

SCOTTISH WATER BOARD MEETING MINUTES

Date	2nd December 2020
Start Time	9:00am
Finish Time	12.55pm
Place	Video Conference Call

Present:	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	Mr Alan P Scott	Finance Director
	Mr Peter Farrer	Chief Operating Officer
	Mr Matt Smith	Board Member
	Mr James Coyle	Board Member
	Mr Paul Smith	Board Member
	Mrs Samantha Barber	Board Member
	Mr Iain Lanaghan	Board Member
	Mrs Deirdre Michie	Board Member
	Mr Ken Marnoch	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
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
Observer:-	Mrs Sheelagh Duffield	Savendie Limited

PART I

1. APOLOGIES

There were no apologies received.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

The Chair advised that Mrs Duffield would observe the Board meeting as part of the external Board effectiveness review and would report to the Board on her findings at the meeting on 27th January 2021.

The Chair thanked those Non-Executive Directors who attended the recent SW One Leadership events and the DV2 Bidders' Day.

3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 28th October 2020
The draft Minutes of the Board meeting held on 28th October 2020 were approved.

Paper 123/20 approved.

- (ii) Draft Minutes of the Audit Committee Meeting held on 1st December 2020
Mr Coyle, Chair of the Audit Committee, provided a verbal report of the meeting held on 1st December 2020.

- (iii) Draft Minutes of the Remuneration Committee Meeting held on 5th November 2020
The draft Minutes of the Remuneration Committee Meeting held on 5th November 2020 were noted.

Paper 124/20 noted.

- (iv) Draft Minutes of the Remuneration Committee Meeting held on 25th November 2020
Mrs Barber, Chair of the Remuneration Committee, provided a verbal report of the meeting held on 5th November 2020.

4. SAFETY, HEALTH & WELLBEING REPORT

Mr Farrer presented the paper and the Board provided positive feedback on the revised format and structure. Mr Farrer reported that the RIDDOR Injury Frequency Rate, Lost Time Frequency Rate (LTFR), Total Recordable Injury Rate (TRIR) and High Potential Incidents (HPI) are on an improving trend. The number of Reportable Dangerous Occurrences is stable, with fewer Member of the Public (MOP) incidents than the previous year. He highlighted the significant improvement in the RIDDOR Injury Frequency Rate since October 2019 and the steady reduction in LTAs since June 2020. The Board queried whether the resumption of normal capital investment activity levels could result in a peak in the Contractor LTFR. Mr Farrer noted the lowest-ever Contractor LTFR rate from April to September 2019, reflecting the significant work undertaken in this area. Mr Dickson explained that the numbers are normalised for the hours worked and the period of inactivity is therefore accounted for in the figures. He advised that a significant number of COVID-19 inspections will be undertaken in the new year and a series of safety stand downs is planned for January 2021. As the levels of activity increase, there will be a continued focus upon induction, supervision and support to ensure that new recruits within Scottish Water's contractors are fully aware of the safety requirements.

Mr Farrer advised that there were no H&S incidents during October which were assessed as significant or offer an opportunity for wider business learning. The Board noted the summaries of two notable H&S incidents which occurred in the period. Mr Farrer reported high levels of compliance with the COVID-19 safe working procedures, with inspections undertaken across the capital programme by project teams and H&S professionals. The Board commended Scottish Water for maintaining safety supervision throughout lockdown and the ongoing focus upon wellbeing. The Board discussed the improved safety performance, noting the significant focus on safety as a consequence of the COVID-19 restrictions and safe working procedures. Mr Farrer agreed that it will be important to ensure continued focus on safety as restrictions ease, noting the contribution of behavioural safety to improved performance. The Board queried whether safety performance in 2020/21 would provide a suitable baseline for assessment of performance in 2021/22, given the unusual circumstances of this year. Mr Farrer confirmed that the results have been normalised to reflect the hours worked but also noted the point highlighted by the Board as to the level of attention and focus on safety over this period. He confirmed that this would be kept under review.

Absence levels remain low, with a slight reduction in sickness absence during October resulting in a decrease in the rolling 12-month sickness absence level to 2.40%. Mr Farrer noted that normal pre-COVID absence levels were c.3%. He updated the Board on the results of the weekly SW Cares sentiment survey, reporting that, whilst favourable responses were on a declining trend in October, there was a slight improvement following announcement of the Winter Wellbeing allowance and other measures. The percentage of new instances of absence attributable to mental health issues is 10.9%, compared to 5.5% in 2019/20. Mr Farrer explained that the total number of absences is unchanged at 25, but the higher percentage reflects the lower total number of sickness absences in 2020/21. Further to a query from the

Board, Mr Farrer outlined the process governing the recording of mental health absences, explaining that an absence report is prepared following an initial discussion with a nurse through the FirstCare service, with the requirement for medical certification for absence beyond seven days.

In response to a query from the Board in relation to the COVID-19 vaccination programme, Mr Farrer advised that it is not yet clear whether the water industry's identification as Priority 2 would provide early access to the vaccine for key/front line workers. He noted that Scottish Water liaises with the Scottish Government on a monthly basis, with discussions currently focussed upon mass testing programmes for essential workers.

Paper 125/20 noted.

5. CEO REPORT – PAAG

Mr Millican presented the paper, reporting continued positive performance to 31st October 2020. He advised that Scottish Water continues to operate under COVID-19 transition mode using well-established business continuity arrangements. He reported that the overall situation is generally stable but noted the impact of rising COVID-19 cases on a small number of capital projects. Scottish Water has strengthened its safe working arrangements to reflect the introduction of Level 4 restrictions across many areas of Scotland. In response to a query from the Board as to the plans for Scottish Water employees to return to offices, Mr Millican advised that this topic is under active consideration, with a focus upon ensuring cohesion across the workforce, both field and office-based employees. At this stage, the timing is unclear, but employees could potentially return to offices in late Spring or early Summer 2021, with all-employee events scheduled for Autumn 2021. The Executive Leadership Team (ELT) is considering the learning from other organisations' experiences, both within the UK and overseas. For office-based staff, it is likely that hybrid working would be appropriate. He noted the need to balance employee preference with employer requirements, particularly in relation to work that requires collaboration.

Paper 126/20 noted.

6. FINANCE REPORT

Mr Scott presented the paper, reporting that, to 31st October 2020, regulated profit before tax (PBT) was £49.9m, £24.3m below budget. He explained that this includes an estimated net impact from the COVID-19 pandemic of £30.6m and, excluding this, PBT is estimated £6.3m higher than budget. Sales were £17.4m below budget, primarily reflecting the lower wholesale volumes to date. Total expenditure was £8.4m higher than budget. Gross capital investment to October was £295.3m, £127.1m lower than budget due to the suspension of significant capital investment activities as a result of COVID-19 restrictions. Mr Scott noted that capital investment in October was c.£61m, consistent with the normal run rate.

The amount billed to household customers was £0.8m lower than budget at £924.8m. Mr Scott explained that this reflects lower growth in new house connections due to the suspension of house building sites as a result of COVID-19 restrictions, together with delays by local authorities in processing Council Tax discounts and exemptions. Cash collected was £560m, £17.3m lower than budget. Mr Scott noted that the 3% reduction in household cash collection represents an improvement from the position in May and June, when collections were 7% below budget, but he explained that the shortfall in cash collection from earlier in the year is not being recovered at this stage.

Mr Scott reported that cash is £150m higher than budget, outlining the cash movements. Government loans at the end of October were £120m higher than budget at £3,953.1m. In response to a query from the Board, Mr Scott explained that Scottish Water advises the Scottish Government at the beginning of each month of the proposed borrowing in the following month. Further to a question from the Board, he clarified that the gain on sale of assets of £2.1m relates to payment of a tranche of the sale proceeds from a former Waste Water Treatment Works at Bishopbriggs

Mr Scott reported that the out-turn forecast profit and loss account remains as reported to the Board at its meeting on 26th August 2020, but now reflects a revised analysis of total regulated operating costs to reflect updated COVID-19 related elements. The regulated out-turn PBT is forecast to be £43.7m lower than budget at £73.2m, within an updated range of £22m to £113m (previously £15m to £116m). He noted that the range reflects sensitivity to ongoing COVID-19 uncertainties and advised that it should narrow significantly in the report to the Board at its meeting on 27th January 2021. The forecast year end cash balance of £407m reflects the extension of WICS' wholesale deferral scheme but this may be subject to further change. It is anticipated that forecast household cash collection will improve.

Paper 127/20 noted.

7. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer reported that the in-month household CEM (hCEM) score for October 2020 was 88.50, an increase from the previous month's score of 87.72. He confirmed that the performance and recovery across all hCEM measures is consistent with trends experienced in previous years and, despite the reduction experienced in April and May, we remain on forecast to achieve the Business Target for 2020/21. In particular, he noted a rise in the Customer Experience Survey from 92.99% to 93.53%. The non-household CEM (nhCEM) score for October 2020 was 86.83, an increase from the previous month's score of 86.36. The performance trend is consistent with the previous year.

Mr Farrer outlined the key themes identified from qualitative research undertaken to understand customer dissatisfaction with water quality and the ongoing work to address the key drivers of dissatisfaction. In response to a query from the Board, Mr Farrer confirmed that, whilst this research is targeted specifically at customers who have expressed dissatisfaction, positive feedback from customers is used to identify themes and provide positive reinforcement to the teams, with over 100 GEM nominations received every month from customers.

Paper 128/20 noted.