INTERIM REPORT AND ACCOUNTS 2023:
PERFORMANCE AND PROSPECTS
FOR THE SIX MONTHS TO 30 SEPTEMBER 2023

Scottish Water
Trusted to serve Scotland

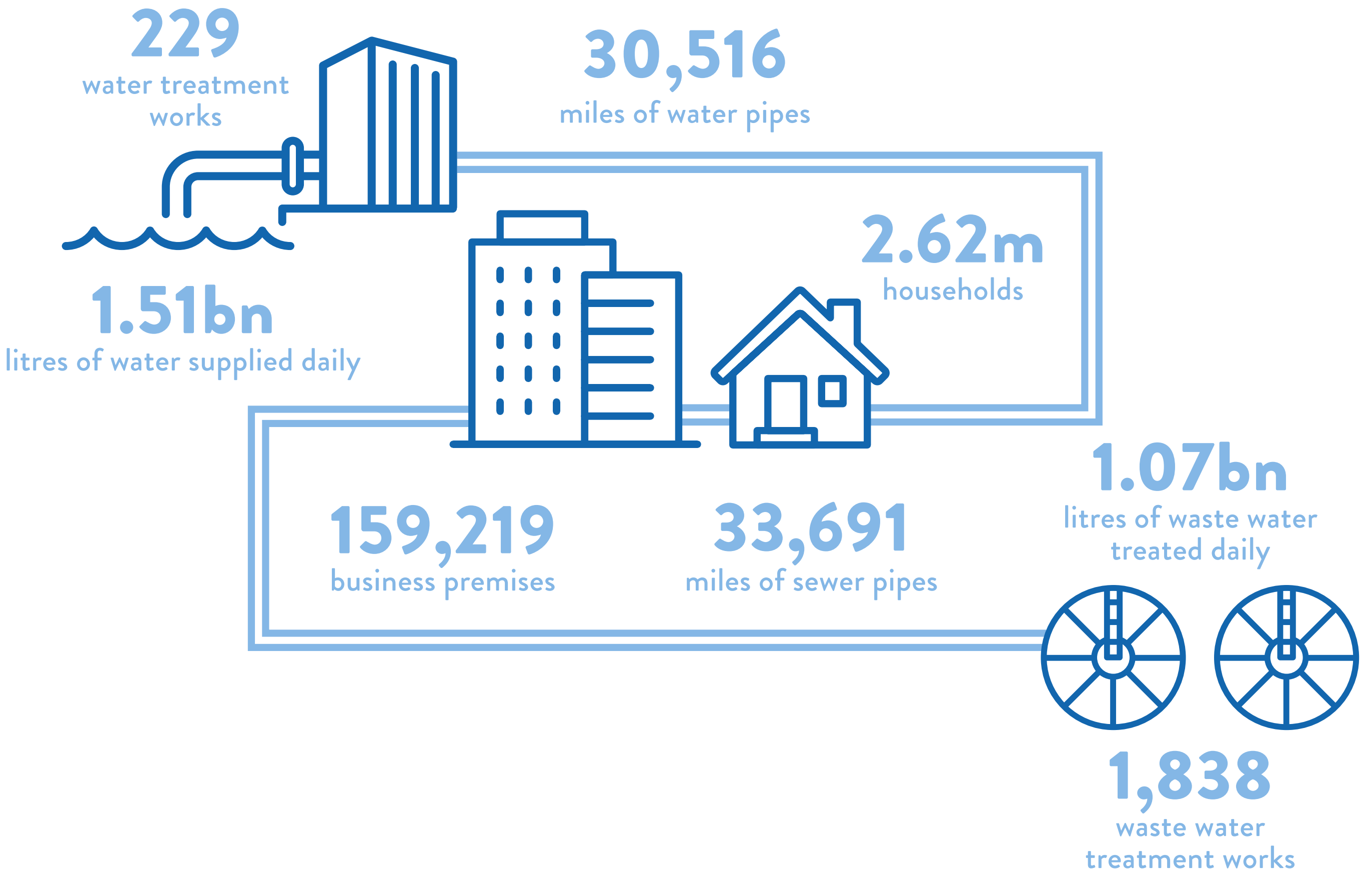
CONTENTS

SCOTTISH WATER'S VITAL ROLE

Every day we:

- deliver 1.51 billion litres of clear, fresh drinking water; and
- remove 1.07 billion litres of waste water which we treat, recover resources from and return safely to the environment.
- Our services support over 2.6 million households and more than 159,000 business premises across Scotland.
- With more than 60,000 miles of pipes and over 2,000 treatment works we support communities across Scotland.
- In the six months to September 2023 we have delivered £400 million of planned investment. £70 million more than the first six months of 2022/23.

OUR VITAL ROLE COVERS:



GOVERNANCE

SCOTTISH WATER MEMBERS AND CORPORATE ADVISERS

Executive Members

Alex Plant, Chief Executive
(Douglas Millican retired as Chief Executive on 31 May 2023)
Peter Farrer, Chief Operating Officer
Alan P Scott, Strategy Director

Non-executive Members

Dame Susan Rice, DBE, Chair
Graham Dalton
Steven Dickson
Iain M Lanaghan
Ken Marnoch
Deirdre Michie, OBE
Catriona Schmolke

Independent Auditors

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

CHAIR'S STATEMENT
DAME SUSAN RICE

Over the past eight years as Chair, I have never failed to be impressed with the commitment of our people at Scottish Water to achieving the best results they can for our customers. They strive to deliver a world class water and waste water service. But, even with this positive work ethic, there is no doubt as I prepare to hand this privileged baton over to my successor that unsettling and uncertain times lie ahead.

Like other water companies in the UK, and beyond, we have seen increasing public and political focus not only on our performance but also on financial resilience as we invest for the future in a sustainable and responsible way. Of course, as a public body investing public money for public services we know scrutiny and accountability is vital. There will be tough questions which require to be answered and explanations around difficult trade-offs so people have a greater understanding and awareness of what we make a priority and why.

What has become increasingly obvious – and more challenging in terms of forward planning and levels of investment needed – Scotland's climate has changed rapidly and will continue to change. We've seen the ten warmest years on record occur in the last 25 years – data from the Met Office highlighted temperatures UK-wide reached record highs in June.

Rainfall patterns are changing too with warmer and wetter winters and drier summers with lower-than-average rainfall. More intense storms are leading to increased instances of localised flooding.

A statistic that really stood out this summer was how ten days' worth of rain fell in just 60 minutes at Hampden Park in Glasgow on a single day in June. Scientists predict this year will be the warmest on record*. There is every chance next year, or the one after, could top that. Winter rainfall across Scotland has also changed – with Met Office data highlighting how winters are 9% wetter now than 30 years ago.

The increasingly unpredictable weather makes it much harder for organisations like ours to plan and prepare. We can no longer easily predict where, when and for how long we will need additional resource. So, what do we need to do? It's clear tackling current and future challenges – not just in terms of unpredictable weather but also our ageing assets, retaining and recruiting key staff and doing more to protect our coasts, waterways, sources and resources – will take ambition, vision and energy and huge amounts of them. Innovation, learning and collaboration, done to the highest standards, are essential ways in which we can overcome ever-changing challenges and continue to drive our performance.

As a Board, we focus on risks, how to manage them and try to understand and oversee mitigation of the escalating long-term risks we face. There are no easy decisions about the trade-offs that will be needed to help us address these challenges but address them we must. The question is at what cost? Without a never-ending pot of money it is inevitable that one thing will have to take priority over something else. And it is a juggle trying to ensure what can and should be done to help Scotland flourish now as well as in the future.

What I see as a key factor is an increasing need for agility. I know this is a word that might not automatically spring to mind for an organisation like Scottish Water, whose work includes planning for decades into the future. We are fortunate to now be in the third year of our Plan for Transformation; one of its objectives is to make us a far more agile organisation. This should help us create the flow, speed and flexibility to be more efficient, relevant and responsive. Becoming a purpose driven organisation ready and able to tackle challenges and do all we can to be one step ahead.

At its heart it is about preparing for what the future will hold while still solving the issues we face today. Water companies plan and invest with the very long-term in mind (just look at what the Victorians built and left for us). To run any good business you need to take risks, and the more informed and confident you are the better those decisions will be. Our programme of transformation is a long-term vision and it is heartening to see it already start to empower and enable us to understand what we need to do and how best to do it – but we cannot afford to lose pace or focus in this no matter what stands in our way, be it weather, the economy or anything else.

Of course, it goes without saying that no matter how well you plan a dedicated workforce is essential. You are only as good as your people enable you to be. And from day one of my work with Scottish Water I have seen the dedication of colleagues in abundance. In business you always talk about the purpose of the work you do; indeed, I've yet to meet anyone in this organisation who did not know how their own role played a part in Scottish Water's core mission. I've talked to people from many different teams here and when I ask them what they do, they almost always have the same response. They say their work is to deliver the highest possible standard of water and waste water services for the people of Scotland. I've worked in many different businesses over the years and I truly can say that this clarity about purpose is very unusual. It's something which helps make Scottish Water what it is and it is priceless. It is this sort of dedication that delivers results.

*Data from the EU's Copernicus Climate Change Service, October 2023

It is this sort of hard work and accountability, I am sure, that helped Scottish Water top a poll which asked contractors, consultants and suppliers to vote for the best water company they had worked alongside. Carried out by British Water, the annual UK Water Company Performance Survey asked them to rate their clients' performance in 12 areas, including professionalism, contractual approach and communication and this year we claimed the number one spot.

As one of just two publicly-owned water companies in the UK – who have a duty to meet not only their government's ministerial objectives but also the obligations within the UK Corporate Governance Code – we should be rightly very proud when we get such external recognition. What we do is not easy – we are in one of the most regulated sectors and work to the highest of standards – so well done to everyone who helped achieve this.

This makes me think of the many times I have been asked what it was that made me say yes when I was approached to become Chair of Scottish Water. In a nutshell, it was the ambitions and character of the organisation which I found to be so in line with my own personal values. I believe in public service and in running a business which shows great care and responsibility for all its resource – customers, people, intellectual and financial. I truly believe Scottish Water is one such organisation and almost a one-off in this regard and I am immensely proud and privileged to have been Chair for the last eight years.

While this is my final statement in that role, what follows is the first for our new Chief Executive Alex Plant who took over from Douglas Millican in June. I worked alongside Douglas for most of my time as Chair, sharing the burdens and triumphs of managing a complex and essential business; the Board joins me in thanking him for exceptional service and leadership. I want to thank the wider Board as well for the thoughtful and rigorous commitment they bring to the role and the support they've given me.

Deirdre Michie OBE will succeed me as Chair on 1 January. She has served as a Non-executive Member of the Board for nearly six years and brings deep knowledge of Scottish Water and of Scotland, along with boundless energy and a breadth of experience. Alex, who has only been with us since June, has already shown strong, caring and bold leadership. Together, I'm confident that their drive and ambition – along with that of the Board – will continue to shape this proud and vital organisation with positivity and innovation.

Finally, as a customer, I'll be keeping a keen eye on how Scottish Water continues to provide the level of service it does as it changes to adapt to the challenges it will face. And whenever I'm in a restaurant in Scotland, I shall continue with a sense of pride to order tap water so that I get the best Scotland has to offer, its very own Scottish Water. I urge you all to do the same.

Dame Susan Rice
Chair, Scottish Water
December 2023

CHIEF EXECUTIVE'S REPORT
ALEX PLANT

I'm enormously proud to be leading an organisation that delivers vital life-supporting services every day to communities the length and breadth of Scotland – from our bustling big cities to our vibrant rural communities, and to the remarkable people and businesses on our islands. I am already under the spell of Scotland's beauty – and excited about the opportunities we have as a country to lead the way in reducing emissions and charting a more sustainable future, with Scottish Water playing a central role in that transition.

Delivering the Water Sector Vision

One of the things that has struck me is the strong relationships in place between Scottish Water and regulators, local authorities, Scottish Government and other stakeholders – and the shared determination and vision across those organisations to work together to do what's best for Scotland.

Our regulators rightly hold us to account for the work we do and can take action should we fall short of expectations. However, the fact we share the same broad goals, as set out in the Water Sector Vision, and that we are able to work collaboratively towards their delivery is a great starting point.

This is a time of intense scrutiny for the water sector across the UK and I am determined to lead Scottish Water to a position where it is fully recognised as an exemplary and innovative organisation, a leader in sustainability, a great employer and a trusted partner.

I believe we can do this through delivering against our three strategic ambitions of: providing excellent services for customers, delivering great value for money and financial resilience, and going beyond net zero emissions whilst adapting to climate change.

Building from a strong platform

My priority in my first months in role has been to get out as much as I could, to begin to get to know the people who deliver our services in our communities. To really get to grips with how our organisation works. And to engage with customers and partner organisations to hear their thoughts on what we do, how we do it, and their expectations for the future.

And what a pleasure that has been! Our teams across the country fizz with pride and enthusiasm as they go about their jobs, working to meet the needs of all who rely on our services. And their ability to respond when things go wrong, as they do at times, is simply first class. It is abundantly clear to me that we start from a great place; the trust and pride our customers have in Scottish Water is evident, and this results from the great work done by so many colleagues over many years. I also know that this trust is hard won – and can be just as easily lost. So, we must continue to strive to do the right thing for customers, communities and for the country as a whole, both now and in the future.

It is my hope our customers will become an even greater part of our journey to achieving our strategic ambitions and wider purpose. We need to step up in terms of how we can help everyone to appreciate fully the precious and scarce resource that water is, to use only what is needed and to take actions that help to keep our waste water networks flowing freely. We all know water is vital to life and we all have our part to play in protecting how much we have, how we use it and and how we can improve the water environment. We are investing an additional £500 million to transform our waste water systems, including enhanced monitoring, to deliver more improvements to Scotland's water environment. Scotland already has one of the best quality water environments in Europe with 87% of waterways achieving "good' or better condition." for water quality. We want to play our full part in supporting further improvements, which will require collaboration across a range of sectors.

*(UKCSI National Benchmarking July 2023)

Performance highlights

We have made steady progress in most areas during the last six months - the first two of which were under the highly experienced leadership of my predecessor Douglas Millican. Douglas did so much to help me transition to this role with warmth, kindness and honesty. I want to thank him, the teams across Scottish Water, and Susan and the Board for their warm welcome.

I was very pleased customer satisfaction levels at this half-year point remain stable, even as general customer satisfaction rates across the wider economy are dipping*. Both our household and non-household Customer Experience Measures are within target. We never take these results for granted and I am keen we do even more to ensure customers receive the best service possible.

We're on track to deliver our significant capital investment programme for 2023/24 – our biggest to date. Major state-of-the art water and waste water projects are being delivered, which bring real and lasting benefits to many customers and communities.

I was hugely impressed with our newly opened water treatment works in Peebles, which was built using low carbon construction techniques that enabled us to halve the time it took to build and which provide options for the future should the population of the town grow. The site has the capacity to supply 4 million litres of drinking water a day thanks to the latest treatment technology. The innovative and flexible design used there will now form the blueprint for future works.

In waste water, we have started our Perth Strategic project. This will see us invest £110 million to upgrade the city's waste water network to facilitate significant population and economic growth. Another area where we are already helping expansion is Winchburgh where we installed a state-of-the-art waste water treatment works to support existing and proposed development in the West Lothian town. It uses Nereda technology which treats waste water more quickly and more effectively, including removing the need to use chemicals, which better protects the environment.

These are great examples of the vital role we play, and there are numerous others, not just in ensuring customers continue to have access to vital water and waste water services, but also how we can play our part in helping Scotland to flourish for generations to come.

Facing into strong headwinds

Despite these ongoing successes, there is no doubt we are facing into very strong headwinds – and that we will need sustained investment, innovative approaches and collaborative working to chart a sustainable course.

The combined pressures of climate change, ageing assets that were not designed to cope with today's more frequent extreme weather events, population change, high inflation and increased public awareness of the value of our natural environment (something I very much welcome) mean we must continue to raise our game.

I don't mean just in terms of investment levels but by changing the way we work and how we think. We need to be bolder, more innovative and more collaborative. More of what we do in the future will involve nature-based solutions alongside traditional engineering approaches. And I want us to work more effectively with our customers to help them to become active participants in the changes we need to make as a society, not just passive recipients of a service.

Extreme weather - as is becoming the new 'norm' – played a major part in our work in the first half of this year. The hot period of weather in May and June saw average reservoir levels across Scotland drop to just 72% capacity – 14% below average for that time of year. We stepped up our drought contingency planning with 29 reservoirs in "drought trigger" at one point. This is when we track the severity of shortages to help determine if and when we need to take action such as rezoning and tankering to ensure customers are kept in supply. And yet, by the end of the first half of this year, our reservoir levels were above average due to the particularly wet end of summer weather. All of this is further evidence of the unpredictability of weather we now face and how we need to do much more to become more resilient to such climate patterns.

The good news is we are gaining more experience with every incident that happens and use learning of what worked and what could have been done better to expand and update our resilience plans.

This has helped us more effectively manage risks to customer supplies and water quality, including in June when we took emergency action on Skye. We asked for special permission to abstract water from a loch at a deeper level than normal to maintain supply. We were just two days away from a burn – fed by the loch which we take our water from – running dry.

This has never happened before and we have never seen supply at this site reduce so quickly. And I doubt this will be a one-off – climate change means we can expect more of the same. We will continue to assess and update the way we work to maintain our services but we cannot hide from the fact that weather is becoming more extreme and unpredictable. This will require sustained investment to ensure that the services we provide to customers remain resilient.

The volume of water in demand across the country rose significantly during the dry and hot spell. For part of June, increased demand led to us having to increase the amount of water in the network by 200 million litres every day – that's the equivalent of 100 Olympic-sized swimming pools. Whilst we need to become more resilient to cope with fluctuations in demand, we also need to help our customers to play their part in only using the water they need.

In terms of flooding, we endured a particularly severe storm in October. Our people did a first-class job battling against the impacts of Storm Babet to ensure thousands of customers' vital water and waste water services continued without interruption.

We used learning from previous incidents, notably Storm Arwen in 2021, to deploy emergency generators to sites mainly in the north and north-east areas facing a loss of power. We also ensured we had teams out fixing pipes, adjusting battery sources and resetting equipment including water pumps where they were most needed, allowing us to maintain supply for customers.

A number of our assets were damaged in the storm, including our waste water treatment works at Brechin which was completely flooded and inaccessible, but taking speedy action as soon as we knew the storm was on its way made a huge difference. The way we prepared and responded to the extreme challenges such severe weather poses to critical infrastructure was exemplary and we will use everything we learned from how we handled Storm Babet to prepare for future severe weather events.

Like everyone else, we are having to pay more for goods and services due to the inflation rises. Over the last two years construction prices have been among the highest for many years meaning in real terms that our buying power is reduced. As one of the country's biggest infrastructure investors we are very exposed to fluctuating costs, particularly in relation to construction costs and in certain key supply areas such as chemicals for treatment.

Need for sustained investment

Even before I moved into this role, I very much championed the wisdom of the Strategic Review of Charges in 2021 (SR21), which set a trajectory of increased investment to enable progress towards the Water Sector Vision and avoided "kicking the can down the road" on essential asset replacement. Under the aegis of SR21, Scottish Water plans to significantly increase our year-on-year investment levels, whilst delivering a challenging 1% efficiency target each year, in line with the expectations of regulators and the Scottish Government and making progress towards the delivery of Ministerial Objectives.

Recognising the very difficult economic circumstances facing households, our Board decided to set a lower level of charges in 2021/22 and 2022/23 than was allowed for in the SR21 settlement, resulting in a reduction of £0.5 billion in the level of funding available for investment over the 2021-2027 regulatory period.

Our revised Investment Planning Scenario therefore aims to ensure we maintain the increased levels of repairs and replacements required to our existing assets, whilst also balancing investment needs in other priority areas. This has meant that, this year, we have had to slow down the rate at which we can progress some of the regulatory and customer service improvements we planned to undertake. This includes less investment to reduce the risk of sewer flooding to properties, and reduced investment available to support new development in areas where waste water treatment capacity is currently constrained. These are not easy decisions to make and highlight our need for ongoing sustained higher levels of investment.

While we are yet to set customer charges for 2024/25, we know the level of cost pressures compared to available funding is going to be challenging for the rest of this year and beyond.

Put simply, if we fall short of the funding we need, we will not be able to maintain the vital services we deliver, and we will see an increase in the number of our assets which fail. Investing even at the current increased level means we are not replacing assets at the rate we need to given the age of our assets and the increased pressure on them from a harsher climate.

In the first half of this year we have spent £142 million on repairs to ageing assets – this is £41 million more than at the same time last year. And we forecast that by the end of this year our total annual repair bill could be up to 27% higher than last year. This underlines the importance of doing more to plan ahead to upgrade and replace the essential assets on which our customers depend.

I am pleased our level of service remains high and that Scottish Water is so highly regarded. But without the necessary levels of investment to adapt to climate change and to get ahead of the curve in replacing assets that are past their sell-by date and could soon cost more to repair than replace, those service levels will be at risk. This is why we must secure the right levels of investment going forward – and enable the resolution of hugely difficult decisions as to where we prioritise, and how we ensure a fair allocation of costs between generations.

Currently we are on track to end the year having delivered continued record investment. At this stage our revenue is tracking in line with budget, reflecting the below inflation charge increases, and we are forecasting to outperform our broadly recurring costs target by in excess of £50 million. This has been considerably supported by a one-off £25 million rates rebate.

Looking forward there is no room for complacency as increased energy, Private Finance Initiative (PFI), chemical and interest costs are adding to the efficiency challenge to reduce our regulated operating costs by 1% per annum relative to the Consumer Price Index. Our below inflation charge increases, and increased investment, mean our cash balances for the regulated business are reducing – from £390 million at the start of this financial year to £259 million at the end of this first six months.

Ongoing significant investment is also vital to ensure we can deliver on our net zero commitments and our environmental enhancement programme. While we remain firmly committed to our pledge of zero emissions by 2040, the key to reaching this will be ensuring we understand what works and scaling that up at speed. There will be challenges ahead but by being bold and innovative we can remain on track to deliver for our customers and for the environment.

Policy landscape changes

In Scotland, we all have the chance to play our part in ensuring the longer-term challenges and opportunities facing the water industry are recognised, considered and planned. A vital part of our – and indeed Scotland's – drive to become greener and more sustainable is the new Water, Sewerage and Drainage Policy which the Scottish Government is currently consulting on. Views are being sought on how Scotland could respond to the impacts, through measures such as reducing water usage, increasing storage and managing rainwater to protect the environment, economy and public health. It will help shape and develop principles and policy for the future of the water industry in Scotland in response to the climate emergency to help protect our environment and water resources so we can all continue to enjoy them for generations to come. This legislation is critical to enabling Scotland to adapt to climate change – setting direction and proposing clearer responsibilities and accountabilities across the water sector, all public organisations, private businesses and individuals.

This is a huge opportunity for the water industry and wider partners to come together to work in the interests of communities and the environment across Scotland: partner ecosystems on a grand scale. I have been impressed by the open and genuinely consultative approach to the development of the proposed new legislation. Scottish Water has worked closely with Government and regulators to provide input to the draft proposals - a great example of the 'Team Scotland' approach. I believe we all have an obligation to protect and enhance our environment and to help increase public awareness of its value. Having the right policy and legislative framework is essential to enabling the best outcomes, so for the benefit of our natural environment means we must raise our game, along with everyone else. I would encourage all our customers to read the **public consultation** and respond with their views – it is your water, your life after all.

Delivering Transformation

Our Transformation plan, now into its third year, will play a key role in us being able to deliver services fit for the future. The status quo is simply not an option. We need to put sustainability, in all its senses, at the heart of how we work. We need to empower our people, and those we work alongside, to speed up our effective decision-making and make sure our decisions are smarter with the long-term in mind. I was hugely impressed and inspired to learn Transformation projects had already led to a 13% increase in 'first time fixes' in resolving various customer issues. The team is now working through the programme to ensure we prioritise effectively and can drive delivery against our transformation objectives, so that Scottish Water is an agile, innovative and customer-focused organisation that is well placed to continue to deliver for customers and sustain and enhance our environment, even in the challenging circumstances we face.

In closing

There has been quite a bit of movement in Scottish Water's Executive Leadership Team (ELT) in recent months, and we have worked carefully to ensure a smooth transition over this period. I am hugely grateful for all the efforts over many years of ELT members who are leaving us and I am very much looking forward to working with the new team over the coming months and years.

I want to close with a series of "thank yous". Firstly, to thank everyone for the wonderfully warm welcome they have given to me since taking up this role. There is much to be done during the rest of the year and beyond and none of that can be achieved without having such a great leadership team around me and a supportive and challenging Chair and Board. I also want to thank and pay tribute to all our people who provide vital services round the clock, all year long, come rain or shine.

Alex Plant
Chief Executive, Scottish Water
December 2023

SERVICE EXCELLENCE
THE CHALLENGES WE HAVE FACED

Unpredictable weather which was once considered extreme is now becoming the 'norm'. Our challenge is now to adapt to, as far as we can, the impacts of change in the climate on the water and waste water services we deliver for customers.

During the record hot period in May and more notably in June we saw a major increase in demand for water. We needed to produce 200 million extra litres of water every day during this period to keep up with demand – this is 25% more than on an average day. This year the rise in demand was much sharper - as with some previous years notably 2022 and 2018.

Past learning has helped us become better prepared during hotter weather and we closely monitor and manage water resources. We took several steps including tanker deployments to supplement supplies and adjusting the network to re-distribute water around the country to keep customers in the driest areas in supply. However, we know we must become bolder in urging our customers to use water wisely.

We asked customers in targeted areas to use water as efficiently as possible and help us to protect water resources. Our teams reported a reduction in water use in certain areas through June and into July to levels below what we saw before the warm weather spike. However, these levels of water use have since risen above what are considered 'normal levels' which would suggest that the message needs to continue to be reinforced and new ways considered to continue to encourage customers to change their behaviour to reduce water usage.

CASE STUDY
SUMMER WATER SAVING CAMPAIGN SUCCESS

Over the warmer summer months our 'Water is always worth saving' campaign was broadcast on television and radio.

Independent tracking by YouGov concluded this message is resonating with people in Scotland with 83% of people who saw or heard our campaign agreeing water is a precious resource, that is worth saving. This is 13% higher than at the same time last year.

Customers with an awareness of our messaging also said they felt more positive towards Scottish Water in general - 77% say they will 'think more carefully about the amount of water they use' and 75% say they 'will spend less time in the shower'.

Conversely, there were several days in July and August when parts of Scotland saw particularly heavy rainfall, at times over a short period of a day or two, which led to an increase in sewer blockages and flooding during that period.

We are seeing the performance of our waste water system receive greater interest from stakeholders, elected representatives, communities and the media, in part due to the increased scrutiny of water companies elsewhere in the UK. This led to an increased number of contacts on our work to improve how our Combined Sewer Overflows (CSOs) operate. At our Annual Consultative Meeting held in Edinburgh in August we received a record number of questions - more than a third related to CSOs and our plans to help improve coastal environments. To raise awareness of the extensive work we are doing in this area we are devising a range of tools – including awareness communications and educational videos – to highlight the issues we face and how we are tackling these.

Long periods of intense rainfall in mid-July to August also impacted on water quality performance, due to deterioration in raw water quality as natural contaminants were washed into our sources and water finding its way into treated water storage tanks through leaks.

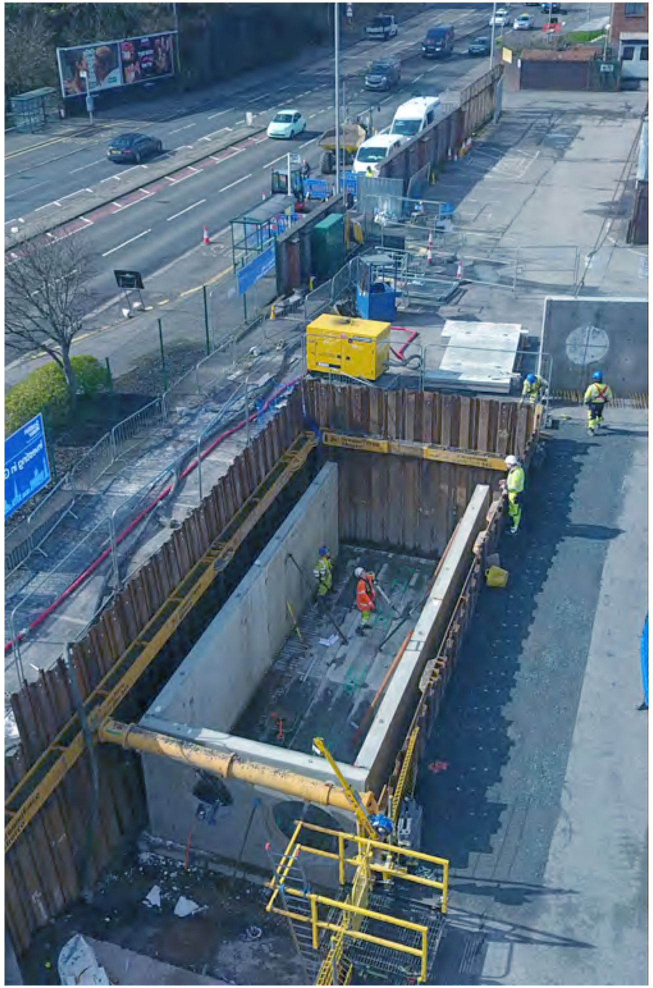
Despite these challenges, performance on our main Customer Experience Measures has been stable, the elements associated with customer satisfaction levels are 1.4% higher than at the same time last year. In the face of ongoing challenges this is a good achievement.

We experienced cost inflation, particularly in the construction market, and supply shortages of some labour and materials have also continued, as with recent years. We are working more closely than ever with our supply chain partners to better understand and mitigate cost and supply issues where possible.

Electricity costs are being carefully managed and reflect the fact, that in 2021 we pre-purchased half of all our electricity until 2027. However, our electricity costs are significantly up on twelve months ago. This is partly due to higher market prices and partly to higher use of system charges. The current high market prices for electricity which is one of our biggest spending costs - are forecast to continue so we expect upward pressure on this cost in future years making our energy bills vulnerable to market volatility.

FACT

In 2021 we pre-purchased 100% of our electricity for 2022/23 via Power Purchase Agreements and seasonal contracts, avoiding around £88 million when compared to market prices. Our operational electricity costs for that financial year were £63.1 million. In this financial year (2023/24) we are purchasing electricity closer to the delivery date and are currently forecasting a spend of £85.3 million   an increase of £22.2 million from 2022/23.



Health and Safety Performance

The health and safety of our people and those who work on our behalf is always a priority. We have a variety of contractors and partners who work with us. These range from significant capital, operational alliance and PFI contractors to medium and small organisations. There has been a three-fold increase in RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) incidents involving some of our smaller contractors in the last 12 months. In response we are working closely with our contractor supply chain, building an integrated improvement plan with a key focus on compliance with processes and procedures. We have already started to reshape the Health and Safety governance of our Capital and Operational contractors and we are looking to improve risk assessment, collaboration and learning across our supply chain. We will also look out with our industry to other sectors that have achieved improved contractor performance and take any learnings required.

OUR PERFORMANCE DELIVERING CONSISTENTLY EXCELLENT WATER

We welcomed the Drinking Water Quality Regulator (DWQR) for Scotland's Drinking Water Quality in Scotland 2022 Public Water Supplies Annual Report, published this September. The independent report found the water we delivered to our customers has continued to be of high quality. The regulatory standards set for us are among the most stringent in the world.

IN FOCUS

In 2023 new regulatory standards and parameters were introduced in line with the European Union Revised Drinking Water Directive. Throughout the year we have recorded a number of exceedances against the new parameters of Chlorate and also Halo-Acetic Acids (HAA). Chlorate comes from the breakdown of the chemical used to disinfect water supplies and make them safe to drink. We have changed a number of our operational practices to minimise this risk, reducing the age of the chemical, the concentration and where possible the storage temperatures, all of which are providing a benefit. However, to secure compliance we are likely to need to invest in temperature control of the chemical stores, as many can reach high temperatures in summer months. HAA are a disinfection by-product formed from the reaction of the chemicals used to disinfect the water and residual natural chemicals in the treated water. We continue to improve our understanding of why these compounds form and to quantify this risk, which is likely to require additional treatment to control.

Water Quality total compliance* for the period to September remained high at 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.

Weather extremes presented us with some real challenges to keep customers' supplies flowing and maintaining those high standards. Ensuring high-quality drinking water is one of the most important things we do.

Once water is treated at our water treatment works it is fed into our pipe network. Here we use storage tanks to make sure the water is always available when needed. We have over 1,200 of these tanks called Treated Water Storage Tanks across Scotland and we have seen an increasing number of these tanks failing our strict water quality standards.

IN FOCUS

In December 2022 the DWQR issued an Enforcement Notice in relation to how we manage Treated Water Storage Points (TWSP) which came into effect on 22 September 2023. During the development of our current investment programme we recognised, along with stakeholders, the need for increased investment in the maintenance of our TWSP. We are currently investing record levels in TWSP with £224 million allocated in our investment plan of which we have already invested £114 million. Next year we plan to increase our annual investment from £33 million this year to £47 million a 42% increase.

FACT

We operate over 1,200 service reservoirs across the country to provide resilience of supplies by protecting against interruption should upstream pipes burst and smoothing out peak in daily demand.

* Total compliance is calculated from testing at customer taps, water treatment works and service reservoirs.

In September we had to issue a water restriction notice to people in parts of the Western Isles after the supply was contaminated by a fuel leak from a back-up generator for a pumping station. Around 1,200 properties in Benbecula and South Uist were affected – with customers told not to drink, wash or cook with their usual water supply. Several council buildings, including schools, a library and sports centre, and dental practices had to close as a result.

It took several days to clean up the fuel, throughout which time we kept customers regularly updated and issued bottled water with a team of 30 volunteers travelling to the area to help with vital emergency customer support. The incident was particularly challenging due to the potential impact on public health and the remote location of the leak. Our tried and tested incident management processes served us well and the preparatory work we do – in terms of training on emergency processes and having stocks of emergency equipment ready to deploy – enabled us to respond quickly and confidently to these exceptional circumstances.

Our incident investigation found this incident happened as a result of a diesel contamination of the raw water at the pumping station that supplies the water treatment works. Learnings from this incident will be used to further reduce risks to supplies across Scotland.

This incident impacted our year-to-date number of unplanned interruptions to supply, which stood at 3,973 compared with our target of 3,500.

We saw a sharp surge in demand for water during parts of May, June and early July – with Scotland recording its hottest ever temperature on record this summer. At the same, time lack of rainfall led to some of our reservoirs running low and requiring us to enact drought plans to prevent an interruption to customer supplies. A notable example was on Skye in June where a drop in water levels required us to seek permission from SEPA and the Scottish Government to take action to maintain the flow of water in a burn supplying our water treatment works. This involved installing pipework in Loch Lonachan, a designated Special Area of Conservation and Site of Special Scientific Interest, and the installation of pipes and pumps from Loch Starsaich. To do this we hired helicopters to transport generators and pipework to this remote location. We were just two days away from the burn running dry when we started using the additional measures. This has never happened before at this location and never at such a quick rate and is an example of how climate change can impact the services we provide customers.

We continue to invest in increasing resilience with our Ayrshire resilience scheme entering the final phase of construction to provide a connected network between Loch Katrine in the north and Loch Bradan in the south.

We have seen a 15% increase in the number of bursts in the first half of the year compared to the same time last year. Many of these incidents were associated with the failure of certain types of cement water pipes, these make up 12% of our water distribution mains.

We are currently focusing our increased investment in water mains replacement on areas with high numbers of repeat burst pipes with most of these served by these pipes. We are installing loggers on some of our biggest water mains to help us understand why we are seeing an increase in bursts on these assets. We will use the information that is captured to help look for ways to better detect and prevent these incidents in the future.

CASE STUDY
STATE OF THE ART TUNNEL WORK AT SEVEN MILE MAIN

A state-of-the-art tunnel boring machine was used to install a key part of a new trunk water main in Glasgow.

The hi-tech machine installed a 252-metre-long tunnel – at a depth of up to 20 metres underground – as part of seven miles of new water mains being installed in a project to connect the Glasgow area's network and the system in Ayrshire to increase resilience to protect supplies for customers.

Four tunnels – one at Ibrox under the M8 motorway and the Glasgow-Ayr railway line, another under the Paisley Canal railway and White Cart Water, another under the Glasgow-Barrhead-Kilmarnock railway and one under the Levern Water - will form part of the route of the new main.

The project involves the use of innovative construction materials and techniques to reduce carbon emissions and power requirements and is due to be completed in 2024.

FACT

We celebrated the 40th anniversary of the opening of Megget Reservoir – which has continued to supply parts of Edinburgh and the Borders for four decades. It took six years to construct the site in the Tweed Valley when hundreds of thousands of tonnes of rock were removed to allow the water to get from the area to the Capital. It still collects water from the Tweedsmuir Hills which is taken 28 miles via underground tunnels and pipelines to customers – supplying 87 million litres of water every day.

FACT

We deliver 1.51 billion litres of clear, fresh drinking water every day and are responsible for a network of 30,516 miles of water pipes Scotland-wide.

We are on track to deliver within our target range for leakage by the end of 2023/34 which will be a continued year-on-year reduction.

In the last six months we have seen a rise in repair costs and forecast this will rise further in 2023/24 and beyond as the water treatment and supply asset base continues to deteriorate as it gets older, further evidencing the need for increased levels of investment in replacing and modernising our asset base to sustain services.

CASE STUDY
MONSTER PROJECT FOR LOCH NESS

We officially opened a new Water Treatment Works at Invermoriston, on the banks of Loch Ness, built to replace two smaller ones.

The works uses nanofiltration membranes to produce up to 1 million litres of world class drinking water every day, drawn from the largest body of freshwater in Scotland.

Around 10km of new pumped water mains were laid along the route of the Great Glen Way, connecting new and expanded drinking water storage tanks that serve each community.

Specialist contractors also completed a challenging two-part operation to tunnel beneath the Caledonian Canal and drill beneath the River Oich to provide a secure connection from one side of Fort Augustus to the other.

PROSPECTS

As we move into 2024, in line with the revised Regulations, we are aligning our regulatory sampling programme to increase checks on systems considered at highest risk. As such we expect to get an increase in exceedances of the standards compared to 2023, however as the basis of sampling is different it will no longer be appropriate to make annual comparisons and a measure of performance.

We continue to see and expect to see further impacts of more extreme weather. In past El-Niño years we have seen more significant winter storms and extreme winter temperatures. We will use our winter resilience planning to prepare for this in advance and build on learning from past experiences.

Leakage rates often rise in the winter months when colder temperatures can mean pipes are more likely to freeze, crack and burst. We will continue to use specialist teams to try to prevent incidents and, when they happen, to respond and detect and repair pipes as quickly as possible.

We are working with developers to help create more ‘low water homes’, using latest technology in new build homes to install appliances that are designed to use far less water.

TRANSFORMING WASTE WATER SERVICES

The record drier summer months saw us modify some of the processes we use in our treatment of sewage to ensure it met strict requirements before disposal.

We have committed, via the Improving Urban Waters Routemap, to install 1,000 CSO monitors and report near-time overflow information by the end of 2024. We have carried out preparatory work for over 600 locations across Scotland and have already installed the first 50 monitors. The equipment is being installed on network, pumping station and treatment work CSOs which discharge to the highest priority waters. The programme will also see us ensure our field teams have the skills and training in processes and technology to respond to both predictive and reactive work. We will be assessing any fluctuations in CSO spills and will publish data on spills.

Tackling flooding remains an ongoing issue for us with more extreme weather events making it harder to know where and when weather patterns, which can lead to flooding, will occur and for how long.

We are continuing to partner with local authorities to consider opportunities to capture rainwater on the surface and delay or divert it from entering our networks. We have recently completed planning studies in Aberdeen and Edinburgh that support climate adaptation planning and plan to increase the coverage of blue-green infrastructure in these cities as our climate adaptation plans are implemented.

FACT

Our waste water treatment systems handle more than 1 billion litres of waste water each day, treating it and returning it safely to the environment. They are a vital part of the water cycle in Scotland. As a result, the quality of Scotland's water environment is high, and we are committed to invest further, monitor performance at more locations and strive to prevent pollution incidents before they happen.

CASE STUDY
WASTE WATER EMISSIONS DEVICE BREAKTHROUGH

A ground-breaking new technique for measuring emissions from waste water treatment works has been deployed in Scotland for the first time.

The infra-red tech can pinpoint tiny molecules of emissions from more than 1.2 miles away providing users with a well detailed read-out of greenhouse gases to allow them to eliminate them more effectively.

Existing techniques for identifying emissions only give a localised understanding of emissions. This new technology - Grandperspective's scanfeld - will allow for a larger area to be scanned for nitrous oxide, methane and carbon dioxide and determine the role treatment works play in emitting them.

It is the first time the technology has been used in the water sector anywhere in the UK and it is set to revolutionise understanding of gas emissions and transform treatment processes, so they become environmentally sustainable.

We operate more than 1,800 waste water treatment works and have already installed this new technology at two sites – at Laighpark in Paisley and Sheildhall which serves the Glasgow area – with more sites to follow.

Where properties are internally flooded due to hydraulic constraints in our network, we will prioritise these properties for interventions that reduces the risk of flooding. Where practical we will focus on improving surface water management, by delaying and diverting rainwater away from our network and making physical changes to our network. To date this year, we have completed the delivery of flooding projects at five locations.

Following our decision to rephase part of our investment programme together with increasing costs of delivery means that the number of properties we can address flood risks at is reduced. Consequently, we have continued to increase our mitigation provision extending it to customers who have been worst impacted by flooding in severe weather conditions

IN FOCUS

We are now working with more partners than ever to find new and innovative long-term solutions to address known flooding issues in high priority areas. An example is our work with the City of Edinburgh Council to jointly plan, design and deliver blue-green infrastructure solutions to reduce the amount of surface water finding its way into our combined sewer systems. We want these projects to be multi-functional and to include other environmental benefits and social amenity, in this case this includes planting flora to improve biodiversity.

FACT

In the first two years of SR21 we spent £1.7 million installing property level mitigation measures at 236 properties reducing the impact of flooding on our customers. To date, in this third regulatory year, we have installed mitigations at 85 properties with 36 in delivery. A further 36 properties have been assessed for installation of mitigations however the customers have indicated that they do not want the mitigations installed on their property.

The last six months has seen a repeat of similar weather conditions to last year, with a number of short duration high intensity summer storms during June, July and September. To date, there was a slight reduction in the number of properties affected by internal flooding due to sewer overloading in comparison to last year, though the significant rainfall between 6-9 October may see this number rise in the second half of the year. In comparison to last year, there has been an increase in the number of properties affected by internal flooding due to other causes, notably blockages and collapses. Between April and June these increases were 44% higher than the five-year average, although the following months July to September were 24% lower than the five-year average.

Reducing Environmental Pollution Incidents (EPIs) continues to be a focus for us and we are forecasting that the total number of incidents will be in line with last year – we ended 2022/23 with 206 of incidents. The vast majority are related to our waste water networks and when EPIs occur a full analysis of the root cause is undertaken to determine any action and help inform improvement plans.

CASE STUDY
GIANT STORM TANK TO HELP TACKLE FLOODING

We completed a £2.5 million project to help drain the rain and protect the centre of Lanark from internal and external sewer flooding during extreme weather.

We built a 13-metre-deep storm water storage tank beneath the town’s Wellgate car park and upgraded the local sewer network.

The project will help manage rainwater during heavy storms and reduce the risk of flooding to properties. During these extreme weather events, excess water will be stored there before being pumped back into the sewer once water levels in the network have fallen.

Before being put into use the storm tank was used by the Scottish Fire and Rescue Service to carry out a practise rescue exercise which saw them raise someone from the bottom of the tank.

Around six in every ten EPIs - and four in every five internal flooding events - are caused by sewer blockages and we continue to run customer behaviour campaigns to reduce this. For the first time we carried out targeted campaigns in two areas - Bo’ness and Shotts - where there have been a higher number of repeat blockages. We sent letters to customers’ homes, put up posters, ran social media adverts and held customer events to highlight our Nature Calls campaign which urges customers to ‘bin the wipes’ and only flush the 3Ps (pee, poo and (loo) paper). We plan to target other areas where blockages are above average in the coming months.

FACT

Our Nature Calls campaign asking the people of Scotland to bin bathroom waste items, including wipes and period products to protect nature is continuing to raise awareness and urge people to help keep sewers flowing freely. Our call to ban wipes made from plastic has now received a strong commitment from the Scottish Government which is working to bring forward a ban.

We have expanded our Waste Water Intelligent Network transformation programme beyond the initial four pilot drainage areas of East Calder, Erskine, Lossiemouth and Inverness. We have started covering a further 12 priority areas – including Stirling, Alloa, Perth and parts of Edinburgh - at the end of which we will have more than 1,200 network monitors in place.

This capability is already helping us detect the build-up of materials which can lead to blockages in the network and help us take action to clear these areas on the network before they impact our customers and the environment. To date we have proactively detected and cleared over 40 potential issues.

FACT

Scottish Water removes 1.07 billion litres of waste water which we treat, recover resources from and return safely to the environment. We currently operate 1,838 waste water treatment works and are responsible for 33,691 miles of sewer pipes across every part of Scotland.

One of our biggest Transformation projects to date, '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, reduce energy consumption and costs by enabling smarter, proactive and more effective decision-making.

By delivering the right technology to the right people at the right time we can improve performance, add value for money and deliver excellent and reliable service. To date, since November 2022, the project has saved us over £250,000 by reducing the amount of energy used on sites to treat waste water. In terms of service benefits, because we are monitoring the final effluent 24/7 we have access to real time data to enable operators to take action to prevent issues including compliance failures at the site and environmental pollution incidents from occurring. Exemplar also enables operation teams to monitor works remotely while off-site, which reduces the need for them to travel to works out of hours which improves the health, safety and wellbeing of operational teams.

Around 70% of our emissions come from waste water treatment so this technology has the potential to make a huge difference to our net zero drive. In the first half of this year Exemplar has generated 0.07GWh (Gigawatt hour) energy efficiency which equates to 15tCO_2e (tonnes carbon dioxide equivalent). Since the project began it has saved 1.92GWh cumulative energy efficiency which equates to a 443tCO_2e cumulative saving.

Following the success of Exemplar, we are now implementing a similar approach at waste water pumping stations. This initiative will cover the country's 32 highest energy consuming waste water pumping stations and will see us connect these assets to a digital portal that will allow remote monitoring and analysis. This will enable our operators to gather insights on condition monitoring of critical assets, allowing them to respond pro-actively, to minimise downtime and help prevent pollution incidents.

PROSPECTS

We continue to access new techniques and technologies to help us capture real-time data that drives timely operational responses to prevent service impact. An example of this is cameras in our network. This expanded data set improves our understanding of asset performance and condition, contributing to effective longer-term investment decisions.

Through our Nature Calls campaign we continue to call for a ban on all wet wipes that contain plastic, which do not break down in the sewer network. It has already received a commitment from the Scottish Government, and we will continue to campaign to see this ban introduced in Scotland.

We are also going to do more to tackle fats, oils and grease (FOG) – which can cause ‘fatbergs’ - in towns and cities with a large number of businesses serving hot food. This comes after a successful pilot in St Andrews with Inverness to be the next location for this dedicated campaign to urge business owners and staff to do their bit to keep the sewer network fat-free to prevent environmental issues.

We will continue to seek new and innovative solutions to tackle surface water management. We have carried out a study with City of Edinburgh Council and SEPA to identify opportunities for delivering blue-green infrastructure to support the long-term adaptation of the city to become more climate resilient by sustainably managing rainfall run-off on the surface to slow the flow and divert rainwater away from the piped drainage systems.

ENABLING SUSTAINABLE AND INCLUSIVE GROWTH

We are committed to helping play our part to ensure Scotland flourishes and continue to invest in water and waste water assets to enable housing and other economic development.

Between April and September this year we completed 8,904 new water connections, which is a third less than the same time last year.

We have water and waste water assets across Scotland that have capacity available to serve more customers, while others are already at or beyond capacity. We want to encourage development where we have available capacity and will continue to provide government, local authorities and the development community with visibility of where capacity is available.

Following our decisions to reduce the level of bill increases to reflect the challenges of Covid-19 and the cost of living crisis, our investment levels are lower than expected at the beginning of this regulatory period. This, alongside changes in the housing market, has required us to defer several growth projects that had previously been planned for investment during this period.

EMPOWERING CUSTOMERS AND COMMUNITIES

Our Customer Experience Measures (CEM) have all been introduced to ensure we continue to listen to each of our key customer segments – listening to understand what issues are impacting them and how they feel about the services they receive.

This year, we have focused on the delivery of service excellence and getting the basics right through the summer months with our Summer of Excellence initiative. As a result, we have seen satisfaction hit an all-time high, over 95% in the summer months when we might have otherwise seen a dip in satisfaction levels. This involved a lot of hard work and focus from the teams in service delivery and was appreciated customers, from whom we received the highest level of Go the Extra Mile nominations direct from customers. These nominations are based on feedback, including messages of thanks, from customers about staff they have received a service from.

These high levels of appreciation and satisfaction on experiences has, however been balanced by a negative impact from media coverage of activities in the wider utility sector and water industry in particular relating to waste water management. It is important that the CEMs include perceptions tracking and further demonstrates the value of these metrics in listening to all our customers.

Our Household Customer Experience Measure (hCEM) is sitting just above the mid-point of our target range. Service Issue Contacts and complaints are both slightly higher than at the same time last year. We have seen a fall in escalations – down to 235 compared with 301 for same time in 2022. Given the ongoing weather-related impacts on our services which can lead to customer supply issues, this highlights how we are learning from past events and doing more to ensure any interruptions are prevented or minimised where possible.

We know making our network as resilient as possible for future challenges is key. See table on next page.

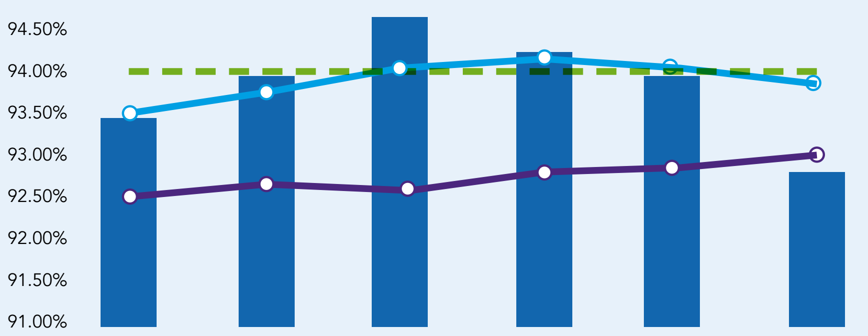
Our Non-Household CEM (nhCEM) is at 89.30%, an increase from the same time last year, 86.49%, and is currently above the target range. Compared with this time in 2022, our Licensed Provider Satisfaction improved from 98.12% to 99.26% and Business End User survey score increased from 87.18% to 89.91%. See table on next page.

Developer Customer Experience Measure (dCEM) has moved from shadow reporting in the short term after its introduction into live reporting as of April this year. The year-to-date score was 76.65% and is above last year's performance of 76.15%, which is within target range.

FACT

An Escalation can occur when customer raises a Service Issue Contact with us. If they are unhappy with our service they can escalate their issue via our contact channels. Our Customer Engagement Centre records this as an 'Escalation' and it is investigated by the appropriate team and contact with a customer made.

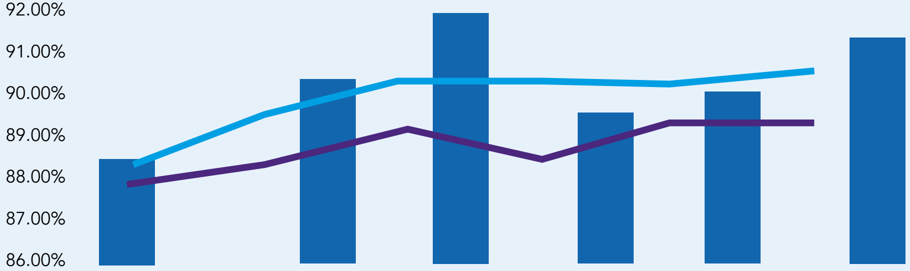
Customer Satisfaction 2023/24 Household



APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER
93.49%	93.94%	94.60%	94.21%	93.89%	92.81%
92.50%	92.65%	92.60%	92.82%	92.89%	92.97%
93.49%	93.73%	94.03%	94.06%	94.03%	93.84%
94.00%	94.00%	94.00%	94.00%	94.00%	94.00%

In Month scores | YTD satisfaction | 12 month rolling satisfaction | Target

Customer Satisfaction 2023/24 non Household



APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER
88.31%	89.77%	91.20%	89.28%	89.55%	91.04%
88.31%	89.09%	89.84%	89.74%	89.71%	89.91%
87.97%	88.11%	88.50%	87.95%	88.75%	88.88%

In Month scores | YTD satisfaction | 12 month rolling satisfaction

100th Top Up Tap

We reached a landmark in our Your Water Your Life campaign when we launched our 100th Top Up Tap in the shadow of the country's best-known water spirits the Kelpies at Falkirk's Helix Park. The tap was the first to officially be given a name - "The Flow-er of Scotland" - chosen as part of a competition run in partnership with Planet Radio. We now have a total of 105 taps up and running with plans for many more.

The taps are connected to the public water supply and encourage the use of refill bottles when out and about. Each has digital tracking technology which logs how much water is being used and how much plastic is potentially saved.

FACT

Our country-wide network of blue taps provides people with free drinking water from the Shetland to Stranraer – and since their launch in 2018 have filled the equivalent of more than five million 330ml single-use plastic bottles, helping reduce litter and waste.

We are increasingly doing more to promote access to the natural environment and encourage communities to enjoy and protect it – for us that means continuing our successful behaviour campaigns to urge people to do the right thing.

In a bid to safeguard Scotland's water and environment we launched Mission H_2O during Climate Week in September. It's part of our new Scotland-wide programme under the banner Generation H_2O to encourage young people to become responsible water citizens, valuing and protecting the water and waste water network. It includes resources for teachers linked to Curriculum for Excellence objectives which are taught in the country's schools.

PROSPECTS

We very much want to make sure our customers of today are a part of our discussions for tomorrow. We are going to be doing more to involve them and get their views on what their priorities needs and wishes are. This is vital to helping us shape the decisions we make.

FACT

We teamed up with social enterprise Edinburgh Community Food to encourage more people to drink plenty water whether at home or out and about. We donated 500 water bottles to the charity which helps low-income families, distributing them via food boxes issued to families in need during the summer break. We will continue to work with a range of organisations at national and local level to encourage positive behaviour change.

CASE STUDY - PRIORITY SERVICES REGISTER

GROUND-BREAKING KIDNEY PATIENT PROJECT

We launched a ground-breaking partnership with the UK's leading kidney patient support charity, Kidney Care UK.

Thousands of people with kidney disease in four Scottish cities are being offered specialist support from the initiative - which also involves gas network company SGN – promoting the Priority Services Register (PSR) Scotland. The service will provide extra help during power cuts and interruptions to gas, electricity and water supplies.

It is the first time a charity and utility company have worked together in this way and will offer direct specialist support to more than 5,000 people with kidney failure.

Any customer requiring additional support can **sign up to our Priority Services Register** to help ensure, in the event of an interruption to their water supply, that we prioritise them and make sure they get the support they need.

OUR PEOPLE

The work all our people do is vital as it keeps Scotland's water flowing, from reservoir to tap – and from sewer to treatment works.

Recruiting staff in a competitive talent market with limited availability of specialist skills and resources continues to be a challenge for us. Our youth talent programmes - in the form of our graduates and apprentices - form a key part of our strategy to build the skills and resources we need to deliver service excellence for our customers and communities.

We have taken steps to enhance our approach to attracting young people to the water sector. One way we have done this is through the introduction of our new Careers Map designed to promote careers in an engaging way for young people aged from 11-18 years. One example is how it helps young people build an awareness of the range of roles available at Scottish Water and the wider water industry.

In the last six months we have continued to invest significantly in our youth programmes and we recruited a further 43 graduates and 60 apprentices. The diversity of these new starts has been encouraging, in particular with respect to gender with 50:50 ratio of male: female in our graduate intake and 75:25 male: female ratio in our apprentice intake. Our programmes are the largest they have ever been. We currently have 164 modern apprentices, with an additional 15 graduate apprentices and 83 graduates participating in structured development programmes.

FACT

Our Skills Academy is our technical training team who deliver the water industry and business administration modern apprenticeship qualifications within Scottish Water to our apprentices. It had its first audit by Education Scotland (HMI of Education) as part of a performance review of all apprentice providers in Scotland. The Academy was the first to be awarded an 'excellent' rating during this process. Auditors recognised the high performance of the Academy team and high-quality support apprentices receive.

Modernising Rewards

We have been working on a major project to reform our pay and grading structure. Our current approach is close to two decades old and no longer works as well as it should. The work to reform our pay and grading structure is continuing and we are working with our unions and employees to implement the new approach by March 2024.

Future prospects

We will continue to support a wide range of apprenticeships. We currently employ 164 modern apprentices and another 15 graduate apprentices and are committed to doing all we can to help attract water sector workers needed in a wide range of roles for the future.

BEYOND NET ZERO

In the first half of this year, we have continued to make progress with our plan to reduce our carbon emissions. We have delivered 17 energy efficiency projects so far this year with more planned and our renewable programme continues to make progress. We are delighted to be progressing two new innovative hydro projects, our first for over 10 years.

Our Photovoltaic (PV) programme is progressing and we are addressing concerns relating to modern slavery in parts of the global PV supply chain.

The use of innovative advanced analytic controls to reduce the risk of process emissions (nitrous dioxide and methane) have been rolled out to two sites, including our largest waste water treatment works at Shieldhall in Glasgow. We are obtaining a lot of learning from this state-of-the-art technology and are looking at other assets where we could deploy it. This is a key focus area for the water sector and we are working with other water companies to share learning. A rising concern is that the most recent research is indicating that the industry wide emissions factors used may be under-reporting the true extent of emissions.

IN FOCUS

Scottish Water staff took to the road to showcase our latest e-van by taking part in the 550-mile EV Rally of Scotland along with staff from other leading organisations who are switching to electric vehicles. This highlighted how the expanded charging network is enabling more drivers to move around emission-free as they work. We now have 171 EV charging points, 36 e-vehicles on fleet and 132 on order – 70 of these are due to be delivered by the end of March. We have also ordered our first ever fully electric HGV.

We continue to work closely with our delivery partners to ensure more low carbon good practices are being used on a variety of our investment projects across the country. We are currently working alongside Transport Scotland, Network Rail, SSE, Scottish Power and M Group to develop the adoption and deployment of low carbon concrete to be used in a wider range of construction projects.

FACT

All of our activities are energy-intensive and drive emissions and we know we must grow new capabilities and change our behaviours and influence others (such as our supply partners) to change too. To reach our Net Zero ambition we are focusing on becoming more energy efficient; embracing low carbon construction; using lower carbon energy products; storing emissions that cannot be avoided; investing in renewable power technologies. **Visit out Net Zero web site.**

We are making good progress with our peatland restoration programme with the first of our planned projects under way at Afton in Ayrshire.

All of our planned woodland creation projects were submitted to Scottish Forestry for approval ahead of programme at the end of August and we await approval prior to starting on site.

PROSPECTS

We will continue to grow new capabilities and change our behaviour to eliminate emissions associated with our activities while delivering excellent service and great value to our customers. We are on track to progress delivery of a number of emissions reduction projects over the rest of the year.

We are reviewing our plans to determine how much we forecast our emissions will reduce by when this regulatory period ends.

An area we are looking to support in the coming months is the growing hydrogen economy and Scottish Water Horizons have a number of projects in the pipeline working with hydrogen developers on the supply of water. We are working with hydrogen producers to provide feasibility assessments on water sources for several projects - from potable treated water and untreated raw water to final effluent from waste water. Construction of the first of these new hydrogen plants is due to start shortly at Whitelee in East Renfrewshire.

Another upcoming milestone will be the approval of our Land Management Plan at Loch Katrine which will allow work to start on 4,600 hectares of new woodland.

CASE STUDY

PIONEERING HYDRO SCHEME A EUROPEAN FIRST

We have broken ground on a pioneering new type of hydro energy generation scheme at Whiteadder Reservoir in East Lothian.

The scheme is fed by a siphon and is believed to be the first of its type in Europe. It will enable us to generate green energy while accurately controlling the level of the reservoir during seasonal fluctuations in weather without the need for major civil-engineering works.

The technology used draws water up though the intake and over the top of the dam which then runs down through the siphon, through the hydro turbine, and back to the natural environment.

The electricity generated will be used to offset 30% of the power used by one of East Lothian's largest pumping stations, - saving approximately 111 tonnes of carbon each year, the equivalent of a passenger jet flying from Edinburgh to Sydney 40 times.

GREAT VALUE AND FINANCIAL SUSTAINABILITY

Our investment programme is one of the largest infrastructure programmes in Scotland – delivering the vital assets that enable us to maintain and improve the water and waste water services people depend on every day and supporting growth and development to ensure that communities can flourish. Scotland's communities can only flourish with fit-for-purpose infrastructure – above ground cities, towns and villages need our below ground pipes and our treatment works to be future-proof.

We continue to deliver year-on-year increases in investment through our people and partners and by continuing to transform, innovate and work with communities and customers.

We set out to deliver planned investment, on a regulatory accounting basis of between £650 million to £780 million in this full financial year and at the six-month point have invested £400 million - this is £70 million more than for the same period last year and we currently expect to outturn beyond the top of the original range.

We strive to ensure our customers receive great value without compromising our financial sustainability. That means, despite short and long-term challenges, we have to make sure we do the right things now – and for our future customers. Our investment planning framework, which we developed in partnership with our economic regulator and other stakeholders, has enabled us to increase our investment to higher levels than at any point over the last decade.

Volatility still exists in the construction market in relation to the price and availability of materials and commodities, for instance relating to key materials such as microchips and electrical components. Our delivery teams will continue to mitigate issues where possible by resequencing of project design, planning and procurement to cater for fluctuating prices and materials shortages.

PROSPECTS

We continue to face significant demands on our investment to replace our ageing assets, improve services, adapt to our changing climate and achieve net zero emissions. We continue to make difficult choices about the investment we prioritise and the implications for future levels of investment and customer charges. We will publish our charges for the next financial year in February 2024.

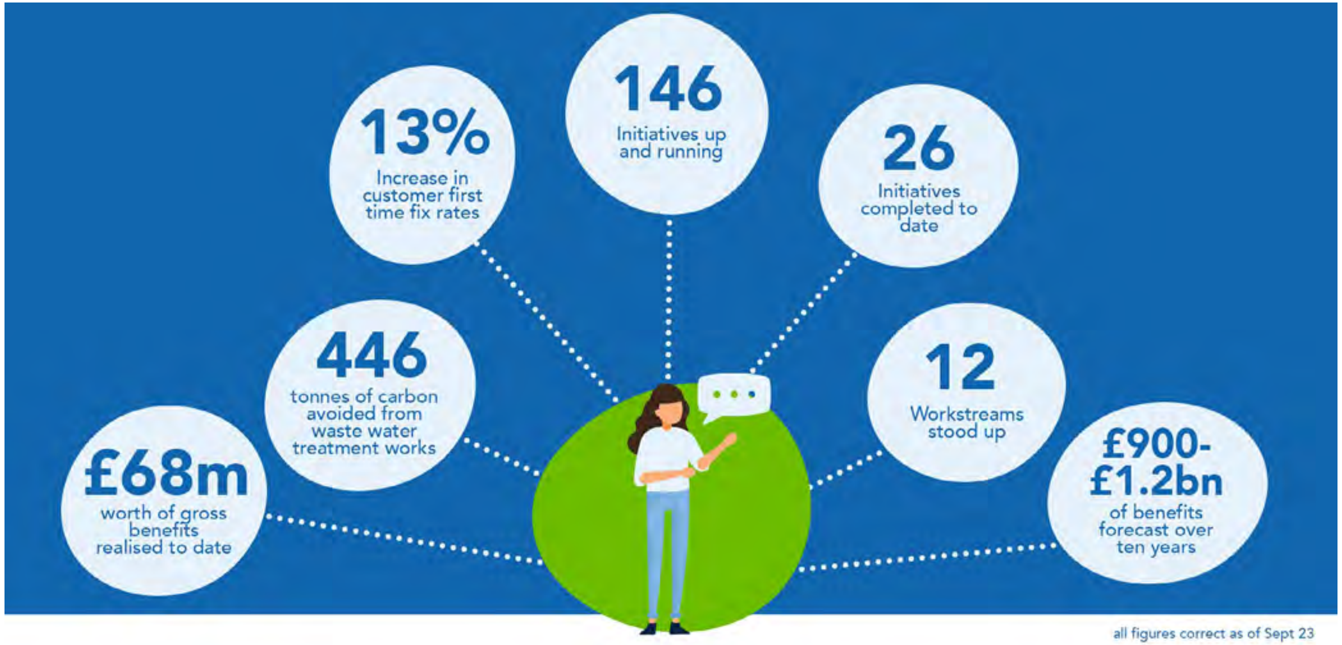
CASE STUDY

SCOTTISH WATER TOPS WATER COMPANY PERFORMANCE SURVEY

Scottish Water topped a major 2023 annual water company survey.

British Water's annual UK Water Company Performance Survey asked contractors, consultants and suppliers to rate their clients' performance in 12 areas, including innovation, professionalism, collaboration and communication.

We were voted as the top company across all four UK countries – up from being in third place last year – when compared to 17 other organisations.



all figures correct as of Sept 23

Transformation two years in

We are now into the third year of transforming the way we work and deliver our services. We know we will only achieve our strategic ambitions by fundamentally transforming all we do to build benefits for the short and longer term and how making smarter investment choices is key. In September we highlighted key ongoing and future transformation benefits, these are shown in the diagram opposite.

We continue to identify important opportunities where we need to focus and prioritise and know our plans will grow and change over time as we deliver and learn. We expect our combined Transformation projects – which cover every part of our business – to have delivered benefits of over £0.9 billion by 2031.

There are some significant projects due to go into delivery over the next six months, some of which are building on already successful projects and some are new activities. These range from using the natural environment to reduce and better deal with surface water, to ensuring our workforce has the skills needed to deliver first class services for generations to come. We are also looking at our end-to-end processes to improve the way we work and deliver for customers and communities across Scotland, ensuring they have their say on how we spend and deliver investment.

Since our transformation journey began, we have gained valuable insights that are shaping our future policies and strategies. Our transformation approach is dynamic and adaptable, allowing us to respond to new information, feedback, and external factors. As new technologies emerge and new opportunities arise, our transformation will continue to evolve and adapt accordingly to ensure Scottish Water continues to deliver the first-class services our customers rightly expect and plays a vital and leading role in ensuring Scotland flourishes.

NON-COMPLEX SERVICE DELIVERY APPLICATION (PHASE 3)

This new, one-of-a-kind 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 September 2019 and to date has delivered over 16,000 needs with a financial benefit of £2.6 million. This next phase of the project is delivering a remaining set of capabilities which will enable our delivery partners to access our application and update delivery information as well as improving integrations with our finance and asset management systems.

PROJECT SWIFT (PHASE 3)

We expect to see benefits from expanding our SWIFT (Scottish Water Intelligent Field Transformation) project which is already transforming the planning and scheduling of work when a customer contacts us. We are now looking to extend the usage of the system to include more delivery contractors, giving one single scheduling system for field service tasks, allowing greater control and visibility. This will help us obtain a much greater level of real time data and lead to more quick fixes and to date this has been a particularly useful tool for our flooding team. The extension of system usage will allow the teams to continue to transform how we manage, deliver, and fulfil fieldwork across Scotland and in turn ensure greater service excellence for internal and external customers.

SKILLS FOR THE FUTURE

We know the importance of ensuring we have the right skills to ensure our people are fit for the future. As part of this we are launching a connecting skills programme which includes ensuring our leadership teams have the right skills to lead and empower their teams through the changes and challenges that arise with transformation.

FINANCIAL SUSTAINABILITY

Scottish Water's regulated business supplies water and waste water services to households and is also the wholesaler to the 24 retailers[1] (Licensed Providers) who operate in the water retail market for businesses in Scotland.

Our subsidiary 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 is operated in accordance with the Governance Code (agreed with the Water Industry Commission for Scotland (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 Group performance is provided opposite. Performance on the three main business segments covering regulated services, Business Stream and non-regulated services is detailed on pages 49 to 55.

[1]At 30 September. One Licensed Provider has since withdrawn from the market.

Financial Performance to 30 September– Group Overview

The tables below summarises the key components of surplus before tax, investment and cash by trading segments with expanded commentary provided on the individual trading segments on pages 49 to 55.

The group surplus before tax for the six months to 30 September 2023 increased by £23 million to £72 million (2022: £49 million) driven by a £16 million increase in Scottish Water regulated activities and a £6 million increase in Business Stream.

	Scottish Water Regulated		Business Stream 'Group'		Horizons 'Group'		Inter-Company eliminations		Consolidated Total	
	Sept 2023	Sept 2022	Sept 2023	Sept 2022	Sept 2023	Sept 2022	Sept 2023	Sept 2022	Sept 2023	Sept 2022
Revenue	722	685	347	327	10	26	(106)	(120)	973	918
Operating Costs	(588)	(561)	(340)	(326)	(9)	(21)	106	118	(831)	(790)
Operating Surplus	**134**	**124**	**7**	**1**	**1**	**5**	**-**	**(2)**	**142**	**128**
Finance Costs	(72)	(78)	1	1	1	(3)	-	1	(70)	(79)
Surplus before Tax	**62**	**46**	**8**	**2**	**2**	**2**	**-**	**(1)**	**72**	**49**

The table opposite summarises consolidated capital investment, on a statutory accounting basis, by trading segment to 30 September 2023 with the comparison to 30 September 2022.

In the six months to 30 September 2023, consolidated net debt increased by £94 million to £4,116 million. The increase was driven by a reduction in cash balances of £157 million to £330 million partially offset by loan repayments of £63 million. Net new loans of £146 million to £196 million are expected to be drawn in the final six months of the year. The movements are summarised in the table opposite by trading segment:

	Scottish Water		Business Stream 'Group'		Horizons 'Group'		Inter-Company eliminations		Consolidated Total	
	Sept 2023	Sept 2022	Sept 2023	Sept 2022	Sept 2023	Sept 2022	Sept 2023	Sept 2022	Sept 2023	Sept 2022
Investment	360	309	1	-	2	4	-	(5)*	363	308

*Intercompany eliminations in the prior year relate to assets transferred from the Horizons 'Group' to Scottish Water. The transfer relates to the absorption of the former North-East Scotland PFI activities into the regulated activities of Scottish Water.

	Scottish Water		Business Stream 'Group'		Horizons 'Group'		Consolidated Total	
	Sept 2023	Mar 2023	Sept 2023	Mar 2023	Sept 2023	Mar 2023	Sept 2023	Mar 2023
Cash	259	390	45	53	26	44	330	487
Debt	(4,446)	(4,509)	(16)	-	16	-	(4,446)	(4,509)
Net Debt	(4,187)	(4,119)	29	53	42	44	(4,116)	(4,022)

These cash balances have been committed for future investment delivery or are required to manage working capital requirements.

FINANCIAL PERFORMANCE SCOTTISH WATER – REGULATED SERVICES

Performance compared to plan and the Final Determination

The financial performance of Scottish Water's regulated activities is measured on a regulatory accounting basis, which includes items subject to a long-term normative charge (LTNC)[2]. The following tables and commentary have therefore been presented on that basis. Reconciliations to Scottish Water's performance, on statutory accounting basis, is set out in the 'Financial Summary of Year-on-Year Performance' section below.

The Regulated Income & Expenditure Statement and Capital Investment for the six months to 30 September 2023 compared to the Final Determination (FD)[3], as determined by the Water Industry for Scotland (WICS) financial model is presented opposite.

Scottish Water Regulated Income & Expenditure Statement	Six months to 30 September 2023 £m	Mid-point of WICS financial model underpinning the FD £m	Inc/(dec) £m	Cumulative inc/(dec) 1 April 21 to 30 September 23 £m
Total revenue	**731**	**804**	**(73)**	**(112)**
Regulatory operating costs	(204)	(320)	36	50
PFI costs	(80)			
Interest charges	(67)	(93)	26	81
Costs before items subject to LTNC	**(351)**	**(413)**	**62**	**131**
Total available to support investment before LTNC items	**380**	**391**	**(11)**	**19**
Responsive repair & refurbishment costs	(108)	(139)	31	106
Developer contributions	(15)	(18)	3	7
Tax paid	(5)	(3)	(2)	(47)
Total LTNC Items	**(128)**	**(160)**	**32**	**66**
Surplus after charging LTNC items	**252**	**231**	**21**	**85**

[2]LTNC Items - Responsive repair and refurbishment costs, developer contributions and tax.
[3]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.

Revenue

Revenue in the six months to 30 September 2023 was in line with plan[4] at £731 million but £73 million lower than anticipated in the Final Determination. Charges in the Final Determination 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 are 4.4% below CPI inflation but 10.5% below the charge path anticipated in the Final Determination.

Operating Costs, PFI and Interest

Costs before items subject to LTNC in the first six months at £351 million, were £46 million lower than plan and £62 million lower than anticipated in the Final Determination. 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[5] compared to 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 from folding the former North-East Scotland PFI activities into Scottish Water's waste water operations from 1 October 2022 also contributed to the outperformance of the Final Determination.

Costs before items subject to LTNC, on a cumulative basis since the start of the regulatory period, were £131 million lower than that anticipated in the Final Determination.

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 six months to 30 September 2023 for responsive repairs and refurbishment was £104 million compared to the LTNC charge for the period of £108 million, which itself was £31 million lower than the Final Determination assumption of £139 million. Cumulatively, actual expenditure for responsive repairs and refurbishment was £196 million lower than the level assumed in the Final Determination. Over the remainder of the 2021-27 regulatory period we expect to experience increases to responsive repair and refurbishment costs as our assets continue to age.

Developer contributions and taxation may also experience significant annual variability and hence we have adopted a similar normative charge approach in these areas with a normative charge of £30 million per annum for developer contributions and £10 million for taxation. In the six months to 30 September 2023 actual expenditure in relation to developer contributions was £16 million with zero in relation to corporation tax. Consequently, total actual expenditure on LTNC items in the first six months was £120 million, £8 million lower than plan.

As we progress through the 2024-27 period rebasing of LTNCs will be required to reflect actual expenditure trends and up-to-date forecasts. These updates will be highlighted within our interim and annual reports. Following the UK 2023 Spring budget announcement of enhanced capital allowances for a three-year period from 1 April 2023 we have revised the LTNC for taxation from £20 million per annum to £10 million per annum.

[4] As set out in the prospects section (page 68) of Annual Report & Accounts 2022/23: Performance and Prospects.
[5] Which reduce contractual indexation within the Levenmouth PFI contract

Surplus to support planned investment

The total potential surplus available to support planned investment, after charging for LTNC items, for the first six months of the year was £252 million. This was £21 million higher than that anticipated in the Final Determination reflecting the performance highlighted above. Cumulatively, since the start of the regulatory period, the potential surplus to support planned investment was £85 million higher than the Final Determination.

Investment

Our gross planned investment, on a regulatory accounting basis, in the first six months of the year was £400 million, which was £43 million or c. 12% higher than our plan. When combined with responsive repair and refurbishment costs, total regulated investment was £504 million in the first half of the year, £32 million higher than anticipated in the Final Determination. The table opposite compares performance with the investment expectations in the Final Determination.

Investment on a regulatory accounting basis	Six months to 30 September 2023 £m	Mid-point of WICS financial model underpinning the FD £m	Inc/(dec) £m	Cumulative inc/(dec) 1 April 21 to 30 September 2023 £m
Planned investment	400	333	67	36[6]
Responsive repair & refurbishment costs[7]	104	139	(35)	(196)[8]
Total	**504**	**472**	**32**	**(160)**

[6] Cumulatively to 31 March 2023, planned investment was £31 million lower than the Final Determination Level.
[7] Responsive repair and refurbishment costs are expected to increase year-on-year, The Final Determination assumes a flat profile for responsive repair and refurbishment expenditure over the six year regulatory period.
[8] Cumulatively to 31 March 2023, responsive repair & refurbishment costs were £161 million lower than the Final Determination Level.

Prospects for 2023/24 and 2024/25

We remain committed to delivering our Strategic Plan, increasing investment to replace our ageing assets, achieving our net zero ambitions and taking all possible steps to drive for further efficiency to reduce our expenditure, targeting at least a 1% year-on-year real reduction (CPI-1%) in line with the challenging target set in the Final Determination.

The mid-range forecast of regulated income & expenditure for 2023/24 is presented opposite.

Total revenue for 2023/24 is forecast to continue in line with the trend for the six months to September. Costs before items subject to LTNC for 2023/24 are forecast to reduce further below plan and the level anticipated in the Final Determination but at a slower rate than in the six months to September. This is due to electricity prices being higher in the winter months and the impact of higher interest rates on new loans.

SW Regulated Income & Expenditure Statement for 2023/24	Forecast 2023/24 £m	Final Determination 2023/24 £m	Inc/(dec) 2023/24 £m	Cumulative Inc/(dec) 2021-24 £m
Total revenue	**1,457**	**1,607**	**(150)**	**(189)**
Regulatory operating costs	(446)	(640)	31	45
PFI operating costs	(163)			
Interest charges	(137)	(186)	49	104
Costs before items subject to LTNC	**(746)**	**(826)**	**80**	**149**
Total available to support investment before LTNC items	**711**	**781**	**(70)**	**(40)**
Responsive repair & refurbishment costs	(215)	(277)	62	137
Developer contributions	(30)	(35)	5	9
Tax paid	(10)	(6)	(4)	(49)
Total LTNC Items	**(255)**	**(318)**	**63**	**97**
Surplus after charging LTNC items	**456**	**463**	**(7)**	**57**

The preliminary forecast ranges for 2024/25 compared with the Final Determination are presented in the table opposite.

Our preliminary forecast for revenue for 2024/25 is based on a range of potential charge increases. The higher end of the range reflects charge increases required to enable a profile that aligns with an exit revenue at March 2027 at a similar level as that set out in the Final Determination.

Our preliminary forecast range for costs, before items subject to LTNC, reflects our ambition to out-perform the Final Determination by up to £40 million and reflects lower net interest charges.

For LTNC items in 2024/25 we expect to maintain the level for responsive repair and refurbishment at £215 million, which is lower than the average Final Determination assumption of £272 million. We also expect to maintain the level for developer contributions at £30 million. As highlighted above, following the 2023 Spring budget we have revised the LTNC for taxation from £20 million per annum to £10 million per annum.

SW Regulated Income & Expenditure Statement for 2024/25	Preliminary Forecast 2024/25 £m	Final Determination 2024/25 £m	Inc/(dec) 2024/25 £m	Cumulative Inc/(dec) 2021 – 25 £m
Total revenue	1,540 - 1,600	1,749	(149) – (209)	(338) - (398)
Costs before items subject to LTNC	(840) - (800)	(841)	1-41	150 - 190
Total available to support investment before LTNC items	700 - 800	908	(108) - (208)	(148) - (248)
Total LTNC Items	(255)	(323)	68	165
Surplus after charging LTNC items	445 - 545	585	(40) - (140)	(83) - 17

Net new borrowing from the Scottish Government in 2024/25 is planned to be £170 million.

Due to the profile of actual charge increases differing from the Final Determination, revenue will be lower over the SR21 period. Consequently, our central planning assumption remains that over the regulatory period we can only finance £4.4 billion[9] of investment, £0.5 billion lower than anticipated in the Final Determination. Our preliminary forecast planned investment for 2024/25 is a range of £765 million to £825 million.

Our preliminary forecast cash balance as at 31 March 2025 is a range of £120 million to £200 million.

[9] In 2017/18 prices

FINANCIAL SUMMARY OF YEAR-ON-YEAR PERFORMANCE

Revenue

Revenue for the six months to 30 September 2023 increased by £37 million or 5.4% to £722 million[9] (2022: £685 million). This is analysed by category in the table below. The increase reflects an average charge increase of 5% for household and wholesale customers applied on 1 April 2023 and new net connections to services.

	September 2023 £m	September 2022 £m	Increase £m
Household	524	495	29
Wholesale	188	180	8
Other	10	10	-
Total revenue	**722**	**685**	**37**

Operating Costs, PFI and Depreciation

Total operating costs increased £27 million or 4.7% to £588 million (2022: £561 million). The table opposite reconciles regulatory operating and PFI costs with total operating cost per the statutory accounts.

	September 2023 £m	September 2022 £m	Inc/(dec) £'m
Regulatory operating costs	204	202	2
PFI costs	80	100	(20)
Repair costs	142	101	41
Cloud computing arrangement costs	7	9	(2)
Depreciation and amortisation	167	145	22
Gain on sale of assets	(1)	-	(1)
IAS 19 pension & employee cost [10]	(1)	16	(17)
PFI costs – finance costs to lease liability [11]	(10)	(12)	2
Total operating cost per statutory accounts	**588**	**561**	**27**
Scottish Water non-regulated costs	1	2	(1)
Total company operating costs per statutory accounts	**589**	**563**	**26**
Cost of sales	533	502	31
Administrative expenses	56	61	(5)
Total	**589**	**563**	**26**

[9] This excludes Infrastructure charge income of £8m (2022: £11m) and disposal proceeds from sale of assets of £1m (2022: £nil) which is included in the regulatory accounting basis set out above.

[10] The £1m gain 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%).

[11] 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 £2 million or 1% to £204 million (2022: £202 million). However, significant inflationary pressures associated with chemical and energy costs were mostly offset by the £25 million refund of rates charges following the successful appeal of the 2017 Water Undertaking revaluation.

In the six months to 30 September 2023, 53% of our electricity costs were exposed to market prices which have been around a third higher than in 2022/23. Before the start of the 2022/23 financial year we were able to forward purchase our electricity requirements. Given the electricity market conditions prior to the 2023/24 financial year, which were heavily influenced by the war in Ukraine, we had to change our electricity procurement strategy for 2023/24 as signalled in our Annual Report & Accounts 2022/23: Performance and Prospects.

PFI costs decreased by £20 million or 20%, to £80 million (2022: £100 million). The main drivers behind the reduced costs relate to the absorption of the former North-East Scotland PFI activities into Scottish Water's waste water operations 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 increased by £41 million or 40% to £142 million (2022: £101 million) due to higher volumes, driven by our ageing asset base (particularly treated water storage assets), the increasing impacts of extreme weather, and inflationary pressures on costs.

Depreciation and amortisation charges increased by £22 million or 15% to £167 million (2022: £145 million), due to the profile of capital investment and completed projects coming into beneficial use. Cloud computing arrangements costs were £2 million lower at £7 million (2022: £9 million).

Finance Costs

Net finance costs in the six months to 30 September 2023 were £6 million lower at £72 million (2022: £78 million). The decrease was driven primarily by lower interest charges as a result of increased interest income from funds on deposit and reductions in PFI finance lease costs following the absorption of the former North-East PFI activities in Scottish Water's waste water operations.

The table below details the elements of net finance costs:

	September 2023 £m	September 2022 £m	Increase £m
Interest charges	67	70	(3)
PFI finance lease costs (IFRIC 12)	5	7	(2)
Pension scheme finance costs (IAS 19) [12]	-	1	(1)
Net finance costs[13]	**72**	**78**	**(6)**

[12] The adjustment to finance costs relates to the finance charge calculated on the net pension scheme liabilities using the opening discount rate of 2.70%

[13] In addition to the IAS 19 adjustments noted above which are taken to the Income Statement, the Statement of Comprehensive Income includes an actuarial loss of £11m, before tax (£9 million net of tax), for the first six months to September 2023 (2022: £87 million gain, before tax (£65 million net of tax)

As at 30 September 2023, the weighted average interest cost of the outstanding long-term debt within Scottish Water's regulated business reduced to 3.10% (March 2023: 3.14%). This was due to the repayment of £63 million loans with a weighted average interest rate of 5.95%. No new loans were drawn down during the period from the Scottish Government.

Surplus Before Tax

The table opposite reconciles the regulatory surplus, before LTNC items (from the table on page 44) to the statutory accounting surplus before tax as per the financial statements of £62 million for the first six months to 30 September 2023.

	September 2023 £m	September 2022 £m	Increase £m
Regulated funding for planned investment before LTNC adjustments (per table above)	**380**	**332**	**48**
Deduct actual expenditure on LTNC items	(120)	(101)	(19)
Less depreciation & amortisation charges	(167)	(145)	(22)
Less SW cloud computing costs	(7)	(9)	2
Add back developer contributions less infrastructure charge income awaiting investment	9	8	1
Planned maintenance costs less refurbishment costs capitalised	(39)	(19)	(20)
Retirement benefit obligation:			
Operating costs	1	(16)	17
Finance costs	-	(1)	1
PFI finance lease costs (IFRIC 12) adjustment	5	(3)	8
Scottish Water Surplus Before Tax per statutory accounts	**62**	**46**	**16**

Capital Investment

On a statutory accounting basis, investment for the six months to 30 September 2023 was £360 million, £51 million higher than the previous half-year reflecting the planned increase to our investment programme. The table opposite reconciles investment on a gross regulatory accounting basis with investment as stated in the statutory accounts.

Cash balances

Cash balances within Scottish Water decreased by £131 million to £259 million (March 2023: £390 million) due mainly to the growth of the investment programme, partially offset by the £25 million refund of rates charges referred to above.

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 we borrow from the Scottish Government relative to when we invest and, unlike similar infrastructure businesses, we do not have access to any other form of credit facilities. Our risk appetite determines that the regulated business should always hold a minimum cash balance of £120 million[14], which is equivalent to approximately four weeks expenditure. The balance of our cash has been committed for future investment delivery as set out in note 9 on page 78.

	September 2023 £m	September 2022 £m	Change £m
Planned investment on a regulatory accounting basis	400	330	70
Less planned repairs charged to the Income Statement	(38)	(19)	(19)
Add developer contributions	16	19	(3)
Less investment funded mainly from infrastructure charges and the settlement of contractual claims etc	(11)	(16)	5
Group assets acquired from Scottish Water Services Grampian	-	4	(4)
Less cloud-based projects charged to Income Statement	(7)	(9)	2
Company capital additions as at 30 September 2023 per note 4	**360**	**309**	**51**

[14] This was increased to £200m during the pandemic.

BUSINESS STREAM

Overview

Business Stream is Scottish Water's licensed retail subsidiary and one of the largest water retailers in the UK, supplying water and waste water services to over 300,000 business customers throughout Scotland and England. Business Stream is a wholly owned subsidiary of Scottish Water with its own Board and independent management team. Scottish Water exercises governance over Business Stream through Scottish Water Business Stream Holdings (SWBSH).

Strategic and Financial Framework

Business Stream's commercial strategy is to retain and grow market share 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 SWBSH, subject to appropriate board approvals.

Performance Review

Business Stream's main priority during the first half of this financial year has been delivering high quality service and support to its customers as they continue to face challenging macro-economic conditions. In January 2023, Business Stream completed the final stage of its multi-million pound, three year transformation programme, replacing ageing technology with a scalable, resilient modern platform and migrating its customer base onto a new market leading billing system. Against this backdrop, Business Stream has retained its position as one of the largest retailers in the UK water market and delivered good results against its key business performance targets.

Financial Performance

Revenue from this business segment for the period to 30 September 2023 increased 6% to £347 million (2022: £327 million) (see note 2 to the financial statements). This represents 32% (2022: 32%) of the group revenue, before intercompany eliminations. The surplus before tax within this segment was £8 million (2022: £2 million), with increased gross profit due to higher gross margin, lower levels of bad debt provisioning (£1 million), and reduced overhead costs (£1 million) as a result of efficiencies achieved from the Yorkshire Water customer integration and the business transformation project.

Despite the continuing challenges within the economy and significant investment to date, the balance sheet remains strong, with net assets of £164 million as at 30 September 2023.

Cash balances as at 30 September 2023 for the Business Stream 'Group' were £58 million (31 March 2023: £53 million). The increase of £5 million was mainly attributable to £40 million of debt drawn down on Business Streams funding facilities with Scottish Water Business Stream Holdings, of which £16 million was provided by Scottish Water Horizons Holdings. £20 million of the requirement was for increased wholesale prepayments to Scottish Water in line with regulatory market reforms. The remaining £20 million was drawn down in April as a temporary working capital buffer following the migration of customers to the new billing system in January 2023, as the release of bills to customers was carefully phased as part of a robust quality assurance process. £10 million of this temporary draw down was repaid in October 2023 with the balance expected to be repaid by the end of this calendar year.

Prospects

Following the successful delivery of the transformation programme, Business Stream will continue to grow and evolve; extracting further value by leveraging growth from a more efficient and cost-effective operating model, strongly positioning the business to respond and adapt to the changing environment and the challenges and opportunities presented.

NON-REGULATED BUSINESS ACTIVITIES

Overview

Our non-regulated business activities are predominantly undertaken by Scottish Water Horizons Holdings and mainly operate through Scottish Water Horizons. The profits generated within the horizons group of activities are invested in the future development of the business supporting Scottish Water's net zero ambitions.

Revenue from this business segment in the six months to September 2023 totalled £10 million (2022: £26 million) (see note 2 to the financial statements). This represents 1% (2022: 2%) of the group revenue, before intercompany eliminations. The surplus before tax within this segment was £2 million (2022: £2 million).

Investment in the first six months of the year within Scottish Water Horizons totalled £2 million with a focus on low carbon investments. New photovoltaic schemes were commissioned at Oban, Denny and Peterhead, which collectively have the capacity to generate 1.2GWh of energy output and save over 200 tonnes of carbon per year. In the second half of the year the aim is to deliver a further 8 projects which collectively have the capacity to generate 3GWh of energy output.

Group Taxation

Scottish Water was awarded the Fair Tax Mark for the third time in December 2022. 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 Fair Tax Mark is the world's first independent accreditation for fair responsible tax and it was established in response to widespread public concern about apparent tax avoidance.
To meet the criteria set by the Fair Tax Mark, Scottish Water is transparent about its tax affairs and has demonstrated with the publication of its tax strategy a firm commitment to shun tax avoidance, not take an aggressive interpretation of tax legislation and not use tax havens to secure a tax benefit.

The consolidated tax charge on the income statement to 30 September 2023 was £19 million (2022: £13 million). The effective tax rate for the six months to 30 September 2023 was 26% (2022: 27%).

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

	Scottish Water		Business Stream 'Group'		Horizons 'Group'		Consolidated Total	
	Sept 2023 £m	Sept 2022 £m	Sept 2023 £m	Sept 2022 £m	Sept 2023 £m	Sept 2022 £m	Sept 2023 £m	Sept 2022 £m
Current year tax charge	-	5	3	1	-	1	3	7
Deferred tax charge	16	8	-	(2)	-	-	16	6
Total	**16**	**13**	**3**	**(1)**	**-**	**1**	**19**	**13**

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. Thus, movements in equity markets and discount rates create volatility in the calculation of scheme assets and liabilities. As at 30 September the discount rate had increased by 0.7% from 4.75% at 31 March 2023 to 5.45%. The impact was a reduction in the pension liabilities of £171 million. This is partially offset by lower than forecast asset returns to 30 September 2023 and a higher expectation of CPI growth in 2023/24 as originally forecast at 31 March 2023. The overall impact of these factors generated an actuarial gain of £121 million resulting in a pension asset of £701 million as at 30 September 2023.

However, under the relevant accounting standards (IAS19 and IFRIC14) 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 company 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. This has been calculated as nil for both Scottish Water and Business Stream. As such the pension asset of £701 million is not recognised with an actuarial loss of £11 million.

The actuarial movements, net of deferred tax, are presented in the consolidated statement of comprehensive income with further detail in note 8 to the financial statements (on pages 76 to 77).

Employees who joined Business Stream after December 2016 participate in a defined contribution scheme, administered by Standard Life. Employees of the former North-East Scotland Waste water PFI, now within Scottish Water Grampian Services Limited, also participate in a defined contribution scheme administered by Aviva.

FINANCIALS

INDEPENDENT REVIEW REPORT TO SCOTTISH WATER
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2023

Conclusion
We have been engaged by Scottish Water ("the Company") to review the Condensed Consolidated and Company Interim Financial Statements in the Interim Report and Accounts for the six months ended 30 September 2023 which comprises the condensed consolidated and company income statement, the condensed consolidated statement of comprehensive income, the company statement of comprehensive income, the condensed consolidated and company balance sheets, the condensed consolidated statement of changes in equity, the company statement of changes in equity, the condensed consolidated statement of cash flows, the company statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the Condensed Consolidated and Company Interim Financial Statements in the Interim Report and Accounts for the six months ended 30 September 2023 are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK.

Basis for conclusion
We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity ("ISRE (UK) 2410") issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the Interim Report and Accounts and consider whether it contains any apparent misstatements or material inconsistencies with the information in the Condensed Consolidated and Company Interim Financial Statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions relating to going concern
Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the Board Members have inappropriately adopted the going concern basis of accounting, or that the Board Members have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Board Members' responsibilities
The Interim Report and Accounts is the responsibility of, and have been approved by, the Board Members.

As disclosed in note 1, the annual Consolidated and Company financial statements of the Company are prepared in accordance with UK adopted international accounting standards, and, where

otherwise appropriate, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual ("FReM") and the next annual financial statements will be prepared in accordance with UK adopted international accounting standards, and, where otherwise appropriate, as interpreted and adapted by the 2023/24 FReM. The Board Members are responsible for preparing the Condensed Consolidated and Company Interim Financial Statements included in the Interim Report and Accounts in accordance with IAS 34 as adopted for use in the UK.

In preparing the Condensed Consolidated and Company Interim Financial Statements, the Board Members are responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members either intend to liquidate the Company or the Group or to cease operations, or have no realistic alternative but to do so.concern basis of accounting unless the members either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT REVIEW REPORT TO SCOTTISH WATER
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

Our responsibility

Our responsibility is to express to the Company a conclusion on the Condensed Consolidated and Company Interim Financial Statements in the Interim Report and Accounts based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Timothy Cutler
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square,
Manchester,
M2 3AE
13 December 2023

CONDENSED CONSOLIDATED AND COMPANY INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

		Group			Company		
	Note	Half year to September 2023 Unaudited £m	Half year to September 2022 Unaudited £m	Year to March 2023 Audited £m	Half year to September 2023 Unaudited £m	Half year to September 2022 Unaudited £m	Year to March 2023 Audited £m
Revenue	2	**973.2**	**918.0**	**1,836.5**	**723.4**	**686.7**	**1,367.7**
Cost of sales		(747.0)	(700.1)	(1,444.7)	(532.8)	(502.3)	(1,033.7)
Gross surplus		**226.2**	**217.9**	**391.8**	**190.6**	**184.4**	**334.0**
Administrative expenses		(84.5)	(90.4)	(181.1)	(56.4)	(60.6)	(124.1)
Operating surplus	2	**141.7**	**127.5**	**210.7**	**134.2**	**123.8**	**209.9**
Finance income		6.7	0.8	5.4	5.8	0.7	4.3
Finance costs		(76.8)	(79.5)	(155.2)	(77.7)	(78.4)	(154.5)
Surplus before taxation		**71.6**	**48.8**	**60.9**	**62.3**	**46.1**	**59.7**
Taxation	3	(18.7)	(12.9)	(20.4)	(15.8)	(13.5)	(18.6)
Surplus for the period		**52.9**	**35.9**	**40.5**	**46.5**	**32.6**	**41.1**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	Half year to September 2023 Unaudited £m	Half year to September 2022 Unaudited £m	Year to March 2023 Audited £m
Surplus for the period		52.9	35.9	40.5
Other comprehensive income for the period				
Items which will not subsequently be reclassified to the income statement				
Actuarial (loss)/gain on post employment benefit obligations	8	(11.4)	87.3	113.3
Deferred tax on remeasurement of post employment benefit obligations		2.8	(21.8)	(28.3)
Effective portion of changes in fair value of cash flow hedge, net of deferred taxation		-	2.5	2.5
Total comprehensive income for the period		44.3	103.9	128.0

The surplus for the period and total comprehensive income for the period are attributable to the owners of Scottish Water.
The notes on pages 68 to 78 form an integral part of the condensed consolidated and company interim financial information.

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	Half year to September 2023 Unaudited £m	Half year to September 2022 Unaudited £m	Year to March 2023 Audited £m
Surplus for the period		46.5	32.6	41.1
Other comprehensive income for the period				
Items which will not subsequently be reclassified to the income statement				
Actuarial (loss)/gain on post employment benefit obligations	8	(9.0)	75.5	100.3
Deferred tax on remeasurement of post employment benefit obligations		2.3	(18.9)	(25.1)
Total comprehensive income for the period		39.8	89.2	116.3

The surplus for the period and total comprehensive income for the period are attributable to the owners of Scottish Water.
The notes on pages 68 to 78 form an integral part of the condensed consolidated and company interim financial information.

CONDENSED CONSOLIDATED AND COMPANY BALANCE SHEETS
AS AT 30 SEPTEMBER 2023

		Group			Company		
	Note	Half year to September 2023 Unaudited £m	Half year to September 2022 Unaudited £m	Year to March 2023 Audited £m	Half year to September 2023 Unaudited £m	Half year to September 2022 Unaudited £m	Year to March 2023 Audited £m
Assets							
Non-current assets							
Property, plant and equipment	4	7,315.7	6,956.2	7,134.6	7,284.4	6,916.8	7,105.3
Intangible asset	5	27.1	26.8	21.5	16.7	13.7	9.2
Investments		-	-	-	37.6	55.9	37.6
Deferred tax asset		2.2	3.1	1.8	-	-	-
Retirement benefit asset	8	-	1.9	27.1	-	-	24.6
		7,345.0	6,988.0	7,185.0	7,338.7	6,986.4	7,176.7
Current assets							
Inventories		4.6	4.4	4.5	4.2	3.9	4.1
Assets held for sale	4	7.9	-	7.9	-	-	-
Trade and other receivables		847.1	736.6	307.2	629.1	590.5	113.8
Current tax asset	7	16.8	8.4	16.7	16.5	6.4	16.4
Cash and cash equivalents		330.0	519.2	486.9	258.7	390.9	390.3
		1,206.4	1,268.6	823.2	908.5	991.7	524.6
Total assets		**8,551.4**	**8,256.6**	**8,008.2**	**8,247.2**	**7,978.1**	**7,701.3**
Liabilities							
Current liabilities							
Trade and other payables		(1,072.6)	(1,000.7)	(520.3)	(964.8)	(876.0)	(406.5)
Other loans and borrowings		(23.0)	(21.7)	(22.3)	(23.0)	(25.4)	(22.3)
Current tax liabilities		(1.1)	(3.3)	(1.7)	-	-	-
Provisions for liabilities		(14.2)	(12.6)	(12.1)	(17.0)	(15.1)	(13.9)
		(1,110.9)	(1,038.3)	(556.4)	(1,004.8)	(916.5)	(442.7)
Non-current liabilities							
Trade and other payables		(96.1)	(79.0)	(92.5)	(76.9)	(72.2)	(74.4)
Other loans and borrowings		(141.8)	(164.8)	(153.7)	(141.8)	(195.6)	(153.7)
Deferred tax liabilities		(704.3)	(672.6)	(690.6)	(702.1)	(667.4)	(688.5)
Retirement benefit obligations	8	-	-	-	-	-	-
Provisions for liabilities		(10.6)	(9.9)	(9.2)	(12.2)	(11.2)	(10.0)
		(952.8)	(926.3)	(946.0)	(933.0)	(946.4)	(926.6)
Total liabilities		**(2,063.7)**	**(1,964.6)**	**(1,502.4)**	**(1,937.8)**	**(1,862.9)**	**(1,369.3)**
Net assets		**6,487.7**	**6,292.0**	**6,505.8**	**6,309.4**	**6,115.2**	**6,332.0**
Equity							
Government loans	7	4,446.3	4,319.0	4,508.7	4,446.3	4,319.0	4,508.7
Retained earnings		1,908.0	1,839.6	1,863.7	1,729.7	1,662.8	1,689.9
Other reserves		133.4	133.4	133.4	133.4	133.4	133.4
		6,487.7	**6,292.0**	**6,505.8**	**6,309.4**	**6,115.2**	**6,332.0**

The notes on pages 68 to 78 form an integral part of the condensed consolidated and company interim financial information.
The condensed set of financial statements on pages 61 to 67 were approved by the Board on 12 December 2023
and signed on its behalf by: **Alex Plant**, Chief Executive.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	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 six months ended 30 September 2022	-	35.9	-	35.9
Other comprehensive income:				
Actuarial gain on post employment benefit obligations, net of tax	-	65.5	-	65.5
Effective portion of changes in fair value of cash flow hedge, net of tax	2.5	-	-	2.5
Total comprehensive income for the period	2.5	101.4	-	103.9
Balance at 30 September 2022	**-**	**1,839.6**	**133.4**	**1,973.0**
Balance at 1 April 2022	(2.5)	1,738.2	133.4	1,869.1
Surplus for the year ended 31 March 2023	-	40.5	-	40.5
Other comprehensive income:				
Actuarial gain on post employment benefit obligations, net of tax	-	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	2.5	125.5	-	128.0
Balance at 31 March 2023	**-**	**1,863.7**	**133.4**	**1,997.1**
Surplus for the six months ended 30 September 2023	-	52.9	-	52.9
Other comprehensive income:				
Actuarial loss on post employment benefit obligations, net of tax	-	(8.6)	-	(8.6)
Total comprehensive income for the period	-	44.3	-	44.3
Balance at 30 September 2023	**-**	**1,908.0**	**133.4**	**2,041.4**

The 'Statement of changes in equity' above excludes Government loans which, in accordance with the Corporate Governance Direction, are recorded on the balance sheet under Equity.

The notes on pages 68 to 78 form an integral part of the condensed consolidated and company interim financial information.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	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 six months ended 30 September 2022	32.6	-	32.6
Other comprehensive income:			
Actuarial gain on post employment benefit obligations, net of tax	56.6	-	56.6
Total comprehensive income for the period	89.2	-	89.2
Balance at 30 September 2022	**1,662.8**	**133.4**	**1,796.2**
Balance at 1 April 2022	1,573.6	133.4	1,707.0
Surplus for the year ended 31 March 2023	41.1	-	41.1
Other comprehensive income:			
Actuarial gain on post employment benefit obligations, net of tax	75.2	-	75.2
Total comprehensive income for the year	116.3	-	116.3
Balance at 31 March 2023	**1,689.9**	**133.4**	**1,823.3**
Surplus for the six months ended 30 September 2023	46.5	-	46.5
Other comprehensive income:			
Actuarial loss on post employment benefit obligations, net of tax	(6.7)	-	(6.7)
Total comprehensive income for the period	39.8	-	39.8
Balance at 30 September 2023	**1729.7**	**133.4**	**1863.1**

The 'Statement of changes in equity' above excludes Government loans which, in accordance with the Corporate Governance Direction, are recorded on the balance sheet under Equity.

The notes on pages 68 to 78 form an integral part of the condensed consolidated and company interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	Half year to September 2023 Unaudited £m	Half year to September 2022 Unaudited £m	Year to March 2023 Audited £m
Surplus before taxation		71.6	48.8	60.9
Depreciation charges	4	167.6	150.8	309.9
Amortisation of intangible asset	5	8.0	6.5	12.8
Amortisation of grants		(1.1)	(0.9)	(1.8)
(Surplus) / Loss on disposal of property, plant and equipment		(0.7)	7.9	8.3
Non cash adjustment for retirement benefit obligations		(0.9)	16.4	38.4
Finance costs - net		70.1	78.7	149.8
Operating cashflow before changes in working capital and provisions		**314.6**	**308.2**	**578.3**
Changes in working capital and provisions:				
Decrease / (increase) in receivables		3.1	41.2	(46.2)
Increase in inventories		(0.1)	(0.2)	(0.3)
Increase / (decrease) in payables		33.6	(4.3)	6.1
Increase / (decrease) in provisions		4.5	2.5	(1.9)
Cash flows from operating activities		**355.7**	**347.4**	**536.0**
Taxation paid		(3.0)	(3.1)	(7.8)
Net cash generated from operating activities		352.7	344.3	528.2
Cash flows from investing activities				
Purchase of property, plant and equipment		(361.9)	(302.5)	(636.5)
Proceeds on sale of property, plant and equipment		1.3	0.2	0.3
Purchase of intangible asset		(13.6)	(7.3)	(8.4)
Government grant income received		0.3	-	1.6
Infrastructure income receipts		8.1	11.1	19.6
Net cash used in investing activities		(365.8)	(298.5)	(623.4)
Cash flows from financing activities				
Repayments of loans	7	(62.4)	(95.4)	(153.4)
Proceeds from borrowings	6	-	-	247.7
Interest received		6.6	0.8	5.4
Interest paid		(76.8)	(78.6)	(153.7)
Payment of finance lease liabilities		(11.2)	(10.5)	(21.0)
Net cash used in financing activities		(143.8)	(183.7)	(75.0)
Net decrease in cash and cash equivalents		**(156.9)**	**(137.9)**	**(170.2)**
Cash and cash equivalents - opening balance	7	486.9	657.1	657.1
Cash and cash equivalents - closing balance	7	**330.0**	**519.2**	**486.9**

COMPANY STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	Half year to September 2023 Unaudited £m	Half year to September 2022 Unaudited £m	Year to March 2023 Audited £m
Surplus before taxation		62.3	46.1	59.7
Depreciation charges	4	166.7	148.1	305.5
Amortisation of intangible asset	5	6.1	4.9	9.3
Amortisation of grants		(1.0)	(0.8)	(1.5)
(surplus) / loss on disposal of property, plant and equipment		(0.7)	7.9	(0.6)
Non cash gain on acquisitions		-	-	3.1
Non cash adjustment for retirement benefit obligations		(1.0)	15.6	37.1
Finance costs - net		71.9	77.7	150.2
Operating cashflow before changes in working capital and provisions		**304.3**	**299.5**	**562.8**
Changes in working capital and provisions:				
Decrease / (increase) in receivables		27.6	53.1	(18.0)
Increase in inventories		(0.1)	(0.2)	(0.3)
Increase in payables		37.0	20.0	29.2
Increase / (decrease) in provisions		6.3	2.5	(3.2)
Cash flows from operating activities		**375.1**	**374.9**	**570.5**
Taxation paid		-	-	(0.2)
Net cash generated from operating activities		375.1	374.9	570.3
Cash flows from investing activities				
Purchase of property, plant and equipment		(357.2)	(302.2)	(630.5)
Proceeds on sale of property, plant and equipment		1.2	0.2	0.6
Purchase of intangible asset		(13.6)	(6.0)	(6.0)
Loans to subsidiary companies		-	(30.9)	-
Acquisition of subsidiary companies		-	(18.3)	(35.3)
Government grant income received		0.3	-	2.3
Infrastructure income receipts		8.1	11.1	19.6
Net cash used in investing activities		(361.2)	(346.1)	(649.3)
Cash flows from financing activities				
Repayments of loans	7	(62.4)	(64.6)	(122.6)
Proceeds from borrowings	6	-	-	247.7
Interest received		5.7	0.7	4.3
Interest paid		(77.7)	(77.6)	(153.2)
Payment of finance lease liabilities		(11.1)	(12.3)	(22.8)
Net cash used in financing activities		(145.5)	(153.8)	(46.6)
Net decrease in cash and cash equivalents		**(131.6)**	**(125.0)**	**(125.6)**
Cash and cash equivalents - opening balance	7	390.3	515.9	515.9
Cash and cash equivalents - closing balance	7	**258.7**	**390.9**	**390.3**

The notes on pages 68 to 78 form an integral part of the condensed consolidated and company interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED AND COMPANY INTERIM STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

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 condensed consolidated and company interim financial information was approved by the Board on 12 December 2023. The condensed consolidated and company interim financial information is unaudited but has been reviewed by the Auditor. The Auditor's report is set out on page 59. These condensed consolidated and company financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2023, were approved by the Board on 31 May 2023 and laid before the Scottish Parliament. The report of the auditors on those accounts was unqualified.

1.2 Basis of preparation
The condensed consolidated and company interim financial information for the six months ended 30 September 2023 has been prepared in accordance with IAS 34 'Interim Financial Reporting'. The condensed consolidated and company interim financial information is presented on a condensed basis as permitted by IAS 34 and therefore does not include all disclosures that would otherwise be required in a full set of financial statements. Consequently, this report should be read in conjunction with Scottish Water's annual financial statements for the year ended 31 March 2023 which were prepared in accordance with UK adopted and endorsed International Financial Reporting Standards (IFRSs) using the cost model for property, plant and equipment, as directed under the Scottish Water Governance Directions and Internatonal Financial Reporting Interpretations Committee (IFRIC) interpretations, and where otherwise appropriate, as adapted and interpreted by the Government Financial Reporting Manual (FReM).

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

1.3 Going concern
The condensed consolidated and company interim 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.

1.4 Accounting estimates and judgements
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 the Group's accounting policies. Full disclosure of accounting policies can be found in the Annual Report and Accounts for the year ended 31 March 2023.

1.5 Significant accounting policies
These financial statements have been prepared in accordance with accounting policies expected to be followed for the year ending 31 March 2024. The accounting policies, as set out in the Annual Report and Accounts for the year ended 31 March 2023, have been applied consistently to all the periods presented.

1.6 New standards and interpretations
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 is not expected to have a material impact on the results and net assets of Scottish Water.

2. GROUP AND COMPANY SEGMENTAL ANALYSIS

The principal activities of the Scottish Water Group 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 regularly reviewed by the Board in order to allocate resources to and assess the performance of the segments.

Group	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Revenue			
Scottish Water regulated water and waste water services	721.8	685.2	1,364.9
Business Stream	346.8	326.9	657.4
Scottish Water non-regulated activities	10.3	25.8	34.8
	1,078.9	1,037.9	2,057.1
Less Intercompany elimination	(105.7)	(119.9)	(220.6)
	973.2	**918.0**	**1,836.5**

	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Operating surplus			
Scottish Water regulated water and waste water services	134.2	123.8	209.7
Business Stream	6.4	0.9	2.3
Scottish Water non-regulated activities	1.1	4.6	8.8
Reversal of IFRIC 12 adjustments on consolidation	-	(1.8)	(10.1)
	141.7	**127.5**	**210.7**

	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Total assets			
Scottish Water regulated water and waste water services	8,209.2	7,891.1	7,662.8
Business Stream	269.4	253.2	256.8
Scottish Water non-regulated activities	72.8	138.5	88.6
Reversal of IFRIC 12 adjustments on consolidation	-	(26.2)	-
	8,551.4	**8,256.6**	**8,008.2**

NOTES TO THE CONDENSED CONSOLIDATED AND COMPANY INTERIM STATEMENTS
FOR THE SIX MONTHS ENDED SEPTEMBER 2023 **(CONTINUED)**

2. GROUP AND COMPANY SEGMENTAL ANALYSIS (continued)

Company	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Revenue			
Scottish Water regulated water and waste water services	721.8	685.2	1,364.9
Business Stream	-	-	-
Scottish Water non-regulated activities	1.6	1.5	2.8
	723.4	686.7	1,367.7
Less Intercompany elimination	-	-	-
	723.4	**686.7**	**1,367.7**

	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Operating surplus / (loss)			
Scottish Water regulated water and waste water services	134.2	123.8	209.7
Business Stream	-	-	-
Scottish Water non-regulated activities	-	-	0.2
Reversal of IFRIC 12 adjustments on consolidation	-	-	-
	134.2	**123.8**	**209.9**

	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Total assets			
Scottish Water regulated water and waste water services	8,246.9	7,977.8	7,701.0
Business Stream	-	-	-
Scottish Water non-regulated activities	0.3	0.3	0.3
Reversal of IFRIC 12 adjustments on consolidation	-	-	-
	8,247.2	**7,978.1**	**7,701.3**

NOTES TO THE CONDENSED CONSOLIDATED AND COMPANY INTERIM STATEMENTS
FOR THE SIX MONTHS ENDED SEPTEMBER 2023 (CONTINUED)

2. GROUP AND COMPANY SEGMENTAL ANALYSIS (continued)

An analysis of revenue and operating surplus by geographical location of customers is provided below:

Group	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Revenue			
United Kingdom	973.1	917.9	1,836.3
Rest of the World	0.1	0.1	0.2
	973.2	**918.0**	**1,836.5**

All revenue for the company has been generated within the United Kingdom.

3. TAXATION

The effective tax rate for the six months to September 2023 was 26.1% (2022: 26.5%). Analysis of the tax charge recognised in the income statement is as follows:

Group		Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Current Tax:	UK corporation tax	2.4	7.0	6.4
	Adjustment in respect of prior years	-	-	(4.5)
		2.4	7.0	1.9
Deferred tax:	Origination and reversal of timing differences			
	- Current year	16.3	5.9	13.4
	- Prior year	-	-	5.1
		16.3	5.9	18.5
Total taxation charge		**18.7**	**12.9**	**20.4**

Company		Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Current Tax:	UK corporation tax	-	5.3	-
	Adjustment in respect of prior years	-	-	(4.5)
		-	5.3	(4.5)
Deferred tax:	Origination and reversal of timing differences			
	- Current year	15.8	8.2	17.9
	- Prior year	-	-	5.2
		15.8	8.2	23.1
Total taxation charge		**15.8**	**13.5**	**18.6**

NOTES TO THE CONDENSED CONSOLIDATED AND COMPANY INTERIM STATEMENTS
FOR THE SIX MONTHS ENDED SEPTEMBER 2023 (CONTINUED)

4. 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 31 March 2023	3,503.0	8.5	106.6	3,046.0	3,098.8	1,314.9	11,077.8
Additions	-	-	-	-	0.4	362.5	362.9
Disposals [1]	(1.4)	-	-	-	(1.1)	-	(2.5)
Reclassifications [2]	70.2	-	5.3	38.9	116.1	(244.1)	(13.6)
At 30 September 2023	3,571.8	8.5	111.9	3,084.9	3,214.2	1,433.3	11,424.6
Accumulated depreciation							
At 31 March 2023	1,359.5	0.6	33.1	623.3	1,918.8	-	3,935.3
Charge for the year	46.6	-	1.8	11.2	108.0	-	167.6
Disposals [1]	(0.8)	-	-	-	(1.1)	-	(1.9)
At 30 September 2023	1,405.3	0.6	34.9	634.5	2,025.7	-	4,101.0
Net book value At 30 September 2023	**2,166.5**	**7.9**	**77.0**	**2,450.4**	**1,188.5**	**1,433.3**	**7,323.6**
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 £0.1m (2022: nil).

Assets held for sale

As at the balance sheet date, Scottish Water Horizons Ltd is in the process of selling its Low Carbon Heat schemes, which hold a net book value of £7.9 million as at 30 September 2023. The sale is expected to be completed within the financial year ending 31 March 2024 at a value higher than the carrying value of the assets. 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; consequently, they have been presented within the financial statements at their book value.

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

[2] For the six months ended 30 September 2023, software assets of £13.6m previously recorded as assets under construction have been reclassified and are disclosed in note 5.

NOTES TO THE CONDENSED CONSOLIDATED AND COMPANY INTERIM STATEMENTS
FOR THE SIX MONTHS ENDED SEPTEMBER 2023 (CONTINUED)

4. 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 31 March 2023	3,465.3	106.6	3,046.0	3,078.6	1,311.2	11,007.7
Additions	-	-	-	-	359.9	359.9
Disposals [1]	(1.3)	-	-	(1.1)	-	(2.4)
Reclassifications [2]	69.5	5.3	38.9	116.1	(243.4)	(13.6)
At 30 September 2023	3,533.5	111.9	3,084.9	3,193.6	1,427.7	11,351.6
Accumulated depreciation						
At 31 March 2023	1347.4	33.1	623.3	1,898.6	-	3,902.4
Charge for the year	45.9	1.8	11.2	107.8	-	166.7
Disposals [1]	(0.8)	-	-	(1.1)	-	(1.9)
At 30 September 2023	1,392.5	34.9	634.5	2,005.3	-	4,067.2
Net book value At 30 September 2023	**2,141.0**	**77.0**	**2,450.4**	**1,188.3**	**1,427.7**	**7,284.4**
At 31 March 2023	2,117.9	73.5	2,422.7	1,180.0	1,311.2	7,105.3

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 31 March 2023	460.0	460.0
At 30 September 2023	460.0	460.0
Accumulated depreciation		
At 31 March 2023	284.8	284.8
Charge for the year	6.1	6.1
At 30 September 2023	290.9	290.9
Net book value At 30 September 2023	**169.1**	**169.1**
At 31 March 2023	175.2	175.2

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

[2] For the six months ended 30 September 2023, software assets of £13.6m previously recorded as assets under constuction have been reclassified and are disclosed in note 5.

NOTES TO THE CONDENSED CONSOLIDATED AND COMPANY INTERIM STATEMENTS
FOR THE SIX MONTHS ENDED SEPTEMBER 2023 **(CONTINUED)**

5. 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.

Group	Software £m	Investments £m	Total £m
Cost			
At 31 March 2023	78.8	23.2	102.0
Additions in the year	13.6	-	13.6
At 30 September 2023	92.4	23.2	115.6
Accumulated amortisation			
At 31 March 2023	64.3	16.2	80.5
Amortisation charge	6.8	1.2	8.0
At 30 September 2023	71.1	17.4	88.5
Net book value			
At 30 September 2023	**21.3**	**5.8**	**27.1**
At 31 March 2023	14.5	7.0	21.5

Company	Software £m	Investments £m	Total £m
Cost			
At 31 March 2023	72.4	-	72.4
Additions in the year	13.6	-	13.6
At 30 September 2023	86.0	-	86.0
Accumulated amortisation			
At 31 March 2023	63.2	-	63.2
Amortisation charge	6.1	-	6.1
At 30 September 2023	69.3	-	69.3
Net book value			
At 30 September 2023	**16.7**	**-**	**16.7**
At 31 March 2023	9.2	-	9.2

6. GOVERNMENT BORROWING

Government loans, both short and long-term, are recorded on the balance sheet 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.

Scottish Water did not draw down any loans from the Scottish Government during the six months to 30 September 2023. Repayments of Government loans of £62.4m were made, in line with repayment terms.

7. ANALYSIS OF NET DEBT

Group	As at 1 April 2023 £m	Decrease in cash £m	Decrease in debt £m	As at 30 September 2023 £m
Cash and cash equivalents	486.9	(156.9)	–	330.0
Government loans	(4,508.7)	–	62.4	(4,446.3)
Net debt	**(4,021.8)**	**(156.9)**	**62.4**	**(4,116.3)**

Company	As at 1 April 2023 £m	Decrease in cash £m	Decrease in debt £m	As at 30 September 2023 £m
Cash and cash equivalents	390.3	(131.6)	–	258.7
Government loans	(4,508.7)	–	62.4	(4,446.3)
Net debt	**(4,118.4)**	**(131.6)**	**62.4**	**(4,187.6)**

The movement in cash is summarised below:

	Scottish Water £m	Business Stream group £m	Non Regulated group £m	Total £m
Balance at 1 April 2023	390.3	53.0	43.6	486.9
Government loans repaid	(62.4)	–	–	(62.4)
Intercompany loans received / (paid)	–	15.8	(15.8)	–
Cash utilised	(69.2)	(23.7)	(1.6)	(94.5)
Balance at 30 September 2023	**258.7**	**45.1**	**26.2**	**330.0**

The consolidated cash balance as at 30 September 2023 was £330.0 million (2022: £519.2 million).

8. PENSIONS

	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Group movement in pension liability in the period			
At start of period	27.1	(51.9)	(51.9)
Current service cost	(17.1)	(33.6)	(73.7)
Employer contributions	1.3	1.1	41.5
Net finance cost	0.1	(1.0)	(2.1)
Remeasurement - actuarial gains/(losses) recognised	(11.4)	87.3	113.3
At end of period	**-**	**1.9**	**27.1**

	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Company movement in pension liability in the period			
At start of period	24.6	(42.9)	(42.9)
Current service cost	(16.7)	(32.5)	(71.5)
Employer contributions	1.0	0.8	40.5
Net finance cost	0.1	(0.9)	(1.8)
Remeasurement - actuarial gains/(losses) recognised	(9.0)	75.5	100.3
At end of period	**-**	**-**	**24.6**

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 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, outlined in note 1.18 - Employee benefit obligations in our Annual Report and Accounts for the year ended March 2023.

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 and discounts these back to their present value.

An actuarial gain of £120.8 million has been calculated resulting in a pension asset of £700.8 million at 30 September 2023. This is as a result of a higher discount rate than forecast at 31 March 2023, reducing the pension liabilities. This is partially offset by lower than forecast asset returns to 30 September 2023 and a higher expectation of CPI growth in 2023/24 than originally forecast at 31 March 2023.

8. PENSIONS (continued)

	September 2023 %	March 2023 %
The major assumptions used by the actuaries were:		
Rate of increase in pensionable salaries	2.85	2.90
Rate of increase in pensions payment	6.30	2.90
Discount rate	5.45	4.75
CPI inflation rate	2.85	2.90

Actual asset returns for period from 1 April 2023 to 30 September 2023	
North East Scotland Pension Fund	-0.40%
Lothian Pension Fund	-1.06%
Strathclyde Pension Fund	1.10%

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 (in respect of benefit accrual). If this is positive then this is the maximum value of the pension asset that the Employer can recognise. This has been calculated as nil. As such the full pension asset of £700.8m is not recognised but is restricted to a pension asset of nil with an actuarial loss of £11.4m.

Any updated measurement of the pension liability is a snapshot in time. The following table illustrates the potential impact of changes in the assumptions:

Assumption	Change in assumption	Approximate Impact on IAS 19 liability %	Approximate Impact on IAS 19 liability £m
Rate of increase in pensionable salaries	+/- 0.1% per annum	Increase / decrease by c. 0.29%	Increase / decrease by c. £4m
Discount rate	+/- 0.1% per annum	Decrease / increase by c. 1.73%	Decrease / increase by c. £25m
CPI Inflation rate	+/- 0.1% per annum	Increase / decrease by c. 1.45%	Increase / decrease by c. £21m
Longevity	Increase life expectancy by 1 year	Increase by c. 3.02%	Increase by c. £44m

9. INVESTMENT COMMITMENTS

The Group has contracted investment commitments of £665.3 million (30 September 2022: £592.0 million; 31 March 2023: £536.1 million) relating to property, plant and equipment at the balance sheet date.

10. RELATED PARTY DISCLOSURE

As disclosed in the annual report for the year ended 31 March 2023, the Scottish Water group has related party relationships with the Scottish Government and with its Members and Executive Management.

Scottish Government

During the six months to 30 September 2023, Scottish Water had the following material transactions with the Scottish Government

	Half year to September 2023 £m	Half year to September 2022 £m	Year to March 2023 £m
Loans repaid	62.4	64.6	122.6
Loans drawndown	–	–	(247.7)
Interest paid	70.7	69.4	137.2

Scottish Water had various material transactions with entities for which the Scottish Government is regarded as the parent. However, under IAS 24 'Related Party Disclosures' paragraph 25, Scottish Water is exempt from the disclosure requirements of IAS 24 paragraph 18 in respect of other government related entities.

11. FINANCIAL INSTRUMENTS

Scottish Water's financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

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.

Scottish Water
Trusted to serve Scotland