

Meeting Minutes

Minutes of the Meeting of the Board of Scottish Canals held on 5th November 2015 at 9.30am at The Falkirk Wheel

Present:	Andrew Thin	- Chair
	Tanya Castell	- Vice Chair
	Martin Latimer	- Non-Executive Director
	Cathie Bankier	- Non-Executive Director
	Deborah Benson	- Non-Executive Director
	Steve Dunlop	- Chief Executive
In Attendance:	Nicola Christie	- Head of Legal Services (Secretary)
	Katie Hughes	- Director of Estates and Commerce
	David Lamont	- Director of Operations
	Claire Lithgow	- Director of Finance
	Lesley Corr	- PA to Chief Executive
	Elsa Jack	- Observer
	Alan Coleman	- State Aid Unit, Scottish Government (item 2 only)
Apologies:	Richard Millar	- Director of Heritage, Environment and Sustainability
	Josie Saunders	- Head of Corporate Affairs

1. Welcome and apologies.

The Chair welcomed all to the meeting. He advised that, notwithstanding the indicative timings on the agenda, as long as was required would be allotted to the consideration of the Board decision papers, in particular the Falkirk Wheel Phase 1 paper, to ensure due scrutiny by the Board.

Apologies from Richard Millar, Director of Heritage, Environment and Sustainability and Josie Saunders, Head of Corporate Affairs, were noted.

2. State Aid Briefing

The Chair welcomed Alan Coleman from the State Aid Unit of the Scottish Government. The Board was provided with a briefing to raise awareness of state aid rules to ensure that there was no distortion of markets across the European Union (EU) together with a summary of the European Commission's likely handling of a potential complaint to avoid escalation and reputational damage.

Scottish Canals, as a publicly funded body, undertook statutory functions that were deemed operational and non-economic, for example, services to ensure the efficiency and safety of Scotland's waterways, which did not involve state aid.

Scottish Canals also undertook activity which was commercial and economic in nature requiring assessment to ensure compatibility with the state aid tests. There were four tests to be applied and all four tests had to be met for state aid to be present. The Board was advised that Scottish Canals were free to consult with the State Aid Unit as required. The EC has issued guidance which indicates that where projects have a geographically very limited attraction zone and a marginal effect on markets and on consumers in neighbouring Member States, the fourth State aid test may not be met as trade between EU member states may not be affected. Some activities funded by SC may fall into this category, but others, such as the development of commercial properties, may be significantly riskier from a State aid perspective. In addition, Scottish Canals applied market rate, accordingly, small/medium enterprises from other Member States were not excluded from participating or disadvantaged. This may rule out State aid to commercial users of SC's facilities.

3. Declaration of Interests

There were no declarations of interest reported.

4. Approval of the Minutes from Previous meeting

The minutes of the Board meetings held on 13th August and 24th September 2015 were approved.

5. Matters Arising and Review of Previous Actions

The update of progress of the actions from previous meetings was noted and it was agreed that several actions could be closed.

Following feedback from the Board and Executive team self-assessment reviews of the Corporate and Operational Governance arrangements, proposed modifications to these arrangements had been noted. The Board delegated authority to the Audit & Risk Committee to approve the proposed modifications.

The response from the sponsor team with Scottish Government comments on the revised draft of Scottish Canals Corporate Plan 2015-18 had been circulated to the Board for information and Scottish Canals would progress this matter within a reasonable timescale.

In response to a request for further information regarding the formalisation of an appeals procedure in relation to the existing complaints procedure, it was agreed that the formalised appeals procedure together with the complaints procedure would be forwarded to the vice chair for consideration who would advise if further consideration by the Board was required.

Action:

The Audit & Risk Committee to consider and approve the proposed modifications to the Corporate and Operational Governance arrangements.

Scottish Canals to progress the revised draft of Scottish Canals Corporate Plan 2015-18 in light of comments received from the Scottish Government.

The formalised appeals procedure together with the complaints procedure to be forwarded to the vice chair for consideration who would advise if further consideration by the Board was required.

6. Audit & Risk Committee Report

The Chair of the Audit & Risk Committee referred to the draft minutes of the Audit & Risk Committee meeting held on 14th September 2015 and highlighted work in progress regarding workforce planning, a quality assurance framework to include an assurance map and ICT support. The continuous improvement of the anti-bribery control measures were also being scrutinised by the Committee. The feedback from the Executive team self-assessment reviews of the Corporate and Operational Governance arrangements was under active consideration. The Board thanked Deborah Benson who had joined the Committee.

Insurance Arrangements

The Board considered the Committee's recommendations to the Board that:

- Scottish Canal's commercial insurance proposals in accordance with the Scottish Public Finance Manual (SPFM) be approved; and
- Motor fleet insurance be reduced to Third Party only.

The Board approved the Committee's recommendations. The Board requested that the Scottish Government's consent be sought for commercial insurance where required by the SPFM. The Board discussed the action plan and requested that timescales completion be visible. The Board also discussed the need for cyber security insurance to be kept under review.

Action:

A review of cyber security risk would be added to the Audit & Risk Committee work programme.

Timescales for completion of the insurance action plan to be agreed and monitored by the Audit & Risk Committee.

Scottish Government consent to be sought for commercial insurance where required by the SPFM.

PERFORMANCE REPORTING

7. Quarterly finance report

The Board considered the second quarter finance report covering the six month period to 30th September 2015. The Board thanked the Finance and Executive teams for their continuing engagement on improving financial controls. The second reforecasting exercise had included a comprehensive review of capital expenditure and cashflow. The Board remained vigilant of the liquidity challenge but was assured that it was manageable in the short term. The Board thanked the Director of Estates & Commerce for her contribution to ensuring the profitability of Scottish Canal's joint ventures. The aged debt position as at 30th September was noted, all overdue amounts were being actively pursued and no write-offs were anticipated.

The Board noted the long-term financial sustainability summary and required actions. Strategic discussions were ongoing with the Scottish Government and the Transport Scotland Finance team.

It was noted that Scottish Canals considered the implications of state aid as part of its standard business processes.

Action:

Board members who wished to receive management accounts for information to advise the Director of Finance.

8. Quarterly performance report

The Board considered the second quarterly business performance report for the period July to September 2015 reporting against the year 1 targets of 2015/16 Business Plan. The Board congratulated the Executive team on a positive performance at the Falkirk Wheel which demonstrated the productivity of a public asset. The Board was also pleased with the continuing success in securing external and third party funding. Discussions regarding dredging initiatives were ongoing with stakeholders. An independently led review of commercial charging, led by Highlands & Islands Enterprise, was also being progressed. The Minister for Business, Energy and Tourism was engaged but was not providing ministerial direction. A customer charter and stakeholder consultation was planned to aid communications. Emerging challenges regarding the redevelopment of Dundashill were noted and further feasibility initiatives were ongoing to control the risks.

The Board approved the re-prioritisation of year 1 targets as recommended following a half year review. The matters removed would be reconsidered for the 2016-17 Business Plan.

Senior resignations of the Head of HR and Development Surveyor were reported. The Board discussed this emerging risk as a consequence of the market and was supportive of non-financial rewards to attract and retain staff.

Asset Management Strategy Update

The briefing paper providing an update on the Asset Management Strategy and emerging Asset Management Plan was discussed. The expertise on the Board to contribute to the Asset Management Strategy was welcomed and the importance of recognising customer needs within the strategy was noted. The Board expressed concern over the huge cost of maintaining a wide range of assets in a sustainable way in challenging financial circumstances. Further discussions with Transport Scotland were planned to understand the risks. Prior to the Board approving the policy approach, high-level strategy and action plan, anticipated to be complete in the first quarter of 2016, a further Board review would be planned.

Action:

The Board to consider the draft Asset Management Strategy and Asset Management Plan further in February 2016.

9. Corporate Risk Register

The Board considered the Corporate Risk Register and, specifically, the escalation of two risks, maintaining financial sustainability and managing the potential effects of climate change, which had been discussed at the Audit & Risk Committee and identified as high risks in both likelihood and severity. The Board was concerned over the escalation of these risks but was assured that mitigating

steps were being taken. Mitigating the potential effects of climate change was part of the asset management strategy and dialogue regarding financial sustainability was ongoing at the appropriate level with Scottish Government.

The Board discussed the information security risk and was assured that the Audit & Risk Committee would regularly scrutinise the mitigation in place, including penetration testing, as part of the cyber security risk review to be added to the Committee's annual work programme as noted earlier.

10. Health and Safety Report

The Board discussed the Health & Safety report incorporating the quarterly reporting of Health & Safety KPIs of accident frequency, site safety visits, lost time injury statistics, root cause analysis actions and near miss reporting. No significant incidents were reported in the period July to September.

As requested by the Board, the external auditing of the Health & Safety Management System by the British Safety Council had been completed. It was agreed that the audit report, recommendations and action plan would be reported to, and monitored by, the Audit & Risk Committee. Audits by the Royal Society for the Prevention of Accidents (RoSPA) across ten locations and activities and audits by Port Marine Safety had also been carried out and the audit findings would also be reported to the Audit & Risk Committee. The Board was assured that internal site safety audits were ongoing and the site safety plan for the next calendar year would be optimised with the intelligence gathered from the external audits.

Supply chain review meetings with main contractors were planned to commence in November 2015.

A significant number of near misses were recorded during the reporting period, the majority of which were traffic infringements at moving bridges. The Board requested trend analysis of near misses compared with previous years to be included in the Health & Safety Board report for information.

The Board raised the press coverage of the Fatal Accident Inquiry into the bin lorry crash in Glasgow which had highlighted systemic problems and institutional failures and was assured that driver risk assessments were ongoing and appropriate HR checks were in place and had been reviewed by our external employment law specialists.

Action:

The findings of external audits by the British Safety Council Royal Society for the Prevention of Accidents (RoSPA) and Port Marine Safety to be reported to and monitored by the Audit & Risk Committee.

Trend analysis of near misses compared with previous years to be included in the Health & Safety Board report for information.

DECISION PAPERS

11. Business Plan 2016-17

The Board discussed the strategic options outlined in the Board report setting out the challenging context for Scottish Canals business planning process for the financial year 2016-17. The Board recognised the requirement for a long-term strategy in light of the asset management sustainability and climate change risks together with the ongoing severe financial constraints. The Board was supportive of the approach to develop a pragmatic, responsible and motivational funding approach to build on past successes for further discussion with Transport Scotland. With regard to the proposed cost efficiency programme, the Board noted the need for the effective management of communications. The Board agreed that the Executive team work up the outline Business Plan 2016-17 on the basis of reducing service delivery costs by £1M for capital reinvestment for further consideration at the December strategic meeting.

12. Annual Review

The Board considered and approved the draft text of the Annual Review subject to several noted amendments including an inspiring closing statement to highlight future plans. The Board thanked the Head of Corporate Affairs for producing this first Annual Review, painting a broader picture of Scottish

Canal's activities for stakeholders, to complement the Annual Report & Accounts and in line with the requirements of the Framework Document. A designed version would be published on the web-site.

13. The Falkirk Wheel Phase 1

The Board discussed the recommendation to approve a capital investment of £1.5m in a phased visitor experience improvement programme at The Falkirk Wheel and acknowledged that, in challenging financial circumstances, the justification for this capital spend must be robust.

The revitalisation programme would help to enliven and promote the unique asset of the Falkirk Wheel, maximising its economic potential as one of Scotland's top visitor attractions. The Board noted that the Falkirk Wheel was a strategic asset which was performing above forecast in terms of visitor numbers and financial performance. This investment, using dowry funds currently held by Scottish Canals, would improve the customer experience and thereby sustain customer satisfaction by refreshing an aging offer to increase dwell-time with additional, innovative activities on site. In turn, this would provide additional revenue returns to contribute to the aim of increasing financial sustainability to meet the demands of the maintenance of the canals.

The improvement programme included the refurbishment of five canal boats; internal refurbishment works at the visitor centre; external landscaping works; and the design, manufacture and installation of a unique floating structure for a new visitor experience at The Falkirk Wheel. The Board was advised that a business plan/financial appraisal had been produced for each element of the improvement programme which had been reviewed and approved by the Executive team. The tender process was required to commence following Board approval to ensure the improvements were in place for the 2016 visitor season.

The Board was confident that the visitor experience improvement programme was integral to a refresh of The Falkirk Wheel and agreed, in principle, with the investment. Accordingly, it was agreed to progress with the proposed tenders. However, the Board required to be satisfied that there was evidence of a robust due diligence justification to underpin the proposed investment in light of the current challenging financial circumstances. Accordingly, the Vice Chair, with discretion to involve other non-executive members, was requested to oversee an audit of the appraisal and internal approval process of the visitor experience improvement programme at The Falkirk Wheel and report to the next meeting for the Board to consider the matter further.

Action:

The Vice Chair to oversee an audit of the appraisal and internal approval process of the visitor experience improvement programme at The Falkirk Wheel and report to the next meeting.

The Chair left the meeting and the Vice Chair took over to conclude the meeting.

INFORMATION PAPERS

14. Collaborative Working with key partners

The Board noted the briefing paper on progress made to strengthen its effective partnerships by agreeing non-binding agreements with key partners to promote collaborative working, in particular the Minute of Understanding with Argyll and Bute Council was welcomed.

AOB

Scottish Government Meetings

The Board had been advised of planned meetings with Scottish Government.

Scottish Waterways Trust

The verbal update by the Chair regarding the Scottish Waterways Trust was deferred to the next meeting.

Date of Next Meeting

The next meeting would be held on December 17th 2015 at The Falkirk Wheel with John Nicholls in attendance.

Location of Board meetings

The Board requested that its meetings should be held at a variety of locations to ensure the visibility and approachability by staff to Board members.

Action:

The forward plan for Board meetings to include a variety of locations across Scotland's canal network.

Signed Andrew Thin

Date