

SCOTTISH WATER BOARD MEETING MINUTES

Date	28th October 2020
Start Time	10:00am
Finish Time	1:50pm
Place	Video Conference Call

Present:	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	Mr Alan P Scott	Finance Director
	Mr Peter Farrer	Chief Operating Officer
	Mr Matt Smith	Board Member
	Mr James Coyle	Board Member
	Mr Paul Smith	Board Member
	Mrs Samantha Barber	Board Member
	Mr Iain Lanaghan	Board Member
	Mrs Deirdre Michie	Board Member
	Mr Ken Marnoch	Board Member
In attendance:	Professor Simon Parsons	Director of Strategic Customer Service Planning (excluding Item 8(vi))
	Mr Mark Dickson	Director of Capital Investment (excluding Item 8(vi))
	Mr Rob Mustard	Director of Digital (excluding Item 8(vi))
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
	Mr Brian Strathie	Group Financial Controller (Item 8(vi) only)
	Mr Tom Harvie-Clark	General Manager - Strategy & Economic Regulation (Item 8(i) and (ii) only)

PART I

1. APOLOGIES

There were no apologies received.

The Chair welcomed Mr Scott, who has now resumed his full duties as Finance Director. Mr Scott thanked the Board, the Executive Leadership Team and the Finance Management Team for their support since his accident.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

The Chair declared her interest in the proposed funding transaction with Scottish Water Business Stream Limited (Business Stream) as Chair of Scottish Water, Business Stream, Scottish Water Business Stream Holdings Limited (SWBSH) and Scottish Water Horizons Holdings Limited (SWHH).

3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 26th August 2020
The draft Minutes of the Board meeting held on 26th August 2020 were approved.

Paper 107/20 approved.

(ii) Draft Minutes of the Audit Committee Meeting held on 25th August 2020

The draft Minutes of the Audit Committee meeting held on 25th August 2020 were noted.

Paper 108/20 noted.

(iii) Draft Minutes of the Board Strategy Meeting held on 30th September 2020

The draft Minutes of the Board Strategy meeting held on 30th September 2020 were approved, subject to amendment to record Mr M Smith's apologies.

Paper 109/20 approved.

4. SAFETY, HEALTH & WELLBEING REPORT

Mr Farrer presented the paper, reporting that the RIDDOR Injury Frequency Rate and Lost Time Frequency Rate (LTFR) are on an improving trend. He noted that the report covers performance in August and September 2020 and that no RIDDOR or Lost Time Accidents (LTAs) were reported in September. Further to a query from the Board, Mr Farrer explained that, whilst the RIDDOR and LTFR rates include both Scottish Water and its Capital and Operational Alliances, the Total Recordable Injury Rate (TRIR) currently captures Scottish Water incidents only, due to the absence of consistent reporting across the supply chain. A new reporting system is currently being implemented which will enable the TRIR to capture incidents across Scottish Water and its Alliances.

Mr Farrer explained the background to and the issues arising from one contractor incident which has been assessed as significant or offers an opportunity for wider business learning. The Board noted the significant improvement in hazard reporting, with 667 health and safety hazards reported from April to September 2020, compared to 137 reported in the same period last year. Mr Farrer explained that this increase has been driven by improvements in management reporting processes and leadership behaviours. Further to a query from the Board, Mr Farrer confirmed that regular tracking and proactive reporting processes are in place to ensure that the necessary action is taken in relation to reported hazards, and these are subject to regular review. In response to a question from the Board, Mr Farrer confirmed that safety supervision continued throughout lockdown, with all levels of line management continuing to attend sites.

Paper 110/20 noted.

5. CEO REPORT – PAAG and COVID-19 UPDATE

Mr Millican presented the paper, advising that Scottish Water continues to operate under COVID-19 transition mode using well-established business continuity arrangements. He reported that the overall situation is generally stable but noted the impact of rising COVID-19 cases on a small number of capital projects. Of the two sites closed to date, one has since reopened. The Transition team is considering what further changes may be required over the winter period to manage the likely increase in COVID-19 cases and associated government restrictions.

The Board considered Scottish Water's sickness absence rate. Mr Farrer advised that the absence rate is lower than other public sector organisations but consistent with other water companies. The Board queried the impact of COVID-19 upon resilience, given the risk of mental and physical fatigue. Mr Millican explained that the Transition team is actively considering this and additional measures have been implemented to support employees through the autumn and winter periods.

In particular, a winter working from home charter is designed to encourage employees to take screen breaks, with a screen-free hour at lunchtime each day to provide an opportunity for exercise, particularly given darker mornings and evenings. In response to a query from the Board as to the Wellbeing Allowance, Mr Millican confirmed that this will be paid to both field and office-based employees below manager level for six months until March 2021. He reported an improvement in employee sentiment in the most recent SW Cares survey, following implementation of these measures. In response to a query from the Board, Mr Millican advised that c.900 survey responses are received each week from both field and office-based staff, and this has been consistent since commencement of the survey. Further to a question from the Board, Mr Millican advised that five offices are currently available for use as safe spaces for employees who can no longer work from home and need to be in the office environment. This is working well, but he noted that the uptake is fairly low.

The Board discussed the risk of erosion of culture through prolonged working from home and, in particular, the challenge of ensuring that new joiners are fully inducted and aware of Scottish Water's culture. Mr Farrer and Mr Millican explained that an online induction process has been implemented for both graduates and modern apprentices. Following discussion, it was agreed that Mr Millican would provide details of the measures being taken post-induction to build cohesion and ensure integration with Scottish Water's culture.

Action 1 – Mr D Millican

Mr Millican advised that the first six-week sprint in the development of Scottish Water's Transformation Plan will commence on 2nd November 2020. Approximately 40 people, principally Senior Leaders and participants in the Future Leaders' programme, will be involved in this first sprint, together with Scottish Water's consultants, McKinsey & Company. An update on Transformation will be provided to the Board at its meeting in December and a Board workshop will be convened in January following completion of the first sprint. The Board discussed the importance of ensuring that the opportunities presented by the Transformation programme are communicated effectively to employees. Mr Millican advised that Scottish Water's Senior Leaders will meet virtually on 29th October to engage in Transformation planning, the launch of the new Leadership Development Programme and the SW Character rollout, with the opportunity for the wider leadership community to engage on these subjects at the SW One events being held virtually throughout November.

Mr Millican provided an update on half-year performance to the end of September 2020, highlighting highest-ever levels of customer experience and water quality compliance. The Board noted year to date leakage performance and Mr Millican explained that, due to the suspension of meter readings from business customers as a result of COVID-19 restrictions, the water balance calculation is reporting an over-exaggerated reduction in leakage. This situation will be resolved when non-household meter reading resumes fully.

Paper 111/20 noted.

6. FINANCE REPORT

Mr Scott presented the paper, reporting that, to 30th September 2020, regulated profit before tax (PBT) was £43.2m, £20.8m below budget. He explained that this includes an estimated net impact from the COVID-19 pandemic of £26.7m and, excluding this, PBT is estimated £5.9m higher than budget. Sales were £15.2m below budget, primarily reflecting the lower wholesale volumes to date. Total expenditure was £6.7m higher than budget. Gross capital investment to September was £234.1m, £124.8m lower than budget due to the suspension of significant capital investment activities as a result of COVID-19 restrictions. Mr Scott noted that capital investment in September was £58m, consistent with the normal run rate.

The amount billed to household customers was £0.3m lower than budget at £925.2m and cash collected was £477.2m, £16.5m lower than budget. The out-turn forecast cash collection reflects a 5% (£44m) reduction against budget, due to a reduction in new connections to the network and a forecast increase in Council Tax exemptions and discounts. Mr Scott advised the Board of ongoing discussions with local authorities and COSLA as to forecast household cash collection. Further to a query from the Board, Mr Scott advised that Scottish Water's Finance team is monitoring collection performance for each local authority to inform these discussions.

Government loans at the end of September were £76m higher than budget at £3,908.8m. The remaining £278m of borrowings to be drawn down in this financial year will be split equally from October to March. Mr Scott reported that the cash balance as at 30th September 2020 was £311m, £100m higher than budget.

Further to a query from the Board, Mr Scott advised that additional productivity-related costs associated with the capital programme are estimated at c.£61m for the remainder of the SR15 period and arise as a consequence of the new ways of working due to COVID-19 restrictions. The productivity impact is between 4% and 8% on cost, with varying figures depending upon the nature of the work. Mr Dickson noted that the productivity impact has decreased significantly from Scottish Water's initial assessment, with both Scottish Water and its contractors seeking to minimise costs whilst maintaining safe working practices. He highlighted the emerging issues presented by the requirement to work in sequence rather than in parallel, due to COVID-19 restrictions, and the programme impact of site closures due to positive COVID-19 cases.

Mr Scott reported that the out-turn forecast profit and loss account is unchanged. The forecast cash balance at March 2021 has been revised to £407m, within a range of £370m to £420m, due to WICS' proposed extension of the wholesale deferral scheme, with the full two months' prepayment terms delayed to May 2021.

Mr Scott updated the Board on progress in finalising Scottish Water's 2019/20 Annual Report & Accounts (AR&A). He confirmed that the final draft AR&A and the Representation Letter to KPMG will be circulated to the Board sub-committee within the next two weeks, together with a copy of KPMG's draft Audit Report to Audit Scotland. In response to a query from the Board, Mr Scott noted that Scottish Ministers have granted an extension to the period for signing and laying the Scottish Water Group accounts before the Scottish Parliament and it is anticipated that the accounts will be signed in November 2020.

Paper 112/20 noted.

7. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer reported that the in-month household CEM (hCEM) score for September 2020 was 87.72, an increase from the previous month's score of 86.83. He confirmed that the performance and recovery across all hCEM measures is consistent with trends experienced in previous years and, despite the reduction experienced in April and May, we remain on forecast to achieve the Business Target for 2020/21. The non-household CEM (nhCEM) score for September 2020 was 86.28, a slight decrease from the previous month's score. The year to date (YTD) score remains above the Business Target.

Mr Farrer outlined the work being undertaken to identify Scottish Water's "worst served" customers and communities and deliver improvement activities.

Paper 113/20 noted.