

SCOTTISH WATER BOARD MEETING MINUTES

Date	1st November 2023
Start Time	10:40am
Finish Time	1:00pm
Place	Zoom Video Call

Present:	Dame Susan Rice	Chair
	Mr Alex Plant	Chief Executive
	Mr Alan P Scott	Strategy Director
	Mr Peter Farrer	Chief Operating Officer
	Mr Iain Lanaghan	Board Member
	Mrs Catriona Schmolke	Board Member
	Mr Graham Dalton	Board Member
	Mr Steve Dickson	Board Member
	Mr Ken Marnoch	Board Member
	Mrs Deidre Michie	Board Member
In attendance:	Mrs Emma Campbell	Group Legal Counsel & Director of Governance and Corporate Secretary
	Mr Rob Mustard	Director of Capital Investment (Item 4(i) only)
	Mr Brian Strathie	Director of Finance (Items 4(iii), 4(iv), 5 & 6(iii) only)
	Professor Simon Parsons	Director of Environment, Planning & Assurance (Items 4(iv), 5 & 6(iii) only)

PART I

1. APOLOGIES

No apologies were received.

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 30th August 2023
The draft Minutes of the Board meeting held on 30th August 2023 were approved.

Paper 92/23 approved.

- (ii) Draft Minutes of the Audit & Risk Committee Meeting held on 29th August 2023
The draft Minutes of the Audit & Risk Committee meeting held on 29th August 2023 were noted.

Paper 93/23 noted.

4. MONTHLY/QUARTERLY PERFORMANCE

(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 on a declining trend in respect of contractor incidents. The contractor RIDDOR rate was at its highest level over the past three years, following a significant reduction. The Board considered the background to and the issues arising from two incidents in September 2023 which had been assessed as significant or which offered an opportunity for wider business learning. Mr Farrer reported that there had been two significant incidents in October 2023 and advised the Board of the circumstances of the first incident, which took place at Philipshill Wastewater Treatment Works on 20th October 2023 and involved Scottish Water's operational alliance contractor, Clancy. Further details would be provided to the Board at its meeting on 12th December 2023. Mr Mustard advised that the second incident occurred on 25th October 2023 and involved a sub-contractor to Ross-shire Engineering, Scottish Water's alliance partner under DV2. He had discussed the incident with Ross-shire Engineering at a meeting on 27th October 2023 and would provide a further update to the Board following completion of the Director-led review.

Further to a query from the Board, Mr Farrer explained how Scottish Water was seeking to further strengthen its controls on contractors. Following a question from the Board in relation to the consequences for contractors in the event of health and safety breaches, Mr Farrer advised that Scottish Water's just and fair process was applied to contractor incidents. Development plans were implemented where necessary, working in conjunction with the relevant contractor, and Scottish Water would only work with contractors which met its health and safety standards. The Board discussed the importance of culture change in driving improved health and safety across the contracting organisations, highlighting the role of Mr Plant in reinforcing Scottish Water's health and safety standards and the need to take learning from external incidents. Following a question from the Board, Mr Farrer noted the potential for Scottish Water's hazard identification and dynamic risk assessment processes to be extended to contractors on Scottish Water sites. He outlined the key elements of Scottish Water's Contractor H&S Performance Improvement Plan, noting that this had commenced 18 months ago in response to the declining trend in key contractor H&S metrics. A strategic review was being led by Mr Farrer and Mr Mustard. Mr Farrer confirmed that Board members' input would be reflected in this review and the Contractor H&S Performance Improvement Plan would be considered in more detail at a Board workshop.

Paper 94/23 noted.

(ii) Chief Executive Report

Mr Plant presented the paper, providing an update on performance. He highlighted a slight improvement in the Outcome Performance Assessment (OPA) measure and strong performance across capital investment and non-household customer experience. He confirmed that the Executive Leadership Team (ELT) had discussed declining performance in aspects of water quality and stakeholder customer experience, with actions in place to address this. Mr Plant noted that Scottish Water had worked to minimise the customer impact of the recent extreme rainfall events, maintaining a good quality of service throughout both events, despite the very significant challenges. The Board commended teams across Scottish Water for their efforts in managing these incidents, noting the significant volunteer response.

Paper 95/23 noted.

(iii) Financial Performance

Mr Strathie presented the paper, reporting that the Tier 1 contribution to 30th September 2023, excluding Long Term Normative Charges (LTNC) items, was £380m, which was £45m higher than budget. The forecast contribution for the year was estimated at c.£711m, within a range of £700m to £725m, compared to the budget of £655m. Tier 1 revenue was £731m, £1m lower than budget. The out-turn forecast of Tier 1 revenue remained at c.£1,457m, within an improved range of £1,455m to £1,465m, compared to a budget of £1,458m. Tier 1 expenditure to 30th September 2023, excluding LTNC items, was £351m, £46m lower than budget. The out-turn forecast of Tier 1 expenditure (excluding LTNC items) was £746m, £57m below budget within a range of £735m to £755m. The Board noted the key drivers. Cash as at 30th September 2023 was £259m, £24m higher than budget and a decrease of £132m from 31st March 2023. Forecast cash as at 31st March 2024 was estimated on budget at £288m, within a range of £220m to £300m. Mr Strathie outlined the key sensitivities, highlighting in particular the continued volatility in electricity and gas prices and level of Government borrowing. Profit before tax to 30th September 2023, on a near statutory accounting basis, was £56m, £25m higher than budget, and was forecast to out-turn the year at £74m, £27m higher than budget and £11m higher than the previous forecast. Mr Strathie advised that Scottish Water Horizons' PBT for the first half of the year was £1m, £0.3m ahead of budget and the highest-ever interim PBT in Horizons.

The Board considered the proposal to reduce Scottish Water's risk appetite in relation to the availability of liquid cash. Mr Strathie advised that the proposed reduction aligned with the assumptions used for the current proposals for future customer charges and investment plans and equated to c.4 weeks of trading cash. In response to a query from the Board, Mr Strathie outlined the other sources of liquidity available to Scottish Water to manage cash and working capital, such as creditor payment terms, the level of pre-payments and access to other cash balances within Scottish Water Horizons Holdings Limited, together with Scottish Water's £20m overdraft facility with Lloyds. Further to a question from the Board, Mr Strathie clarified that the proposed reduction in risk appetite reflected current levels of accessible cash in subsidiaries, but he noted that a different risk profile would apply, should those cash balances change in the future. Following discussion, the Board approved the proposed amendment to Scottish Water's Treasury Management Policy to reduce the risk appetite in relation to the availability of liquid cash from £200m to £120m.

Paper 96/23 approved.

(iv) Consistently Excellent Water Supply

Professor Parsons presented the paper, providing an update on (i) water supply risk management transformation; (ii) drinking water quality performance to the end of September 2023; (iii) water supply and availability to the end of September 2023; and (iv) improvements to availability and connectivity.

Professor Parsons reported that audit of Scottish Water's Water Supply Risk Management (WSRM) system was anticipated by the end of December 2023, which would enable closure of the related Enforcement Notice served by the Drinking Water Quality Regulator (DWQR) by April 2024. The Board considered water quality performance. Professor Parsons highlighted the increase in service reservoir failures, outlining the actions being undertaken to address the Enforcement Notice issued by the DWQR in relation to Treated Water Storage Points (TWS). Further to previous updates to the Board in relation to the risk to water quality performance arising from the introduction of new drinking water standards, Professor Parsons advised that there had been 13 further chlorate failures since the end of June 2023 and six Halo Acetic Acid (HAA) failures in the past three

months. He outlined the actions being taken by the Chlorate Action Group and the further work being undertaken to understand the position in relation to HAA failures. The Board considered the water quality incidents in the period. In response to a query from the Board, Professor Parsons advised that a Director review session was scheduled on 1st November 2023 to explore the root cause of the incident at Benbecula Water Treatment Works. He highlighted the positive feedback from the community in relation to Scottish Water's response to the incident and confirmed that there had been no health impacts. The Board queried the impact on water quality of reduced funding available for investment. Professor Parsons noted the need to invest in the required energy generation at pumping stations and treatment works, to address the challenges posed by extreme weather events. He noted that the generation programme had already been delayed due to insufficient funding. Mr Farrer advised that it would not be possible for Scottish Water to address all the current issues without the required investment. Mr Scott explained that investment was now being promoted in accordance with Scottish Water's Management Approaches, irrespective of the availability of funding. This would ensure visibility of the investment backlog, providing evidence to support the funding requirement. Following a question from the Board, Professor Parsons outlined the Management Approach applicable to wastewater interruptions, noting that this focussed upon the risk associated with Environmental Pollution Incidents (EPIs).

Paper 97/23 noted.