

SCOTTISH WATER BOARD MEETING MINUTES

Date	1st April 2020
Start Time	9.00am
Finish Time	1.00pm
Place	Zoom Video Call

Present:	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	Mr Peter Farrer	Chief Operating Officer
	Mr Matt Smith	Board Member
	Mr Paul Smith	Board Member
	Mrs Samantha Barber	Board Member
	Mr Iain Lanaghan	Board Member
	Mr Ken Marnoch	Board Member
	Mr James Coyle	Board Member
In attendance:	Professor Simon Parsons	Director of Strategic Customer Service Planning
	Mr Mark Dickson	Director of Capital Investment
	Mr Brian Strathie	Acting Director of Finance
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
	Mrs Shirley Campbell	Director of People (Item 4 only)
	Mr Brian Lironi	Director of Corporate Affairs (Item 4 only)
	Mr John Cairney	Head of Digital Strategy & Architecture (Item 4 only)
	Mrs Belinda Oldfield	General Manager - Revenue & Risk (Item 9(i) only)

PART I

1. APOLOGIES

Apologies were received from Mrs Michie and Mr Scott. Mr Millican advised that Mr Mustard is absent from work due to illness. The Chair noted that Mr Marnoch was delayed; he subsequently joined the meeting at 9.20am.

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 26th February 2020
The draft Minutes of the Board meeting held on 26th February 2020 were approved.

Paper 30/20 approved.

- (ii) Draft Minutes of the Remuneration Committee Meeting held on 23rd March 2020
Mrs Barber, Chair of the Remuneration Committee, provided a verbal report of the meeting held on 23rd March 2020.

(iii) Draft Minutes of the Audit Committee Meeting held on 31st March 2020

Mr Coyle, Chair of the Audit Committee, provided a verbal report of the meeting held on 31st March 2020.

4. COVID-19

Mr Millican introduced the paper, providing an overview of Scottish Water's response to the novel coronavirus (COVID-19) pandemic. He noted that Scottish Water's absolute priority is to deliver water and wastewater services to all customers across Scotland in a way that minimises the risk of catching or spreading the virus. He explained that the incident is being managed under Scottish Water's well-established incident management arrangements. The Executive Leadership Team (ELT) is providing overall direction, incident planning started in early February 2020 and an Incident Command Team (ICT), led by Mr Farrer, was established in mid-March 2020. The Board noted that planning for future capital investment and transformation is continuing in order that activities can restart as soon as possible after the COVID-19 pandemic is over.

The ELT members provided updates in relation to their respective areas of responsibility:

Protecting Core Water and Wastewater Services

Mr Farrer reported that, to date, there has been no adverse impact on the continuity of service delivery and normal operational incidents have been addressed without disruption to customers. All key General Managers in the ICT have prepared lists of essential and non-essential activities. This has been discussed with trade union representatives and alignment has been achieved on the definition of essential works. Following a question from the Board, Mr Farrer confirmed that preventative maintenance tasks which are required to prevent potential future breakdown or failure are categorised as essential work, whilst certain tasks, such as visual maintenance, have been deferred. Letters are now being issued to "key workers" in order to provide them with the necessary accreditation in light of movement restrictions. Further to a query from the Board, Mr Farrer confirmed that key worker letters are also being issued to essential suppliers and contractors identified by the ICT. He noted that certain operatives have been challenged by members of the public, querying whether the work they are undertaking is essential. The ICT is liaising with Corporate Affairs to ensure that the necessary information is provided to customers in relation to such works. Mr Lironi advised that new signs have been designed to explain the nature and purpose of the work being undertaken.

In response to a query from the Board in relation to Scottish Water's approach to health and safety in light of COVID-19, Mr Farrer explained that working practices are being assessed to identify where additional mitigations are required. Scottish Water's Chief Scientist is currently assessing the guidelines in relation to the potential risk of COVID-19 transmission through waste water. Water industry and government guidelines are being followed in relation to personal protection, with measures in place to minimise person to person transmission. Mr Dickson confirmed that contractors and suppliers are also following social distancing guidelines and good personal hygiene practice. This is monitored through regular conference calls with all key contractors and suppliers. A new approach has been developed in conjunction with Scottish Water's occupational health provider, Duradiamond, to assess the levels of vulnerability of key operational employees, linked to risk assessment of the work they are undertaking.

Reported absence levels are just under 4% but Mr Farrer advised that actual levels are likely to be between 4% and 5%, due to a lag in reporting. In response to a query from the Board, he confirmed that absence levels are not causing concern at this stage. Whilst there are specific impacts in individual teams and geographic areas, these are being addressed through the Business Continuity plans. He outlined the phased resource plans in place across Water, Wastewater, Customer Service Delivery and Scientific Services.

The Board noted that, in light of the uncertain duration of the COVID-19 pandemic, it is important that senior leaders have sufficient opportunities to rest and recuperate. Mr Farrer confirmed that this was identified at the outset of the incident, with alternates appointed for all key positions within the ELT and the ICT. A rota system is in place to address absence due to illness.

Capital Programme

Mr Dickson advised that, following suspension of the capital programme on 24th March 2020, 60 projects have been identified as essential (representing c.5% of the programme) and are now progressing. Over the coming weeks, the criteria for essential work will be reviewed and scenario planning carried out to determine the approach, depending on the duration of lockdown. In response to a query from the Board, Mr Dickson acknowledged that work which is currently categorised as non-essential may become essential over the course of a prolonged lockdown.

Scottish Water is working closely with critical suppliers and contractors. In the first instance, contractual obligations will be agreed, understood and administered. The instruction to stop all construction activities will result in compensation events being issued and the resulting claims for time and money will be assessed. The Board noted the importance of record-keeping and Mr Dickson confirmed that the supply chain has been requested to provide daily records to enable Scottish Water to assess contractual entitlement. In response to a query from the Board, Mr Dickson confirmed that suppliers and contractors are being encouraged to take part in the UK Government's Job Retention Scheme, as appropriate. Should critical suppliers consider their business to be at risk thereafter and need support, this will be considered on a case by case basis. He confirmed that any support measures would be discussed with the Board, prior to any decision being taken, and ministerial approval will be sought as required. Further to a question from the Board as to the nature of the support which can be provided, he explained that Scottish Procurement Policy Note (SPPN5), which was published by the Scottish Government on 26th March 2020, states that public sector organisations should aim to work with suppliers and, if appropriate, provide relief against their current contractual terms.

Finance

Mr Strathie advised the Board of the potential financial impact of COVID-19. The Board considered the best, mid and worst case scenarios and Mr Strathie advised that Scottish Water should have sufficient cash in the period to 31st March 2021, in the range of £102m to £309m, provided we have access to the £220m planned net new borrowing for the year. He highlighted that changes in the economic environment and cancellation of household Council Tax direct debits are likely to significantly adversely impact Scottish Water's cash collection. The potential shortfall in cash receipts from customers could be in the region of £74m to £342m. This could be partially offset by lower short-term cash demand to fund the investment programme, with assumed reductions of £66m to £132m. In response to a query from the Board, Mr Strathie confirmed that cashflow forecasts are also being prepared on a consolidated basis, identifying demands on intra-group cash.

The Board noted that pre-payment of wholesale charges has been suspended, following agreement with the Scottish Government and the Water Industry Commission for Scotland (WICS), in order to reduce the financial impact on Licensed Providers (LPs), creating a c.£60m cashflow impact. Further measures to relieve financial pressure on business customers and LPs are under consideration with the Scottish Government, WICS and the Central Market Agency Limited (CMA). Mr Strathie advised that the potential impact of these further market changes is unclear. The Board considered the potential domino effect resulting from the Provider of Last Resort (POLR) process and the potential impact of LP defaults, noting Scottish Water's increased bad debt exposure.

People

Mrs S Campbell advised that office locations have been closed and are now only accessible to pre-defined and small groups of critical workers. All recruitment activity has ceased, with start dates deferred in respect of offers which have been issued, unless these relate to critical operational roles.

In response to a query from the Board, Mrs Campbell confirmed that, in accordance with UK Government expectations, Scottish Water does not currently envisage placing any of our people on furlough, under the UK Government Job Retention Scheme. We are continuing to pay all our employees in line with the Scottish Government approach. The only enhancements to date are increased standby and call out payments following the ICT's declaration of a red incident in respect of the COVID-19 pandemic. This is consistent with existing policies.

Further to a question from the Board as to how contact is being maintained there are regular team Skype calls, cascading information from senior management, together with regular wellbeing discussions. The Board noted the importance of facilitating social contact when working from home, suggesting the use of virtual "coffee breaks". Mrs Campbell advised that guidance has been issued to line leaders to ensure that they maximise communication with their teams. Employee support networks are in place and a weekly bulletin, "Scottish Water Cares", provides information on topics such as resilience and wellbeing. Scottish Water's Mental Health First Aiders' Network has been launched early, with a SharePoint site providing resources, together with the details of our 50 fully-trained mental health first aiders.

Corporate Affairs

Mr Lironi noted the focus upon proactive communication and engagement, highlighting a positive response to the information campaign encouraging customers not to place inappropriate items down the toilet that can lead to sewer blockages. The Your Water Your Life campaign is currently running on television and significantly outperforming on audience share due to increased TV viewing. In response to a query from the Board, Mr Lironi confirmed that social media animations could be re-purposed for TV advertising, if required, to emphasise the essential nature of the services provided by Scottish Water.

Digital

Mr Cairney advised that, as a result of the significant investment in refreshing and de-risking Scottish Water's core IT systems over the last two years, the vast majority of our people are enabled to work from home. Skype for Business is enabled for over 3,800 employees and Cloud platforms offer direct system access from home for the majority of our key activities. In particular, he advised that critical roles within the Intelligent Control Centre (ICC) have been enabled to work fully from home and a second ICC has been built in the Bridge to allow social distancing. Further activities are underway, including development of a system to allow

remote control at around 30 critical water treatment works. Digital projects within the investment programme are currently being assessed and a decision has been taken to pause Workday, the new HR system, but continue with Project Astro, the new Customer Connections platform, which will go live this week.

Regulatory Relationships and Expectations

Professor Parsons reported constructive engagement with all regulators, highlighting regular meetings between Scottish Water, the Scottish Environment Protection Agency (SEPA) and the Drinking Water Quality Regulator (DWQR). It has been agreed that customer tap sampling is no longer required and Professor Parsons noted additional reductions in microbiological testing. Following discussions with SEPA, significantly reduced or suspended monitoring requirements have been agreed in relation to operational activities such as abstractions, reservoir safety and waste water treatment works and networks. Waste water sampling is not being conducted at any waste water treatment works, with the exception of a minimum level of PFI contractual sampling. Discussions are ongoing with WICS in relation to the content and timing of the 2020 Annual Return and the next steps in the SR21 Strategic Review of Charges, which is the subject of a separate paper to the Board.

Professor Parsons advised that a research project has been initiated with the Roslin Institute and CREW to study the fate of COVID-19 in wastewater. In response to a query from the Board, Professor Parsons confirmed that development of the Net Zero Emissions route map is progressing in accordance with the original timescale and Investment Planning and Prioritisation Framework (IPPF) activities are continuing.

Legal Implications

Mrs E Campbell advised that the Emergency Coronavirus (Scotland) Bill was published on 31st March 2020 and will go through all three stages of its passage today. Subject to Parliamentary approval, the Bill is likely to come into force next week. Mrs Campbell outlined the relevant provisions of the Bill and confirmed that detailed advice will be provided to teams across Scottish Water.

Mr Millican advised that he will update the Board in the event of any material changes in the COVID-19 position. At this stage, it is not anticipated that a special Board meeting will be required in advance of the next scheduled meeting on 29th April 2020. On behalf of the Board, the Chair commended Scottish Water for its calm and disciplined approach to the COVID-19 pandemic, thanking the ELT and all colleagues across Scottish Water for their effort and commitment.

Paper 31/20 noted.

5. SAFETY, HEALTH & WELLBEING REPORT

Mr Farrer presented the paper. The Board noted the safety performance set out in the KPI summary. Mr Farrer explained the background to and the issues arising from five incidents which have been assessed as significant or offer an opportunity for wider business learning. He advised that he has completed an executive review of the High Potential Incident (HPI) which occurred after a large tree came down in a Scottish Water office car park. Five further trees identified as unsafe have now been felled. An inspection of the remaining trees in the vicinity is being undertaken and steps will be taken to fell any trees which are identified as unsafe. Mr Farrer advised that, further to an incident involving one of Scottish Water's Alliance Partners, actions have been agreed to ensure that lessons learned from previous incidents are shared and addressed. The Board noted the measures being taken to reinforce hazard

awareness and the importance of addressing potential hazards to prevent accidents. In response to a query from the Board, Mr Farrer confirmed that normal health and safety processes are continuing during COVID-19 and, in addition to the normal weekly health and safety cascade call, twice-weekly health and safety calls are taking place with trade union representatives to ensure that any health and safety risks arising are addressed. Further to a question from the Board, it was agreed that Mr Farrer would consider with the Health & Safety Team how to ensure that the current increased demand on NHS services and, in particular, the availability of ambulances, is addressed in risk assessments.

Action 1 – Mr P Farrer

Paper 32/20 noted.

6. CEO REPORT - PAAG

Mr Millican highlighted the key issues arising out of the report, providing an overview of performance. He advised that the 2020 Delivery Plan Update has been noted by the Cabinet Secretary, given that the Update was prepared prior to COVID-19.

Mrs E Campbell advised the Board of key developments in legal proceedings raised by a private individual against Scottish Water, alleging odour nuisance in respect of Boat of Garten Wastewater Treatment Works. The Board noted that the four-day Proof at the Court of Session concluded on 20th March 2020. Lord Woolman will now consider the evidence and issue a written decision. Mrs Campbell provided an update to the Board in respect of the health and safety incident at Prestonpans Pumping Station in June 2017.

Paper 33/20 noted.

7. FINANCE REPORT

Mr Strathie presented the paper. The Board noted that, to 29th February 2020, regulated profit before tax (PBT) at £124.8m was £26.3m higher than budget. Sales were £21.5m higher than budget, reflecting total income uncertainty provision releases of £10m (in line with forecast), with total expenditure £2.9m lower than budget, after incident costs of £2.2m. Interest was £1.9m below budget. Gross capital investment to February 2020 was £608.3m, £33.1m lower than budget, but within the forecast range for the full year. The amount billed to household customers was £4.1m higher than budget at £904.1m and cash collected from household customers was £9.1m higher than budget at £858.8m. In response to a query from the Board, Mr Strathie confirmed that, under the Billing and Collection Order, local authorities are responsible for collecting and remitting the charges in respect of water supply and wastewater collection services, as part of Council Tax receipts. The Board discussed the implications of COVID-19 in respect of anticipated household collection rates, noting that the situation is being monitored with local authorities. Government loans at the end of February were £285m higher than budget at £3,903.6m, due to the earlier than budgeted drawdown of loans. Mr Strathie noted that the accounting treatment of the additional operating costs incurred in respect of the incident at Dunbar Wastewater Treatment Works will be reviewed for the year-end. He also advised that Scottish Water has now been awarded the Fair Tax Mark, which will be displayed on the 2019/20 Annual Report and Accounts.

Paper 34/20 noted.

8. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer advised that the in-month household CEM (hCEM) score for February 2020 was 88.67, an increase from the previous month's score of 88.65. On the basis of the improved position over the past two months, it is anticipated that the year-end Business Target will be achieved, with a forecast year-end position within the range 87.50 – 88.00, marginally below the internal Stretch Target of 88.16. The non-household CEM (nhCEM) score decreased to 87.07 in February from 88.72 in January, which was the highest in-month nhCEM score in the past 12 months. The year to date (YTD) score has increased to 85.28 and remains above the Business Target of 82.00 and the internal Stretch Target of 83.56. Based on the current performance, we are forecast to exceed the Business Target and the internal Stretch Target for 2019/20. Mr Farrer advised that, whilst there was an increase of 2.46% in the Developer Operations Survey compared to January, this is still significantly lower than other qualitative elements. He noted that Project ASTRO will be available for development customers from 6th April 2020 and will enable self-service, leading to improved timescales and communication. In response to a query from the Board as to whether the CEM scores are likely to be impacted by the move to home working for the Customer Contact Centre, Mr Farrer advised that there has been no impact on service and that productivity and performance are being maintained.

Mr Farrer reported the high-level results from the Institute of Customer Service (ICS) ServCheck survey, which assesses employees' views of how Scottish Water's strategy, culture and processes enable the organisation to deliver world-class customer service. The response rate was 31%, representing 1,400 employees. Scottish Water's ServCheck score for 2019/20 is 74.92, a 2.91 decrease from the last wave in 2017. The score is below the ICS threshold for world-class service (80), but represents a good service, with room for improvement. Scottish Water exceeded the utilities sector benchmark in the Strategy & Culture dimension and was above the all sector average, but below the utilities sector average, for the Processes & People dimension. Improvement action plans are being developed across Scottish Water to address the areas identified for improvement and the resulting overall action plan will be used as part of Scottish Water's accreditation for ServiceMark and to drive improved ServCheck scores in any future survey.

Paper 35/20 noted.