
SCOTTISH WATER

**Minutes of the Board Meeting
9:30am, Wednesday 28th June 2006**

Apex Hotel, Dundee

Present:	Mr Ronnie Mercer	Chair
	Dr Jon Hargreaves	CEO
	Mr David Gray	Board Member
	Mr Graeme Crombie	Board Member
	Professor Paul Jowitt	Board Member
	Mr Ian McMillan	Board Member
	Mr Pat Kelly	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	HR& Business Services Director
	Mr Tom Axford	Head of Legal and Corporate Secretary
	Mr Michael McVeigh	Ernst & Young
	Mr Richard Laikin	Ernst & Young
	Mr Andrew Tivey	Ernst & Young

1. APOLOGIES

Apologies were received from Mrs Rita Theil. Mrs Theil had submitted comments which were considered during the Board deliberations.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

The Chair declared an interest in relation to Agenda Item 12 Electricity Procurement (Paper 79/06) as a shareholder in Scottish Power plc. It was noted the paper did not identify tenderers or consider the substance of any tender, but set out a proposal to delegate authority to enter into contractual arrangements. It was also noted the Chair would not be involved in future consideration of the tenders or implementation of trading arrangements thereunder. The Chair also declared an interest in the paper relating to Scottish Power's contract with Scottish Water for the disposal of sewage sludge (Paper 81/06). This paper was withdrawn and will be brought to the next meeting. No further interests were declared or registered.

3. MINUTES (Part I)

The draft Minutes of the Board meeting held on 31st May 2006 were approved subject to minor typographical changes.

The draft Minutes of the Audit Committee meeting held on 24th May 2006 were noted. Mr Gray indicated some minor changes were required but he would speak directly to the Corporate Secretary in this regard.

The draft Minutes of the Remuneration Committee meeting held on 24th May 2006 were noted.

4. CEO REPORT - PAAG

Dr Hargreaves highlighted the key issues arising from the report. The Board sought further clarification around the figure of 19% of population equivalent being served by non-compliant works. It was noted that it was hoped a number of outputs would reduce this figure. In addition the transition from the COPA to CAR regime had removed appeals against consent conditions and when these appeals were re-enacted under the new regime the regulatory compliance figures may be improved. Accordingly conservative reporting was being placed before the Board at this stage of the year. The Board sought further clarity around actions taken in relation to the Bridge Street/Oxford Street, Glasgow burst. The Board noted progress in relation to the SS Sir Walter Scott refurbishment and noted in particular that the proposed plan was being audited by a Marine expert on behalf of Scottish Water to monitor value for money and deliverability. The Board noted in relation to Capital Delivery that spend was currently £11m behind the budget and that the run rate had not yet recovered particularly in relation to infrastructure spend. It was noted a further re-forecast would come forward to the August Board.

Paper 71/06 noted

5. DEVELOPMENT CONSTRAINTS

Dr Hargreaves reported that the planned meetings with 32 Council's had now virtually been completed and that it was considered that the relationship management initiatives were producing results. The question and answer sheets in particular were beneficial in addressing Developer's concerns. The Board questioned how effective the communication was in relation to media and key stakeholders and were advised that MSP's had been written to regarding the initiatives in their areas and that a number of media press releases had been made in relation to new connections.

Paper 72/06 noted.

6. FINANCIAL REPORT

The Board noted the loss on non-regulated activities of £0.4m reflected the delay in infrastructure maintenance work being allocated to SW Contracting at the start of the new investment programme and that this was likely to recover from July onwards. The Board questioned the issue of funding to improve OPA targets and noted that ring-fenced opex funding was being set aside for this purpose. In particular £600k was allocated to addressing leakage issues. It was noted the domestic debt recovery performance remained strong and that overall cashflow was £20m better than budget. A formal update would be submitted to the August Board. The Board noted the wording within the report could have been more precise in that "non-regulated" included work carried out as a non regulated activity on behalf of the regulated business. The Board noted that SW Contracting rates were all charged out at market rates. The Board then sought clarity and were assured that infrastructure work was focused in Q&SIII on OPA and SI targets ie. on achieving specific deliverable outputs.

Paper 73/06 noted.

7. HEALTH AND SAFETY REPORT

Mr Adderley reported that there had been another incident where a forklift arm had crushed an employee's finger and that a report was being prepared in this regard. The Board questioned in relation to the utility strike resulting in fire whether it was possible to audit whether or not the CAT equipment had been used. Mr Adderley reported that Health and Safety were currently looking at whether the electronic equipment could include a form of monitoring where it could be ascertained whether or not the equipment had been used at the time it was claimed to have been used. In relation to sustainable urban drainage systems (SUDS) the Board noted the HSE were responding to the consultation in relation to the Health and Safety issues arising from the construction of the proposed SUDS systems. Their response would be reviewed in due course. The Board noted with regret that an accident occurred involving two contractors employees from Montgomery Watson travelling home after work and that one employee had subsequently died. The Board wished to record its commiserations to the family of the deceased and requested Mr Aitkenhead to communicate this to the Company.

Paper 74/06 noted.

8. COMMON FRAMEWORK APPROACH

The Board agreed it was appropriate to adopt the common framework approach as soon as practicable and stressed the importance of involving regulators in the process early to ensure that timescales are met and that a common understanding on the implications of adopting the framework was achieved. The Board noted the potential figure of £65m that would have been receivable had the CFCMP process been in place was irretrievably lost and could not be recovered subsequently. The Board noted the adoption of this framework in England and Wales had reversed a trend of reducing capital maintenance expenditure was of substantial benefit to maintaining the integrity of infrastructure.

Paper 75/06 noted.

9. LEAKAGE REDUCTION TARGETS & ACTION PLAN

The Board noted a number of individuals were being recruited in relation to leakage detection and in particular a "Mr/Ms Leakage" would be appointed. In the interim Scott Gaffney had been appointed as "Mission Commander" to drive forward achievement with this strategic corporate target. The Chair asked Professor Jowitt to take an interest in monitoring the specific performance in this area on behalf of the Board.

Action 1 – Professor P Jowitt

10. BOARD EFFECTIVENESS

The Board considered the issues arising from a report lodged by the Corporate Secretary and addressed the following specific issues:-

(i) Number of Meetings

After discussion the Board agreed it was appropriate to continue with the same number of Board meetings held at present.

(ii) Remuneration Committee

The Board discussed the remit and role of the Remuneration Committee including whether as employee relations were generally in a more “steady state” employee issues needed to go to the Remuneration Committee or whether it was more appropriate that these were either dealt with by Directors or in the case of key issues such as retention strategy, quality and STAR targets and employee survey, reported to the Board. A number of views were expressed including taking adhoc items to Board Workshops and reducing meetings to two a year. Following a discussion the Chair requested the Chair of the Committee Mr Crombie to develop a proposal and submit it to him based on the discussion held at the meeting.

Action 2 – G Crombie

(iii) Audit Committee

The Board generally considered that the Audit Committee was working well and in particular due to the high level of workload that it was appropriate to continue the existing arrangements including the current number of meetings which were necessary to enable the Committee to deliver its complex and detailed remit.

(iv) Commercial Committee

After discussion the Board agreed that the original anticipated role of the Committee was not being fulfilled and that it would be appropriate to disband the Committee and where appropriate utilise a system of adhoc Committees. The Chair appointed Mr McMillan to Chair any adhoc Committee the primary purpose of which would be to utilise non-executives expertise on specific complex strategic issues. The Corporate Secretary was requested to amend the existing Standing Orders in this regard.

Action 3 – T Axford

(v) Clarity of Purpose

The Chair indicated that there was clearly a more positive environment for SW and SE to debate the specific role of the Board and SE’s role as shareholder. It was agreed it would be appropriate to look at a small sub-set of the Board including executives and non-executives to attend a workshop (presently involving the Shareholder executive) on what both parties aims and aspirations were and the role of the Board and non-executives within Scottish Water. The Chair indicated he would take this forward.

Action 4 - Chair

(v) Telephone Attendance

The Board agreed that while there was no reason why attendance by telephone could not take place however overall the level of interaction and debate was less effective when attendance was by telephone than through personal attendance. It was agreed it would be appropriate in the Minutes to specifically indicate attendance as telephone attendance and whether the attendance had been for the whole or part of the meeting. It was agreed subsequently annual reporting would include whether attendance was by telephone or in person.

11. ANY OTHER BUSINESS

(i) IT Joint Venture

Mr Adderley updated the Board in relation to the current ongoing discussions with BT and the benchmarking work that was being carried out in relation to analysing their current proposal.

(ii) Q&SIII

The Board noted the terms of the letter of assurance in relation to compliance with the Ministerial Conditions received from Dundas & Wilson. The Board wished to thank Chris Banks for his considerable input and commercial acumen in concluding what had been a very difficult and complex Q&SIII project negotiations