Delivery Plan 2010-15

March 2011 update

Scottish Water

Always serving Scotland

Contents

1. Executive Summary

The first year of the 2010-15 regulatory period has been challenging and successful.

During this first year we have successfully maintained service to customers through two extreme weather events, the exceptionally dry weather in the summer of 2010 affecting in particular Dumfries and Galloway, and the unusually long and severe cold period which started in late November 2010.

We are making good progress in completing the remaining Q&S2 and Q&S3a projects. We forecast that by the end of March 2011 we will have delivered 253 projects leaving only 60 of the original 313 projects to be delivered.

Overall, we are on track to deliver improvements for our customers in line with or ahead of our original delivery plan.

The severe winter weather has impacted on leakage performance. However, we still expect to hit our plan target of 720 ML/day assuming no further severe weather before the end of March.

There has been a significant reduction in wholesale revenue in 2010/11 arising from a combination of data cleansing and the effects of the recession. Nevertheless, we remain on track to meet our profit target.

We remain committed to delivering the Ministers' Objectives and other regulatory targets for the 2010-15 period, and outperforming the financial limits set out within the Final Determination.

With continued pressures on Scottish Government public expenditure there remains uncertainty over the level of borrowing that may be available in 2010-15. By autumn 2011, we will require confirmation of the drawdown profile of the remaining £560m of borrowing for 2012-15 to enable us to commit contractually to the delivery of the full regulated capital investment programme.

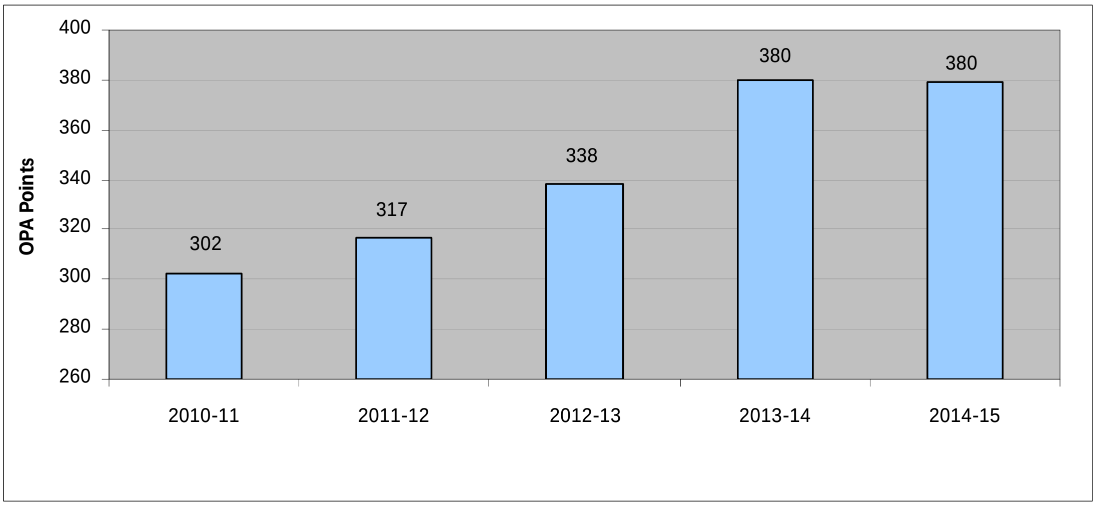
This updated Delivery Plan highlights only those limited areas where the content of the original 2010 Delivery Plan has been revised.

In finalising our updated Delivery Plan, we have met with Regulators to ensure that they have endorsed any changes to our original plan.

2. Meeting the objectives

Overall Performance Assessment (OPA)

We continue to improve our overall customer service, as measured by the Overall Performance Assessment (OPA), and expect to deliver in line with or better than the targets set out in our Delivery Plan, which are shown below.



Leakage

The severe winter weather has impacted on leakage performance, however, we still expect to hit our plan target of 720 ML/day assuming no further severe weather before the end of March. We remain on target to achieve our current ELL of 596 ML/day in 2014.

We plan to deliver annual leakage reductions to achieve the currently calculated ELL, as set out in Table 2.1 below:

	2010/11	2011/12	2012/13	2013/14	2014/15
Annual Leakage (Ml/day as measured by Maximum Likelihood Estimation (MLE))	720	670	635	596	596

Table 2.1: Leakage reduction profile

Q&S3b Overall Measure of Delivery (OMD)

The Commission introduced the concept of the Overall Measure of Delivery (OMD) as a single objective indicator of overall performance in delivering Ministers objectives.

Early in 2010/11 we agreed the baseline OMD profile with the Commission that reflected the capital programme delivery profile set out in the Delivery Plan.

Additions and removals of outputs from the programme, agreed with Regulators, impact marginally on that baseline. A revised baseline reflecting these changes has been agreed with the Commission. The changes to the baseline are detailed in Appendix 1 and the original and revised profiles are shown below.

	2010/11	2011/12	2012/13	2013/14	2014/15
Original baseline (March 2010)	63	130	191	225	250
Revised baseline (March 2011)	63	131	192	226	250

Table 2.2: Original and revised OMD profile

Overall we are on track to deliver improvements for our customers in line with or ahead of our original delivery plan.

There are a number of agreed changes to the technical expression which are listed in appendix 1 which may be financed from the £180m unallocated investment allowance included in the Final Determination. The key additions to note are:-

Forehill WTW - we have given an undertaking to Scottish Ministers to design and construct a pesticide removal stage at Forehill WTW if the measures that we are currently taking through the voluntary initiative and sustainable land management approach on the catchment prove unsuccessful at reducing the occurrence of pesticide in the raw water.

Loch Eck - having established that the manganese levels in the Lock Eck water supply can be reduced only through the provision of a manganese removal process at the water treatment works, the project was added to the programme with the support of the DWQR.

Airdrie and Coatbridge UIDs - we will deliver improvements at the 124 UIDs in the wider Glasgow catchment, including 6 additional UIDs in Airdrie and Coatbridge.

The Water Framework Directive and Dangerous Substances Directive - In addition to the work previously set out in the original Delivery Plan, Scottish Water has agreed with SEPA the scope of a Chemicals Investigation Programme Study. This will begin to address the requirement to meet the objectives of the Priority Substances Directive, a daughter directive of the Water Framework Directive (WFD). We will deliver a study to identify the key chemicals of concern within our catchments and upstream sources along with options to control these chemicals either at source or through treatment. This is aimed at supporting a sustainable approach to the identification of catchments' controls rather than defaulting to treatment solutions as a first step towards compliance with the 2028 deadline.

Oxygenation Trial - within this period, Scottish Water will deliver an oxygenation trial as an addition to the Glasgow Strategic Study. Early work on the study has identified that compliance with WFD may be difficult to achieve owing to the morphology of the Clyde, which leads to low oxygen levels in the water body. "Good Ecological Status" may be achieved through oxygenation of the water body, and this trial will proceed in summer 2011 to inform stakeholders on how Scotland may achieve the objectives of the WFD for the Clyde.

Glasgow Commonwealth Games

Working closely with SEPA, we have developed and agreed an Outline Wastewater Strategy for Glasgow. The strategy promotes a phased approach to the upgrade of Glasgow's wastewater infrastructure that will support delivery of the environmental objectives for the River Clyde and detailed development of the strategy is ongoing. Partnership working on the MGSDP project continues to identify and explore opportunities to deliver a more sustainable drainage system for Glasgow. We continue to support a successful Glasgow Commonwealth Games in 2014, along with the Clyde Gateway Initiative, and we will ensure that our investment addresses the needs in the catchment surrounding the games venues.

Q&S2/3A Completion Projects

We are forecasting that 60 only of the remaining Q&S2 and 3a completion projects will be outstanding by March 2011, which in total is 6 better than set out in our 2010 Delivery Plan. We will deliver 10 Q&S3a projects more than originally planned in 2010/11 which will offset 4 Q&S2 projects which have incurred delay. Our current forecast of delivery of these projects is shown in table 2.3.

Completion Projects	2010/11	2011/12				2012/13				2013/14
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Q&S2	17	12	12	12	5	5	0	0	0	0
Q&S3a	43	41	39	37	33	33	15	15	12	0
Total	**60**	**53**	**51**	**49**	**38**	**38**	**15**	**15**	**12**	**0**

Table 2.3: Q&SII/IIIa quarterly forecast of projects remaining to achieve regulatory sign-off.

Serviceability

The 2006 Ministerial Objectives set minimum serviceability levels for a range of indicators. We expect to satisfy all these requirements during 2010/11 with the exception of mains bursts per 1000km due to the adverse weather and low temperatures at the end of 2010. We continue to work towards our March 2015 serviceability target of 188 bursts per 1000km.

3. Investment

Our investment profile for the remainder of this period is shown in table 3.1 below.

Programme (£m Outturn prices)	Forecast 2010/11	2011/12	2012/13	2013/14	2014/15	Total
Total (including PFI)	444	504	568	552	558	2,626

Table 3.1

In our original Delivery Plan we forecast £248m to complete the delivery of the Q&SII/IIIa objectives. We have now reduced our forecast to deliver Q&SII/IIIa to £231m.

Delivery of Q&SIIIb investment has been impacted by recent weather events but we expect to deliver in line with our 2010 Delivery Plan.

Our current investment profile includes the full £180m unallocated allowance for 2010-15. There are a number of agreed changes to the technical expression which are listed in appendix 1 which may be financed from the £180m allocated in the Final Determination.

Our planning assumption remains that the unallocated £180m financing allowance will be allocated as profiled below.

£m (2007/08 prices)	2010/11	2011/12	2012/13	2013/14	2014/15	Total
OMG additional outputs	0.0	0.0	12.1	48.7	119.2	180.0

Table 3.2: Revised OMG additional outputs forecast investment profile

We now report according to OMG categories and our Delivery Plan investment is shown in Table 3.2.

Programme Costs (all figures £m) by primary driver	March 2010 Del Plan 2010-15 *(2007/08 prices)*	March 2011 Del Plan 2010-15 *(2007/08 prices)*
Drinking Water Quality (exc. 7 stage SoSI)*	262.6	313.6
Drinking Water Quality (7 stage SoSI)	39.7	39.7
Environment (inc. Commonwealth Games, exc. 7 stage UIDs)	216.8	216.8
Environment (7 stage UIDs)	165.7	165.7
Malodour	4.6	4.6
Flood Management	13.5	13.5
Customer Service	5.9	5.9
Climate Change and Adaptation	14.6	14.6
Growth	197.9	197.9
OMG Undefined Outputs (*£180m in 07/08 prices*)	180	180
Sewer Flooding Register	27.9	27.9
Other Priorities (exc. PFI)	39.7	31.7
Base Maintenance*	1119.4	1068.4
Q&SIV Early Start	39.3	39.3
PFI	33	33
Total Q&SIIIb/IV	**2,361**	**2,353**

Table 3.3 – Delivery Plan according to OMG categories

£8m has been moved into operating costs from investment allowed for strengthening the regulatory framework, reducing the Q&SIIIb/IV investment plan to £2,353m (2007/08 prices).

£51m (07/08 prices) has been transferred from Base Maintenance to Drinking Water Quality as we are using mains rehabilitation to deliver water quality enhancements (iron, manganese, turbidity).

Our assumptions on the indexation that is applied to the investment programme have been updated to reflect confirmed rates for RPI/COPI and a revised forward forecast of capital inflation. These updated indexation assumptions increase the out-turn value of the investment programme and decrease the value of the regulatory finance reserve. More information on the indexation assumptions, the out-turn value of the programme and the value of the regulatory financing reserve can be found in section 6.

4. Looking forward

The Final Determination included a range of measures to achieve a more sustainable water industry, and to reduce the impact of operations on climate change.

Studies to establish more sustainable solutions

In the 2010-15 period we are undertaking studies that will establish more sustainable solutions to inform the Q&SIV (2015-25) objectives priorities. We remain on plan to deliver these studies to inform future investment decisions with the exception of First Time Provision. We are working with SEPA on the quantification of environmental benefits for the feasibility of first time sewerage provision at 20 locations which will enable fully informed investment discussions.

We are also progressing with projects to increase our renewable energy generation and investigating the feasibility for combined heat and power.

Water efficiency and metering trials

We are working with the Scottish Government, SEPA, the Commission and WaterWatch Scotland to develop a plan for a water efficiency trial through household metering and other measures. Our plan will be submitted to Scottish Ministers for approval by 31 March 2011.

Sustainable Land Management

Scottish Water is required to identify and implement Sustainable Land Management (SLM) in five water catchments. One of these catchments must be that of the River Ugie, which supplies Forehill WTW. The other 4 catchments are being identified by means of a catchment selection process in collaboration with stakeholders.

Incentives Innovation and Involvement

We continue to work with the Commission on the evolution of the regulatory framework. We support the formation of a Customer Forum and will work with Consumer Focus Scotland, and the Water Industry Commission to ensure the Forum is operationally effective in 2011.

Development of the retail market in Scotland

We have worked with the Commission on their proposals for the development of the retail market. On Trade Effluent we have agreed that Licensed Providers will be able to undertake regular sampling.

Discussions on metering activities have focused on data logging and it has been agreed that accredited organisations will be allowed to fit data loggers to Scottish Water's meters on supplies to non-household premises. The Commission is preparing its proposals for wider changes to metering arrangements.

With regard to connections we have agreed in principle that accredited organisations will be able to make connections to the public water supply network and other arrangements will be revised to provide an improved customer experience.

National Operational Control Centre

We are progressing with our plans for a new National Operations Centre in the greater Glasgow area, which should be operational in early 2013/14. We have identified a preferred location for the centre, which will also accommodate all our Glasgow based office staff.

5. Risk

On a regular basis, the Board assesses and monitors closely the key risks.

Two of the principal risk areas in delivering this plan in the 2010-15 period relate to financing and investment uncertainty.

Financing risks

In November 2010, the Scottish Government confirmed that there would be no provision for additional net borrowing by Scottish Water in 2011/12, but that the Government remains committed to lending £700m over the 2010-2015 regulatory period as assumed in our 2010 Delivery Plan.

Confirmation of the revised borrowing drawdown profile is required from the Scottish Government by autumn 2011 to enable Scottish Water to commit contractually to deliver the full regulated investment programme.

Billing and Collection Order

In April 2010, the Billing and Collection Order was continued without change for a two year period. Scottish Ministers have asked their officials to work with CoSLA, Local Authorities and Scottish Water to determine an acceptable arrangement for the period after April 2012.

Our plan remains based on the assumption that the Order will continue until 2015 and that the 2012 review will not have any overall adverse impact on our costs or cashflow. Any adverse changes to the Billing and Collection Order, such as amendments to the current ABCD formula, which is used to calculate the method of apportioning collected sums between local authorities and Scottish Water, could materially affect our cash collection, level of bad debt costs and hence our future borrowing requirements and operating costs. For example, any reduction in the incentive to collect water-only charges could increase our annual bad debt, operating costs, and cash requirements by up to £80m.

Investment uncertainty

There are areas of our plan where there remains uncertainty regarding investment requirements and hence a financial risk and, possibly, a delivery timescale risk.

The first is the UID programme in the Glasgow catchments, where uncertainties will not be resolved until water quality and hydraulic modelling are completed, the interactions with the longer term strategic plan for Glasgow's drainage are understood, and the projects are developed to a stage where the construction complexities and resulting costs can be evaluated. These are to be managed under the seven stage process.

A further area of uncertainty is investment associated with the £180m unallocated OMG allowance. We have forecast utilisation of this allowance within our profile for 2012-15 of the programme as set out in Table 3.2.

6. Financial projections

The financial information included in this plan relates to the Scottish Water wholesale business activities only.

The main changes reflected in this updated Delivery Plan are:

- inclusion of the audited actual results for 2009/10;
- updated forecast for 2010/11;
- revised borrowing profile as advised by the Scottish Government;
- revised delivery profile for the capital investment programme; and
- additional costs in respect of local authority rates charges and carbon tax.

The key financial forecasts for 2010-15 are set out in Table 6.1.

Financial projections **Forecast outturn prices - £m**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Turnover	1,047	1,041	1,060	1,077	1,094
Profit before interest and tax	269	222	227	231	240
Net interest payable	157	163	165	171	179
Profit before tax	112	59	62	60	61
Tax	31	16	16	15	15
Retained profit	81	43	46	45	46
Capital investment (incl PFI)	444	504	569	552	558
Net new borrowing	106	0	120	210	230
Closing RCV	5,679	5,952	6,290	6,622	6,984
Closing debt	3,119	3,119	3,239	3,449	3,679

Table 6.1: Financial projections

Financial strength

The revised delivery plan forecast financial ratios are shown in Table 6.2.

	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Cash interest cover	3.4	3.1	3.5	3.3	3.2
Funds from operations to net debt	13.1%	11.2%	12.9%	11.5%	11.0%
Gearing	51%	52%	52%	52%	52%

Table 6.2: Financial ratios forecast

Inflation assumptions

Table 6.3 sets out the inflation assumptions used in the revised delivery plan forecast. These have been updated for the actual rates for RPI and COPI, which have become available, and a revised forecast for COPI.

There is great uncertainty on the future projection for COPI, but we have adopted the forecast below (which is based on experience after the recession of the early 1990s) to ensure that this Delivery Plan update includes the potential requirement for inflation financing as part of our requirement for future borrowing.

Inflation Annual increase	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
DP (revised) – RPI (tariffs – as at preceding October)	4.2%	4.2%	-0.8%	4.5%	2.5%	2.5%	2.5%
DP (revised) – RPI (costs – financial year average)	3.0%	0.5%	4.5%	2.5%	2.5%	2.5%	2.5%
DP (revised) – COPI (costs – financial year average)	-0.7%	-5.8%	0.0%	5.0%	5.0%	3.5%	2.5%
DP (original) – RPI (tariffs – as at preceding October)	4.2%	4.2%	-0.8%	2.5%	2.5%	2.5%	2.5%
DP (original) – RPI (costs – financial year average)	3.0%	0.5%	1.2%	2.5%	2.5%	2.5%	2.5%
DP (original) – COPI (costs – financial year average)	-2.2%	-7.3%	2.5%	2.5%	2.5%	2.5%	2.5%

Table 6.3: Inflation assumptions underpinning this forecast

The impact of the revised COPI rates has been reflected in the regulatory financing reserve (previously capital indexation reserve). The principle of the differential between RPI applied to tariffs and RPI applied to costs has been maintained, recognising the different time periods in which inflation is experienced for prices (the previous October annualised rate) and costs (the prevailing financial year average).

Expenditure and Financing

Table 6.4 sets out a summary of the sources of forecast financing and the application of these in the 2010-15 period.

Forecast outturn prices - £m	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	Total
Customer revenue	1,047	1,041	1,060	1,077	1,094	5,319
Net new borrowing	106	0	120	210	230	666
Infrastructure charges income	8	8	13	11	12	53
Grants and contributions	1	1	1	1	1	6
Disposals	6	3	1	1	1	12
Financing for trading purposes	**1,169**	**1,054**	**1,195**	**1,300**	**1,338**	**6,056**
Capital & PFI investment	444	504	568	552	558	2,626
Operating costs	304	319	322	325	328	1,598
PFI contracts	139	148	152	153	157	748
Rates increase & carbon tax	25	28	28	29	30	140
Interest	157	163	165	171	179	835
Tax	1	1	0	1	3	6
Regulatory financing reserve	13	17	8	3	4	45
Change in working capital & cash	86	-126	-48	66	0	-21
Expenditure	**1,169**	**1,054**	**1,195**	**1,300**	**1,259**	**5,977**
Increase in financial reserve	0	0	0	0	79	79
Total	**1,169**	**1,054**	**1,195**	**1,300**	**1,338**	**6,056**

Table 6.4: Expenditure and financing forecasts

Profit and loss account

£m (forecast outturn prices)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Turnover						
Total turnover	1,066	1,047	1,041	1,060	1,077	1,094
Operating costs	302	304	319	322	325	328
Additional LA rates charges	0	25	25	26	27	27
Carbon tax	0	0	3	3	3	3
Other expenditure						
PFI	135	139	148	152	153	157
Depreciation	195	209	218	219	223	222
Infrastructure depreciation	106	105	107	110	113	116
Amortisation of PFI	2	2	2	2	3	3
Amortisation of grants	-1	-1	-1	-1	-1	-1
Gain on sale of assets	-2	-5	-2	0	0	0
Total expenditure	737	778	819	833	846	854
Operating profit	**329**	**269**	**222**	**227**	**231**	**240**
Interest	155	157	163	165	171	179
Profit before tax	**174**	**112**	**59**	**62**	**60**	**61**
Tax	39	31	16	16	15	15
Profit after tax	**135**	**81**	**43**	**46**	**45**	**46**

Table 6.5: Profit and loss account (historic cost basis)

Balance Sheet

£m (forecast outturn prices)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Fixed assets	4,354	4,652	4,821	5,047	5,218	5,393
Infrastructure renewals prepayment	19	19	16	14	43	80
Total fixed assets	4,553	4,671	4,837	5,061	5,261	5,473
Investment in subsidiary	35	35	35	35	35	35
Current assets						
Trade and other debtors	51	55	60	61	62	63
PFI 'assets'	35	42	42	48	52	49
Stocks	3	3	3	3	3	3
Cash	153	191	18	-21	27	8
Regulatory financing reserve	0	13	30	38	41	45
Financial reserve	0	0	0	0	0	79
Total current assets	242	304	153	129	185	246
Creditors						
Trade creditors	-24	-17	-19	-19	-19	-19
Prepaid wholesale charge	-25	-24	-24	-23	-23	-23
Accruals and other creditors	-328	-304	-265	-279	-266	-251
Infrastructure income to be invested	-1	-8	-9	-16	-22	-28
Total creditors	-378	-353	-316	-337	-330	-321
Net Current Assets / (Liabilities)	-136	-49	-163	-208	-145	-75
Total assets less current liabilities	**4,452**	**4,657**	**4,709**	**4,888**	**5,151**	**5,433**
Provisions						
Deferred tax	-340	-371	-386	-402	-415	-427
Other	-53	-40	-34	-30	-25	-20
Net Assets	**4,059**	**4,246**	**4,289**	**4,456**	**4,711**	**4,986**
Debt / Loans	3,013	3,119	3,119	3,239	3,449	3,679
Other reserves	133	133	133	133	133	133
P&L account reserves	913	994	1,037	1,083	1,128	1,174
Capital and reserves	**4,059**	**4,246**	**4,289**	**4,456**	**4,711**	**4,986**

Table 6.6: Balance sheet (historic cost basis)

Cashflow Statement

£m (forecast outturn prices)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Profit before interest and tax	**328**	**264**	**220**	**227**	**231**	**240**
Depreciation of tangible fixed assets	195	209	218	219	223	222
Infrastructure maintenance charge	106	105	107	110	113	116
Amortisation of grants and PFI assets	1	1	2	2	2	2
Infrastructure charges income	7	8	8	13	11	12
Change in working capital	76	-48	-48	10	-18	-20
Operating cash flow	**713**	**539**	**507**	**581**	**562**	**572**
Net interest	-155	-157	-163	-165	-171	-179
Tax	0	-1	-1	0	-1	-3
Capital payments	-636	-434	-500	-560	-543	-557
PFI investment	-5	-9	-2	-8	-7	0
Sale of tangible fixed assets	2	6	3	1	1	1
Regulatory financing reserve	0	-13	-17	-8	-3	-4
Net cash outflow	**-81**	**-69**	**-173**	**-159**	**-162**	**-170**
Financing:						
New government loans	-343	-174	-80	-193	-275	-310
Loan repayments	124	68	80	73	65	80
Increase in debt	-219	-106	0	-120	-210	-230
Change in cash	138	37	-173	-39	48	-19
Increase in financial reserve	0	0	0	0	0	79
Net cash inflow from financing	**-81**	**-69**	**-173**	**-159**	**-162**	**-170**

Table 6.7: Cashflow statement (historic cost basis)

Revenue forecasts

Table 6.8 sets out the profile of k factors which have been used in this revised delivery plan forecast.

Charge caps (real)	2010/11	2011/12	2012/13	2013/14	2014/15
Household	**0.8%**	**-4.5%**	**-0.4%**	**-0.4%**	**-0.4%**
- water	0.1%	-5.2%	-1.0%	-1.0%	-1.0%
- wastewater	1.4%	-3.9%	0.1%	0.1%	0.1%
Wholesale	**-3.7%**	**-8.2%**	**-4.6%**	**-4.6%**	**-4.5%**
- water	-1.8%	-6.9%	-3.1%	-3.1%	-3.1%
- wastewater	-4.8%	-9.0%	-5.5%	-5.4%	-5.4%
- Foul / surface water	-5.0%	-10.1%	-6.3%	-6.3%	-6.3%
- Trade effluent	1.0%	1.0%	1.0%	1.0%	1.0%

Table 6.8: Charge caps

The forecast revenue is as shown in Table 6.9. The lower revenue forecast in 2010/11 is due predominantly to ongoing issues within wholesale revenue. In the revised delivery plan, this reduced level of wholesale revenue is forecast to continue throughout the remainder of the 2010-15 period.

Income Forecast outturn prices - £m	2010/11	2011/12	2012/13	2013/14	2014/15
Household	743	747	768	789	811
Wholesale – primary	297	287	284	280	275
Wholesale – secondary	3	3	4	4	4
Other income	4	4	4	4	4
Total turnover	**1,047**	**1,041**	**1,060**	**1,077**	**1,094**

Table 6.9: Income forecast

PFI costs

The forecast costs associated with PFI contracts are set out in Table 6.10.

PFI operating costs Forecast outturn prices - £m	2010/11	2011/12	2012/13	2013/14	2014/15
Total PFI costs (2007/08 prices)	130	130	130	130	130
Dalmuir WwTW compliance costs (2007/08 prices)	4	4	4	1	1
Contract indexation	5	14	18	22	26
Total PFI costs (outturn prices)	**139**	**148**	**152**	**153**	**157**

Table 6.10: PFI operating costs

Tax

The revised forecast of corporation tax payable in the 2010-15 period is set out in Table 6.11 below. The decrease in tax payable is due to a combination of losses brought forward from the previous period, lower corporation tax rates, lower trading profits and the revised capital programme profile.

As part of the UK Government budget on 22 June 2010, two significant changes to corporation tax and capital allowance rates were announced. Firstly, the main rate of corporation tax is scheduled to be cut by 1% per year, from 28% in 2010/11 to 24% in 2014/15. Secondly, the 'Plant & Machinery Pool Rate', currently a 20% allowance, will reduce to 18% and 'Long Life assets', currently a 10% allowance, will reduce to 8% from 2012/13. These changes to capital allowances will take effect from 2012/13.

Tax payable **Forecast outturn prices - £m**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Delivery Plan – original	18	8	9	8	10
Delivery Plan – update	1	1	0	1	3

Table 6.11: Corporation tax payable

Fixed assets

Tables 6.12, 6.13 and 6.14 set out how the Q&S3b capital investment, combined with Q&S2/3a completion costs, is reflected in the fixed asset additions during the 2010-15 period.

Fixed asset additions	**£m (forecast outturn)**
Total Q&S3b/4 (2007/08 prices) – per original Delivery Plan	2,361
Transfer of funding for Strengthening Regulatory Framework	-8
Q&S2/3a completion out-performance	17
Regulatory Inflation adjustment	65
Q&S3b/4 (forecast outturn prices)	**2,435**
Q&S2/3a completion costs	231
Less Q&S3b invested pre April 2010	-41
Less Seafield investment	-15
Less Dalmuir investment	-16
Total asset additions (outturn prices)	**2,594**

Table 6.12: Asset additions 2010-15

Investments at Seafield and Dalmuir are added to the PFI assets line in the balance sheet as set out in Table 6.15.

Fixed asset additions - £m	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**Total**
Total asset additions	434	500	560	543	557	2,594

Table 6.13: Asset additions by year

Table 6.14 reconciles the asset additions in each year with the total fixed assets shown in the balance sheet Table 6.6.

Fixed asset note - £m	2010/11	2011/12	2012/13	2013/14	2014/15
Opening net book value	4,553	4,671	4,837	5,061	5,261
Total additions	434	500	560	543	557
Less – Depreciation in the year	-209	-218	-219	-223	-222
Less – IRC	-105	-107	-110	-113	-116
Less – Disposals	-1	-1	-1	-1	-1
Less – Infrastructure charges utilisation	-1	-8	-6	-6	-6
Closing net book value	**4,671**	**4,837**	**5,061**	**5,261**	**5,473**

Table 6.14: Fixed assets note

PFI assets

The forecast capital costs associated with the odour improvement at Seafield WwTW and the expected upgrade costs at Dalmuir WwTW are shown in Table 6.15.

PFI assets Forecast outturn prices - £m	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Opening balance	32	35	42	42	48	52
Additions:						
Seafield WwTW	5	8	2	0	0	0
Dalmuir WwTW	0	1	0	8	7	0
Less: amortisation	-2	-2	-2	-2	-3	-3
Closing balance	**35**	**42**	**42**	**48**	**52**	**49**

Table 6.15: PFI assets

Regulatory financing reserve (previously 'capital indexation reserve')

The capital indexation reserve from the original delivery plan has been renamed to the regulatory financing reserve. This is because other costs have been included in its calculation, as explained below. Table 6.16 sets out the reconciliation of the balances in the original delivery plan to those in the updated delivery plan forecast.

Regulatory financing reserve - £m	2010/11	2011/12	2012/13	2013/14	2014/15	Total
2010 Delivery Plan Capital indexation reserve	27	43	46	48	49	213
Reduction in indexation reserve	11	2	-10	-15	-16	-28
Additional LA rates charges	-25	-25	-26	-27	-27	-130
Carbon tax cost	0	-3	-3	-3	-3	-10
Movement in year (per Table 6.4)	**13**	**17**	**8**	**3**	**4**	**45**
Closing balance (per Table 6.6)	**13**	**30**	**38**	**41**	**45**	

Table 6.16: Regulatory financing reserve

In the original delivery plan, the capital indexation reserve reflected the difference in forecast outturn capital costs between those set out in the final determination model and that assumed in the delivery plan. The difference arose from the different assumptions for construction price inflation. These calculations have been updated to reflect the actual COPI rates available and the revised COPI forecast.

The updated delivery plan forecast includes the additional costs in respect of local authority rates charges and carbon tax charges. These costs were not included in the original delivery plan (and final determination) and therefore have been deducted from the regulatory financing reserve.

At each year end the value of the regulatory financing reserve will be held as a cash balance.

Financial reserve

The forecast financial reserve at 31 March 2015 aligns with the expectation as set out in the final determination. However, the revised delivery plan forecasts this balance to be nil until the final year of the 2010-15 period due to the revised phasing of available borrowing to Scottish Water.

Net borrowing

The original delivery plan assumed new borrowing of £140m per annum. The revised delivery plan still assumes a total of £700m borrowing will be available from the Scottish Government for the 2010-15 period. This forecast reflects the revised phasing, including £34m drawn down in March 2010 and no new borrowing in 2011/12. Table 6.17 provides a comparison of the revised borrowing profile.

Net borrowing - £m	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Delivery Plan – original	-	140	140	140	140	140	700
Delivery Plan – update	34	106	0	120	210	230	700

Table 6.17: Net new borrowing

Appendix 1 – Changes to Technical expression and OMD impact

Project		Sign-off	Impact on OMD baseline
Forehill WTW, Pesticide Removal Stage	DWQR	Q4	
Loch Eck WTW - Addition of DW3C Treatment Works Manganese Driver	DWQR	Approved	Yes
Disaggregation of DOMS investigations	DWQR	Approved	
Q&SII - Newhall	SEPA	Approved	
Glasgow Strategic UID Study - Airdrie and Coatbridge	SEPA	Approved	Yes
Update of the Q&SIIIb TE - Disaggregation of SG3 into 20 named sites.	SEPA	Approved	
Q&SIIIb Non 7 Stage Removals Stranraer	SEPA	Q4	
Q&SIIIb Non 7 Stage Additions_Stranraer	SEPA	Q4	
Q&SIIIb Non 7 Stage Additions_Creetown	SEPA	Q4	
Q&SIIIb 7 Stage Additions_Dalmuir UID Catchment	SEPA	Q4	
Q&SIIIb 7 Stage Additions_Dalmarnock UID Catchment	SEPA	Q4	
Q&SIIIb 7 Stage Additions_Shieldhall UID Catchment	SEPA	Q4	
Q&SIIIb 7 Stage Additions_Paisley UID Catchment	SEPA	Q4	
WG4 Change of Ownership from DWQR to SEPA	SEPA	Approved	
First Time provision Studies - Delay in Achieving MS2	SEPA	Approved	Yes
Addition of 2 North Berwick bathing water Studies	SEPA	Q4	
Removal of Perth Friarton SPS	SEPA	Q4	
Addition of Perth WWTW Inlet SPS	SEPA	Q4	
Lockerbie STW Storm Overflows Improvements Study	SEPA	Q4	
Removal of Waternish and Sanday water resource zones from WR1A study programme in SR10	SEPA	Approved	Yes
GSS Inner Clyde Estuary Oxygenation Pilot Trial	SEPA	Approved	
Priority Substances Directive	SEPA	Approved	
Dalmarnock Odour Improvement	Scottish Government	Approved	

Table A1: Changes to the Technical Expression