

## SCOTTISH WATER BOARD MEETING MINUTES

<b>Date</b>	<b>4<sup>th</sup> May 2022</b>
<b>Start Time</b>	<b>10.30am</b>
<b>Finish Time</b>	<b>2.15pm</b>
<b>Place</b>	<b>Zoom Video Call</b>

<b>Present:</b>	Dame Susan Rice	Chair
	Mr Douglas Millican	Chief Executive
	Mr Alan P Scott	Strategy & Commercial Director
	Mr Peter Farrer	Chief Operating Officer
	Mr Steven Dickson	Board Member
	Mrs Catriona Schmolke	Board Member
	Mrs Samantha Barber	Board Member
	Mr Iain Lanaghan	Board Member
	Mrs Deirdre Michie	Board Member
	Mr Graham Dalton	Board Member
<b>In attendance:</b>	Mr Brian Strathie	Director of Finance
	Professor Simon Parsons	Director of Strategic Customer Service Planning
	Mr Mark Dickson	Director of Capital Investment
	Mr Rob Mustard	Director of Digital & Transformation
	Mrs Shirley Campbell	Director for People
	Mr Brian Lironi	Director of Corporate Affairs
	Mrs Emma Campbell	Corporate Secretary and Group Legal Counsel
	Ms Molly Horsley	Head of Purpose, Customer & Community Centricity (Item 5(i) only)
	Mr Chris Toop	Digital Investment, Commercial – General Manager (Item 5(iii) only)
	Mr Paul Davidson	OT Delivery Manager (Item 5(iii) only)
	Mr Paul Kerr	Head of Horizons (Item 6(ii) only)

### PART I

#### 1. APOLOGIES

Apologies were received from Mr Ken Marnoch.

The Chair welcomed Mr Graham Dalton to his first meeting of the Board.

#### 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 30<sup>th</sup> March 2022  
The draft Minutes of the Board meeting held on 30<sup>th</sup> March 2022 were approved.

**Paper 36/22 approved.**

- (ii) Draft Minutes of the Board Workshop held on 29<sup>th</sup> March 2022  
The draft Minutes of the Board Workshop held on 29<sup>th</sup> March 2022 were approved.

**Paper 37/22 approved.**

- (iii) Draft Minutes of the Remuneration Committee Meeting held on 21<sup>st</sup> March 2022  
The draft Minutes of the Remuneration Committee meeting held on 21<sup>st</sup> March 2022 were noted.

**Paper 38/22 noted.**

- (ii) Draft Minutes of the Audit Committee Meeting held on 29<sup>th</sup> March 2022  
The draft Minutes of the Audit Committee Meeting held on 29<sup>th</sup> March 2022 were noted.

**Paper 39/22 noted.**

**4. OPERATIONAL & REGULATORY**

- (i) Safety, Health & Wellbeing Report

Mr Farrer presented the paper, reporting that the RIDDOR Injury Frequency Rate, Lost Time Frequency Rate (LTFR) and Total Recordable Injury Rate (TRIR) were behind the previous year's results. The Board noted the continued increase in hazard identification. In response to a query from the Board, Mr Farrer advised that hazards were reviewed on a weekly basis, with positive feedback provided to employees. He confirmed that Scottish Water would explore the potential for reward and recognition in respect of hazard reporting. The Board noted that Scottish Water and Capital Investment Delivery had each been awarded a RoSPA Gold Award for health and safety performance during the period from January to December 2021.

Mr Farrer explained the background to and the issues arising from two incidents in March 2022 which were assessed as significant or offered an opportunity for wider business learning. In response to a query from the Board, Mr Farrer outlined the process which applied in relation to positive drug and alcohol tests.

Mr Farrer reported that the in-month absence figure for March 2022 was 3.53%, reflecting an increase in COVID-related absences. He noted that the number of COVID-19 absences had now decreased and confirmed that there had been no operational impact. The Board noted that Wellness Assessments would be offered to all employees during May 2022.

**Paper 40/22 noted.**

- (ii) Safety, Health & Wellbeing Annual Review

Mr Farrer presented the paper, providing an overview of Safety, Health & Wellbeing performance during 2021/22 and planned improvements for 2022/23. He explained that the Safety, Health & Wellbeing strategy would be refreshed in the first quarter of 2022/23, with the opportunity for Board members to provide input through a sub-group. In response to a query from the Board, Mr Farrer confirmed that the number of planned activities for 2022/23 would be reviewed as part of the exercise to refresh the Safety, Health & Wellbeing strategy.

Following a question from the Board, Mr Farrer explained that Scottish Water operated a 'with cause' drug and alcohol testing policy and this was kept under review. Mr M Dickson outlined the work being undertaken by Scottish Water in conjunction with its delivery partners and the Scottish Drugs Forum.

The Board noted that Scottish Water's sickness absence levels had increased from 1.91% in March 2021 to 2.78% in March 2022. Further to a query from the Board, Mrs S Campbell advised that, according to data published by the Office for National Statistics (ONS), the sickness absence rate in the UK in 2021 rose to 2.2% from a record low of 1.8% in 2020. This was the highest since 2010, with COVID-19 accounting for 24% of all absences. In response to a question from the Board, Mrs S Campbell confirmed that long COVID was now included as an absence category within Scottish Water's absence recording system, Goodshape, with 0.23% of all absences recorded as long COVID.

Mrs S Campbell advised that the SW Today Tracker Survey was conducted in March 2022, with an overall response rate of 62%. Detailed analysis of the results was being undertaken, with a communication to be issued to employees. Mrs S Campbell noted that the proposed actions to address the key themes would be presented to the Board for consideration.

**Paper 41/22 noted.**

(iii) Chief Executive Report

Mr Millican reported that the overall COVID situation remained stable, with an ongoing focus upon ensuring that all work and welfare interactions can be carried out safely.

The Board noted that, on 31<sup>st</sup> March 2022, the Chair, Mr Millican and Mr Farrer hosted a ministerial visit to the Intelligent Control Centre at Stepps with the Cabinet Secretary for Net Zero, Energy & Transport, Michael Matheson MSP. Mr Millican advised that the first face to face Senior Leaders Strategy and Connection Event took place on 26<sup>th</sup> April 2022 at the Botanic Gardens in Edinburgh, with a focus upon performance and transformation, including discussion of Scottish Water's approach to hybrid working.

Mr Millican provided an update on performance, noting improvements across the operational and customer experience measures. Whilst Outcome Performance Assessment (OPA) performance was lower than the position in 2021/22, it closed at 398 points, within the target zone. Mr Millican reported strong investment performance, with overall delivery slightly above plan and total investment in the year of £799m.

Mr Millican advised the Board that, following the last Board meeting, he had received a letter from the lead of Scottish Water's three trades unions objecting to the decision to permanently close the Castle House head office in Dunfermline. In subsequent discussions, the trades unions expressed broader concerns in relation to Scottish Water's approach to consultation. Mr Farrer had agreed with the trades unions that he and Mrs S Campbell would review this, exploring what effective consultation means as we move to a transformed Scottish Water.

On 27<sup>th</sup> April 2022, the Chair and Mr Millican met with Mr Roy Brannen, Interim Director-General, Net Zero, to discuss the options for resolving the current financing uncertainties and plans for CEO recruitment. Discussions had continued throughout the month on charging/investment with Scottish Government officials and WICS. Mr Millican advised that a range of options was under consideration and Mr Jon Rathjen, Deputy Director for Water at the Scottish Government, would engage with the Cabinet Secretary and provide an update to the Board following its meeting on 31<sup>st</sup> May 2022.

Mr Millican proposed that, as the Scottish Government remained fully committed to Scottish Water's statutory duties, including Ministerial Objectives, and Scottish Water had strong cash balances, a secure income stream and borrowing available, we should (i) plan and promote investment in line with the expected regulatory financing for the 2021-27 period; and (ii) investment delivery should only be delayed when we could foresee being at risk of breaching the risk appetite for cash availability. Following discussion, the Board agreed with this proposal.

**Paper 42/22 noted.**

(iv) Finance Report

Mr Strathie presented the paper, reporting that the Tier 1 contribution to 31<sup>st</sup> March 2022 was £415.4m, £35m higher than budget. The contribution excluding Long Term Normative Charge (LTNC) items was £606.5m, which was £22.5m higher than budget and £1.7m higher than the forecast presented to the Board at its meeting on 26<sup>th</sup> January 2022. Tier 1 revenue was £22m higher than budget at £1,308.1m and Tier 1 costs, before LTNC items, were £0.5m lower than budget at £701.6m. In response to a query from the Board, Mr Strathie explained that the in-year household cash collection level for 2021/22 had returned to that experienced by local authorities in 2019/20. However, when assessing bad debt provisioning levels for 2021/22, the forecast increase for future collection had only increased by 0.02%, the lowest over the last 5 years, to reflect the potential impact of the cost of living crisis. Tier 2 investment in the year was £622.9m, £10.9m higher than budget. Mr Strathie reported that Scottish Water's cash balances as at 31<sup>st</sup> March 2022 were £131.2m higher than budget at £515.9m and outlined the primary drivers. Further to a query from the Board, Mr Strathie confirmed that modelling had been conducted to establish the cash demand over the SR21 period and Mr Millican explained that the cash balances over the six years of the current regulatory period would reduce in line with the planned increase in investment.

Mr Strathie noted that the deferred tax charge to be reported in Scottish Water's 2021/22 Annual Report & Accounts: Performance and Prospects Report would reflect the increase in the UK corporation tax rate from 1<sup>st</sup> April 2023, with an estimated impact of c.£150m, equating to a loss after tax of c.£80m.

Mr Strathie updated the Board on Scottish Water's insurance programme, confirming that insurance covers for 2022/23 were now agreed and in place.

**Paper 43/22 noted.**

(v) Regulatory Update

Professor Parsons presented the paper, informing the Board of relevant economic regulatory, drinking water quality and environmental issues, SPSO complaints and Data Protection updates. He noted the information request issued by the Water Industry Commission for Scotland (WICS) on 20<sup>th</sup> March 2022, seeking to better understand how Scottish Water would manage costs and revenues to deliver the required investment during the remainder of the 2021-27 regulatory control period. Following discussion with WICS, a process and timeline for submission of the completed tables had been established.

The Board considered the wholesale market update. In response to a question from the Board, Mr Scott and Mr Strathie outlined the distinction between the Market Health Check and the framework for financial resilience, noting that the Licensed Providers' scores would be used to determine the level of prepayment required from May 2023.

**Paper 44/22 noted.**