

SCOTTISH WATER BOARD MEETING MINUTES

Date 29th June 2021
Start Time 10.00am
Finish Time 1.45pm
Place Zoom Video Call

Present:	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	Mr Alan P Scott	Finance Director
	Mr Peter Farrer	Chief Operating Officer
	Mr Steven Dickson	Board Member
	Mrs Samantha Barber	Board Member (Excluding Items 4(viii) and Item 5(iii))
	Mr Iain Lanaghan	Board Member
	Mr Ken Marnoch	Board Member
	Mrs Deirdre Michie	Board Member
	Mr James Coyle	Board Member
	Mr Paul Smith	Board Member
In attendance:	Professor Simon Parsons	Director of Strategic Customer Service Planning
	Mr Mark Dickson	Director of Capital Investment
	Mr Rob Mustard	Director of Digital & Transformation
	Mrs Shirley Campbell	Director for People
	Mr Brian Lironi	Director of Corporate Affairs
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
	Mr Joe Rowan	General Manager of Procurement (Item 4(vii) only)
	Mr Nisarg Hirani	General Manager - Transformation (Items 5(i) and 5(ii) only)
	Mrs Tracey Gee	Business Manager - Transformation (Items 5(i) and 5(ii) only)
	Ms Emma Gibbs	Lead Partner, McKinsey & Company (Items 5(i) and 5(ii) only)
Mr Michael Birshan	Senior Partner, McKinsey & Company (Items 5(i) and 5(ii) only)	

PART I

1. APOLOGIES

There were no apologies received. The Chair noted that Mrs Michie was delayed and would join the meeting shortly.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

There were no interests which required declaration or registration. There were no matters arising.

3. BOARD MINUTES (Part I)

(i) Draft Minutes of the Board Meeting held on 26th May 2021

The draft Minutes of the Board meeting held on 26th May 2021 were approved.

Paper 75/21 approved.

(ii) Draft Minutes of the Transformation Workshop held on 25th May 2021

The draft Minutes of the Transformation Workshop held on 25th May 2021 were approved.

Paper 76/21 approved.

(iii) Draft Minutes of the Audit Committee Meeting held on 19th May 2021

The draft Minutes of the Audit Committee meeting held on 19th May 2021 were noted.

Paper 77/21 noted.

(iv) Draft Minutes of the Audit Committee Meeting held on 21st June 2021

Mr Coyle, Chair of the Audit Committee, provided a verbal report of the meeting held on 21st June 2021.

(v) Draft Minutes of the Remuneration Committee Meeting held on 20th May 2021

The draft Minutes of the Remuneration Committee meeting held on 20th May 2021 were noted.

Paper 78/21 noted.

(vi) Draft Minutes of the Remuneration Committee Meeting held on 18th June 2021

Mrs Barber, Chair of the Remuneration Committee, provided a verbal report of the meeting held on 18th June 2021.

[Mrs D Michie joined the meeting at 10.10am]

4. OPERATIONAL & REGULATORY

(i) Safety, Health & Wellbeing Report

Mr Farrer presented the paper, reporting that the RIDDOR Injury Frequency Rate, Lost Time Frequency Rate (LTFR) and Total Recordable Injury Rate (TRIR) are on an improving trend. There has been an increase in the number of High Potential Incidents (HPI), compared to the equivalent period in 2020/21. Mr Farrer highlighted the improving trend in hazard reporting, noting the ongoing focus in this area. He explained the background to and the issues arising from two incidents during May 2021 which had been assessed as significant or offered an opportunity for wider business learning. In response to a question from the Board, he outlined the actions being taken by the Health & Safety Team to ensure that learning points and actions identified following incident reviews are implemented across the organisation where similar activities are undertaken. Further to a query from the Board, Mr Farrer confirmed that there is a network of first aiders and first responders throughout Scottish Water. In response to a question from the Board regarding a HPI involving one of Scottish Water's Operational Alliance partners, he explained that the procedure in question has been updated to reinforce the requirement for effective communication and enhanced physical controls are under consideration by the Health & Safety Team.

Mr Farrer reported a slight increase in the number of sickness absences in May 2021, but noted that this remains significantly below the levels prior to the COVID-19 pandemic. Further to a question from the Board, Mrs S Campbell advised that the average absence duration in respect of recovery from COVID-19 vaccinations increased slightly to 2.9 days and explained that reporting against this absence category does not distinguish between first and second vaccinations. The number of new instances of absence attributable to mental health issues reduced in May but remains higher than the target level, accounting for 7% of sickness absences. Further to a query from the Board, it was agreed that the sickness absence data would be analysed to identify whether there is any distinction in the incidence of mental health and musculoskeletal issues affecting field/site-based employees and office-based employees who are currently working from home.

Action 1 – Mr P Farrer

Further to a question from the Board, Mrs S Campbell outlined the support available to employees working from home and the process for DSE assessments, noting that this is consistent with Health & Safety Executive (HSE) guidance.

The Board considered the results of the SW Cares weekly sentiment analysis. Mr Farrer highlighted a slight reduction in sentiment in May, but advised that this improved in June. The Board noted the launch of the SWell Health wellbeing platform. In response to a query from the Board, Mrs S Campbell explained that, whilst the number of employees who have registered with the platform is lower than anticipated, this may reflect an increased interest in health, wellbeing and physical activity over the COVID-19 pandemic and employees' existing commitment to equivalent platforms outwith work. She advised that Scottish Water would continue to promote SWell Health internally to encourage greater participation.

Paper 79/21 noted.

(ii) Chief Executive Report

Mr Millican reported that Scottish Water continues to operate under COVID-19 transition mode using well-established business continuity arrangements. The overall situation is stable, with an ongoing focus upon ensuring that all work and welfare interactions can be carried out safely.

Mr Millican provided an update on performance, highlighting that total investment in May was £65m, bringing the total investment year to date to £128m. The Board noted the current water resources position.

Mr Dickson advised the Board that, due to the ongoing impact of the COVID-19 pandemic and Brexit, some supply chain categories are experiencing shortages and cost increases. Scottish Water is in dialogue with the Civil Engineering Contractors Association (CECA) and it is anticipated that these market conditions will prevail for six to nine months. The Board noted the potential impact upon current and future projects in respect of the availability and increased price of construction materials. In response to a query from the Board, Mr Dickson advised that, whilst inflationary and availability pressures had been anticipated due to the impact of the COVID-19 pandemic and Brexit, these have been compounded by the advance purchase of concrete by the HS2 scheme, which has significantly reduced availability. Mr Dickson outlined the actions being taken to mitigate the potential risks and advised that the Board would be updated as this issue develops, with a further update to be provided in the Investment Delivery paper presented to the Board at its meeting on 25th August 2021.

The Board noted that the Organisation for Economic Co-operation and Development (OECD) has presented the provisional findings from its review of water regulation in Scotland. Mr Millican advised that the OECD's final report including recommendations will be published in late 2021 and a paper would be presented to the Board identifying how any recommendations arising would be addressed.

In response to a query from the Board, Mr Millican advised that guidance has now been issued to employees and line leaders in relation to Scottish Water's new hybrid working arrangements, which will commence in mid-August 2021, subject to Scottish Government guidance. He noted that this would operate on an experimental basis initially and Mrs S Campbell explained that feedback would be sought from employees through the weekly SW Cares sentiment analysis survey.

The Board noted that 11% of successful applicants to Scottish Water's 2021 graduate programme were from a minority ethnic background. In response to a question from the Board, Mrs S Campbell outlined the actions being taken to further enhance the recruitment of applicants from a minority ethnic background to roles across Scottish Water.

Mrs E Campbell advised the Board that the appeal raised by a private individual against Lord Woolman's decision in the litigation regarding Boat of Garten Waste Water Treatment Works would be heard by the Inner House of the Court of Session on 29th and 30th June 2021. She noted that the decision would be issued within three months and the Board would be advised of the outcome.

Paper 80/21 noted.

(iii) Regulatory Update

Professor Parsons presented the paper, informing the Board of relevant economic regulatory, drinking water quality and environmental issues, SPSO complaints and Data Protection updates. He reported positive engagement with the Scottish Environment Protection Agency (SEPA), with further Director-level liaison in early June to discuss opportunities to improve the approach to compliance and sampling. The Board noted that regulatory sampling re-commenced on 28th June 2021. In response to a question from the Board, Mr Mustard confirmed that Scottish Water took action immediately in response to the ransomware attack on SEPA on 24th December 2020, with the learning points incorporated into Scottish Water's approach to third-party cyber risk management. Further to a query from the Board, it was agreed that a Board workshop would be convened to provide further detail to the Board in respect of Scottish Water's business continuity arrangements.

Action 2 – Mr P Farrer

Following a question from the Board, Mr Mustard provided further details in relation to the address verification requests being received from a third party, noting that the Information Commissioner's Office (ICO) is undertaking an investigation into the third party in question and this is being monitored closely by Scottish Water. He confirmed that Scottish Water deals with all identity and verification requests directly with customers, in accordance with Data Protection legislation.

In response to a query from the Board, Professor Parsons advised that outstanding regulatory actions are being addressed, noting the impact of the COVID-19 pandemic. Mr Millican confirmed that this is an area of focus for Scottish Water.

Paper 81/21 noted.

(iv) Annual Report from Audit Committee

Mr Coyle presented the Annual Report from the Audit Committee to the Board, noting that this was tabled and approved at the Audit Committee meeting on 19th May 2021. He explained that the Audit Committee's opinion on internal controls excludes Scottish Water Business Stream Limited (Business Stream), but noted that the Chair of Business Stream's Audit Committee has provided a certificate confirming the standard and effectiveness of Business Stream's internal controls. Mr Coyle confirmed that there were no significant matters to be drawn to the attention of the Board in relation to the standard and effectiveness of internal controls.

Paper 82/21 noted.

(v) Annual Report & Accounts: Performance & Prospects

Financial Statements 2020/21

Mr Scott introduced the paper, advising that the Audit Committee reviewed the draft Annual Report & Accounts 2020/21: Performance & Prospects Report (AR&A) with Scottish Water's external auditor, KPMG LLP, at its meeting on 19th May 2021, with an update provided at its meeting on 21st June 2021. The Board noted that the surplus before tax of £34m is £51.7m lower than last year and differs in three respects only from the figures presented to the Board on 28th April 2021, namely (i) the inclusion of losses from Business Stream and Scottish Water Business Stream Holdings Limited (SWBSH); (ii) the inclusion of figures for the Horizons 'group', including the Aberdeen PFI companies; and (iii) the necessary adjustments to present the results on a consolidated basis under International Financial Reporting Standards (IFRS).

Mr Scott highlighted the key financial reporting issues and analysis for consideration by the Board. He noted the impact of the proposed increase in the corporation tax rate to 25% from 19%, explaining that this would increase Scottish Water's deferred tax liability by £137m and would likely result in a loss after tax for Scottish Water in the year enacted. The Board noted that the increase may be enacted in 2021/22.

Mr Scott confirmed that clean audit reports have been provided in respect of all companies within the Scottish Water group. He noted that the representation letter to KPMG is in standard form, with the exception of Note 14, which sets out the assumption in respect of the bad debt collection rate and is a normal provision within the Scottish Water audit representation letter.

Review of Draft 2020/21 AR&A

Mr Lironi explained that the draft 2020/21 AR&A incorporates changes to reflect discussions at the Audit Committee meetings on 19th May 2021 and 21st June 2021. The Board noted a subsequent amendment to the Chair's Statement to thank Mr Paul Smith for his contribution to the Board. Mr Lironi highlighted changes in the structure of the 2020/21 AR&A, reflecting feedback from stakeholders in relation to the 2019/20 AR&A. He confirmed that feedback would be sought from stakeholders following publication of the 2020/21 AR&A. The Board noted that the AR&A would be laid in Parliament after the summer recess and the Annual Consultative Meeting (ACM) would be held following publication.

Following consideration, the Board approved (i) the 2020/21 AR&A; and (ii) the representation letter to KPMG.

Paper 83/21 approved.

(vi) WICS Annual Return

Professor Parsons introduced the paper, explaining that the Annual Return process and associated internal control framework was reviewed by the Audit Committee at its meeting on 19th May 2021. He noted that, as in 2019/20, the Annual Return Overview formed part of the Performance & Prospects element of the AR&A. Peter Martin of Binnies, whose team audited the AR21 submission, confirmed that the non-financial information within the submission to WICS had been reviewed and verified. Professor Parsons advised that the Audit Committee agreed at its meeting on 19th May 2021 that the Board Assurance Statement could be recommended to the Board for approval. Following consideration, the Board approved the Board Assurance Statement, delegating authority to Mr Millican to sign the Statement once the tables and commentaries have been finalised and received final approval by Directors.

Paper 84/21 approved.

(vii) Modern Slavery Act

Mr Scott introduced the paper, explaining that the Procurement & Supply Chain (PSC) function has now assumed responsibility for Modern Slavery compliance. Mr Rowan highlighted the key points of Scottish Water's 2020/21 Modern Slavery Act Statement, noting that the Statement was reviewed by the Audit Committee at its meeting on 19th May 2021. Further to a query from the Board, Mr Rowan explained that Scottish Water's approach to Modern Slavery risk assessment is based upon self-certification, with audits undertaken by the PSC function. He explained that Scottish Water is now partnering with Sedex, providing access to regional auditors who can support overseas audits, and the PSC function is considering how to increase the breadth and depth of Modern Slavery risk assessments to augment this process.

Mr Rowan advised that an internal investigation into allegations regarding the manufacture of solar panels in China found no evidence that Scottish Water and primary supply chain partners have failed to comply with our Modern Slavery Act policy. The Board noted the actions arising from this investigation.

Following consideration, the Board authorised Mr Scott to sign the 2020/21 Statement for publication on Scottish Water's website within six months of the financial year end.

Paper 85/21 approved.

(viii) Wholesale Market Update

Mr Scott presented the paper, providing an update on the wholesale market. He noted that the format of the paper has been revised to reflect the recommendations of the recent Board effectiveness review. Mr Scott highlighted the new deferral scheme announced by WICS and advised that Scottish Water would be responsible for assessing Licensed Providers' financial resilience based on criteria which is currently being co-created with WICS. The Board noted that all Licensed Providers would transition back to one-month prepayment of wholesale charges from July 2021 and two-months prepayment between September and December 2021. Mr Scott advised that Scottish Water would now assume responsibility for the market customer addresses, reflecting improvements in the completeness and accuracy of market data over recent years.

Paper 86/21 noted.