
SCOTTISH WATER

Minutes of the Board Meeting
9:30am, Wednesday 28TH February 2007

Lauriston Room, Castle House

Present:

Mr Ronnie Mercer	Chair
Dr Jon Hargreaves	CEO
Mr Graeme Crombie	Board Member
Mr Ian McMillan	Board Member
Mr Pat Kelly	Board Member
Mr Geoff Aitkenhead	Asset Management Director
Mr Douglas Millican	Finance and Regulation Director
Mr Chris Banks	Commercial Director

In attendance:

Mr Tom Axford	Corporate Secretary and Head of Legal and Estates
Mr John Rae	GM – Customer Operations (<i>Item 4 only</i>)
Mr Andrew Walker	Director of HR and Health & Safety

PART I

1. APOLOGIES

Apologies were received from David Gray, Professor Paul Jowitt and Rita Theil.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

The Chair declared an interest in paper 21/07 in relation to Scottish Power's expression of interest in purchasing SW's interest in the Eaglesham Project. It was agreed the Chair would take no part in the debate in relation to this matter in paper 21/07 or any future negotiations with Scottish Power should this part of the paper be approved.

3. MINUTES (Part I)

- (i) Draft Minutes of the Board meeting held on 31st January 2007
The draft Minutes of the Board meeting held on 31st January 2007 were approved. It was noted the actions were picked up within the Board papers other than the following:-

Action 1 (Clarity of Purpose/Stakeholder Workshop) – It was noted the meeting with the Shareholder Executive was likely to take place in May or June.

Action 2 (Succession Management) – Continued to the March Board.

Action 1 – A Walker

Action 8 (Leakage Update) – It was agreed to continue this action to the March Board.

Action 2 – J Hargreaves

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- (ii) Draft Minutes of the Remuneration Committee Meeting held on 14th February 2007
Mr Crombie reported the meeting had ratified the decisions of the pre-meeting held on 9th January 2007 in relation to Director's remuneration and following a meeting with SE the proposals were now being implemented. The Board noted the current expected LTIP payout range for 2002-10 and that the Committee had considered the LTIP 2006-10 performance targets and agreed these. Mr Crombie drew the Board's attention to the proposals in relation to Senior Management Retention and explained the Committee supported the "pick and mix" option. Dr Hargreaves advised a memo would be issued to the members of the Remuneration Committee explaining how these discretions were being implemented.
- (iii) Draft Minutes of the Audit Committee Meeting held on 14th February 2007
It was agreed to continue the Minutes to the Board Meeting on 28th March 2007.

Action 3 – T Axford

4. HEALTH AND SAFETY REPORT

The Chair introduced John Rae who gave a presentation in relation to the implementation of the health and safety strategy within Customer Operations. The Board noted the number of reportable and other incidents were being reduced in both absolute and per employee basis. The Board also noted that Customer Operations prepared an annual health and safety action plan. The Board expressed the view that the key part of any strategy was effective communication and supported Mr Rae's "Don't walk past it" campaign involving simple pictorial information on hazards and linking these to accidents waiting to happen and how minimum personal involvement could reduce or remove the hazard. The Board noted the positive trends arising from the current Your Voice Survey but sought reassurance in relation to specific health and safety issues that arose from increased single man working. Mr Rae explained that tasks were risk assessed so support would be made available for tasks which required the involvement of two operatives. The Board agreed the current communication strategy was working but reinforced novel ways needed to be looked at to refresh and reinforce the existing messages. In particular the Board considered that any analysis must include an objective impact assessment as well as a purely statistical analysis. Mr Rae reported that the current H&S spend was targeted on specific areas highlighted as being areas where failures have material consequences eg. where operatives work at height or operated in confined spaces. The Board remained concerned in relation to these areas particularly in light of increased single man working and sought further reassurance in this regard.

Action 4 – G Aitkenhead

Paper 17/07 noted and approved

5. CEO REPORT - PAAG

Dr Hargreaves requested the paper to be taken as read. The Board noted that the delay in moving from Q&SII to Q&SIII had a material impact on SW Contracting but the current projection is that SWC would break even by the end of the financial year at the operating level. The Board noted in relation to the prosecution at Perth in relation to the discharge into the River Almond a fine of £5,000 had been imposed.

- (i) Development Constraints
The Board noted the paper and expressed concern with the issue where developments were granted planning consent and there was currently no capacity within the SW network. Dr Hargreaves reported that discussions with the planners

had reinforced the necessity for planners to indicate that in relation to Scottish Water, as any other utilities, the grant of planning consent did not imply a right to

connect into a utility network and that respective planning applicants should satisfy themselves as to the availability of all necessary utility infrastructure.

Paper 18-1/07 Noted.

(ii) Leakage Update

Dr Hargreaves reported that further key data was likely to be available in March to enable more accurate forecasting to be developed and updated consumption data of households was likely to become available in September. The Board questioned whether it was appropriate for SW to have one Scotland-wide basis of ELL. Mr Aitkenhead advised given the diversity of areas served by Scottish Water and water resource availability it would be appropriate to consider the development of regional or zonal ELL's but this would require approval of the WIC.

Paper 18-2/07 noted

6. FINANCIAL REPORT

The Board noted the current PBT forecast and that the level of SWBS aged debt was continuing to move in the right downward direction. It was also noted SE were aware of the position in relation to SW borrowing requirements and whilst it continued to create issues for the SE the nature of SW business requirements were becoming better understood.

Paper 19/07 approved.

7. AOB

(i) Capital Programme Delivery

The Board noted that the Audit Committee had indicated that it had regarded delivery of the capital programme as a material, if not the most material issue faced by Scottish Water. In light of this it was agreed that rather than utilise the Adhoc Committee Structure it would be appropriate to hold a Board Workshop on 27th March 2007 to which all members would be invited to consider and discuss the initiatives taken in this area. The Board wanted to be satisfied that all appropriate actions were being taken to ensure delivery of the programme within the efficiency targets and required timescale.

(ii) Remuneration Committee

The Board agreed to the proposal for Ian McMillan become a member of the Remuneration Committee with immediate effect.