



Ofwat response to issues raised in consultation responses to draft board leadership, transparency and governance principles

Issue raised	Raised by	Ofwat response
<p>Principle: There must be significant independent representation on the board – the number of investor representatives should be no greater than the number of independents</p>		
<p>The expectation that the number of independent non-executive directors is the largest single group on the board may not be best practice for single-investor owned companies and could make the board unwieldy.</p>	<p>Northumbrian Water</p>	<p>We have not made a change to the principles. Significant independent representation on the board is fundamental to the principles but we have acknowledged that investors have a legitimate place on the board. It is for individual companies to decide on their size of their boards to ensure that they remain effective and explain their decisions and how these meet the principles.</p>
<p>The balance of directors on the board proposed may not be appropriate for single investor owned companies.</p>	<p>Wessex Water Services</p>	<p>We have not made a change to the principles. There is no reason why single owner companies should have a different balance of directors on the board compared to companies which have different ownership models.</p>
<p>Half or more of the board should be independent non-executive directors.</p>	<p>Portsmouth Water</p>	<p>We have not made a change to the principles. Companies can choose to have a majority of independent non-executive directors on their boards.</p>

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<p>Directors representing investors but not employed by them should be considered independent.</p>	<p>Thames Water Utilities</p>	<p>We have not made a change to the principles. We expect independent non-executive directors to be genuinely independent, as defined in the UK Corporate Governance Code.</p>
<p>Principle: Transparency – reporting must meet or exceed the standards set out in the Disclosure and Transparency Rules</p>		
<p>It is not clear which disclosure and transparency rules specifically should apply; the balance of the rules appear inappropriate for private companies.</p>	<p>Southern Water Services</p>	<p>The wording in the rationale and expectations column for the principle has been clarified. The wording now explains that we consider that the disclosure and transparency rules set out the standard of disclosure that regulated companies should operate – wherever applicable. It also includes a specific example of where we expect companies to comply with the rules.</p>
<p>Principle: The regulated company must act as if it is a separate public listed company</p>		
<p>Given that regulated companies are ultimately controlled by shareholders, it is not clear by what the phrase ‘full control’ in statement that ‘We expect the Board of the regulated company to have full control of the business’ is trying to achieve.</p>	<p>Southern Water Services</p>	<p>The wording of the rationale and expectations column explains what we mean by this phrase, for example that the board of the regulated company has the powers necessary to make strategic and sustainable decisions in the interests of the company for the long term.</p> <p>We are clear in the principles that investors have a role to play in the running of regulated company, for example through the inclusion of investor representatives on the board of the regulated company. We recognise that there</p>

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		may be decisions where, as an exception, the holding company board is involved.
<p>Principle: Board committees, including but not limited to audit and remuneration committees will operate at the regulated company level – independent non-executive directors should be the majority group on the Committees</p>		
<p>Investor representative directors should constitute equal numbers on the nomination committee to allow investors to retain their rights in respect of non-executive director appointments. This will allow the ultimate controller to meet the undertaking that the regulated company board contains at least three independent non-executive directors with the appropriate balance of skills, experience and knowledge.</p>	<p>Southern Water Services</p>	<p>The wording in the rationale and expectations column for the principle has been clarified. It now explains that we expect independent non-executive directors to be the majority on the audit and remuneration committees but does not explicitly refer to other committees, for example the nomination committee. We do however expect that where committees do not have a majority of independent members or are not chaired by an independent non-executive director, companies should explain their approach.</p>