

SCOTTISH WATER BOARD MEETING MINUTES

Date	26th August 2020
Start Time	9:30am
Finish Time	2:00pm
Place	Video Conference Call

Present:	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	Mr Peter Farrer	Chief Operating Officer (Items 4 – 9 only)
	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 (Items 4 – 9 only)
	Mr Mark Dickson	Director of Capital Investment (Items 4 – 9 only)
	Mr Rob Mustard	Director of Digital (Items 4 – 9 only)
	Mr Brian Strathie	Acting Director of Finance
	Mr Alan P Scott	Finance Director
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
	Mr Brian Lironi	Director of Corporate Affairs (Item 8(iv) only)
	Dr Mark Williams	Sustainability & Climate Change Manager (Item 9(v) only)

PART I

1. APOLOGIES

There were no apologies received.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

There were no interests which required declaration or registration. There were no matters arising. Mr P Smith confirmed that he had advised the Corporate Secretary of a potential conflict of interest arising from his role as a Council Member of the Royal Burgess Golfing Society in relation to a proposed building development adjacent to the Royal Burgess Golf Course which would involve works associated with surface water runoff. He confirmed that he has disclosed this conflict to the Council and excused himself from decision making in this regard.

3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 24th June 2020
The draft Minutes of the Board meeting held on 24th June 2020 were approved.

Paper 91/20 approved.

- (ii) Draft Minutes of the Remuneration Committee Meeting held on 15th June 2020
The draft Minutes of the Remuneration Committee meeting held on 15th June 2020 were noted.

Paper 92/20 noted.

- (iii) Draft Minutes of the Audit Committee Meeting held on 16th June 2020
The draft Minutes of the Audit Committee meeting held on 16th June 2020 were noted.

Paper 93/20 noted.

- (iv) Draft Minutes of the Audit Committee Meeting held on 25th August 2020
Mr Coyle, Chair of the Audit Committee, provided a verbal report of the meeting held on 25th August 2020.
- (v) Draft Minutes of the Remuneration Committee Meeting held on 21st August 2020
Mrs Barber, Chair of the Remuneration Committee, provided a verbal report of the meeting held on 21st August 2020.

4. SAFETY, HEALTH & WELLBEING REPORT

Mr Farrer presented the paper, reporting that the RIDDOR Injury Frequency Rate is on an improving trend. He noted the reduction in contractors' hours worked in June and July due to COVID-19 restrictions when compared to last year, which has contributed to the increase in the 12 Month Rolling Lost Time Frequency Rate (LTFR) and Total Recordable Injury Rate (TRIR). All other Safety KPIs are either stable or improving.

Mr Farrer explained the background to and the issues arising from five contractor incidents which have been assessed as significant or offer an opportunity for wider business learning. Further to a query from the Board, Mr Farrer outlined the work being undertaken to reinforce accountability for setting contractors to work. He confirmed that safety supervision continued throughout lockdown, with team leaders continuing to attend sites. Mr Dickson explained that COVID-19 safe working guidelines were incorporated within the contractual instructions to Alliance Partners and contractors to restart work on the capital programme, with ongoing monitoring of compliance.

Mr Farrer presented the key improvement activities being undertaken by Scottish Water and its supply chain to reduce the incidence of electrical strikes, highlighting in particular the Zero Strike Initiative. Further to a question from the Board, Mr Dickson advised that all operatives working in this area, including Scottish Water's Alliance Partners and contractors, are inducted to the Zero Strike Initiative and this has received positive feedback. The Board noted a 76% reduction in the electrical service strike frequency rate for the three years since July 2017 and queried whether comparative data is available in order to benchmark this position. Mr Dickson advised that the Utility Strike Avoidance Group (USAG) is currently collecting data on electrical strikes across the utility sector, an exercise it conducts every two years. It was agreed that Mr Farrer would present the comparative data from the USAG analysis once this is available.

Action 1 - Mr P Farrer

Paper 94/20 noted.

5. CEO REPORT – PAAG and COVID-19 UPDATE

Mr Millican presented the paper, advising that COVID-19 reporting has now been integrated into the normal range of Board papers. He confirmed that Scottish Water moved from COVID-19 incident to transition mode on 1st June 2020 and continues to manage its business activities under well-established business continuity arrangements. Overall, the operational situation is stable and there are no new issues of concern. Sentiment analysis is continuing through the weekly SW Cares survey. Feedback is generally positive but concern has been expressed by employees as to how long the situation will continue. Mr Millican noted the current focus to ensure that employees are motivated and engaged through the challenging autumn and winter period. He highlighted that employees who are working from home show higher levels of satisfaction than those who continue to work on sites and in field-based roles. Scottish Water is targeting interventions to site and field-based employees in order to increase satisfaction levels.

Mr Millican highlighted the key findings of the Annual Report published by the Drinking Water Quality Regulator for Scotland (DWQR) on 10th August 2020. The report recognises the need for increased investment in building the capability and resilience of Scottish Water's assets. The DWQR noted the number of water quality incidents where human error has played a role. Mr Millican advised that the Water Operations General Manager has implemented a 12-week behavioural programme for all Water Operations field staff, which is based on a behavioural safety approach.

Mr Millican updated the Board on the current position in relation to the SR21 Strategic Review of Charges, further to correspondence between the Scottish Government and the Water Industry Commission for Scotland (WICS). Following a query from the Board, Mr Millican advised that further information as to governance of the budget-setting process for SR21 would be presented to the Board in due course. The Board discussed the importance of increasing customers' understanding of Scottish Water and it was agreed that Mrs Barber would meet with Mr Millican and Mr Lironi, Director of Corporate Affairs, to discuss this further.

Action 2 – Mr D Millican and Mr B Lironi

Following a query from the Board, it was agreed that Mr Millican would arrange for analysis to be carried out in relation to the proportion of modern apprentices recruited from deprived areas and would provide an update to the Board at its next meeting.

Action 3 - Mr D Millican

Mr Mustard provided an update on Transformation planning and outlined the agenda for the Transformation Board Workshop on 30th September 2020. He advised the Board of the intention to invite five companies to submit a proposal through the Crown Services framework for advisory/consultancy support to the Transformation programme. As part of the due-diligence process, a "due-diligence" day will be held on 21st September 2020. It was agreed that non-executive directors would indicate to Mrs Campbell if they wished to attend this event in order that invitations and guidance could be issued.

Mrs Campbell advised the Board of the fine imposed upon Scottish Water following prosecution in relation to the health and safety incident at Prestonpans Pumping Station in June 2017.

In response to a query from the Board, Mr Millican confirmed that Scottish Water's offices have not reopened, but that, as of 10th August 2020, a safe space has been provided within the offices at Fairmilehead and the Bridge for the very small number of employees who indicated a clear need to return to the office as soon as possible. On 24th August, a safe space will be provided within the Inverness office. Further to a query from the Board, Mr Millican confirmed that Scottish Water Board and Committee meetings will continue to take place by video call while the Scottish Government advice remains that non-essential offices should not reopen. Further to a query from the Board, Mr Farrer advised that there are no instances of suspected or confirmed cases of COVID-19 among those engaged in essential operations and maintenance arising from our activities.

Paper 95/20 noted.

6. FINANCE REPORT

Mr Strathie presented the paper. The Board noted the financial results to 31st July 2020. Mr Strathie advised that Government loans at the end of July 2020 were £36m higher than budget at £3,868m, noting the drawdown of two new loans.

The Board considered the forecast out-turn for the year to 31st March 2021. Regulated out-turn profit before tax (PBT) is forecast to be £43.7m lower than budget at £73.2m, within a range of £15m to £116m. Revenue is forecast to be £32.6m lower than budget. The majority of the revenue reduction is within wholesale income, which is forecast at £311m within a range of £275m to £329m. Mr Strathie noted that approximately 45% of primary wholesale water and wastewater charges are based on metered consumption. The mid-case forecast assumes an estimated average consumption reduction of c.23%, within a range of 11% (best) to 55% (worst). He explained that meter reading activities have restarted, following the easing of lockdown restrictions, but it will be several months before the actual consumption impact is fully known. Regulated operating costs are forecast to be £445m, within a range of £431m to £450m. Forecast operating costs include estimated additional COVID-19 related costs of £22m, within a range of £11m to £24m. The main component of these COVID-19 related operating costs is additional bad debt provision charges. The household bad debt charge is now forecast at £30m, £12m higher than budget, within a range of £20m to £30m. In response to a query from the Board, Mr Strathie advised that Scottish Water is closely monitoring Council tax collection rates, in conjunction with local authorities. COSLA is gathering data on collection rates across all Scottish local authorities and Scottish Water's Revenue Team is engaged in this exercise. The cash balance at March 2021 is forecast at c.£436m, within a range of £400m to £450m. The Board considered the key sensitivities in the cash forecast. WICS has recently announced that it is extending the temporary suspension on the reintroduction of wholesale prepayments and Mr Strathie advised that this will reduce cash by a further c.£30m to c.£407m as at 31 March 2021. The requirement to prepay one month's wholesale charges in advance will now be reintroduced from February 2021, with two months' advance prepayment of wholesale charges being reintroduced from May 2021.

Paper 96/20 noted.

7. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer reported that the in-month household CEM (hCEM) score for July 2020 was 88.49, a decrease from the previous month's score of 88.73. The rolling 12-month score increased to 88.48, with the year to date (YTD) score at 90.17. The non-household CEM (nhCEM) score for July 2020 was 87.20, a slight decrease from the previous month's score. In response to a query from the Board, Mr Farrer explained how targets are set for the CEM measures, with targets of 5% reduction in lost points for hCEM and 10% reduction in lost points for nhCEM, based on the January 2020 results.

Mr Farrer reported positive results from the Institute of Customer Service UK Customer Satisfaction Index (UKCSI) survey in July 2020. The Board noted that Scottish Water placed fourth in the utility sector, moving from third place in the previous survey in January 2020. Scottish Water is ranked second when compared against other water companies. Mr Farrer noted that the Institute of Customer Service has highlighted Scottish Water as one of the top 10 most improved companies and the Board congratulated Scottish Water on the improvement in customer service performance.

Paper 97/20 noted.