

SCOTTISH WATER BOARD MEETING MINUTES

Date	25th August 2021
Start Time	10.00am
Finish Time	1.20pm
Place	Garden Suite, Norton House Hotel, Edinburgh

Present:	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	Mr Alan P Scott	Finance Director
	Mr Peter Farrer	Chief Operating Officer
	Mr Steven Dickson	Board Member
	Mrs Samantha Barber	Board Member
	Mr Iain Lanaghan	Board Member
	Mr Ken Marnoch	Board Member
	Mrs Deirdre Michie	Board Member
	Mr James Coyle	Board Member
In attendance:	Professor Simon Parsons	Director of Strategic Customer Service Planning
	Mr Mark Dickson	Director of Capital Investment
	Mr Rob Mustard	Director of Digital & Transformation
	Mrs Shirley Campbell	Director for People
	Mr Brian Lironi	Director of Corporate Affairs
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
	Mr Mark Hunter	General Manager - Development Services General (Item 6(iii) only)

PART I

1. APOLOGIES

There were no apologies received.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

There were no interests which required declaration or registration. There were no matters arising.

3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 29th June 2021
The draft Minutes of the Board meeting held on 29th June 2021 were approved.

Paper 88/21 approved.

- (ii) Draft Minutes of the Remuneration Committee Meeting held on 18th June 2021
The draft Minutes of the Remuneration Committee meeting held on 18th June 2021 were noted.

Paper 89/21 noted.

- (iii) Draft Minutes of the Audit Committee Meeting held on 21st June 2021
The draft Minutes of the Audit Committee meeting held on 21st June 2021 were noted.

Paper 90/21 noted.

- (iv) Draft Minutes of the Audit Committee Meeting held on 24th August 2021
Mr Coyle, Chair of the Audit Committee, provided a verbal report of the meeting held on 24th August 2021.

4. OPERATIONAL & REGULATORY

- (i) Safety, Health & Wellbeing Report

Mr Farrer presented the paper. He reported that the RIDDOR Injury Frequency Rate is slightly higher than the target, the Lost Time Frequency Rate (LTFR) is on a stable trend and the Total Recordable Injury Rate (TRIR) is on an improving trend. Mr Farrer explained the background to and the issues arising from four incidents during June and July 2021 which had been assessed as significant or offered an opportunity for wider business learning. In response to a question from the Board, Mr Farrer and Mr M Dickson outlined the Just & Fair Culture pilot and confirmed that existing disciplinary procedures apply pending completion of the pilot. Further to a query from the Board, Mr Farrer explained the scope of Director-led reviews, noting that these encompass both the individual's actions and the culture on site, assessing policies, procedures and safety supervision. He advised that a number of individuals involved in health and safety incidents have shared their experiences with colleagues across Scottish Water, supporting the behavioural safety programme.

Mr Farrer reported a slight increase in the number of sickness absences in June and July 2021, but noted that this remains below the levels prior to the COVID-19 pandemic. Further to the action arising from the Board meeting in June 2021, he advised that there has been a reduction in absence due to musculoskeletal and mental health issues over the past year across all workstyles. He noted an increase in musculoskeletal issues among field/site-based employees and a reduction in such absences for employees currently working from home.

The Board considered the results of the SW Cares weekly sentiment analysis. Mr Farrer reported improved sentiment in July across both field/site-based employees and those currently working from home and the Board noted the factors contributing to this positive sentiment.

Paper 91/21 noted.

- (ii) Chief Executive Report

Mr Millican reported that Scottish Water continues to operate under COVID-19 transition mode using well-established business continuity arrangements. The overall situation is stable, with an ongoing focus upon ensuring that all work and welfare interactions can be carried out safely. Scottish Water's offices re-opened to a maximum of 60% of normal capacity on 16th August 2021 and, in accordance with Scottish Government guidance, Hybrid working is scheduled to commence in September 2021.

The Board noted the current water resources position. Mr Millican provided an update on performance, highlighting the impact of weather conditions and, in particular, the carry-over effects of the winter freeze on leakage levels. Mr Millican advised that a two-stage recovery plan has been instigated and additional resources will be deployed in order to deliver year-on-year leakage reductions.

Mr Millican noted that, on 16th August 2021, the Drinking Water Quality Regulator (DWQR) published her annual report for 2020 on public water supplies, commending Scottish Water for maintaining high quality drinking water and continuity of service for consumers, despite the challenges presented in 2020, including the impact of the COVID-19 pandemic, significant increases in water usage and changes in demand patterns for water.

The Board congratulated Scottish Water on its customer service performance, noting that, in July 2021, the Institute of Customer Service (UKCSI) announced that Scottish Water was ranked equal ninth for customer satisfaction across the UK and, for the first time, ranked first in the utilities sector.

Paper 92/21 noted.

(iii) Finance Report

Mr Scott presented the paper, advising the Board of the financial results for the period ending 31st July 2021 and the first forecast position for the full year.

Mr Scott reported that the Tier 1 contribution to 31st July 2021 was £136.9m, £8.3m higher than budget. Tier 1 revenue was £6m higher than budget at £433.8m. Tier 1 costs, before interest and tax, were £2.4m lower than budget at £245.4m, reflecting lower operating costs and the timing of responsive repair and refurbishment costs. Cash at 31st July 2021 was c.£26m higher than budget.

The Tier 1 contribution for the year to 31st March 2022 is forecast to be £10.4m higher than budget at £390.8m, within a range of £374.5m to £409.9m. The Board noted the key sensitivities. Mr Scott reported that the cash balance is forecast to be c.£70m higher than budget at c.£454m, within a range of £380m to £490m, and outlined the main sensitivities. In response to a question from the Board, Mr Scott explained that a paper may be presented to the Board at its meeting in October 2021 detailing the options and considerations in relation to the potential absorption of the Aberdeen PFI activities into the core business. Mr Scott advised that the forecast profit after tax for the full year to 31st March 2022 is c.£81m. If the planned increase to the corporation tax rate is enacted during this financial year, the statutory tax charge would be significantly higher (c.£140m) and would likely result in a loss for the year. In response to a query from the Board, Mr Scott confirmed that the increase in the statutory tax charge would have no impact on the cash position in the short term.

The Board noted that Scottish Water's 2020/21 Annual Report & Accounts: Performance & Prospects Report would be laid before the Scottish Parliament on 1st September 2021.

Paper 93/21 noted.

(iv) Delivery Plan Progress

Professor Parsons presented the paper, providing an overview of the Delivery Plan commitments as at 30th June 2021 and the overall forecast of progress at the year end. The Board noted that the year-end forecast RAG is green for all performance measures, key initiatives and change programmes, with the exception of Wholesale Service Transformation, which is amber. Professor Parsons explained that discussions are ongoing to agree the sequencing of a key deliverable within this programme. He highlighted completion of a key initiative through the procurement of Delivery Vehicle 2 for refurbishment and repair work.

Paper 94/21 noted.

(v) Regulatory Update

Professor Parsons presented the paper, informing the Board of relevant economic regulatory, drinking water quality and environmental issues, SPSO complaints and Data Protection updates. The Board noted that the DWQR has published her annual report on water quality for 2020. In response to a query from the Board, Mr Farrer confirmed that actions are in place to address the issues identified by the DWQR in relation to the water quality incidents in 2020. Further to a question from the Board, Mr Farrer explained that, once the Just & Fair Culture pilot has been concluded, a decision will be taken as to the extent to which this approach will be rolled out across Scottish Water, including in relation to water quality incidents.

Professor Parsons reported that discussions are ongoing with SEPA in relation to its 'Build Back Better' programme, highlighting, in particular, the development of an improved compliance verification approach.

Paper 95/21 noted.