

## SCOTTISH WATER BOARD MEETING MINUTES

<b>Date</b>	<b>24<sup>th</sup> June 2020</b>
<b>Start Time</b>	<b>11:30am</b>
<b>Finish Time</b>	<b>2:35pm</b>
<b>Place</b>	<b>Video Conference Call</b>

<b>Present:</b>	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	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
<b>In attendance:</b>	Professor Simon Parsons	Director of Strategic Customer Service Planning
	Mr Mark Dickson	Director of Capital Investment
	Mr Rob Mustard	Director of Digital
	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 9(i) only)
	Ms Molly Horsley	Senior Leader Corporate Affairs (Item 9(i) 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.

#### 3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 27<sup>th</sup> May 2020  
The draft Minutes of the Board meeting held on 27<sup>th</sup> May 2020 were approved.

**Paper 73/20 approved.**

- (ii) Draft Minutes of the Audit Committee Meeting held on 20<sup>th</sup> May 2020  
The draft Minutes of the Audit Committee meeting held on 20<sup>th</sup> May 2020 were noted.

**Paper 74/20 noted.**

- (iii) Draft Minutes of the Audit Committee Meeting held on 16th June 2020  
Mr Coyle, Chair of the Audit Committee, provided a verbal report of the meeting held on 16<sup>th</sup> June 2020.
- (iv) Draft Minutes of the Remuneration Committee Meeting held on 21<sup>st</sup> May 2020  
The draft Minutes of the Remuneration Committee meeting held on 21<sup>st</sup> May 2020 were noted.

**Paper 75/20 noted.**

- (v) Draft Minutes of the Remuneration Committee Meeting held on 15<sup>th</sup> June 2020  
Mrs Barber, Chair of the Remuneration Committee, provided a verbal report of the meeting held on 15<sup>th</sup> June 2020.

#### **4. SAFETY, HEALTH & WELLBEING REPORT**

Mr Farrer presented the paper, reporting that the RIDDOR Injury Frequency Rate is on an improving trend. He explained that there was a reduction in contractors' hours worked in April and May 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 two incidents which have been assessed as significant or offer an opportunity for wider business learning. Following a question from the Board, Mr Farrer detailed the leadership focus on health and safety, highlighting the weekly health and safety cascade call with line leaders and the supervising for safety programme, where team leaders carry out safety observations. Further to an observation from the Board, Mr Farrer confirmed that Scottish Water will reinforce individual accountability for health and safety as further activities resume post-lockdown.

The Board noted a further reduction in non-COVID-19 related sickness absence in May, resulting in a decrease in the rolling 12-month sickness absence level from 2.92% to 2.84%. The total absence rate, including COVID-19 absence, remains stable at 3.55%. In response to a query from the Board, Mr Farrer confirmed that, whilst there has been no increase in the percentage of new instances of absence attributable to mental health issues as a result of the COVID-19 crisis, further work would be undertaken to analyse responses to the SW Cares survey to identify any mental health issues raised.

**Action 1 - Mr P Farrer**

**Paper 76/20 noted.**

#### **5. CEO REPORT – PAAG and COVID-19 UPDATE**

Mr Millican presented the paper, updating 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). The Board noted the current status of the Water Charge Deferral Scheme (WCDS) introduced by WICS on 14<sup>th</sup> May 2020.

Mr Millican provided an update on performance. He noted that, as previously advised, the OPA score throughout the year will be shown as provisional, subject to year-end validation, given the changes to normal sampling and monitoring regimes due to COVID-19 restrictions. Following constructive discussions with regulators, a credible basis has been agreed to

calculate the affected OPA elements at the end of the year. During the year, performance will be recorded within a 5-point range. Operator Self-Monitoring (OSM) sampling, which was suspended as a result of COVID-19 restrictions in agreement with SEPA, will resume on 1<sup>st</sup> July 2020. Further to a query from the Board, Mr Farrer explained that control measures were put in place on suspension of OSM sampling to ensure that Scottish Water maintained good standards of wastewater treatment works performance. Details of these measures were submitted to SEPA to provide assurance.

Gross capital investment to May 2020 was lower than budget, due to the suspension of significant capital investment activities as a result of COVID-19 restrictions. Mr Millican advised that the forecasts of likely investment and output delivery levels for the current year will be updated as the capital programme is remobilised. Further to a query from the Board, Mr Dickson confirmed that details in respect of remobilisation of the capital programme and the productivity impact of safe working procedures will be included in the Quarterly Capital Investment Report to be presented to the Board at its meeting in August 2020.

Mr Millican advised that Scottish Water moved from incident to transition mode on 1<sup>st</sup> June 2020 and is continuing to manage its activities under well-established business continuity arrangements. He outlined the main objectives of the Transition Team, highlighting the focus upon learning from COVID-19 and embedding new ways of working for greater efficiency and effectiveness. Work is ongoing to assess the time and cost impact of COVID-19 upon the capital programme, encompassing both the time-related costs associated with lockdown and the productivity impact of compliance with the new safe working procedures as projects recommence. The Board considered the latest results from the SW Cares survey regarding employees' preferences in relation to the prospect of returning to offices. Planning activities have commenced in order that, when appropriate, offices can be re-opened in a safe and managed manner. The Board noted the positive response to Mr Millican's weekly video updates to all employees and the SW Cares Bulletin. In response to a query from the Board, Mr Millican advised that the Executive Leadership Team (ELT) is considering further measures to build interaction, with a focus upon driving cultural and social cohesion and providing stimulus for lateral thinking. Further to a query from the Board, Mr Farrer advised that, consistent with recent changes in Scottish Government guidelines, key worker employees who are unable to work from home and are shielding for others are being asked to assess their own circumstances and consider if, following the necessary hygiene protocols, they could now return to work. He confirmed that Scottish Water is not insisting that these employees return to the workplace, but is prompting them to reassess their individual situations.

Following a question from the Board, Mr Millican explained that, whilst Scottish Water's BAME representation among new starts broadly reflects the Scottish demographics, the annual People Report will include questions for the ELT to consider in relation to any further measures that can be taken to increase BAME representation.

The Board noted that Scottish Water's Annual Consultative Meeting, currently scheduled for 25<sup>th</sup> August 2020, will be postponed until later in the Autumn. A new date will be set once it is clear when the Annual Report and Accounts is likely to be signed and laid before the Scottish Parliament.

Professor Parsons highlighted the Scottish Government's announcement of a return to work package to stimulate Scotland's economy post-COVID-19. Scottish Water has secured £10.5m of this year's funding, subject to the Scottish Government's Autumn budget process, and this will enable Scottish Water to accelerate planned work, including in relation to activities linked to the Net Zero Route Map. He noted the potential allocation of further funding in the second year of the scheme, subject to confirmation by the Scottish Government.

Mrs Campbell advised the Board of Lord Woolman's decision in the legal proceedings raised by a private individual against Scottish Water, noting that Lord Woolman found in favour of Scottish Water and concluded that there is no continuing odour nuisance in respect of Boat of Garten Wastewater Treatment Works. The Board noted that a Hearing is scheduled for 1<sup>st</sup> July 2020, when Lord Woolman will grant the orders necessary to reflect his decision and deal with the issue of expenses. Once Lord Woolman issues an Interlocutor disposing of the case, the appeal period will commence and the Pursuer will have 21 days within which to lodge an appeal.

**Paper 77/20 noted.**

## **6. FINANCE REPORT**

Mr Strathie presented the paper, explaining that the figures in relation to wholesale revenue and capital investment are indicative at this stage. The financial impact of COVID-19 upon Scottish Water remains uncertain. All COVID-19 related costs and the impact of delayed activities will be closely monitored throughout the year.

Mr Strathie reported that regulated profit before tax (PBT) to 31<sup>st</sup> May 2020, excluding expenditure as a consequence of the COVID-19 pandemic, was £1.2m higher than budget at £23.4m. After exceptional COVID-19 related costs, PBT was £3.6m below budget at £18.7m. Sales were £4.8m lower than budget, reflecting lower anticipated wholesale sales over the year of c.£24m (within a range of £17m to £38m). Total expenditure was £5.9m lower than budget, but this was partially offset by estimated COVID-19-related operating costs to May of £4.8m. Further to the action from the previous Board meeting, Mr Strathie reported that the reduction in cash to May, as a consequence of the COVID-19 pandemic, is estimated at c.£17m, primarily due to the temporary suspension of wholesale pre-payments. Gross capital investment to May 2020 was £52.8m, £67.4m lower than budget due to the suspension of significant capital investment activities as a result of COVID-19 restrictions. Cash collected from household customers was £6.9m less than budget at £151.1m. Household cash collection rates are being monitored closely, in liaison with local authorities, to track the impact of COVID-19. Government loans at the end of May were in line with budget at £3,856.8m.

Mr Strathie advised that, on 16<sup>th</sup> June 2020, Scottish Water Business Stream Limited (Business Stream) issued a letter to Scottish Water confirming that it has now made a request to Scottish Water Business Stream Holdings Limited (SWBSH) for funding support to enable it to manage the unprecedented challenges presented by the COVID-19 crisis. Business Stream further advised that, as a consequence, it will be unable to provide the annual warranty required under Section 6.1 of the Governance Code. Mr Strathie noted that Business Stream's funding request, which was submitted to the SWBSH Board on 15<sup>th</sup> June 2020, was considered by the SWBSH Board at its meeting on 24<sup>th</sup> June 2020.

**Paper 78/20 noted.**

## **7. CUSTOMER SERVICE DELIVERY REPORT**

Mr Farrer reported that the in-month household CEM (hCEM) score for May 2020 was 90.67, a decrease from April's unprecedented high score of 92.77, due primarily to an increase in water quality, pressure and supply complaints. The in-month non-household CEM (nhCEM) score for May 2020 was 90.77, a decrease from 91.42 in April. Mr Farrer reported increased satisfaction levels across all qualitative elements, with Licensed Provider Experience increasing to 100% from 99.03%.

Mr Farrer advised the Board of the research being undertaken to understand customers' needs and expectations during the COVID-19 pandemic. The Board noted that a COVID-19 community sub-group has been created and considered the key findings. Mr Farrer explained that further research is planned with this group as the transition stages progress to ensure that Scottish Water is taking into consideration customers' needs and expectations regarding how we work and communicate our activities. Further to a query from the Board, Mr Farrer agreed to confirm how frequently this research will be undertaken and report back to the Board.

**Action 2 – Mr P Farrer**

**Paper 79/20 noted.**

**8. AUDIT COMMITTEE ANNUAL REPORT TO BOARD**

Mr Coyle presented the Annual Report from the Audit Committee to the Board, noting that this was tabled at the Audit Committee meeting on 16<sup>th</sup> June 2020. He explained that the Audit Committee's opinion excludes Business Stream, in light of the restrictions within the Governance Code. It was noted that amendments to the Governance Code would be required to permit the Chair of Business Stream's Audit Committee to provide a certificate confirming the standard and effectiveness of Business Stream's internal controls.

**Paper 80/20 noted.**