

SCOTTISH WATER BOARD MEETING MINUTES

Date	27th May 2020
Start Time	9.00am
Finish Time	1.15pm
Place	Video Conference Call

Present:	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
In attendance:	Professor Simon Parsons	Director of Strategic Customer Service Planning
	Mr Mark Dickson	Director of Capital Investment
	Mr Rob Mustard	Director of Digital & Transformation
	Mr Brian Strathie	Acting Director of Finance
	Mr Alan P Scott	Finance Director
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
	Mr Paul Sexton	Alliance Management – General Manager (Item 9(ii) only)
	Mr Alan Fairweather	Head of Commercial (Item 9(ii) only)
	Mr Robert Stewart	Project Secondment – General Manager (Item 9(iv) only)
	Mrs Belinda Oldfield	Revenue & Risk – General Manager (Item 10(ii) only)
	Mr Kes Juskowiak	Water Ops – General Manager (Item 10(iii) only)
	Mr Brian McCarthy	Reservoir Manager (Item 10 (iii) only)

PART I

1. APOLOGIES

There were no apologies received. The Chair noted that Mr Marnoch was delayed; he subsequently joined the meeting at 9.10am.

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 29th April 2020

The draft Minutes of the Board meeting held on 29th April 2020 were approved, subject to an amendment to reflect the correct location of the meeting.

Paper 58/20 approved.

[Mr Mark Dickson, Professor Simon Parsons, Mr Rob Mustard and Mr Peter Farrer all left the meeting at 9.10am.]

(ii) Draft Minutes of the Audit Committee Meeting held on 20th May 2020

Mr Coyle, Chair of the Audit Committee, provided a verbal report of the meeting held on 20th May 2020.

[Mr Mark Dickson, Professor Simon Parsons, Mr Rob Mustard and Mr Peter Farrer all re-joined the meeting at 9.20am.]

(iii) Draft Minutes of the Remuneration Committee Meeting held on 21st May 2020

Mrs Barber, Chair of the Remuneration Committee, provided a verbal report of the meeting held on 21st May 2020.

4. SAFETY, HEALTH & WELLBEING REPORT

Mr Farrer presented the paper, reporting that there were no significant or notable health and safety incidents during April 2020. However, on 18th May 2020, a significant health and safety incident occurred at Stornoway Wastewater Treatment Works involving a Scottish Water employee. Mr Farrer provided an update on the employee's condition and explained that an investigation into the incident has commenced. In response to a query from the Board, Mr Farrer confirmed that a Safety Incident Replay has been issued across Scottish Water in relation to this incident, reiterating safe working requirements. He reported that the 12 Month Rolling Lost Time Frequency Rate (LTFR) is higher than the previous year, reflecting fewer hours being worked on the Capital Investment programme. The Board noted the current position in respect of the health and safety incident at Prestonpans Pumping Station in June 2017. The Board discussed the Risk Assessment Strategic Improvement Project and, in particular, the behavioural and leadership aspects of compliance. Mr Farrer explained that the H&S team is working in conjunction with operatives to ensure engagement and additional resource has been allocated to this project from the water and wastewater operational teams.

Paper 59/20 noted.

5. CEO REPORT – PAAG & COVID-19 UPDATE

Mr Millican highlighted the key issues arising out of the report. He updated the Board on the state of Scottish Water's COVID-19 incident and major developments since the progress report provided to the Board at its meeting on 29th April 2020. Overall, the operational situation is stable and there are no new issues of concern. The Board noted the First Minister's recent announcement of a four-stage route map out of lockdown and Mr Millican advised that Scottish Water is planning to move from full incident mode into a transition state, managed under our Business Continuity arrangements, once Phase 1 commences.

Mr Dickson reported that Scottish Water has started to reopen some previously closed capital projects, in line with recent Scottish Government guidance. Scottish Water has developed a construction guidance note setting out common safe working standards, in collaboration with our Alliance Partners and Tier 1 contractors. This will be kept under review and updated to reflect any new Scottish Government advice, including the safe working procedures for the construction sector which are to be published by Construction Scotland on 28th May. Further to a query from the Board, Mr Dickson confirmed that guidance is continually evaluated and challenged to ensure that it reflects the correct approach for Scottish Water. Audits are being conducted to ensure compliance with safe working practices. In response to a question from the Board, Mr Farrer reported positive engagement with trade unions in relation to health and safety since commencement of the lockdown restrictions.

The Board noted that senior managers have been rotated within the Incident Command Team (ICT) to ensure that all have experience of an incident structure. Mr Farrer advised that a Transition team has been established under the ICT to plan the transition from incident mode through the different phases of the route map. Further to a query from the Board as to early learning points identified by the Transition team, Mr Farrer noted a significant reduction in issues associated with assets, with a 40% reduction in the number of alarms recorded by the Intelligent Control Centre (ICC) and fewer failures. There has also been a significant reduction in customer contacts. Work is being undertaken to understand the reasons for this reduction and how it relates to reduced capital investment and maintenance activities. Mr Farrer highlighted savings in carbon, time and fuel through the use of technology to facilitate meetings. The Board discussed the need to ensure that the correct balance is maintained between face to face and virtual contact, given the importance of safety supervision and leadership of teams. In response to a query from the Board, Mr Farrer advised that one of the key objectives of the Transition team is to identify beneficial new working practices that have developed in the response to COVID-19 and should be embedded through the transition phase and beyond.

Mr Farrer updated the Board on the results to date of the SW Cares survey, a weekly sentiment analysis survey. Feedback has generally been very positive, particularly in relation to the range and effectiveness of Scottish Water's communications. The Board queried the finding that employees who are now working from home show significantly higher levels of satisfaction than those who continue to work on sites and in field-based roles. Mr Farrer explained that this is consistent across the water industry and other sectors. This insight has enabled Scottish Water to target interventions to site and field-based employees and satisfaction levels are now increasing. The Board queried the position in relation to re-opening of offices. Mr Millican noted that, during Phases 1 to 3 of the route map, the instruction is for people to work from home where they can. Initial planning indicates c.20% office occupancy to ensure social distancing. The latest SW Cares survey includes questions to establish the percentage of the workforce who cannot sustain home working. Once this data has been analysed, it will enable Scottish Water to develop plans for creating suitable office provision for those who cannot continue to work from home. The Board noted that the development and understanding of an organisation's culture is driven through interaction and highlighted, in particular, the potential impact upon leadership development. Mr Millican detailed the measures being implemented to address this, noting that work is being undertaken to identify more effective ways of developing interaction when working from home. Mr Millican also delivers a weekly video update to all employees and the Scottish Water Cares bulletin is issued on a weekly basis.

Mr Millican explained that discussions are continuing with regulators to plan for the re-establishment of regulatory sampling when permitted by government advice. In response to

a query from the Board, he confirmed that this will include sampling at customer taps as it is a regulatory requirement for water to be tested as close as possible to the point of consumption. Professor Parsons explained that the new Drinking Water Directive has a greater focus on risk-based sampling.

Mr Millican updated the Board on two further measures introduced by the Water Industry Commission for Scotland (WICS) on 14th May 2020 in support of non-household customers, namely the Repayment Refund Scheme and the Wholesale Charges Deferral Scheme (WCDS). The Board noted that the WCDS has a direct impact on Scottish Water, deferring up to £60m of revenue and creating additional financial risk in the event of single or multiple Licensed Provider (LP) failure. WICS' Direction seeks to protect Scottish Water by requiring LPs either to assign their rights to Scottish Water to bill and collect deferred charges or to provide additional security.

Professor Parsons updated the Board on the work undertaken by Scottish Water, in conjunction with the Roslin Institute, to trace the path of COVID-19 through wastewater. He noted that research conducted by Yale University has identified a strong relationship between the levels of COVID-19 detected in wastewater and levels in the population. In addition to the research work with the Roslin Institute, the Chief Scientist and her team are working with the Office for National Statistics (ONS) on a UK-wide surveillance programme. Work is also ongoing with the Scottish Environment Protection Agency (SEPA) to broaden surveillance to further sites.

Mr Millican provided an update on performance. He noted that the OPA score throughout this 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. Discussions are ongoing with WICS as to the approach to calculating the OPA. Formal Operator Self-Monitoring (OSM) sampling has been suspended in light of COVID-19 restrictions and Scottish Water is therefore unable to report underlying wastewater treatment works performance. It is anticipated that OSM sampling will re-commence in July 2020. Mr Millican confirmed that control measures have been put in place to ensure that Scottish Water maintains good standards of wastewater treatment works performance. He highlighted the challenges in calculating leakage, advising that the situation will be resolved when non-household meter reading resumes.

Mrs 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.

Paper 60/20 noted.

6. FINANCE REPORT

Mr Strathie presented the paper, explaining that the figures in relation to wholesale revenue and capital investment for April 2020 are indicative at this stage. The financial impact of COVID-19 upon Scottish Water remains uncertain. However, Mr Strathie noted the intention to present a financial assessment to the Board at its meeting on 24th June 2020, based on performance in April and May 2020.

Regulated profit before tax (PBT) to 30th April 2020, excluding expenditure incurred due to the COVID-19 pandemic, was £1.4m higher than budget at £12.6m. Sales were £1m lower than budget, with total expenditure £2.4m lower than budget and interest on budget. COVID-19 related operating costs during April totalled £2.2m. Mr Strathie explained that increased

expenditure was partly offset by cost savings of £0.7m and cost reductions of £0.6m associated with activities that have been delayed due to COVID-19 restrictions. All COVID-19 related costs and the impact of delayed activities will be closely monitored throughout the year. Further to a query from the Board, it was agreed that Mr Strathie would include the net cash impact of COVID-19 within future papers.

Action 1 – Mr B Strathie

Gross capital investment to April 2020 was £26.8m, £33m 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 £0.2m lower than budget at £64.4m. Mr Strathie reported that, based upon indicative figures provided by local authorities, a shortfall of c£7m is anticipated in household collections for May. In response to query from the Board, Mr Strathie confirmed that household cash collection rates will be monitored closely, in liaison with local authorities, to track the impact of COVID-19.

Government loans at the end of April were in line with budget at £3,856.8m. Mr Strathie advised that, due to current uncertainty caused by the COVID-19 pandemic, the Treasury Management Policy has been reviewed and, on a temporary basis, all deposits have been, or are in the process of, being withdrawn from the agreed counterparties. The Board noted that the cash has been transferred to the Government Banking Service account with the balance of c.£150m across the Group retained in the retail banks Lloyds and RBS. In response to a query from the Board, Mr Strathie advised that no penalties apply in respect of these withdrawals. The Board considered the proposal for the agreed risk appetite in relation to availability of liquid cash to be temporarily increased by £100m to £200m. Mr Strathie explained that this would assist in countering any significant fluctuations in income streams and provide earlier warning of any breach of the risk appetite. In response to a query from the Board, he clarified that the temporary increase would apply for the remainder of this financial year and potentially into next year. Following consideration, the Board approved this increase to the risk appetite.

Paper 61/20 approved.

7. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer reported that the in-month household CEM (hCEM) score for April 2020 was 92.83, an increase from the previous month's score of 88.42. This represents a significant improvement from the previous year's scores and our forecast. Mr Farrer noted that the COVID-19 restrictions are currently having an influence on operational activities and, potentially, customer behaviour. He explained that, whilst the initial impacts appear positive in relation to contact numbers and customer experience, the longer-term impact on customer experience is not yet clear. He reported a 30% reduction in Service Issue Contacts and an increase in the Customer Experience score to 96.40% from 94.08% in March. The in-month non-household CEM (nhCEM) score for April 2020 was 91.42, an increase from 84.89 in March. Mr Farrer noted that, as for hCEM, there has been a significant improvement from the previous year's score and our forecast. He reported increased satisfaction levels across all qualitative elements. Service Issue Contacts decreased by 60%, reflecting the impact of COVID-19 restrictions. The Board noted that certain businesses have remained open during lockdown and queried whether any insights have been provided in relation to the behaviour of different sectors. Mr Farrer advised that further analysis will be conducted in relation to the impact on Service Issue Contacts once more data is available.

Mr Farrer updated the Board on improvements resulting from the implementation of Project ASTRO, for both employees and the development community. In particular, the Board noted the enhanced self-service capability, which is expected to result in improved customer satisfaction and experience, with fewer customer contacts.

Paper 62/20 noted.

8. WICS ANNUAL RETURN

Professor Parsons introduced the paper, explaining that the Annual Return process and associated internal control framework was reviewed by the Audit Committee at its meeting on 20th May 2020. He noted that the Annual Return Overview formed part of this year's Performance and Prospects Report (P&PR). Peter Martin of Black & Veatch, whose team audited the June 2020 Return, confirmed that the non-financial information within the submission to WICS has been reviewed and verified. The June 2020 Return will be submitted to WICS, together with an embargoed copy of the P&PR, once the P&PR has been signed off. Professor Parsons advised that the Audit Committee agreed at its meeting on 20th May 2020 that the Board assurance statement could be recommended to the Board for approval. Following consideration, the Board approved the Board assurance statement, delegating authority to the Chief Executive Officer to sign this statement once the tables and commentaries have been finalised and received final approval by Directors.

Paper 63/20 approved.