	1,051.8	531.1	-	2,203.2
Charge for the year	51.6	0.8	104.2	110.0	-	266.6
Disposals	(3.8)	-	-	(1.9)	-	(5.7)
At 31 March 2009	644.5	24.4	1,156.0	639.2	-	2,464.1
Net book value						
At 31 March 2009	1,416.7	39.9	1,108.8	596.4	1,092.0	4,253.8
At 31 March 2008	1,359.3	37.9	1,046.8	505.1	871.0	3,820.1

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 fixed asset category.

Capital grants received during the year and credited to deferred income were nil (2008: £2.9m). No capital grants were received during the year in respect of infrastructure assets.

Company	Specialised operational properties & structures £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery & vehicles £m	Assets under construction £m	Total £m
Cost						
At 1 April 2008	1,956.0	61.5	2,098.6	1,029.4	871.0	6,016.5
Additions	-	-	-	-	700.5	700.5
Intercompany transfer	(1.2)	-	-	-	(2.2)	(3.4)
Disposals	(5.3)	-	-	(1.9)	-	(7.2)
Transfers	108.0	2.8	166.2	200.8	(477.8)	-
At 31 March 2009	2,057.5	64.3	2,264.8	1,228.3	1,091.5	6,706.4
Depreciation						
At 1 April 2008	596.7	23.6	1,051.8	525.0	-	2,197.1
Charge for the year	51.5	0.8	104.2	109.3	-	265.8
Intercompany transfer	-	-	-	-	-	-
Disposals	(3.8)	-	-	(1.9)	-	(5.7)
At 31 March 2009	644.4	24.4	1,156.0	632.4	-	2,457.2
Net book value						
At 31 March 2009	1,413.1	39.9	1,108.8	595.9	1,091.5	4,249.2
At 31 March 2008	1,359.3	37.9	1,046.8	504.4	871.0	3,819.4

Notes to the financial statements

For the year ended 31 March 2009

10 Investments

	Company	
	2009	2008
	£m	£m
At 1 April 2008	34.6	-
Additions	3.0	44.2
Disposals	-	(9.6)
At 31 March 2009	37.6	34.6

Group

Investment in Joint Arrangement Non Entity (JANE)

On 26 June 2002 Scottish Water formed a company, Scottish Water Solutions Limited. This company, which commenced trading on 30 June 2003 and is jointly owned with Stirling Water Limited and UUGM Limited, is delivering a majority of Scottish Water's capital investment programme over the current regulatory period. The nature of the contractual agreement between Scottish Water and the other shareholders in Scottish Water Solutions Limited is such that the parties are engaged in joint activities that do not constitute an entity carrying on a trade or business in its own right. Consequently, Scottish Water Solutions Limited has been accounted for, under FRS 9 'Associates and Joint Ventures', as a JANE.

Details of the investments are as follows:

	Country of incorporation	% of Equity & votes held	Investment Value £	Principal activity
Scottish Water Solutions Limited	Scotland	51.0	510	Contracting services

Company

Investment in subsidiaries

On 1 April 2008 Scottish Water transferred the commercial, non regulated activities into separate legal entities. For this purpose, two wholly owned subsidiary companies were set up - Scottish Water Horizons Holdings Limited (SWHH) and Scottish Water Horizons Limited (SWH). SWH is the operating company, while SWHH is the intermediate holding company, owning 100% of the shares in SWH.

Principal subsidiary undertakings	Country of incorporation	% of Equity & votes held	Investment Value £m	Principal activity
Scottish Water Business Stream Holdings Limited	Scotland	100.0	34.6	Holding company
Scottish Water Horizons Holdings Limited	Scotland	100.0	3.0	Holding company
Scottish Water Business Stream Limited *	Scotland	100.0	11.5	Licensed water and waste water services
Scottish Water Horizons Limited **	Scotland	100.0	-	Commercial non regulated water and waste water services

Notes:

* owned by Scottish Water Business Stream Holdings Limited

** owned by Scottish Water Horizons Holdings Limited

Scottish Water owns shares in a further ten companies, which did not trade during the year ended 31 March 2009. The companies' financial statements have not been consolidated as permitted by Section 229 of the Companies Act 1985, as they did not trade during the year and the issued share capital is immaterial.

11 Stocks

	Group		Company	
	2009	2008	2009	2008
	£m	£m	£m	£m
Raw materials and consumables	2.3	3.0	2.3	3.0
Work in progress - recoverable work	0.9	0.9	0.6	0.9
	3.2	3.9	2.9	3.9

Notes to the financial statements

For the year ended 31 March 2009

12 Debtors

	Group		Company	
	2009	2008	2009	2008
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	62.0	64.3	29.5	36.6
Other debtors	22.2	34.3	22.6	34.8
Prepayments and accrued income	53.3	57.0	13.2	18.5
Corporation tax	0.5	-	0.5	-
Amounts due from subsidiary companies			0.7	0.3
Loans to Scottish Water Business Stream Holdings Limited			-	58.5
	138.0	155.6	66.5	148.7
Amounts falling due after more than one year:				
PFI assets transferred to service contractors	30.6	32.3	30.6	32.3
	168.6	187.9	97.1	181.0

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

13 Cash

The total cash balance at 31 March 2009 was £75.2m, of which £15.9m related to the Company.

14 Creditors

	Group		Company	
	2009	2008	2009	2008
	£m	£m	£m	£m
Amounts falling due within one year:				
Non-government loans	2.9	8.0	2.9	8.0
Trade creditors	25.7	20.7	23.9	20.6
Capital creditors and accruals	27.7	39.0	27.7	38.9
Accruals	154.7	157.8	126.1	131.8
Payments received in advance	33.7	28.4	31.2	28.0
Other creditors	19.1	19.1	10.0	11.2
Deferred income	5.3	2.3	1.8	2.3
Corporation tax	2.6	2.6	-	-
Other taxes and social security	2.8	2.8	2.7	2.7
Amounts due to subsidiary companies		-	28.4	19.0
Amounts due to Scottish Water Solutions Limited	24.5	32.6	24.5	32.6
	299.0	313.3	279.2	295.1
Amounts falling due after more than one year:				
Non-government loans	7.2	10.0	7.2	10.0
Other creditors	39.0	39.1	38.5	38.8
Deferred income	24.6	26.1	19.3	26.1
	70.8	75.2	65.0	74.9

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

Notes to the financial statements

For the year ended 31 March 2009

15 Deferred taxation

	Group		Company	
	2009	2008	2009	2008
	£m	£m	£m	£m
Deferred taxation comprises:				
Accelerated capital allowances on fixed assets	338.3	284.2	338.6	285.2
Other timing differences	(20.6)	(17.4)	(20.1)	(17.4)
Tax losses carried forward	(16.9)	(24.5)	(16.9)	(24.5)

Provision for deferred taxation

	300.8	242.3	301.6	243.3
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The movement in deferred taxation can be analysed as follows:

At 1 April	242.3	205.8	243.3	205.8
Deferred tax charged to the income and expenditure account	58.5	36.5	58.3	37.5

At 31 March

	300.8	242.3	301.6	243.3
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Being:

Deferred tax asset	(0.2)	(1.0)	-	-
Deferred tax liability	301.0	243.3	301.6	243.3

At 31 March

	300.8	242.3	301.6	243.3
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16 Provisions for liabilities and charges

Group

	Restructure provision £m	Income uncertainty provision £m	Other £m	Net total £m
At 1 April 2008	5.4	8.9	0.5	14.8
Charged to income and expenditure account	3.9	1.7	-	5.6
Utilised during the year	(0.7)	(0.4)	(0.2)	(1.3)
At 31 March 2009	8.6	10.2	0.3	19.1

Company

	Restructure provision £m	Income uncertainty provision £m	Other £m	Net total £m
At 1 April 2008	5.4	8.9	0.5	14.8
Charged to income and expenditure account	3.5	1.7	-	5.2
Utilised during the year	(0.7)	(0.4)	(0.2)	(1.3)
At 31 March 2009	8.2	10.2	0.3	18.7

The restructuring provision relates to redundancy costs associated with employees who will leave Scottish Water under 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 (note 21).

The income uncertainty provision relates to wholesale non domestic revenues.

The other provision of £0.3m relates to onerous property rental costs which will be utilised over the next three years.

Notes to the financial statements

For the year ended 31 March 2009

17 Government and other loans

	Group		Company	
	2009	2008	2009	2008
	£m	£m	£m	£m
Government loans	2,842.9	2,615.2	2,784.4	2,615.2
Other loans	10.1	18.0	10.1	18.0
	2,853.0	2,633.2	2,794.5	2,633.2

Scottish Water's borrowing powers are defined in Section 42 of the Water Industry (Scotland) Act 2002. The limit at 31 March 2009 on these powers was that total net new borrowings for the year ended 31 March 2009 should not exceed £219.8m. Net new borrowings were £219.8m in the year.

Government loans, both short and long-term, are recorded on the balance sheet under Capital and Reserves in accordance with the Corporate Governance Direction. Other debt is recorded under short and long-term creditors following best practice.

a. Analysis of borrowings by type and maturity

	Up to 1 year	1-2 years	3-5 years	6-10 years	Over 10 years	Total
	£m	£m	£m	£m	£m	£m
Scottish Consolidated Fund - SW Company	87.6	22.4	133.0	188.5	1,336.8	1,768.3
Scottish Consolidated Fund - subsidiaries	58.5	-	-	-	-	58.5
Scottish Consolidated Fund - SW Group	146.1	22.4	133.0	188.5	1,336.8	1,826.8
National Loans Fund	18.0	5.0	62.0	104.0	590.9	779.9
Public Works Loan Board	12.6	39.0	38.8	111.5	34.3	236.2
Total Government Loans	176.7	66.4	233.8	404.0	1,962.0	2,842.9
Other loans	2.9	1.5	4.2	0.5	1.0	10.1
At 31 March 2009	179.6	67.9	238.0	404.5	1,963.0	2,853.0
At 31 March 2008	187.0	66.4	220.6	336.9	1,822.3	2,633.2

b. Interest rate profile

The interest rate profile of all borrowings, which were obtained with fixed interest rates, was as follows:

	Total borrowings	Weighted average	Weighted average period
	£m	interest rate	for which rate is fixed
		%	Years
At 31 March 2009	2,853.0	5.50	18.20
At 31 March 2008	2,633.2	5.83	17.20

c. Fair values

The table below sets out a comparison of the book and fair values of the loan debt.

	Book value	Fair value
	£m	£m
At 31 March 2009	2,853.0	3,233.0
At 31 March 2008	2,633.2	2,856.6

Notes to the financial statements

For the year ended 31 March 2009

18 Reserves

Group	Income & expenditure account reserve excluding pension reserve £m	Pension reserve £m	Income & expenditure account reserve including pension reserve £m
At 1 April 2008	639.6	24.1	663.7
Retained surplus for the year	144.9	-	144.9
Actuarial profit net of deferred taxation (note 21)	-	(134.7)	(134.7)
At 31 March 2009	784.5	(110.6)	673.9

Company	Income & expenditure account reserve excluding pension reserve £m	Pension reserve £m	Income & expenditure account reserve including pension reserve £m
At 1 April 2008	633.8	24.0	657.8
Retained surplus for the year	136.2	-	136.2
Actuarial profit net of deferred taxation	-	(134.1)	(134.1)
At 31 March 2009	770.0	(110.1)	659.9

19 Results of the holding company

Of the results for the financial year, a retained surplus of £136.2m (2008: £184.2m) is dealt with in the consolidated accounts of Scottish Water. The Members have taken advantage of the exemption available under section 230 of the Companies Act 1985 and do not present an income and expenditure account for Scottish Water alone.

20 Obligations under leases

Scottish Water had no amounts due under finance leases.

At 31 March 2009 the Group and the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings £m	Other £m	PFI schemes £m	Total 2009 £m	Total 2008 £m
Within one year	-	0.5	-	0.5	0.7
Between two and five years	0.4	0.9	-	1.3	0.6
After five years	1.3	-	133.3	134.6	131.9
	1.7	1.4	133.3	136.4	133.2

PFI schemes

As at 31 March 2009 there were nine PFI contracts in operation with contract start dates ranging from December 1996 to October 2000 and contract end dates ranging from December 2021 to October 2040.

Notes to the financial statements

For the year ended 31 March 2009

21 Pensions

Employees of Scottish Water participate in the Aberdeen City Council Pension Fund, the Lothian Pension Fund and the Strathclyde Pension Fund, which are part of the Local Government Pension Scheme administered by Aberdeen, Edinburgh and Glasgow City Councils respectively. The schemes provide defined benefits based on final pensionable pay. Actual pension costs for the year for each fund, as a % of employee contributions, were 300% (2008: 285%), 370% (2008: 355%) and 325% (2008: 295%) respectively.

Total FRS 17 pension costs for Scottish Water were £12.5m (2008: £17.9m) (note 4). The unpaid contributions outstanding at the year end included in other creditors (note 14) was £1.8m (2008: £1.6m). It is estimated that Scottish Water will make contributions of £18.5m to the pension funds in financial year 2009/10.

A full actuarial valuation was carried out at 31 March 2008 for all three funds and updated at 31 March 2009 by a qualified independent actuary, to take account of the requirements of FRS 17.

The major assumptions used by the actuaries were:

	2009	2008	2007
	%	%	%
Rate of increase in pensionable salaries	4.6	5.1	4.7
Rate of increase in pensions payment	3.1	3.6	3.2
Discount rate	6.5	6.9	5.4
Inflation rate	3.1	3.6	3.2

Longevity assumptions on retiring at age 65 adopted for each fund

	Aberdeen Years	Lothian Years	Strathclyde Years
Retiring at 31 March 2009			
Male staff	22.02	20.72	20.05
Male operatives	22.02	18.03	17.30
Female staff	23.97	23.76	23.02
Female operatives	23.97	21.95	21.15
Retiring at 31 March 2029			
Male staff	23.10	22.04	21.31
Male operatives	23.10	19.22	18.51
Female staff	24.95	25.01	24.22
Female operatives	24.95	23.10	22.32

The sensitivities regarding the principal assumptions used to measure the liability in the Funds are:

Assumption	Change in assumption	Approximate impact on FRS 17 liability as at 31 March 2009 %	Approximate impact on FRS 17 deficit as at 31 March 2009 £m
Rate of increase in pensionable salaries	+/- 0.5% per annum	Increase / decrease by c. 3.5% - 4.5%	Increase / decrease by c. £29m to £38m
Discount rate	+/- 0.5% per annum	Decrease / increase by c. 9% - 10%	Decrease / increase by c. £75m to £84m
Inflation rate	+/- 0.5% per annum	Increase / decrease by c. 9% - 10%	Increase / decrease by c. £75m to £84m
Longevity	+ life expectancy by 1 year	Increase by c. 3.5% - 4.5%	Increase by c. £29m to £38m

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

	Group				Company			
	Long term rate of return %	Value 2009 £m	Long term rate of return %	Value 2008 £m	Long term rate of return %	Value 2009 £m	Long term rate of return %	Value 2008 £m
Equities	7.0	461.2	7.7	557.0	7.0	458.3	7.7	554.9
Bonds	4.4	77.3	5.7	84.4	4.4	76.7	5.7	84.0
Property	4.9	51.1	5.7	76.7	4.9	50.8	5.7	76.4
Other	0.5	25.9	4.8	31.3	0.5	25.7	4.8	31.3
Total fair value of assets		615.5		749.4		611.5		746.6
Present value of scheme liabilities		(838.9)		(796.9)		(834.4)		(794.2)
Gross pension liability		(223.4)		(47.5)		(222.9)		(47.6)
Related deferred tax asset		62.5		13.3		62.4		13.3
Net pension liability		(160.9)		(34.2)		(160.5)		(34.3)

Scheme assets are stated at their bid values in line with revised FRS 17 disclosure requirements.

Notes to the financial statements

For the year ended 31 March 2009

21 Pensions (continued)

Reconciliation of opening and closing retirement benefit liabilities and assets

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Movements in liabilities during the year:				
Opening value of total liabilities	(796.9)	(927.7)	(794.2)	(927.7)
Current service cost	(12.5)	(17.9)	(12.2)	(17.6)
Interest on pension scheme liabilities	(54.7)	(50.1)	(54.4)	(49.9)
Contributions by members	(5.7)	(5.3)	(5.5)	(5.2)
Actuarial gain	1.0	179.8	1.1	178.9
Impact of settlements and curtailments	(0.9)	(0.8)	-	2.2
Benefits paid	30.8	25.1	30.8	25.1
Closing value of total liabilities	(838.9)	(796.9)	(834.4)	(794.2)
Movement in assets during the year:				
Opening fair value of total assets	749.4	777.9	746.6	777.9
Adjustment for restatement of asset value to bid value at 31 March 2007	-	(2.6)	-	(2.6)
Expected return on pension scheme assets	53.3	55.4	53.0	55.2
Contributions by members	5.7	5.3	5.5	5.2
Contributions by the employer	21.9	19.3	21.4	19.0
Actuarial loss	(184.0)	(80.7)	(183.5)	(80.4)
Impact of settlements and curtailments	-	-	(0.7)	(2.5)
Benefits paid	(30.8)	(25.2)	(30.8)	(25.2)
Closing fair value of assets	615.5	749.4	611.5	746.6
Gross deficit in the schemes at 31 March	(223.4)	(47.5)	(222.9)	(47.6)
Actuarial gain/loss in the statement of total recognised gains and losses (STRGL)				
	2009 £m	2008 £m	2009 £m	2008 £m
Variance between pension fund actuarial assumptions and actual experience	(183.0)	99.0	(182.4)	98.4
Impact of settlements and curtailments	(0.9)	(0.8)	(0.7)	(0.3)
Adjustment for restatement of asset value to bid value at 31 March 2007 and deferred tax	-	(2.6)	-	(2.6)
Gross actuarial (loss)/gain recognised in the pension fund	(183.9)	95.6	(183.1)	95.5
Deferred tax movement	49.2	(31.6)	49.0	(31.6)
Net actuarial (loss)/gain recognised in the Statement of total recognised gains and losses	(134.7)	64.0	(134.1)	63.9

Notes to the financial statements

For the year ended 31 March 2009

21 Pensions (continued)

History of experience gains and losses

	Group		Company		2007	2006	2005
	2009	2008	2009	2008			
	£m	£m	£m	£m	£m	£m	£m
Difference between the expected and actual return on scheme assets:							
Amount	(184.0)	(80.7)	(183.5)	(80.4)	1.7	89.4	16.0
Value of assets	615.5	749.4	611.5	746.6	777.9	720.0	558.9
Percentage of scheme assets	(29.9)%	(10.8)%	(30.0)%	(10.8)%	0.2%	12.4%	2.9%
Experienced gains/(losses) on scheme liabilities:							
Amount	13.1	(0.3)	13.3	(0.3)	(5.3)	(4.0)	10.5
Present value of liabilities	838.9	796.9	834.4	794.2	927.7	955.7	761.8
Percentage of the present value of scheme liabilities	1.6%	(0.0)%	1.6%	(0.0)%	(0.6)%	(0.4)%	1.4%
Changes in assumptions underlying the present value of scheme liabilities:							
Amount	(12.1)	180.0	(12.2)	179.1	79.4	(114.1)	(15.6)
Percentage of the present value of scheme liabilities	(1.4)%	22.6%	(1.5)%	22.6%	8.6%	(11.9)%	(2.0)%
Total variance between pension fund actuarial assumptions and actual experience	(183.0)	99.0	(182.4)	98.4	75.8	(28.7)	10.9
Gross deficit in the schemes at 31 March	(223.4)	(47.5)	(222.9)	(47.6)	(149.8)	(235.7)	(202.9)

22 Capital commitments

The Group (and Company) has contracted capital commitments of £340.3m (2008: £677.9m) at the balance sheet date.

23 Contingent liabilities

In May 2007 a material legal claim was received from Caledonian Environmental Services Ltd (CES), the Concessionaire in respect of Levenmouth PFI Project, relating to alleged losses arising under the PFI contract between Scottish Water and that company. The claim originates from an action raised by Degremont Societe Anonyme and Amec Capital Projects Limited under their Design and Construction Contract (DCC) and the extent of CES's claim against Scottish Water will depend on the outcome of that claim. Defences were lodged and the action has been sisted until the resolution of the DCC claim.

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 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

The 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 Bylaws (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.

24 Related party transactions

Scottish Water is a public corporation of a trading nature sponsored by The Scottish Government. In terms of FRS 8 'Related Party Transactions', the Scottish Government is regarded as a related party. During the year Scottish Water has had various material transactions with the Scottish Government and with entities for which the Scottish Government is regarded as the parent.

In the course of normal operations, Scottish Water contracted on an arms-length basis with Scottish Water Solutions Limited, a Joint Arrangement between Scottish Water, Stirling Water Limited and UUGM Limited. The aggregate transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below:

	2009	2008
	£m	£m
Sales and costs charged to Scottish Water Solutions Limited	11.4	21.6
Purchases from Scottish Water Solutions Limited	(347.2)	(323.1)
Amounts due to Scottish Water Solutions Limited (note 14)	24.5	32.6

Notes to the financial statements

For the year ended 31 March 2009

25 Financial instruments

Scottish Water's financial instruments comprise cash, borrowings, certain provisions for liabilities and charges and items such as trade debtors and trade creditors arising in the ordinary course of business. No trading in derivative financial instruments was undertaken.

Fair values of financial assets and liabilities

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 balance sheet but the fair value is disclosed in Note 17.

Risks and uncertainties

The management of Scottish Water and the execution of its 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 Corporate Governance report on pages 29 to 31.

(a) Operational and business risk

This is the risk of loss resulting from inadequate or failed internal processes and systems, or from external events. It also includes losses due to external factors such as the market situation or government regulations. Reputational risk is included in this category. The risk register and risk management processes identify key operational and other risks and are reviewed on a regular basis.

(b) 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. 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.

(c) Liquidity risk

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.

26 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.

27 Regulatory information

The Water Industry Commission (the 'Commission') has the general function of promoting interests for customers in relation to the provision of core services. The Commission determines Scottish Water's price limits and approves Scottish Water's annual charges scheme.

The Commission monitors Scottish Water's performance on efficiency and customer service and approves our code of practice. Each year the Commission publishes reports on the exercise of its functions. In preparing these reports, the Commission assesses our 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 Commission 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

In March 2009 the Scottish Government issued The Scottish Water Governance Directions 2009, which superseded all previous Governance Directions. These Directions are available on the Scottish Government web site.

Under the Directions, 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	Assynt WWtW upgrade Turret WTW upgrade Glencorse WTW Aviemore (Blackpark) WTW Philipshill WWTW upgrade Alness & Invergordon WWTW Phase 2	£17.6 million £25.5 million £107.5 million £18.4 million £10.5 million £19.6 million
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	None	-
Gifts	£100	None	-