
SCOTTISH WATER SOLUTIONS 2 LIMITED
REPORT AND FINANCIAL STATEMENTS

For the year ended
31 March 2019

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Directors and Advisers

Directors

Mark Dickson
Brian Strathie

Company Secretary

Ramsay Milne

Independent Auditor

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Registered Office

Castle House
6 Castle Drive
Dunfermline
KY11 8GG

Registered Company Number: SC365084

Strategic report

The Directors present their report together with the audited financial statements for the year ended 31 March 2019.

Business model

Scottish Water Solutions 2 Limited (Solutions 2) was incorporated on 4th September 2009 by Scottish Water in anticipation of awarding a contract for the management and delivery of a programme of projects under its Quality & Standards 3b (Q&S 3b) Capital Investment Programme. This programme was aimed at improving Scotland's water quality and wastewater treatment processes during the 2010 to 2015 period.

As at 31 March 2019 delivery of the remaining allocated programme is complete subject to final acceptance and expiry of the warranty period. On this basis, the directors anticipate that the business will cease trading in the period to March 2020.

The results of Solutions 2 are consolidated into the Scottish Water Group financial statements. Copies of the Scottish Water consolidated Annual Report and Accounts are available from: Scottish Water, Castle House, 6 Castle Drive, Dunfermline, KY11 8GG.

Performance Review

The original Solutions 2 programme consisted of 369 projects covering more than 1,600 sites across Scotland. As at 31 March 2019, all projects within the portfolio were completed.

Health and Safety Performance over the period April 2018 to March 2019 was strong with zero injuries (2017/18:0).

With the exception of the tax liability arising, all expenditure incurred in relation to the final completion of the investment programme is charged to Scottish Water as part of turnover. Total investment in the year to 31 March 2019 was a negative £2.6m (2017: £1.4m).

Turnover in 2018/19 was a negative £2.6m (2017: £1.4m) and reflects the settlement and finalisation of claims and the release of project and business liabilities as the close down of the business commences.

The results for Solutions 2 for the year show a profit before taxation of £nil (2018: £nil). The directors recommend that no dividend be paid (2018: £nil).

Principal risks and uncertainties

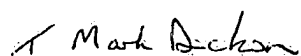
The management of the business and execution of the company's strategy are subject to a number of risks. Risks are formally reviewed by the Board and the appropriate processes put in place to monitor and mitigate them. The key business risks are set out below:

Costs incurred during the warranty period is the principal reputational and financial risk for Solutions 2 and our client Scottish Water. Cost control is managed through enhanced project management, risk management and commercial control processes through the remaining warranty period.

Strategic report continued

The company's operations, with Scottish Water as the sole customer and with all work in progress sold to the customer on a monthly basis, are such that it does not carry credit, liquidity or interest rate cash flow risks.

Signed on behalf of the Board by



Mark Dickson
27 May 2019

Directors' report

Statement of Directors' responsibilities in respect of the Director's report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so (as explained in note 1 to the financial statements, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis).

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Directors' report continued

Going Concern

The Directors expect that the company will continue as a going concern for a period to cessation which is anticipated to be less than 12 months from the date of approval of the financial statements. Accordingly the directors have not prepared the financial statements on a going concern basis. As a result of the types of assets and liabilities held by the company, no adjustments were necessary to the amounts at which the assets and liabilities are included in these financial statements at 31 March 2019.

Disclosure of information to Auditor

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

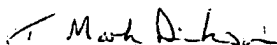
Directors' interests

The Directors who were in office during the year and up to the date of signing the financial statements are noted on page 2. None of the Directors had any disclosable interests in the company during the period.

Independent Auditor

In accordance with Section 485 of the Companies Act 2006, a resolution for the appointment of KPMG LLP, as auditor of the company to 31 March 2021 was passed by the board on 21 April 2016.

Signed on behalf of the Board by



Mark Dickson
27 May 2019

Independent auditor's report to the members of Scottish Water Solutions 2 Limited

Opinion

We have audited the financial statements of Scottish Water Solutions 2 Limited ("the company") for the year ended 31 March 2019 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – non-going concern basis of preparation

We draw attention to the disclosure made in note 1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reason set out in that note. Our opinion is not modified in respect of this matter.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Independent auditor's report continued

Directors' responsibilities

As explained more fully in their statement set out on page [X], the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

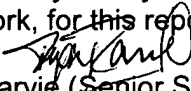
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.


Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

6 June 2019

Statement of total comprehensive income

For the year ended 31 March 2019

| | Notes | 2019 £000 | 2018 £000 |
|--|----------|--------------|----------------|
| Revenue | | (2,551) | 1,356 |
| Cost of sales | | <u>2,557</u> | <u>(1,293)</u> |
| Gross profit | | 6 | 63 |
| Administrative expenses | | <u>(6)</u> | <u>(63)</u> |
| Profit on ordinary activities before taxation | 3 | - | - |
| Taxation | | <u>-</u> | <u>-</u> |
| Profit for the financial year | | <u>-</u> | <u>-</u> |

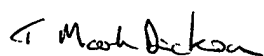
All of the company's activities relate to continuing operations.

Balance sheet

As at 31 March 2019

| | Notes | 2019 £000 | 2018 £000 |
|-----------------------------|-------|--------------|----------------|
| Assets | | | |
| Current assets | | | |
| Trade and other receivables | 5 | 31 | 2,781 |
| Cash and cash equivalents | | 37 | 25 |
| | | <u>68</u> | <u>2,806</u> |
| Total assets | | 68 | 2,806 |
| Current liabilities | | | |
| Trade and other payables | 6 | (67) | (2,805) |
| | | <u>(67)</u> | <u>(2,805)</u> |
| Total liabilities | | (67) | (2,805) |
| Net assets | | 1 | 1 |
| Capital and reserves | | | |
| Share capital | 7 | 1 | 1 |
| Retained earnings | | (5) | (5) |
| Capital Contribution | | 5 | 5 |
| | | <u>1</u> | <u>1</u> |
| Total equity | | 1 | 1 |

The financial statements on pages 9 to 15 were approved by the board of directors on 27 May 2019 and were signed on its behalf by:



Mark Dickson

Statement of changes in equity

For the year ended 31 March 2019

| | Share capital £000 | Retained earnings £000 | Capital Contribution £000 | Total equity £000 |
|-------------------------------|--------------------------|------------------------------|---------------------------------|-------------------------|
| Balance as at 31 March 2017 | 1 | (5) | 5 | 1 |
| Profit for the financial year | - | - | - | - |
| Balance as at 31 March 2018 | 1 | (5) | 5 | 1 |
| Profit for the financial year | - | - | - | - |
| Balance as at 31 March 2019 | 1 | (5) | 5 | 1 |

Notes to the financial statements

For the year ended 31 March 2019

1 Basis of preparation

Scottish Water Solutions 2's (Solutions 2) principal activity is the delivery of a programme of capital projects for Scottish Water. Solutions 2 is a private company, incorporated and domiciled in the UK. The address of its registered office is Castle House, 6 Castle Drive, Dunfermline, KY11 8GG.

As noted in the Director's Report, the directors do not anticipate the company to continue trading for a period of 12 months from the date of signing of the accounts. Accordingly the directors have not prepared the financial statements on a going concern basis. As a result of the types of assets and liabilities held by the company, no adjustments were necessary to the amounts at which the assets and liabilities are included in these financial statements at 31 March 2019.

The disclosure exemptions adopted by the company in accordance with FRS 101 are as follows:

- the requirements of paragraphs 10(d), 10(f), 16, 38A-38D, 79(a)(iv), 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Policies and Errors';
- the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member; and
- the requirements of IFRS 7 'Financial Instruments: Disclosures'.

The principal accounting policies adopted by the company are set out in note 2.

There were no material judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and no material estimates with a significant risk of material adjustment in the next year.

The company's financial statements are presented in Pounds Sterling, rounded to the nearest thousand (£000) except when otherwise indicated.

Notes to the financial statements continued

For the year ended 31 March 2019

2 Accounting policies

The principal accounting policies adopted by the company are set out below. These have been consistently applied throughout the financial years presented.

2.1 Revenue recognition

Revenue comprises charges made to Scottish Water in relation to work undertaken by Scottish Water Solutions 2 Limited on the capital investment programme exclusive of value added tax.

2.2 Cost of Sales

Cost of sales comprises expenditure incurred on projects and includes charges from related parties, other third parties and allocations of production related overhead costs. Cost of sales expenditure is based on the value of measured work performed and is inclusive of any construction materials procured which are attributable to projects.

2.3 Taxation

The tax charge or credit for the year comprises current and deferred tax. Tax is recognised in the income statement. Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred income tax is recognised, using the liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2.4 Financial instruments

Financial assets and liabilities are recognised in the balance sheet when an obligation is identified and released as that obligation is fulfilled. Solutions 2's financial instruments comprise cash and cash equivalents, trade and other receivables, as well as trade and other payables that arise directly from operations.

a. Cash and cash equivalents

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

b. Trade and other payables

Trade and other payables are stated at cost.

2.5 Segmental reporting

The company's activities consist solely of one class of business, supporting Scottish Water deliver its Capital Investment Programme in the United Kingdom.

2.6 Going concern

The Directors expect that the company will continue as a going concern for a period to cessation which is anticipated to be less than 12 months from the date of approval of the financial statements. Accordingly the directors have not prepared the financial statements on a going concern basis. As a result of the types of assets and liabilities held by the company, no adjustments were necessary to the amounts at which the assets and liabilities are included in these financial statements at 31 March 2019.

Notes to the financial statements continued

For the year ended 31 March 2019

3 Operating profit

Operating profit is arrived at after charging:

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Audit fees payable to the company's auditors | 4 | 10 |

4 Directors and employees

There are no directors' emoluments for the year to 31 March 2019 (2018: £nil).

All staff used by Solutions 2 are seconded from Scottish Water to Solutions 2. Staff secondment costs and associated services such as office accommodation and support services are charged to the company at cost.

The expenditure incurred by Solutions 2 on seconded and agency workers in the financial year amounted to £0.0m (2017: £0.4m)

5 Trade and other receivables

| | 2019 £000 | 2018 £000 |
|-------------------------|--------------|--------------|
| Amounts due from parent | - | 2,489 |
| Other receivables | 31 | 292 |
| | <u>31</u> | <u>2,781</u> |

Notes to the financial statements continued

For the year ended 31 March 2019

6 Trade and other payables

| | 2019 £000 | 2018 £000 |
|-----------------------|--------------|--------------|
| Current | | |
| Trade payables | - | 4 |
| Amounts due to parent | 40 | - |
| Accruals | 27 | 2,801 |
| | 67 | 2,805 |

7 Share capital

The issued ordinary share capital at 31 March 2019 was £1,000 (2018: £1,000), being 1,000 ordinary shares of £1 each.

8 Related party disclosures

The company has taken advantage of the exemption in FRS 101 from disclosing transactions with other members of the Scottish Water group. There were no other related party transactions.

9 Commitments

Solutions 2 enters into contracts for the delivery of each of its capital investment projects. The value of unfulfilled contracts awarded at 31 March 2019 amounted to £0.0m (2018: £2.0m).

10 Ultimate controlling body

Solutions 2 is a wholly owned subsidiary of Scottish Water. 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.

11 Financial risk management

The company has no exposure to equity securities price risk as it holds no listed or other equity.