

**Minutes of the 147th Board meeting of the Water Industry Commission for
Scotland
on 6 October 2022**

Present: Donald MacRae (Chair)
Alan Sutherland (Chief Executive)
Jo Armstrong (Member)
Ann Allen (Member)

In attendance: Michelle Ashford (Chief Operating Officer)
Colin McNaughton (Director of Analysis)
David Satti (Director of Strategy and Governance)
Andrea Mancini (Assistant Director)

Chair's opening remarks

The Chair opened the 147th meeting of the WICS Board and welcomed Board members.

1. Apologies for absence

There were apologies from Robin McGill (Member).

2. Minutes of the last meeting and regular updates

MIN 04/22

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 146th meeting

The Board **approved** the minutes of the 146th meeting.

2.3 Summary of action points

AP 05/22

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

- **Action 1:** This action is ongoing. IPPG will be covered in more detail in later in the agenda.
- **Action 2:** This action will be retained, and a further update will be provided in December.
- **Action 4:** The regulatory letter will now be issued to Scottish Water by the end of October.

- **Actions 3, 5, 6 and 7:** Complete and closed.

2.4 Non-Executive Members Update

Board Members noted current challenging economic and political circumstances and discussed the potential impact on the water industry. Ann Allen queried the impact of these pressures on Scottish Water's charge profile for the remainder of the regulatory control period. The Board noted that there have been a number of political interventions by both Scottish and UK governments to mitigate the impact of the current cost of living crisis.

The Board acknowledged that, despite challenging circumstances, it will be important not to lose sight of Scottish Water's longer-term asset replacement and net zero commitments.

3. Strategic discussion

3.1 Performance report themes

CP 11/22

The Director of Analysis provided an overview of the paper setting out the proposed key themes and format for WICS' report of Scottish Water's performance. The paper proposes WICS change its approach and return to a more detailed commentary of Scottish Water's performance.

The Board **discussed** and made the following observations:

- A regulatory framework based on Ethical Business Practice (EBP) requires Scottish Water to take full ownership of its performance and report with full transparency. It also requires Scottish Water to provide robust analysis and evidence to underpin the decisions it makes.
- WICS' performance report is an important tool in the regulatory framework. It will be a factual assessment of Scottish Water's performance and underpinned by robust evidence.
- WICS' assessment will cover Scottish Water's performance in delivering expectations set out in the Final Determination as well as Scottish Water's own performance targets. It will also signal the quality of Scottish Water's own information, reporting and governance.
- The Board asked that the office consider carefully the audience, format and tone of the performance report in the drafting process.

The Board was content with the proposed approach and emphasised that the performance report provides an opportunity for WICS to highlight its commitment to Ethical Business Regulation (EBR) and explain why we are taking the actions that we are taking. A draft of the 2021-22 performance report will be provided to the Board ahead of the December meeting.

3.2 SRC27 current thinking

The Chief Executive provided an overview of the regulatory approach for SRC21 and what this meant for both WICS and Scottish Water. He noted that SRC21 was an important 'stepping stone' to ensure that Scottish Water is well equipped to make progress on the long-term challenges facing the water industry. SRC27 would have been a further step in this journey.

The Final Determination made clear that Scottish Water's progress during SRC21-27 would determine how WICS would approach the next Strategic Review of Charges.

The Board **discussed** Scottish Water's current progress and the proposed timeline for SRC27. The following observations were made:

- There is not yet the visibility of all the potential areas that Scottish Water could invest in (the 'universe of needs').
- There are growing concerns with respect to the level and quality of Scottish Water's reporting resulting in the information request and an annual return data set that was delayed.
- There has been limited progress in refining the high-level asset replacement work and aligning it with Scottish Water's management approaches.

The Chief Executive highlighted his intention to provide this feedback to Scottish Water in the response to the information request. There is a level of information required by Scottish Water for WICS to regulate and monitor its performance. If a more prescriptive and data intensive approach is required over the coming years, then this should be factored into the methodology for SRC27 and the timeline for the SRC updated.

The Board requested a further update on the timeline and approach for SRC27 as thinking develops.

4. Business update

4.1 ARC update

CP 12/22

The Director of Strategy and Governance provided an update on the work of the Audit and Risk Committee (ARC). He asked the Board to note the proposal to transition the membership of ARC over time to include one external ARC member and two Board Members.

The Board noted the proposal to change the scope and format of future internal audits. There is an opportunity to review the model ahead of a tender exercise to appoint a new internal audit supplier next year.

The Board **approved** the change to membership of ARC and the scope of internal audit provided these changes meet Audit Scotland requirements and provide a satisfactory level of assurance.

The Board requested that the tender process to appoint a new internal auditor is as wide reaching and inclusive as possible.

4.2 CEO update

CP13/22

The Chair asked Members to indicate any areas they would like to discuss or seek further clarification on. The Board made the following observations on the content of the CEO report:

Scottish Water transformation

The Director of Strategy and Governance provided an update on work to progress Scottish Water's asset management improvement plan. The Board noted this update and reiterated the importance of this work.

The Chief Executive and Director of Strategy and Governance gave an overview of the October IPPG/DAG meetings. During these meetings we have been paying particular attention to Scottish Water's transformation programme, its analysis of associated benefits and the

impact on the investment programme. We have also requested to understand more about the flows of cash between Scottish Water core and Scottish Water horizons for the Aberdeen PFI assets. The information on activities within Scottish Water Horizons is limited.

The Board noted the strategic risk associated with Scottish Water's performance in a EBR regulatory framework increased at its August meeting and remains 'red'. The Chief Executive confirmed this is likely to persist for some time to come.

International

The Chief Executive and Assistant Director gave an overview of our current international work and emerging opportunities. The Board noted the engagement with EBRD and the opportunities for further capacity building projects across Europe.

Jo Armstrong asked for an update on how the office intends to manage exchange rate risk for the upcoming project in New Zealand. She noted that there may come a point in time where international work is best managed as a separate entity within WICS.

The Board agreed that, given the increasing importance of international work to WICS' budget, staff retention and development, consideration should be given to the future structure and governance of such work. The Board requested a separate session to discuss the future structure and governance of WICS international work.

Business continuity plan

The Chair thanked the Head of IT Services and those involved in developing the Business Continuity Plan (BCP).

Meeting close

The Chair thanked Board Members and the team for their contributions and brought the meeting to a close.

Date of next update meeting: 10 November 2022