

## SCOTTISH WATER BOARD MEETING MINUTES

<b>Date</b>	<b>25<sup>th</sup> January 2023</b>
<b>Start Time</b>	<b>8.30am</b>
<b>Finish Time</b>	<b>11.35am</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 Director
	Mr Peter Farrer	Chief Operating Officer
	Mr Steven Dickson	Board Member
	Mr Iain Lanaghan	Board Member
	Mr Ken Marnoch	Board Member
	Mrs Deirdre Michie	Board Member
	Mrs Catriona Schmolke	Board Member
	Mr Graham Dalton	Board Member
	Mrs Samantha Barber	Board Member (Items 1-4(iv), part of Item 5(i) and Items 6 and 7 only)
<b>In attendance:</b>	Professor Simon Parsons	Director of Strategic Customer Service Planning
	Mr Brian Strathie	Director of Finance
	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
	Mr Paul Sexton	General Manager – Alliance Management (Item 5(i) only)
	Mr Alan Fairweather	Head of Commercial (Item 5(i) only)

### PART I

#### 1. APOLOGIES

There were no apologies received.

#### 2. DECLARATION AND REGISTRATION OF INTERESTS/MATTERS ARISING

Mr Dalton advised that he had been appointed as a Non-Executive Director of Energy & Utility Skills Limited.

Mr Lanaghan advised that he had been appointed Lead Non-Executive Director of the UK Supreme Court. He clarified that this role related to the governance and administration of the UK Supreme Court and not its judicial function.

There were no matters arising.

### 3. BOARD MINUTES (Part I)

- (i) Draft Minutes of the Board Meeting held on 6<sup>th</sup> December 2022  
The draft Minutes of the Board meeting held on 6<sup>th</sup> December 2022 were approved.

**Paper 01/23 approved.**

- (ii) Draft Minutes of the Remuneration Committee Meeting held on 30<sup>th</sup> November 2022  
The draft Minutes of the Remuneration Committee meeting held on 30<sup>th</sup> November 2022 were noted.

**Paper 02/23 noted.**

- (iii) Draft Minutes of the Audit & Risk Committee Meeting held on 5<sup>th</sup> December 2022  
The draft Minutes of the Audit & Risk Committee meeting held on 5<sup>th</sup> December 2022 were noted.

**Paper 03/23 noted.**

- (iv) Draft Minutes of the Special Board Meeting held on 22<sup>nd</sup> December 2022  
The draft Minutes of the Special Board Meeting held on 22<sup>nd</sup> December 2022 were approved.

**Paper 04/23 approved.**

### 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), Total Recordable Injury Rate (TRIR) and High Potential Incidents (HPI) remained on an improving trend. The Board noted the continued increase in hazard identification and Mr Farrer highlighted sustained improvement in Scottish Water employee RIDDOR and LTA performance over the past three years. There had been a slight increase in the number of contractor incidents in December 2022 and Mr Farrer noted that Scottish Water and the supply chain recently supported the annual Civil Engineering Contractors Association (CECA) "Stop, Make a Change" campaign. The Board considered the background to and the issues arising from four incidents during November and December 2022 which had been assessed as significant or offered an opportunity for wider business learning. The Board considered the actions undertaken following the electrical HPI at Lochwinnoch Waste Water Treatment Works in November 2022, noting the positive response of Scottish Water, its Alliance Partner and the supply chain.

**Paper 05/23 noted.**

- (ii) Chief Executive Report

Mr Millican presented the paper. He advised that performance had been slightly better than anticipated, given the challenging weather conditions, but was generally towards the lower end of the target ranges. He reported a significant increase in customer contacts following a series of operational incidents over the festive period and the Board noted the effective response of Scottish Water's operational teams, supported by 550 non-operational volunteers who were trained to provide customer support. Following a

question from the Board, Mr Farrer highlighted the support provided by Scottish Water's supply chain. He updated the Board on the trunk main burst in Milngavie on 24<sup>th</sup> January 2023 and confirmed that supply had been restored to all affected properties. In response to a query from the Board, he advised that a lessons learnt exercise would be undertaken in February 2023 in relation to the operational incident response over the festive period and the output would be shared with the Board. Following a question from the Board, Mrs S Campbell reported a drop in sentiment among field-based employees in December 2022, but noted that the number of respondents to the SW Cares sentiment survey over this period was low.

Mr Millican reported continued strong investment performance. Following a question from the Board, Mr Farrer advised that the status of Waste Water Treatment Works (WWTW) overall compliance was currently amber and any further failing WWTW would impact achievement of the year-end target. However, he confirmed that an action plan was in place and noted significant improvement over recent months. In relation to the Net Zero Emissions measure, Mr Millican reported that some significant risks had materialised and the year-end forecast had been reduced. He outlined the actions being taken to address the impact on the peatland restoration and energy efficiency programmes.

Mr Millican noted that, further to previous Board approval, Scottish Water had continued to hold off making any electricity purchases and remained 47% hedged for 2023/24 through Power Purchase Agreement (PPA) contracts. An Electricity Purchasing Options paper setting out the proposed approach and triggers would be presented to the Board at its meeting on 22<sup>nd</sup> February 2023 for consideration.

**Paper 06/23 noted.**

(iii) Financial Performance

Mr Strathie presented the paper, reporting that the Tier 1 contribution to 31<sup>st</sup> December 2022, excluding Long Term Normative Charges (LTNC), was £493.4m, £24.4m higher than budget. Tier 1 revenue was £21.2m higher than budget at £1,042.1m and Tier 1 expenditure, excluding LTNC, was £3.2m lower than budget at £548.7m. Forecast Tier 1 expenditure, excluding LTNC, was estimated at £734m, which was £9m lower than the previous forecast and £2m below budget, within a range of £730m to £740m. Mr Strathie noted the impact on Levenmouth PFI costs of fluctuation in the gas indexation position. Following a question from the Board, Mr Strathie confirmed that Scottish Water's Energy team considered multiple forecasts, including from its own energy provider, and was exploring opportunities to enter into forward PPAs, with horizon scanning being undertaken. Cash as at 31<sup>st</sup> December 2022 was £465m, a £51m reduction from 1<sup>st</sup> April 2022 and £101m lower than budget. The Board noted the main drivers. Forecast cash at 31<sup>st</sup> March 2023 was estimated at £384m, within a range of £355m to £415m, and Mr Strathie outlined the key sensitivities.

Mr Strathie advised that the 2023/24 Scheme of Charges approved by the Board on 22<sup>nd</sup> December 2022 had been submitted to the Water Industry Commission for Scotland (WICS) for approval. Following discussion with WICS staff, it was proposed that the 7.9% increase in drainage charges should be reduced to 5%, in line with the headline increase across primary and secondary charges. After consideration, the Board agreed to reduce the increase to 5% and it was noted that a revised Scheme of Charges would be submitted to WICS to reflect this reduction.

**Paper 07/23 approved.**

(iv) 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 highlighted the potential for enforcement action by the Drinking Water Quality Regulator (DWQR) following a series of Cryptosporidium final water detections from Mannofield WTW final water and the Board noted the actions which had been taken in response. Professor Parsons outlined the work being undertaken to address new requirements under the Public Water Supplies (Scotland) Amendment Regulations 2022 in relation to the assessment, sampling and reporting for Poly and Perfluorinated Alkyl Substances (PFAS). In an update to the position stated in the paper, Professor Parsons reported that the number of overdue DWQR actions had reduced from 18 to 7.

The Board considered the letter issued by WICS to Mr Millican on 13<sup>th</sup> December 2022 setting out its concerns across three areas of regulatory reporting quality and completeness. Professor Parsons advised that a draft Improvement Plan would be submitted to WICS by the end of January 2023, together with a response to the points raised in the letter. The Board discussed the actions that would be taken to address WICS' concerns. Professor Parsons updated the Board on EY's review of the current Annual Return process, noting the key themes and improvements identified. In response to a question from the Board as to the role played by Transformation in addressing WICS' concerns, Mr Mustard explained that the review of regulatory reporting formed part of the Data and Information workstream.

**[Mrs Barber left the meeting at 10.30am]**

**Paper 08/23 noted.**