

SCOTTISH WATER BOARD MEETING MINUTES

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| Date | 31st January 2018 |
| Start Time | 11.00am |
| Finish Time | 2.30pm |
| Place | Lauriston Room, Castle House |

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| Present: | Dame Susan Rice | Chair |
| | Mr Douglas Millican | Chief Executive |
| | Mr Peter Farrer | Chief Operating Officer |
| | Mr Alan P Scott | Finance Director |
| | Mr Alan Bryce | Board Member |
| | Mr James Coyle | Board Member |
| | Mr Matt Smith | Board Member |
| | Mr Paul Smith | Board Member |
| | Mrs Samantha Barber | Board Member |
| | Mr Iain Lanaghan | Board Member |
| | Mrs Deirdre Michie | Board Member |
| In attendance: | Prof Simon Parsons | Strategic Customer Service Planning Director |
| | Mr Mark Dickson | Director of Capital Investment |
| | Mrs Emma Campbell | Corporate Secretary and Group Legal Counsel |
| | Mrs Claire Marshall | Shadow Board Member |
| | Mr Brian Lironi | Director of Corporate Affairs (Item 8(i) only) |
| | Mr Rob Mustard | Director of Digital (Item 8(iii) only) |
| | Mr Nisarg Hirani | IT Partner Manager (Item 8(iii) only) |

PART I

1. APOLOGIES

There were no apologies received.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

There were no matters arising.

The Chair welcomed Mrs Deirdre Michie to her first meeting as a member of the Board.

Mr Lanaghan advised that he has been appointed as an independent member of the panel selecting members of the Defence Nuclear Safety Committee. Dame Rice noted that she has been appointed as the Chair of a panel of experts established by Southern Water in order to imagine and explore the long-term provision of water services.

3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 6th December 2017
The draft Minutes of the Board Meeting held on 6th December 2017 were approved.

Paper 01/18 approved.

- (ii) Draft Minutes of the Audit Committee Meeting held on 5th December 2017
The draft Minutes of the Audit Committee held on 5th December 2017 were noted.

Paper 02/18 noted.

- (iii) Draft Minutes of the Remuneration Committee Meeting held on 30th November 2017
The draft Minutes of the Remuneration Committee Meeting held on 30th November 2017 were noted.

Paper 03/18 noted.

4. SAFETY, HEALTH & WELLBEING REPORT

Mr Farrer presented the paper, reporting that the Lost Time Frequency Rate (LTFR) has increased to 0.45, continuing a declining trend against the Year to Date (YTD) and rolling 12 month figures. He noted a similar trend in relation to the Notifiable Incident Rate (RIDDOR), which has increased to 0.36. Overall Scottish Water sickness absence rate is 2.80, in line with the YTD figure and below the rolling 12 month figure. Mr Farrer explained the background to and the issues arising from the H&S incidents set out in the report. The Board noted that root cause analysis and executive reviews have been undertaken. The lessons learned were being implemented as set out in the report. The Board discussed the additional measures being taken by Scottish Water to reinforce its commitment to safety, including a safety stand-down which was implemented across Scottish Water, its Alliance Partners and contractors in January 2018, and the proposed introduction of mandatory leadership site visits. The Board noted the importance of ensuring that incident investigations are completed timeously. Mr Farrer provided an update following Scottish Water's meeting with the Health and Safety Executive on 7th December 2017 to discuss the findings and actions from the health and safety incident which occurred at Prestonpans Pumping Station on 9th June 2017.

Paper 04/18 noted.

5. CEO REPORT - PAAG

The Board congratulated the Chair, who was appointed a Dame Commander of the Order of the British Empire in the Queen's New Year 2018 Honours List for services to Business, the Arts and Charity. Mr Millican advised that the Scottish Government published its draft 2018/19 budget on 14th December 2017, which makes provision for £210m of net new borrowing, in line with expectation. He highlighted the key issues arising out of the report, noting good performance in December, despite the impact of adverse weather conditions in the period. In particular, he reported that overall water quality performance was stable relative to 2016 with some measures showing improvement and others a slight decline.

Paper 05/18 noted.

6. FINANCE REPORT

Mr Scott reported that regulated profit before tax (PBT) at £102.6m was £23.3m above budget. The Board noted the key sensitivities. Sales were £7.5m higher than budget, with total expenditure £15.1m below budget and interest £0.7m below budget. Gross capital investment to December was £484.3m, £6.2m higher than budget. The Board noted that the out-turn forecast for the year to 31st March 2018 is unchanged and will be updated in February 2018 following completion of the Q3 reforecast process. The amount billed to household customers was £3.2m higher than budget at £862.7m and cash collected from household customers was £2.9m lower than budget at £698.9m. Government loans at the

end of December were £50m higher than budget at £3,380.6m. Following a query from the Board, it was agreed that an information paper in relation to Scottish Water's PFI projects would be presented to the Board at its meeting on 2nd May 2018.

Action 1 – Mr A P Scott

Paper 06/18 noted.

7. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer advised that the in-month Household CEM ("hCEM") score for December 2017 was 86.64, a reduction from the previous month's score of 87.55. This reduction was largely due to an increase in service issue contacts following operational events resulting from adverse weather. The YTD score of 86.46 remains above the previous year's position and is very close to the year-end target of 86.50. The in-month Non-Household CEM ("nhCEM") score increased from 75.89 in November to 88.13 in December and the YTD score also increased to 77.37, above the year-end target of 77.00, due mainly to a decrease in service issue contacts and formal complaints. Within the qualitative components of nhCEM, average scores increased across all surveys. Mr Farrer highlighted the Engage21 programme, involving extensive customer research being undertaken by Scottish Water to understand customers' priorities and expectations in support of the Strategic Review of Charges for 2021-2027 ("SR21"). Following completion of the first phase of this research, involving household and business end user customers, the Engage 21 programme sought the views of Licensed Providers on the research outputs. In response to a query from the Board, Mr Farrer confirmed that Scottish Water is working with its independent research agency to assess the detailed findings in order to develop an action plan.

Paper 07/18 noted.