

SCOTTISH WATER BOARD MEETING MINUTES

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| Date | 25th January 2017 |
| Start Time | 11.20am |
| Finish Time | 3.00pm |
| Place | Lauriston Room, Castle House |

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| Present: | Lady 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 |
| | Mrs Lynne Peacock | Board Member |
| | Mr Matt Smith | Board Member |
| | Mr James Spowart | Board Member |
| | Mr Andrew Wyllie | Board Member |
| | Mr Paul Smith | Board Member |
| | Mr Jim Coyle | 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 Shirley Campbell | Director of People & OD (Item 9(iii) and Workshop only) |
| | Mr Ken Hutchison | Managing Director Scottish Water International (Workshop only) |

PART I

1. APOLOGIES

There were no apologies for absence.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

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

3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 7th December 2016
The draft Minutes of the Board Meeting held on 7th December 2016 were approved.
The actions were complete.

Paper 01/17 noted.

- (ii) Draft Minutes of the Audit Committee Meeting held on 6th December 2016
The draft Minutes of the Audit Committee Meeting held on 6th December 2016 were noted.

Paper 02/17 noted.

- (iii) Draft Minutes of the Remuneration Committee Meeting held on 30th November 2016
The draft Minutes of the Remuneration Committee Meeting held on 30th November 2016 were noted. The actions were complete.

Paper 03/17 noted.

4. SAFETY, HEALTH & WELLBEING REPORT

Mr Farrer advised that there has been a change in the overall KPI position compared to the last reported position in November 2016 as the SW Service Strike Frequency Rate (SSFR) has improved to a green status. He highlighted the key issues arising from the H&S incident summaries contained within the paper. The Board noted the learning points arising and the actions being taken to address issues which had arisen. In response to a query from the Board regarding Scottish Water's absence rate, Mr Farrer explained that there was nothing unusual with short-term sickness but recognised the rising trend in long-term sickness. He explained that this is a key area of focus in the new Safety, Health and Wellbeing strategy. A high-level action plan will be presented to the Board in February 2017.

Paper 04/17 noted.

5. CEO REPORT - PAAG

Mr Millican highlighted the key issues arising out of the report. He noted that WICS has confirmed, in principle, that a Customer Forum will be created for the Strategic Review of Charges 2021-2027 (SR21). He advised that the Scottish Government published their draft 2017/18 budget on 15th December 2016, which makes provision for £120m of net new borrowing, in line with expectation. The draft SR21 Commissioning letter has also been issued. Mr Millican provided an update to the Board in relation to customer engagement at Ardersier and Aviemore. He highlighted a Which? Scottish Consumer Insight report published in December 2016 which identified Scotland's water industry as being the most trusted sector among consumers. Mr Millican noted the challenges in respect of Environmental performance, explaining that SEPA staff have acknowledged that its measurement criteria have changed since the targets were set at the start of the period. Scottish Water will work with SEPA, WICS and the Scottish Government to consider whether it is appropriate to change the OPA calibration system. The Board noted Scottish Water's achievement in obtaining Investors in Young People Gold Standard accreditation. In response to a query regarding the Future Leaders programme, Mr Millican agreed to circulate a note to the Board detailing the Future Leaders, their roles when they started the programme and their current positions.

Action 1 – Mr D Millican

Paper 05/17 noted.

6. FINANCE REPORT

Mr Scott reported that, to 31st December 2016, regulated profit before tax (PBT) at £83.1m was £20.5m above budget. Sales were £12.6m higher than budget, with total expenditure £4.9m below budget and interest £3.0m below budget. The out-turn forecast is unchanged at £102.8m and the range has been narrowed since December to £96m-£109m. Gross capital investment to December was £476.6m, £50.5m higher than budget. Investment during November and December was £27.5m higher than budget at £117.9m. The amount billed to household customers was £4.2m higher than budget at £842.7m and cash collected from household customers was £1.6m higher than budget at £682.1m. Government loans at 31st December 2016 were £116.3m higher than budget at £3,230.4m. Scottish Water Horizons' PBT to 31st December was £338k, £768k behind budget. The reduction in profit was caused by a £444k shortfall in Project Delivery, a £361k reduction from Operations and a £360k shortfall from Business Development. The full year forecast PBIT of £1m is unchanged. Achievement of the forecast is dependent on receiving £500k in relation to a historic housing development. Scottish Water International's PBT to 31st December was £285k higher than budget at £339k. Operating costs for all projects were lower than budget with exchange rate gains, reflecting the lower valuation in Sterling, adding £38k to profits. The Board discussed changes to Council Tax bandings and it was agreed that this area should be kept under review to identify any adverse impact upon the bad debt position.

Paper 06/17 noted.

7. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer advised that the in-month hCEM score for December increased by 0.75 points to 87.26, largely as a result of a reduction in service issue contacts and the significant reduction in formal complaints to 40 in December, which is an all-time low. The YTD hCEM score has increased to 85.35. Mr Farrer highlighted the continuing improvement in service as measured in the Customer Experience Survey, with the YTD score showing an increase to 90%. The third wave of perception survey results for Experience No Contact and No Experience, No Contact satisfaction were also received and contributed to the overall strong performance in December and YTD. In light of the current YTD performance, the forecast range for 2016/2017 is for 85.2-85.9 with a current central forecast of 85.43 against the Business target of 85.87. Mr Farrer updated the Board in relation to a customer complaint regarding noise and vibration which was upheld by the Scottish Public Service Ombudsman (SPSO) in December 2016. A number of actions and recommendations have been established in response. Mr Farrer highlighted the progress of the Septic Tank Experience Improvement initiative, noting that improvement activities have had a positive impact on the customer experience and formal complaints have significantly reduced.

Paper 07/17 noted.