



OFWAT BOARD

Meeting held on Monday 24 July 2006

Members

Chairman & Acting Chief Executive:

Philip Fletcher

Non-Executive Directors:

Penny Boys
Peter Bucks
Lord Whitty
Jane May

Executive Directors:

Keith Mason
Melinda Acutt

In attendance:

Roger Dunshea (Director of Operations)
Fiona Pethick (Head of Corporate Affairs and Secretary to the Board)
Sue Cox (Acting Head of Consumer Affairs)
Louise Craig (Minute Secretary)
George Day (Head of Capital Maintenance) item 3
Dylan Spedding (Analyst – Parliamentary & Public Affairs) item 4
Kieran Duffy (Head of Transfer Pricing) item 6
Pauline Amor (Acting Head of Disputes & Complaints Team) item 7

Apologies:

Huw Brooker (Head of Legal Services)

1. Minutes and actions arising.

The Board approved the minutes of the previous meetings held on 15 and 29 June 2006. The minutes will be published on the Ofwat website.

Lord Whitty announced his intention to resign from the Board on 31 July following his expected appointment to the Board of the Environment Agency. The Board congratulated him on his appointment and thanked him for his work at Ofwat. It invited him to attend the dinner on the evening of the Board away day (2 August) in order to share his views on issues relevant to Ofwat's future.

2. Industry update.

The Executive provided an update on the latest developments in the water industry and at Ofwat. The following issues were discussed:

- The reputation of the water industry following negative publicity on drought and leakage.

- The effects of the drought on water resources and weather forecasts for the winter recharge period.
- Levels of leakage and how we will conduct the review of the methodology for setting the economic level of leakage. It was agreed that we would consult fully and widely on any changes.
- The ongoing litigation between Thames Water and residents living near Mogden sewage treatment works. The Board decided that we would inform local MPs of our next steps.
- Issues around funding of the Thames Tideway and the options that Thames are currently evaluating. Thames Water Customers should not pay for improvements solely required for the Olympics. A paper on the issue will be discussed at the October Board meeting.
- What role the Guaranteed Standards Scheme has in incentivising companies' performance.
- Next steps following the financing networks consultation.

3. Sustainable Development Policy.

Ofwat has a duty to contribute to the achievement of sustainable development. The Board discussed a paper summarising the key issues arising from responses to our consultation on the new duty. The Board agreed that its definition of 'value' needed to include environmental issues and consumer issues. We should do more to encourage longer term planning by the various stakeholders in the sector. The Board agreed to consider long term planning proposals from companies as part of the next price review and to look at how this might be incentivised.

The proposal to develop a 'toolkit' to determine whether our consideration of an initiative is consistent with our sustainable development duty and to link such a toolkit with the consumer objective and regulatory impact assessment work was approved. We also agreed to produce a sustainable development action plan by March 2007. The Board discussed whether we would need to collect more data for the next periodic review in order to be able to make decisions on whether companies' proposals are sustainable. The Board noted that Water UK already collects a suite of sustainable development data from companies. It concluded that Ofwat should not at this stage ask for more data on sustainability issues.

4. House of Lords inquiry response.

The Board considered issues on Ofwat's draft response to the House of Lords sub-committee's report on water management. The Board sought more clarity in the response which should explain what we do now and what we will do differently in future. The response also needed to clarify accountability. This would remove some uncertainty from long term planning issues. The response should acknowledge concerns about the level of research and development carried out in the water industry. Ofwat would consider this issue further.

The Board will approve the final version of our response to the inquiry by correspondence.

5. Key messages from June return analysis.

The key issues from the June returns for 2005-06 were discussed. Follow up actions are being pursued. The Board noted that interim determination applications seemed unlikely this year. The Board was disappointed that company investment in 2005/06 expended in capital maintenance was generally less than expected notwithstanding the intentions behind the early start programme. The Board agreed to discuss the issues further.

6. Licence modifications.

The Board discussed a paper setting out the modifications considered but not implemented during the 2004 price review. These were:

- restoring the change in the notified index (RCC(4));
- changing the standard IDoK materiality calculation; and
- returning the substantial effect clause materiality calculation to its original form.

The paper was for information and background in advance of a further paper at the meeting on 11 September 2006.

7. Complaint handling.

The Board received a paper on how Ofwat handles complaints and the setting of challenging but achievable targets for responding to them. The paper compared Ofwat's performance standards and targets with those of other organisations. The Board agreed that the targets proposed in the paper would be adopted for 2006-07 but that they would be reviewed in the Forward Programme for 2007-08 in light of customer feedback. We will also monitor performance on uninvestigated cases taking longer than 10 days.

8. Board away day in August.

The format of the day and potential issues for discussion was presented in the meeting. The Board agreed to consider the issues in the report and respond to the Chairman.

9. Budget.

The Board received and accepted an update on the financial performance for the first quarter of the financial year.

10. Audit committee.

Peter Bucks reported back from the Audit Committee, which met on 10 July. The committee had approved the resource accounts for 2005-06; agreed the internal audit programme for 2006-07 and discussed risk management.

The Board agreed to review the full risk register once a year and receive a summary of perceived key risks in the industry update each month.

11. Remuneration Committee

Jane May reported back from the Remuneration Committee which had met on 24 July. The committee had agreed the approach to pay awards including performance related pay for the 2005-06 year for all staff except SCS. The proposals would be put to Treasury.

Louise Craig.