

SCOTTISH WATER BOARD MEETING MINUTES

Date	29th March 2017
Start Time	9.00am
Finish Time	1.00pm
Place	Patio Room, Norton House Hotel, Edinburgh

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
	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 for People (Succession Planning Workshop only)
	Mr Paul Sexton	Alliance Management General Manager (Item 8(ii) and 8(iii) only)

1. SUCCESSION PLANNING

Mr D Millican and Mrs S Campbell led the Non-Executive Directors in a Succession Planning Workshop.

PART I

1. APOLOGIES

There were no apologies.

2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

Mr Wyllie declared his interest in the Shieldhall Tunnel Project and it was agreed that he should withdraw from the meeting and take no part in discussions on this matter (Item 8(iv)).

3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 22nd February 2017
The draft Minutes of the Board Meeting held on 22nd February 2017 were approved.

Paper 24/17 approved.

- (ii) Draft Minutes of the Remuneration Committee Meeting held on 21st February 2017
The draft Minutes of the Remuneration Committee Meeting held on 21st February 2017 were approved.

Paper 25/17 approved.

- (iii) Draft Minutes of the Audit Committee Meeting held on 28th March 2017
Mrs Peacock, Chair of the Audit Committee, provided a verbal report of the meeting held on 28th March 2017.
- (iv) Draft Minutes of the Remuneration Committee Meeting held on 29th March 2017
Mr Bryce, Chair of the Remuneration Committee, provided a verbal report of the meeting held on 29th March 2017.

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 January 2017. The Operational & Capital Alliances Lost-Time Frequency Rate has changed to red due to an incident which occurred on 6th March 2017. Mr Farrer provided an initial summary of the incident and noted that full details will be included in the April report. In relation to the H&S incident summaries contained within the report, root cause analysis and executive reviews have been undertaken and the lessons learned were being implemented as set out in the report. The Board discussed the importance of taking a proactive lead in relation to health and safety policy and culture and Mr Farrer noted that a sub-committee of the Board has been involved in developing the new integrated Safety, Health & Wellbeing Strategy. The first Safety, Health & Wellbeing report, incorporating leading indicators and new ongoing metrics, will be presented to the Board at its meeting in May 2017.

Paper 26/17 noted.

5. CEO REPORT - PAAG

Mr Millican highlighted the key issues arising out of the report. He noted that, on 16th March 2017, Roseanna Cunningham MSP, Cabinet Secretary for Environment, Climate Change and Land Reform, approved Scottish Water's 2017 Delivery Plan update. Professor Gordon Hughes announced on 3rd March 2017 that he will step down as Chair of the Water Industry Commission for Scotland with effect from 31st March 2017. Mr Millican updated the Board on the outcome of the Pre-Qualification Questionnaire (PQQ) assessment in the technology partner selection process. Six bidders were shortlisted for each of Lots 1 and 2, with three companies shortlisted for both Lots. The Board discussed significant community issues, including Brechin, Aviemore and Ardersier and considered the recent Thames Water prosecution and fine for breach of environmental regulations. The Board noted that, at a ceremony on 23rd March 2017, Mrs S Campbell, Director for People, received the Institute of Directors award for Female Director of the Year and Lady Susan Rice received the Chair's award.

Paper 27/17 noted.

6. FINANCE REPORT

Mr Scott reported that, to 28th February 2017, regulated profit before tax (PBT) at £100.4m was £25.1m above budget. Sales were £15.4m higher than budget, with total expenditure £6.3m below budget and interest £3.4m below budget. The out-turn forecast PBT has been increased by £2m to £104.8m, reflecting lower operating and PFI costs. The range has been

narrowed by £2m since January to £100m-£109m. Gross capital investment to February was £586.5m, £65.2m higher than budget. Investment during February was £9.4m higher than budget at £57.3m. The full year forecast of £630m is within a range of £620m to £640m. The amount billed to household customers was £5.2m higher than budget at £841m and cash collected from household customers was £5m higher than budget at £799.8m. Government loans at 28th February 2017 were £211.3m higher than budget at £3,326.4m. Scottish Water Horizons' PBT to 28th February 2017 was £591k, £764k behind budget. The reduction in profit was caused by a £465k shortfall in Project Delivery, a £472k reduction from Operations and a £465k shortfall from Business Development. The full year forecast profit before interest and tax of £1m is unchanged. Scottish Water International's PBT to 28th February 2017 was £298k higher than budget at £363k. Operating costs for all projects were lower than budget with exchange rate gains, reflecting the lower valuation in Sterling, adding £38k to profits.

Paper 28/17 noted.

7. CUSTOMER SERVICE DELIVERY REPORT

Mr Farrer advised that the in-month hCEM score for February decreased by 1.02 points to 86.95, largely as a result of an increase in Service Issue Contacts, with Messagelink being activated in response to flash flooding caused by heavy rain in parts of Central Scotland in particular. This increase was partly offset by a reduction in formal complaints and an increase in satisfaction as measured in the Customer Experience Survey. The YTD hCEM score has increased to 85.74 and the hCEM forecast range for 2016/17 is 85.50–85.99, with a current central forecast of 85.80 against the Business target of 85.87. In response to a query from the Board, Mr Farrer advised that summary information on the Non-Household CEM (nhCEM) methodology and scores will be provided in the April Board report prior to inclusion of this measure in monthly reporting in 2017/18. Mr Farrer advised the Board of the general benchmarking feedback received from the UK Customer Satisfaction Index (UKCSI) booster survey in February 2017. Overall, Scottish Water continues to outperform the Utility Sector by 2 points and the Water Sector by 1.5 points. The priority areas for Scottish Water have been identified from the summary provided by UKCSI and the report will be reviewed to develop plans and actions to support improvements throughout 2017/18.

Paper 29/17 noted.