

## Governance

As a prerequisite to the granting of a permanent licence to Business Stream, the Water Industry Commission for Scotland (the Commission) has required governance arrangements that ensure independent decision making for Scottish Water (SW) as wholesaler and Business Stream as retailer. This requirement is unique to Business Stream as the incumbent retailer and aims at ensuring a level playing field in the market that does not afford Business Stream any competitive advantage due to its ownership status.

Business Stream and SW have put in place robust governance arrangements which satisfy the Commission's requirement including:

### **Establishment of the Business Stream Board**

Business Stream operates with its own independent Board comprising a Chair, two Non-Executive Directors, a Managing Director and a Finance Director. The current Board has been in place since April 2007 and has exercised independent decision making since its inception. There are no cross-directorships with SW, except for a common Chair.

### **Scottish Water Business Stream Holdings**

In order to promote the independence of Business Stream, SW has established a holding company to take responsibility for SW's interest in Business Stream. The holding company, Scottish Water Business Stream Holdings Limited (SWBSH), has responsibility for:

- Taking decisions that the SW Board would otherwise take in respect of Business Stream; and
- Providing financial backing for Business Stream as the sole shareholder and sole source of funding, receiving Business Stream dividends and insulating the remainder of SW's business from the financial fortunes of Business Stream.

SWBSH's board comprises the Non-Executive Directors of SW, the SW Chairman and the Managing Director of Business Stream. In recognition of SW's obligations around the use and probity of public funds, the Finance Director of SW is also on the board of SWBSH.

The relationship between Business Stream, SWBSH and SW is controlled by a Governance Code which is enforced by the Commission.

### **Governance Code**

SW and Business Stream have adopted a Governance Code as a statement of the principles governing their relationship. These principles will ensure that:

- Business Stream can take decisions independently of SW;
- SW can protect its statutory obligations as the owner of Business Stream without compromising the independence of Business Stream;
- Transactions between SW and Business Stream are carried out at arm's length and on a normal commercial basis;

- Information flows between the two companies are controlled so that competition between Business Stream and other licensed providers occurs on a level playing field; and
- Business Stream has a robust financial structure that is appropriate for the competitive retail market. The financial relationship between SW and Business Stream is transparent and complies with the Commission's regulatory requirements.

SW and Business Stream are required to comply with the Governance Code under the regulatory provisions enforced by the Commission.

### **Corporate Governance**

Business Stream is committed to operating with the highest standards of corporate governance. Our Corporate Governance Policy sets out the principles and practices that the Board of Directors of Business Stream will follow in carrying out its duties and responsibilities. Our code of Business Conduct and Ethics policy also provides guidance to Directors, officers and employees on the principles of business conduct.

### **Business Stream**

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