

SCOTTISH WATER

Minutes of the Board Meeting
9:30am, 2nd November 2005

Lauriston Room, Castle House, Dunfermline

Present:	Professor Alan Alexander	Chair
	Dr Jon Hargreaves	CEO
	Mr Bill Cameron	Board Member
	Mr David Gray	Board Member
	Mr Graeme Crombie	Board Member
	Mr Pat Kelly	Board Member
	Mrs Rita Theil	Board Member
	Mr Ian McMillan	Board Member
	Mr Geoff Aitkenhead	Asset Management Director
	Mr Douglas Millican	Finance Director
	Mr Chris Banks	Commercial Director
	Mrs Cheryl Black	Customer Service Director
	In attendance:	Mr Mark Adderley
	Mr Tom Axford	Head of Legal and Corporate Secretary

PART I

1. APOLOGIES

Apologies were received from Professor Paul Jowitt.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

There were no interests which required registration or declaration.

3. MINUTES (Part I)

The draft Minutes of the special Board meeting held on 13th September 2005 were approved.

The draft Minutes of the Board meeting held on 21st September 2005 were approved.

The draft Minutes of the Commercial Committee and Remuneration Committee meetings both held on 13th September 2005 were noted.

4. CEO REPORT

Dr Hargreaves requested that the report be taken as read. The Board considered the following items arising out of the report:-

- (i) Drinking Water Quality
The Board noted the KPI target for bacteriological compliance in customers taps cannot now be met and is therefore "red". The Board noted that sample failures at service reservoirs had fallen and that the level of failures at customers taps

was partly attributable to hygiene issues that had arisen in a number of customers houses. The Board noted that in England and Wales a number of samples were legitimately disregarded where it was considered underlying hygiene issues may impact on the validity of the sample.

(ii) Water/Waste Water Incidents

The Board agreed further work was required to analyse ongoing failures to ascertain the proportion which were manpower related as opposed to asset related. Mr Aitkenhead reported that a report was being prepared in this regard and would be submitted to the Board in January.

Action 1 – G Aitkenhead

(iii) Waste Water Treatment Works Compliance

The Board reiterated its concern in relation to the quality of SEPA's waste water quality data. It was noted that these concerns had been raised for a period in excess of twelve months and it was agreed it would be appropriate for Dr Hargreaves to write to the CEO of SEPA requesting an urgent meeting be arranged to discuss this issue. It was reported a recent analysis showed a number of missing results, results reported late, multiple failures and reporting errors and inconsistencies. The Board strongly expressed its concern that repeated and ongoing failures to provide rigorous and up to date data was impacting strongly on Scottish Water's efforts to maintain and improve compliance and affecting its ability to respond to failures as they arose. It was agreed that a further report would come back to the Board in three months after the outcome of the proposed discussions with SEPA was known and if no satisfactory progress was outcoming to consider further escalation of options.

Action 2 – Dr J Hargreaves

(iv) Trade Effluent Compliance – Fish Processors

The Board noted despite ongoing efforts by Scottish Water and its predecessors to explain to the Aberdeenshire fish processors, their responsibilities and to suggest ways of improving trade effluent compliance, the level of non-compliance over the summer period had been substantial. This had resulted in a position where Scottish Water was in the process of preparing a number of cases for submission to the Procurator Fiscal to prosecute dischargers for failure to comply with their trade effluent consents.

(v) Masts & Towers Portfolio

Dr Hargreaves explained the current proposal to market the income profile for Scottish Water's Masts and Towers Portfolio over the next fifteen years. The Board considered it appropriate to proceed with the proposal, that this would help to reduce the current deficit on proceeds from property disposals, and agreed it would be appropriate in early December to market this opportunity to a number of investors. It was agreed SE would be advised of this development and it was noted that the outcome of the detailed bids would be submitted to the Board for formal consideration in due course.

(vi) Council Billing

Dr Hargreaves explained following renewal of the Billing and Collection Order on its existing terms for four years that it was proposed to enter into further SLA's with 32 unitary Councils to incentivise improved levels of debt recovery. The Board agreed it would appropriate to spend £2m per annum above the prescribed

Order figures to drive significant improvement in debt recovery levels and to reduce outstanding debt levels from 4.5% to 4%. It was also agreed it would be appropriate to set aside a figure of £500,000 to fund local Council specific initiatives to target specific issues.

(vii) Reputational Steering Group

It was agreed it would be appropriate to circulate the outputs of the monthly Reputational Steering Group to the Board along with the Board papers.

Action 3 – T Axford

(viii) Logan –v- Scottish Water

Mr Axford reported that Scottish Water had been successful in rebutting a number of compensation claims raised by a landowner in a Court of Session action.

Paper 97/05 noted

5. FINANCE REPORT

Mr Millican reported that the household billing recovery levels remained encouraging and further analysis was being carried out as it was not currently clear how much of this increased performance arose from removal of the second home discount for Council Tax. The Board noted that the operating cost performance was in line with target, but noted that there was a delay in receiving the sale proceeds of the New Stevenson site. The Board noted various initiatives to reduce aged debt and noted strong progress was being made in this area. The Board questioned why the infrastructure depreciation figure had been altered at this half year reporting stage. It was reported that it was considered appropriate to take the reduction in the half year in line with the intention to reduce the figure for the full year. The Board agreed it appropriate to consider this issue further and authorised the Audit Committee to consider the infrastructure depreciation issue and agree a figure for the interim accounts.

Action 4 – D Millican

The Board questioned the position in relation to a number of outstanding capital contracts and noted an update report would come forward to the Board at the end of November. It was agreed it would be appropriate to visit the Milngavie WWTW site in Q1 2006.

Paper 98/05 noted.

6. HEALTH AND SAFETY REPORT

The Board noted the improved level in improved O'Licence compliance issues and noted with concern the issue of temporary blindness suffered by an employee. It was reported that it appeared that there would be no long term damage to the employee's eyes and an appropriate level of action had been taken against the employee concerned. The Board also welcomed the use of start early funding for health and safety investment and the early benefits being seen.

Paper 99/05 approved.

7. BYELAWS – MILNGAVIE TREATMENT WORKS

The Board questioned why the Byelaws did not include prohibitions on introducing noxious substances into the reservoirs eg. oil. It was reported that these issues were dealt with under separate environmental legislation.

Paper 100/05 approved.

PART II – Confidential Items

8. REGULATORY REPORT

(i) Investment Plan 2006-10 – Start Early Programme

Mr Aitkenhead reported that if the Board signed off on the proposal this would ensure there was sufficient work for all retained engineering design resource. The Board expressed concern that an inevitable dip in the work would incur leading into Q&SIII but noted that this was a standard position within the water industry driven by the regulatory cycle. The Board agreed it would be appropriate for the progress on developer funded work to be reported to the Board and it was noted that on completion the work was adopted by Scottish Water and effectively became a new opex cost. It was agreed it would be considered how to effectively report this information to the Board on an ongoing basis.

Action 5 – G Aitkenhead/D Millican

(ii) Logistics Update

Mr Banks reported that a typographical error on page 3 reporting that there was a positive rather than a negative variance. The Board noted major savings had been achieved on long-term hire rates and the Board requested Mr Banks in relation to material outsourcing to look at initial pilot testing so that success could be reviewed without the necessity for a long term commitment. The Board noted the paper was not specifically requested to address procurement issues but questioned how savings were being obtained in this area. Mr Banks reported the procurement function of SW/SWS had been co-located and that the issues such as bulk purchasing initiatives were being considered where appropriate. The Board noted that the current areas for improvement were savings arising from changing business behaviour, admin and methodology and supply chain shavings. In addition it was noted that the use of telematics should drive a reduced vehicle replacement cycle and bring forward savings in this area. The Board noted from the report that daily defect check compliance was improving and that the business is addressing this issue.

(iii) Red Risk Update on SW Solutions Discussions

The Board noted more competitive tension and flexibility on allocation of risk had been introduced into the commercial negotiations but the main outstanding issue remained the transfer of regulatory price risk. It was agreed that it would be appropriate to for the Commercial Committee to review and approve a revised SWS business case for submission to the Scottish Executive at a meeting on 8th November.

Action 6 – C Banks

(iv) Retail Options – Recommended Approach

Mrs Black updated the Board in relation to the paper and the Board considered in detail the proposal set out therein. After consider the Board specifically focused on the following issues:-

- (i) Corporate Governance
The Board agreed with the proposal that the CEO title should be designated “Managing Director” and that the Managing Director would not sit on SW BMT although could sit on SW Board.
- (ii) Management Structure
The Board requested more information on the proposed structures immediately below management level and indicated it would wish to further consider the issue.
- (iii) Delegated Powers
It was noted recent clarification from SE indicated the company could compete but only utilising its existing product range.
- (iv) Brand Name
The Board noted the proposed name.

Paper 104/05 noted. The paper to be developed and reconsidered at the next meeting.

Action 7 – C Black

- (v) Strategic Review of Charges
The Board considered the risk appetite document and agreed it provide useful definition and analysis and would supplement the risk register.

The Board noted progress in relation to the regulatory review and again expressed concern regarding the apparent inflexibility of the regulatory process compared with the situation in England and Wales.

Paper 105/05 noted

- (vi) Charges Structure 2006/07
The Board noted further work was required on developing a longer term strategy for wholesale charges. It was noted the scheme could be adjusted after receipt of the final Determination.

Paper 106/05 approved and authority granted for any Director to submit the scheme of charges to the WIC for approval.

- (vii) Contract Agreement with Scottish Power
The Board considered the paper. It was agreed further discussions should be progressed with Scottish Power.

Paper 107/05 approved

9. MINUTES (PART II)

The draft Minutes of the special Board meeting held on 13th September 2005 were approved subject to a typographical change.

The draft Minutes of the Board meeting held on 21st September 2005 were approved.

The draft Minutes of the Commercial Committee held on 13th September was noted.

The draft Minutes of the Remuneration Committee meetings held on 13th September 2005 was noted. Mr Crombie reported no further progress in relation to the LTIP proposal had been made.

10. NEXT MEETING

30th November 2005, Doune Room, Castle House, Dunfermline.

Schedule of Actions

Item	Action	Member	When
4(ii)	1	G Aitkenhead	Next Meeting
4(iii)	2	J Hargreaves	Next Meeting
4(vii)	3	T Axford	Next Meeting
5	4	D Millican	Next Meeting
8(i)	5	G Aitkenhead/ D Millican	Next Meeting
8(iii)	6	C Banks	Next Meeting
8(vi)	7	C Black	Next Meeting