

SCOTTISH WATER BOARD MEETING MINUTES

Date	5th December 2018
Start Time	8.00am
Finish Time	12.15pm
Place	The Drawing Room, Norton House Hotel, Edinburgh

Present:	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	Mr Peter Farrer	Chief Operating Officer
	Mr Alan P Scott	Finance Director
	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	Strategic Customer Service Planning Director
	Mr Mark Dickson	Director of Capital Investment
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
	Mrs Belinda Oldfield	General Manager - Revenue & Risk (Item 8(iii) only)
	Mr Jack Letson	CMS LLP (Item 11 only)
	Mr Roger Mayor	Deloitte LLP (Item 11 only)
	Mr Gavin Hood	Deloitte LLP (Item 11 only)
	Mr John Telfer	Head of PFI (Item 11 only)
	Mr Gordon Reid	General Manager - Waste Water Services Strategy (Item 11 only)
	Ms Ellen Robertson	Senior Project Manager, PFI Team (Item 11 only)
Observer:	Miss Susan Hill	Senior Legal Counsel

PART I

1. APOLOGIES

There were no apologies received.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

Mrs Barber declared her interest in the proposed acquisition of Scottish Power Generation Limited by Drax Group plc and it was agreed that she would withdraw from the meeting and take no part in discussions on this matter (Item 8(vi)).

3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 31st October 2018
The draft Minutes of the Board meeting held on 31st October 2018 were approved.

Paper 110/18 approved.

- (ii) Draft Minutes of the Remuneration Committee Meeting held on 28th November 2018
Mrs Barber, Chair of the Remuneration Committee, provided a verbal report of the meeting held on 28th November 2018.
- (iii) Draft Minutes of the Audit Committee Meeting held on 4th December 2018
Mr Coyle, Chair of the Audit Committee, provided a verbal report of the meeting held on 4th December 2018.

4. SAFETY, HEALTH & WELLBEING REPORT

Mr Farrer presented the paper, reporting that, whilst the Lost Time Frequency Rate (LTFR) and Notifiable Incident Rate (RIDDOR) are on an improving trend, High Potential Incidents (HPIs) are on a worsening trend. He explained the background to and the issues arising from the H&S incident set out in the report. The Board noted that root cause analysis has been undertaken and Mr Farrer updated the Board on the lessons learned following completion of an executive review in relation to the incident. In response to a query from the Board, Mr Farrer confirmed that lessons learned from incidents are shared in order to reinforce behavioural safety. Mr Farrer and Mr Dickson explained the measures taken by Scottish Water to ensure that its commitment to safety is reflected across the supply chain. The Board noted that Mr Farrer and Mr Dickson attend monthly meetings of the Capital Investment Safety, Health & Wellbeing Steering Group, together with the Chief Operating Officers of the Alliance Partners, to progress the Safety, Health & Wellbeing improvement plan.

Mr Farrer updated the Board on progress in implementing a revised organisational structure and delivery model for the H&S Team, advising that recruitment for management positions has now concluded and a process to fill remaining posts within the new structure is now underway. The Board noted that the overall Scottish Water sickness absence rate is on an improving trend at 2.63%.

Paper 111/18 noted.

5. CEO REPORT - PAAG

Mr Millican highlighted the key issues arising out of the report, providing an overview of performance. Mr Farrer updated the Board on Brexit contingency planning. The Board discussed water quality performance and noted the ongoing focus on leakage after a challenging year. Mr Millican confirmed that reported leakage in June and July 2018, which has been updated following agreement with the WIC Leakage Auditor, will be reflected in reported leakage from January 2019.

Mr Millican advised the Board that the Executive Leadership Team has reviewed the high level results of the Your Voice all-employee engagement survey. The Board noted that 80% of employees completed the survey, consistent with results in previous years. Corporate and functional action planning will commence in early 2019.

Paper 112/18 noted.

6. FINANCE REPORT

Mr Scott presented the paper, reporting that, to 31st October 2018, regulated profit before tax (PBT), excluding exceptional items, was £1.1m higher than budget at £64.8m. Gross capital investment to October was £371.9m, £37.7m lower than budget but within the budget range. The amount billed to household customers was £0.4m lower than budget at £885.4m and cash collected from household customers was £6.4m lower than budget at £553.2m. Mr Scott advised that this is primarily a timing issue, reflecting the transition from ten to twelve month

direct debit cycles. He confirmed that the budget phasing for the next financial year will be revised to accurately reflect the direct debit cycle. Government loans at the end of October were in line with budget at £3,491.4m.

The Board noted that the out-turn forecast regulated PBT (after exceptional items) has been increased by £3.2m to £102m, £6.7m above budget, within a range of £86m to £119m. The Board noted the key sensitivities. Revenue is forecast to be £8.1m above budget. This has been partially offset by higher operating costs, at £4.6m above budget, and a depreciation charge £3m above budget. Forecast gross capital investment has been revised to £660m, within a range of £640m to £680m, due to the delayed start on site of certain projects.

Paper 113/18 noted.

7. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer reported that the in-month household CEM (hCEM) score for October 2018 was 88.39, an increase from the previous month's score of 87.93 and the highest in-month score since hCEM commenced in 2015/16. The year to date (YTD) score also increased to 86.69 and the Business Plan target of 87.17 is now within the forecast range of 86.60 to 87.20. The in-month non-household CEM (nhCEM) score decreased from 83.39 in September to 81.01 in October, but the YTD score increased from 79.17 in September to 79.43 in October, with the rolling twelve-month score showing a steady increasing trend. Mr Farrer advised that the Business Plan nhCEM target has been achieved five months ahead of year-end and the focus is now upon maintaining and improving the score. He noted that Licensed Provider satisfaction levels have increased and there has been a significant rise in sample numbers. Whilst satisfaction in the Developer Operations Survey has increased, an action plan is being developed to drive further improvements.

Mr Farrer updated the Board on the current position in relation to the upheld SPSO complaint regarding noise and vibration at Tayport Waste Water Pumping Station, advising that the customer has accepted a final offer of revised compensation.

The Board noted that Scottish Water has conducted research, at the request of the Drinking Water Quality Regulator (DWQR), to understand customers' views on the removal of lead pipes and fittings. It has been agreed that the Water Quality Group, chaired by DWQR, will use the research outputs in considering the Lead Pipe Policy and Strategy for the SR21 regulatory period.

Paper 114/18 noted.