
SCOTTISH WATER

Minutes of the Board Meeting
11:30am, Wednesday 27th June 2007

Doune Room, Castle House, Dunfermline

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 David Gray	Board Member
Professor Paul Jowitt	Board Member
Mrs Rita Theil	Board Member
Mr Douglas Millican	Finance and Regulation Director
Mr Geoff Aitkenhead	Asset Management Director
Mr Chris Banks	Commercial Director

In attendance: Mr Tom Axford Corporate Secretary and Head of Legal and Estates

PART I

1. APOLOGIES

There were no apologies as all members were present.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

There were no interests which required registration or declaration. The draft Minutes of 30th May 2007 were amended to delete the wording "A Director of MWH was also on the SWS Board" as this was an incorrect statement.

3. MINUTES (Part I)

- (i) Draft Minutes of the Board meeting held on 30th May 2007
The draft Minutes of the Board meeting held on 30th May 2007 were approved.
The following actions were reviewed

Action 1 – Report on Leakage run rate – in papers

Action 2 – Training Statistics - continued to August Board

Action 1 – A Walker

Action 3 – SWS Board Members – it was noted the new SW nominated Board members would be Brian Strathie and Peter Farrer.

Action 4 – Health and Safety Report from SWS. The Board noted this would be included as part of a detailed Health and Safety Report to be presented to the August Board.

Action 2 – J Hargreaves

Action 5 – OPA Targets – it was noted this action had been implemented.

Action 6 – Seafield - implemented

Action 7 – PFI Plant Audits - implemented

Action 8 – Telemetry – continued to August Board

Action 9 – SWBS Financing – to be included in paper to August Board

Action 10, 12 and 13 – implemented

Action 11 – PFI Projects - Options – continued to August Board.

Action 3 – J Hargreaves

Action 4 – D Millican

Action 5 – D Millican

- (ii) Draft Minutes of the Audit Committee Meeting held on 23rd May 2007
David Gray reported the Committee was primarily concerned with the review of the annual report and accounts and the issues addressed by the Committee in this area would be considered by the Board.
- (iii) Draft Minutes of the Remuneration Committee Meeting held on 23rd May 2007
The draft Minutes were noted. Mr Crombie reported that the Committee had now confirmed bonus proposals for Directors for the 06/07 financial year and the LTIP arrangements had been signed off. Proposals for pay positioning and bonus for employees were considered by the Committee and had subsequently been reviewed by the Board. Salary recommendations for Directors had been considered and implemented and bonus recommendations had been paid against Director's average year salary as opposed to their final salary at the year end.

4. HEALTH AND SAFETY REPORT

The CEO regretted to report two incidents, a broken leg and broken ankle. It was noted that it appeared that these incidents had been due to employee errors rather than a lack of effective training. In relation to H&S strategy the Board considered that while improvements had been made consideration needed to be given on how to achieve a major jump in compliance and noted a detailed paper in this area would be coming forward to the August Board. The CEO reported one possible initiative was to pilot an area with a specific target of no accidents to provide an example to the business that this was achievable. The Board noted the lessons learned from the fatality incident would be explained to the Board by a SWS representative in August and considered that the utilisation of a proliferation of small one or two man contractors presented H&S challenges. The Board noted with approval that a joint initiative with the Health and Safety Executive looking at running local training days for small contractors was being rolled out and the Board stressed that this should be given support. It was agreed there would be an element of coercion on suppliers to Scottish Water whereby their employees would be required to ensure that they attended these training initiatives. Mr Aitkenhead reported the "Don't Walk Past It" campaign had been successful in reminding employees of the importance of extra vigilance in relation to risk and taking action to address potential Health and Safety hazards. It was agreed whilst the Board would review the strategy in August it may be appropriate not to implement the strategy until the new CEO had provided their input into the process. A member expressed an interest in seeing the completed survey of SW sites to identifying key hazards and areas of non compliance and the planned programme work to secure compliance, actions (1.1 and 1.2). It was agreed this should be submitted to the August Board.

Action 6 – J Hargreaves

Paper 80/07 noted

5. CEO REPORT

The Board agreed to take the report as read and considered the following specific issues. The Board noted the positive reduction in the number of complaints requiring final resolution noting in particular that most of the outstanding complaints required further investigation, investment or settling a claim. Dr Hargreaves reminded the Board that there may be some situations where a fully investigated statement of Scottish Water's position would not lead to the customer being satisfied with the final response and in these circumstances a "complaint" could remain outstanding. The Board considered the issues arising from the reporting of the Lismore project in the Press and noted the reasons for the delay in implementation of the project and questioned whether land and planning risk had been effectively managed in this instance. It was noted that due to the large number and extent of the investment programme to ensure all conceivable land risk was eliminated prior to the start of any project construction would impose considerable delay on delivery of the investment programme.

Paper 81-07 noted.

- (i) Leakage Update
Paper 81-02/07 noted.

6. FINANCIAL REPORT

The Board noted the key summary outputs that group profit before tax (PBT) was £4.4m above budget driven by improved sales of £1.3m, reduced expenditure of £0.9m and improved SWBS PBT of £1.5m. The Board questioned the impact of Corporation Tax and Mr Millican advised the Board that the creation of SWBS had created Corporation Tax payable within 2006/07 due to the fact that the parent/subsidiary losses could only be offset within a current year. The Board noted the position generally in relation to forecasting for Corporation Tax liability over the current regulatory period.

Paper 82/07 noted

7. ANNUAL REPORT AND ACCOUNTS 2006/07

Mr Millican reminded the Board that the draft Annual Report and Accounts had been considered by the Audit Committee who had received a presentation by PWC and issued a report to the Committee. PWC had also looked at the current cost and regulatory accounts. Mr Millican drew the attention of the Board to the changes set out in the representation letters which specifically highlighted the main adjustments to the Accounts in relation to the provision of a contractual claim and the level of bad and doubtful debt provision. The Board noted that the letter of representation required these matters to be specifically highlighted but noted that overall this did not have a material impact. The Chair of the Audit Committee specifically drew the Board attention to the statements on page 49 and 50 of the draft report and accounts and reminded the Board that overall responsibility for the Accounts was a matter for the Board as a whole.

It was agreed any minor comments on the draft report and accounts should be submitted to Mr Millican as soon as possible.

Action 7 – All

The Board discussed the format of the front end report and noted that there were a number of differing views in relation to presentation and layout. The Board was content with the

format for this years annual report and accounts but agreed that the Board should look at possibly revisiting the format to “refresh it” next year. The Board specifically agreed the recommendations set out in the paper which were as follows:-

- Note the annual accounts’ review that was undertaken by the Audit Committee on 23 May;
- Approve the annual report and accounts and the current cost accounts, subject to authority being delegated to the Chief Executive to approve any minor drafting amendments to the annual report text that are required by Board members;
- Approve submission of the representation letter to PwC; and
- Note the regulatory accounts that were submitted to the Commission on 15 June.

Paper 83/07 noted.