

Meeting Minutes

Minutes of the Meeting of the Board of Scottish Canals held on 28th November 2019 in the Blueprint Room at the Falkirk Wheel, Tamfourhill, Falkirk FK1 4RS.

Present:	Andrew Thin	- Chair
	Rob McGregor	- Board Member
	David Middleton	- Board Member
	Carolyn Sawers	- Board Member
	Catherine Topley	- Chief Executive
	Michelle Wailes	- Board Member
In Attendance:	Nicola Christie	- Head of Legal Services (Secretary)
	Katie Hughes	- Director of Estates and Commerce
	Claire Lithgow	- Director of Finance
	Richard Millar	- Director of Infrastructure
	Josie Saunders	- Head of Corporate Affairs
	Martin Ritchie	- Head of Ports, Shipping, Freight & Canals, SG
	Brian Spence	- Canal Policy Officer, SG
	Cath Mitchell	- Executive Assistant

1. Welcome and Apologies

The Chair welcomed everyone to the meeting. There were no apologies for absence.

2. Declaration of Interests

There were no declarations of interest.

3. Approval of the Minutes from Previous Meeting and Matters Arising

The Board considered and approved the draft minutes of the Board meeting held on 23rd September 2019, subject to the deletion of "remained chronically underfunded" and the insertion in its place of "continues to operate in a very tight financial environment" in the first sentence of the third paragraph of item 5.

4. Matters Arising and Review of Previous Actions

The progress report on actions from previous meetings was reviewed. The Board agreed that the following ongoing actions be closed as the actions had been satisfactorily discharged:

- The Chief Executive to set up a working group to develop a report of the three distinct investment funds for consideration by the Board;
- The Chief Executive to produce a draft Corporate Plan 2020/23, incorporating the feedback received, for discussion at further planning workshops;
- A timetable of public, staff and government engagement opportunities to be circulated to the Board for information;
- A visit to the Monkland canal to be arranged for the Board;
- The Chair, in consultation with the ARC Chair to provide written feedback to the External Audit Engagement Leader as a matter of urgency prior to submission of the External Audit Annual Report to the Auditor General for Scotland;
- A review of Corporate Risk Register to be undertaken at the next Board meeting;
- The Corporate Risk Board report to be circulated to the ARC;
- An update report to be submitted to the next Board meeting on the progress of the investment management strategy discussions;
- A mid quarter financial performance review to be reported to the next meeting including an explanation of variances to budget;
- The Board to be advised that there were no housing standard issues within Scottish Canal's property portfolio similar to Helenslea House, Bowling;
- The revision to the financial reporting terminology to unrestricted or restricted capital to be communicated internally;
- The Secretary to circulate the anti-bribery standard, the Code of Conduct for the Board, the Code of Conduct for Employees and the Whistleblowing Policy to the Board for approval.
- A breakdown of the overspend against budget would be circulated to the Board for information;

- Internal communications on cost controls to be cascaded to emphasise the culture of shared responsibility to be accountable and responsible for financial performance in accordance with the annual budget; and
- Risk appetite to be included as a heading in the Board reporting template.

The Board noted that reporting on progress of the following outstanding actions was included on the agenda and the report on actions from previous meetings would be updated to reflect the Board discussions:

- The Board to be updated on the Fort Augustus charrette outcomes in Autumn 2019;
- A discussion paper on both the investment and capital works strategy/sub-committee structure to be considered at the Board meeting in November 2019;
- The Health & Safety statistics from Canal & River Trust and other water related organisations to be added to the benchmarking statistics recorded in the quarterly Health & Safety reports;
- The dashboard style quarterly reports on key projects to be revised;
- The ARC Chair and Chief Executive to report to the next Board meeting following the meeting with the External Audit Engagement Leader;
- A report on canal dredging to be submitted to the next Board meeting;
- The ARC recommendations on risks to be included in the ongoing review of the Corporate Risk Register;
- The Executive Management team to align the format of the Corporate Risk Register with the risk appetite statements;
- The Executive Management team to distinguish between risks to be controlled and managed in the Corporate Risk Register and issues to be aware of and note;
- The Q2 Finance Report to include the management accounts up to the end of October 2019 together with the half year position and an updated outturn position following the second formal reforecasting exercise of the year (RF2) for review at the next Board meeting;
- The Board to consider the proposed commercial investment strategy and commercial model at the next Board meeting;
- The next iteration of the draft Corporate Plan 2020/23, incorporating the Board's comments, to be circulated to the Board in advance of a further review at the next Board meeting; and
- The Scottish Government to be consulted on the timeline for approval of the Corporate Plan 2020/23.

External Audit Meeting Feedback

The Board noted the report of the Audit & Risk Committee (ARC) Chair and Chief Executive meeting with the External Audit Engagement Leader together with the agreed actions from the meeting to ensure a more informed and transparent working arrangement with the external audit function.

5. Corporate Risk Register

The Board was updated on progress of the Corporate Risk Register review and approved the revised risk descriptions consistent with the risk appetite statements. The Board discussed the updated current corporate risks and recommended that the Executive Management team focus on the staff resource risk to address the consequences of this risk. The Board noted that work was ongoing to distinguish corporate risks, to be mitigated with appropriate controls, from issues being actively managed. A report on progress of the ongoing work to enhance the Corporate Risk Register would be reported to the next Board meeting.

The Board welcomed Rob McGregor's (RM) offer of his expertise to develop Scottish Canals' risk identification processes to improve management of the underlying causes of risks. It was agreed that Rob would work with the Chief Executive on these aspects of risk management and lead on the annual risk identification review at the January Board meeting. It was noted that the ARC would continue to focus on the risk framework.

Actions:

The Corporate Risk Register to be reviewed further at the next Board meeting.

Rob McGregor to work with the Chief Executive to improve the risk identification processes and lead the annual risk identification review to be undertaken at the January Board meeting.

6. Q2 Health and Safety Report

The Board reviewed the Q2 Health and Safety report for the period from 30th June to 30th September 2019. There had been no RIDDOR reportable incidents during Q2. The Board noted that the collation of safety performance statistics from Canal & River Trust and other comparable water related organisations was ongoing and these statistics would be reported to the Board for Q3 onwards to ensure a more like for like benchmark comparison. The Board discussed the serious incident at The Falkirk Wheel involving a vessel struck by the rising gondola gate. Whilst there were no injuries or damage, the Board was assured that this serious failure in process had been fully investigated from both a Health & Safety and HR perspective. The Board requested a report on the actions implemented to address lessons learned following these internal investigations. The Board was assured that the Executive team continued to carefully monitor absences and that several employees had returned to work during Q2. The Board noted slippage in delivery of three actions in the strategic Health & Safety action plan for 2019/20 which were currently amber.

The Health & Safety team were working with the Communications team to produce materials to support the Health & Safety Strategy, including a business wide Safety Charter and staff safety video "Our Safety Matters" to reinforce the safety first culture organisation wide. A safety conference was also planned for Q4.

Action:

The Health & Safety statistics from Canal & River Trust and other water related organisations to be reported in the quarterly Health & Safety reports going forward.

A report on the actions taken to address lessons learned following investigations into a serious incident at The Falkirk Wheel involving a vessel struck by the rising gondola gate to be reported to the Board at the next meeting.

7. Q2 Business Report

The Board considered the Q2 Business Report and acknowledged the ongoing financial and staff management challenges which were being effectively managed. The Board was updated on key issues. A proposal for Scottish Canals' to manage the canalside holiday cottage portfolio in the short-term, anticipated to be short assured tenancies to ensure occupancy, together with recommendations on longer term options would be reported to the Board meeting in January. The Board noted that it was expected that the tenants of Helenslea House, Bowling would vacate shortly and that discussions were ongoing with the local MSP.

The Board reviewed progress during the quarter on the activities, managed internally by each function, to deliver the Business Plan 2019/20 and helpfully set out in a narrative and numeric Key Performance Indicators (KPIs) format to align performance with the Business Plan objectives. The Board considered the red KPIs with regard to Commercial Operator income, Destination Development, Engineering, Finance and HR and was assured that these issues were being actively managed. In particular, consultations to trial improvements to canal user operations and the boater customer experience going forward were underway.

Action:

A proposal for Scottish Canals' to manage the canalside holiday cottage portfolio in the short-term together with recommendations on longer term options would be reported to the Board meeting in January.

Office of National Statistics (ONS) Update

The Board noted the outcome of the recent review of Scottish Canals' ONS classification whereby Scottish Canals had been classed as a non-market body given that the majority of its funding was Grant in Aid. Following the ONS review the Scottish Government (SG) sponsor team had recommended to the Cabinet Secretary that Scottish Canals operate as a non-departmental public body (NDPB) with a closer financial relationship with SG. Accordingly, Scottish Canals required to change its budgeting approach in line with SG processes with effect from 1st April 2020 and adopt the Government Financial Reporting Manual (FRoM) accounts direction for the financial year ending 31st March 2021. The Board noted that there would be no extension to the timing of these public sector accounts reporting changes. Further, the change to accounting under FRoM was in line with an external audit recommendation. The Finance Director advised that timely SG finance business support was essential to provide the requisite clarification and practical guidance to ensure the appropriate accounting for Scottish Canals' transactions, in particular the management of cash

reserves, was implemented prior to the deadline. It was noted that an offer of mentoring/coaching on this matter had been offered to the FD and team some months prior to this meeting and the sponsor team agreed to facilitate these discussions as a matter of urgency. It was also recommended that the finance team seek clarification and guidance on practical accounting issues from other comparable public sector bodies, such as HIAL and Historic Environment Scotland. The Chief Executive confirmed that she had already made these arrangements and they were diarized for the 2nd week in December.

The Chair advised the Board that the change in ONS classification had not come as a surprise as it had been recognised for some time that Scottish Canals was unlikely to meet the required target of generating 50% of its income from its commercial activities to justify the dispensation that it continued to operate as a public corporation. It was also important to recognise that it should not have a significant impact on staff or the services delivered. There would be no change in Ministerial priorities for Scottish Canals as set out in the SG policy document "Making the Most of Scotland's Canals" nor in the governance and accountability framework. The change to accounting under FReM would result in a change in budgeting and forward planning. Scottish Canals would no longer hold a cash reserve and would not have the same flexibility to carry cash over between financial years. A closer financial relationship with the SG provided clarity that SG was ultimately responsible for and would support the funding needs of SC to continue to deliver the priorities as set out in the SG policy document. The Chair emphasised the need for continued strong leadership and the accurate communication of the key messages to all staff to ensure a seamless transition.

Action:

A progress report on the Finance Team's preparations to implement changes to its budgeting approach in line with SG processes and adopt the Government Financial Reporting Manual (FReM) accounts direction with effect from 1st April 2020 to be reported to the next Board meeting.

An internal communication of the key messages arising from Scottish Canals operating as a non-departmental public body (NDPB) with a closer financial relationship with SG to be circulated to all staff.

8. Q2 Finance Report

The Board considered the second quarter finance report covering the period from 30th June to 30th September 2019, consisting of the management accounts profit and loss account and summary information at a cost centre level, a reconciliation of the latest reforecast outturn to the original budget, an overview of cash management and aged debt, details of capital spend and a balance sheet position. The Board noted the challenging quarter performance due to continuing pressures on income and the consequent implications for the Business Plan objectives. The key variances to budget were discussed, in particular the professional fees and the reduction in income from BEAR. The Finance Director would circulate additional information to the Board with regard to the BEAR variance. The Chief Executive advised the Board that Internal Audit would undertake a review of financial planning as an adjustment to the 2019/20 audit plan and report to the Audit & Risk Committee. The scope of this audit would include an interrogation of the budgeting assumptions process in addition to a review of the monthly reporting process.

(i) Interim Update to 31st October 2019

The Board were provided with the financial position as at end of October.

(ii) Prior Year Management Accounts Comparison

The Board noted the prior year management accounts comparison report which provided the Board with visibility of the decision making of prior year financial recording.

The Board agreed that this detailed financial performance information, with the addition of monthly reporting to the Board, provided the Board with the necessary visibility of revenue trends. The Board noted the robust financial management in place as well as the continuing need for tight controls of overspends against budget to prevent an operating deficit at the year end.

Action:

The Finance Director to circulate additional information to the Board with regard to the BEAR budget variance.

9. Q2 Asset Management Report

The Board noted the Q2 asset management report updating the Board on the focused delivery of the asset improvements programme in accordance with the available resource in line with the published Asset Management Strategy. The Board was assured that, in response to the Canal & River Trust (CRT) incident at Toddbrook, Scottish Canals was reviewing its management of reservoirs and emergency planning in response to information sharing by CRT in relation to the Toddbrook incident. The Board noted that the Business Continuity Action Plan was due to be reported to the ARC at its meeting on 5th December 2019. The staff resourcing issue in relation to asset management inspections was discussed and the Board was assured that Scottish Canals was continuing to explore collaborative working opportunities with SG and other public bodies.

(i) Scottish Canals Dredging

On the recommendation of the Audit & Risk Committee, the Director of Infrastructure highlighted the challenges and related risks in relation to insufficient funding to dredge all areas of Scotland's canals. Due to the natural process of siltation, the continually reducing depth of the channel had led to restricting access for larger vessels on safety grounds. In addition, a number of boat owners had experienced delays and occasional damage to their vessels. Due to insufficient revenue funding Scottish Canals had undertaken maintenance dredging over the last 10 years, limited to removing high spots from across the system. This work had removed 7,000 tons compared to the estimated siltation of 20,000 tons. The lack of available investment had resulted in a significant dredging backlog of c£8m-£10m. In addition, a spend of c£500,000+ per annum was needed to prevent the scale of the challenge from continuing to grow. At present Scottish Canals treated all dredging spend as a revenue investment. A solution could be for Scottish Canals to invest in capital dredging that deepened the canal channel, creating a new channel depth, lengthening the life span of the asset and increasing the revenue return potential. The Board acknowledged that maintaining the navigation channels was important aspect of its core responsibilities requiring the need for additional support for dredging.

The Board requested a report from the FD for the next Board meeting detailing the available liquid cash reserves together with recommendations as to the deliverable priorities for in year spend. The Board requested that additional support for dredging recommendation include detail on the impact on boat movements and the possible accounting approaches adopted by other comparable public bodies including Marine Scotland and Calmac. It was noted that an External Audit opinion on the capitalisation of dredging and the proposed accounting treatment would be required prior to further discussions with SG.

Action:

A Cash Reserves Priorities report to be submitted for consideration at the next Board meeting.

10. Q2 Estates, Commercial and Operations Report

The Board noted the Q2 Estates, Commercial and Operations Report. The Board discussed the implications of Scottish Canals operating as a non-departmental public body (NDPB) with a closer financial relationship with SG on the longer term funding commitments. A detailed discussion was undertaken regarding the need to understand how the finances currently held in Scottish Canals accounts would be mapped to SG budgeting. The Board asked if possible a recommendation on the Dundashill strategy would be reported to the next Board meeting, recognising the need for the informed position as above to have crystallised first

The Board noted the cost control issues in the early stages of operating the Caledonian Canal Centre together with the Egg Shed and Steamer Terminal at Ardrishaig. The Board further noted that these were good examples of public interest investment in rural communities in line with SG outputs.

Action:

A recommendation on the Dundashill strategy would be reported to the next Board meeting.

11. Q2 Communication and Engagement Report

The Board noted the communications, marketing and stakeholder engagement activity undertaken in the last quarter together with forthcoming events in line with the Communications and Marketing Strategy 2017-20. An independent survey of MSPs showed an increase in the positive reputation of Scottish Canals during 2019 with almost half of those questioned viewing the organisation favourably.

The Q3 Communication and Engagement Report would include details of the staff survey feedback together with details of the internal communications and engagement undertaken during a period of change and implementation of job evaluation.

Action:

The Q3 Communication and Engagement Report to include staff survey feedback and details of the internal communications and engagement undertaken.

12. Investment Management Strategy

The Board discussed the high-level investment management recommendations proposed following further collaborative work undertaken by the advisory group, consisting of the Chief Executive, Director of Estates and Commerce and two Board Members, since the previous Board meeting in the context of the earlier ONS update. The Board recommended that the advisory group continue to review the investment approach and criteria structured in accordance with the SG policy, the FReM accounting direction. An update on the investment management strategy would be reported to the January Board meeting.

Action:

An update on the investment management strategy to be reported to the January Board meeting.

13. Corporate Plan 2020/23 Update report

The Chief Executive updated the Board on progress regarding the drafting of Corporate Plan 2020/23. The Board welcomed the collaborative approach and staff engagement in the drafting process. The Board noted that the ongoing discussions with SG following the ONS status confirmation would be taken into account to ensure the content and delivery of the plan remained appropriate. It was recommended that the aspirations of the policy document "Making the Most of Scotland's Canals" be incorporated as well as recognition of Scottish Canals' collaboration with the third sector and support for community empowerment. The Board was requested to provide written feedback to the Chief Executive to enable circulation of the revised plan to the Heads of Service and stakeholder groups prior to further consideration of an updated draft at the December Board meeting. The Board stressed the need for continued motivational leadership together with accurate internal communications of key messages as noted in the ONS update under item 7 above.

Actions:

The Board to provide written feedback to the Chief Executive on the draft Corporate Plan 2020/23.

The revised Corporate Plan to be circulated to the Heads of Service and stakeholder groups.

The updated draft Corporate Plan to be considered at the December Board meeting.

14. Any Other Business

Monkland Canal Observations

The Chair and Carolyn Sawers had visited the Monkland Canal and valued the opportunity of "walking the walk", meeting the local ranger and observing the variety of users. The Board noted that, as a non-navigable waterspace, the Monkland canal, as a Green/Blue asset with local interpretation, was easily accessible for the community and offered mutually beneficial opportunities for third party investment.

Industrial Action

The Board was advised that the Trade Unions had opted to ballot members on whether to take action on the basis that Scottish Canals had not gone far enough to implement the Scottish Government pay policy. The Board and Scottish Government would be advised of any proposed industrial action.

Action:

The Board and Scottish Government to be advised of any proposed industrial action.

Date of Next Meeting

The next meeting would be held on 19th December 2019 at MacDonald Holyrood Hotel, Edinburgh.

Signed Andrew Thin Date