

Minutes of the 143rd Board meeting of the Water Industry Commission for Scotland

By video call on 3 February 2022

DRAFT

Present:

Donald MacRae (Chair)
Alan Sutherland (Chief Executive)
Jo Armstrong (Member)
Ann Allen (Member)
Robin McGill (Member)

In attendance:

Ian Tait (Deputy Chief Executive)
Michelle Ashford (Chief Operating Officer)
Andrea Mancini (Assistant Director)
Colin McNaughton (Assistant Director)
Donna Very (Assistant Director)
Shona Coan (Head of Finance) – Section 8 of item 3.1 onwards

Chair's opening remarks

The Chair opened the 143rd meeting of the WICS Board and welcomed Board members.

The Chair proposed an additional agenda item in light of Scottish Water's revised Scheme of Charges submission.

1. Apologies for absence

There were no apologies.

2. Minutes of the last meeting and regular updates

MIN 08/21

2.1 Declaration of conflicts of interest in relation to the agenda

No members declared any conflict of interest in relation to the agenda.

2.2 Minutes of the 142nd meeting

MIN 01/22

February 2022

The Board **approved** the minutes of the 142nd meeting.

2.3 Summary of action points

AP 01/22

The Board **noted** the summary of actions. The following points were arising:

- The office will share its updated whistleblowing policy with the Board in April.
- The Code of Conduct will be incorporated into the WICS framework following the training session in January. Our revised Code of Conduct will be reviewed by Scottish Government and adopted by the Board in June 2022.
- The Board requested an update on the office's cyber resiliency measures.

2.4 Non-Executive Members Update

Robin McGill thanked the office for continued effort on cyber resiliency and all activity to safeguard WICS IT systems. The Board noted this important work and requested a further update on our activity in this area.

Ann Allen noted ongoing inflation pressures in the engineering supply chain and questioned the impact this is having on Scottish Water's investment programme.

3. Business update

3.1 Scottish Water's 2022-23 Charges Scheme

Oral update

The Chief Executive updated the Board on recent developments regarding Scottish Water's Scheme of Charges for 2022-23.

Scottish Water accepted the need for average annual price increases of CPI+2% to meet the Objectives of Scottish Ministers for 2021-27. Scottish Water increased charges by 1.8% in 2021-22 and are proposing, following discussions with government, a 4.2% increase in charges for 2022-23. As a result, charges will have to increase by more than CPI+2% in each of the next four years.

The Board discussed the likely implications for charge levels and investment for the remainder of the 2021-27 regulatory control period. The Chief Executive highlighted our modelling shows more than £100m less investment than what was allowed in the Final Determination.

The Board:

1. **Asked that we receive** a full explanation from Scottish Water as to how it will manage its costs and revenues to meet the Ministers' Objectives; and
2. **Approved** the charges scheme conditional on receiving such an explanation.

The board thanked the office for the work in this area given the tight timescales.

3.2 CEO update

CP 01/22

The Chief Executive highlighted the announced changes in leadership within Scottish Water and SEPA.

The Board noted the vital role that Douglas Millican has played within Scottish Water and the challenge that exists to replace him. This change comes at a vital time as Scottish Water embarks on its transformation.

The Board made the following observations on the content of the CEO report:

3.2.1 Supporting a water industry that is sustainable over the long term

Scottish Water's transformation

The office provided an update on Scottish Water's progress on transformation and the critical work ongoing to develop an investment strategy.

The Board discussed the importance of Scottish Water's investment strategy in light of the current discussion on charges. Scottish Water has signalled it will make changes within its organisation to provide executive level leadership in this area.

The Board noted the changes to strategic and operational risks and reiterated the importance of progress on transformation particularly in relation to the provision of high quality information. The Board extended thanks to the office for its continued effort in this area.

3.2.2 Incentivising an efficient and effective Scottish Water

Scottish Water's performance

The Deputy Chief Executive provided an update on Scottish Water's delivery performance. The Board noted that Scottish Water's current reporting is showing delivery on target, however, there are concerns around progress for the remainder of the regulatory control period.

3.2.3 Helping to ensure that the retail market maximises benefits for customers

Market Health Check

The office provided an update on work to implement the market health check process. The Senior Stakeholder Group has been asked to create a panel to appoint the market health checker. The office has sought external support from a recruitment agency to help with shortlisting prospective candidates for the role.

The Board noted the work in this area.

3.2.4 Supporting Scottish Water to become an analytically driven organisation that takes full account of benefit and costs in its option appraisals and decisions

Investment planning and prioritisation

The Deputy Chief Executive provided an update on Scottish Water's investment planning and prioritisation noting the key link to investment strategy and transformation. Since the Final Determination additional investment needs have come to light to help deliver SEPA's River Basin Management Plan 3 and to help reduce the impact of sewer overflows. The Board questioned how this investment could be funded in this regulatory period given the increasing evidence of capital expenditure inflation.

The Board highlighted the importance of WICS's role in championing the principles of EBR and communicating with candour in all interactions with stakeholders.

3.2.5 Acting as a cutting edge regulator that supports Scotland as a Hydro Nation

The Board received an update on the office's Hydro Nation activity and business development work. Current international projects already underway in New Zealand are progressing as expected.

The current travel restrictions as a result of Covid-19 continue to impact business development and relationship building. The Board recognise that these challenges may impact the ability to build an appropriate pipeline of projects for the 2023-24 period.

3.2.6 Ensuring the office operates as efficiently and effectively as possible

Finance

The Board noted the financial results for the year to 30 November.

Audit and Risk

The Chair noted the Audit and Risk Committee meeting on 2 February.

3.2.7 Sustaining a high performing team with a focus on continuous improvement

Future working arrangements

The Chief Executive provided an update on our future working arrangements following the Scottish Government's announcement on hybrid working in January. The office intends to continue operating on a remote basis but will begin some face-to-face meetings in February. Any further steps will be taken carefully following comprehensive staff engagement.

4. Decision papers

4.1 Asset replacement expenditure appraisal

CP 02/22

The office provided an overview of the work to date and agreed to cover this area in greater detail during the Board's update session in May. The Board **approved** this expenditure and highlighted the importance and value of the analysis not only in a water industry context but also for other sectors and regulators.

The Board noted that further expenditure may be required. Any additional expenditure in this area will also need Board approval.

5. Information papers

Board stakeholder engagement

CP 03/22

The Board agreed the programme of stakeholder interactions and asked the office to proceed in organising the meetings.

Meeting close

The Chair thanked Board members and the office for their contributions and brought the meeting to a close.

AOB

Date of next update meeting: 3 March 2022.