



Ofwat Board

Meeting held on Thursday 15 May 2014

Members in attendance

Chairman:

Jonson Cox

Chief Executive

Cathryn Ross

Non-Executive Directors:

Chris Burchell

Martin Lawrence

Christine Farnish

Robin Paynter Bryant

Catherine Waddams

Wendy Barnes

Executive Directors:

Cathryn Ross

Keith Mason

Sonia Brown

Richard Khaldi

In attendance:

Elizabeth Hillman

(General Counsel)

In attendance:

Dan Mason

(Assistant Board Secretary)

Ronan Palmer

(Environment Director) – item 3

Nicci Russell

(Director of Parliamentary and Public Affairs) – item 4

Mathew Stalker

(Principal Economist) – item 5

David Lancefield

(PwC) – items 6 to 8

Stuart Cook

(PwC) – items 6 to 8

Colin Sawyer

(Programme Director) – items 6 to 8 (by telephone)

Shane Anderson

(Associate Director) – items 6 to 8

David Black

(Director of Economics) – items 6 to 8

Bill Easton

(PA Consulting) – items 6 to 8

Claire Forbes

(Senior Director of Corporate Communications)

Bev Messinger

(Senior Director, Operations) – items 11 to 14

Rob Powell

(Delivery Director) – items 11 to 14

Rachel Wright

(Senior Analyst) – observer

1. Declarations of interest

1.1 None.

2. Minutes

2.1 With one minor amendment, the Board agreed the minutes of the meeting held on 10 April 2014. The minutes would be published onto the Ofwat website.

3. Ofwat Strategy

3.1 The Executive presented Board with an update on the development of Ofwat's strategy following discussions at the April Board meeting, and further discussions with stakeholders. In particular, the Executive highlighted to Board the overarching narrative that had emerged following these discussions.

3.2 The Board had a discussion on the emerging narrative, and highlighted the importance of legitimacy of the sector in the eyes of the public and wider stakeholder environment, as well as the importance of driving the right behavior in the sector with the aim of effective relationships between customers and service providers.

3.3 The Board also noted the importance of ensuring the language used in communications around the strategy resonated with a wide range of audience. The Board noted that it was keen in due course to understand the metrics that the Executive proposed to use to monitor progress against the strategy.

3.4 The Executive set out a proposed approach to the forthcoming stakeholder event on 4 June. The Board commented on the proposed approach and agreed that some non-executive Board members would also attend the event.

4. The UK Government's Water Bill

4.1 The Executive updated Board on the progress of the Water Bill and set out the next steps towards implementation of the Bill following Royal Assent.

4.2 The Board noted the update. In particular, Board discussed the need to identify and manage risks on an ongoing basis.

5. Level Playing Field

- 5.1 The Executive updated Board on the level playing field project. In particular, the Executive set out the importance of Ofwat's strategic positioning for this project in the context of other issues around the introduction of further competition in the sector, recognising that there are competitive regimes already in play across the sector.
- 5.2 The Executive also set out the key decisions that Ofwat would need to take ahead of a further discussion at the June Board meeting.
- 5.3 The Board noted the update, and noted the importance of Ofwat's role in improving awareness among stakeholders of level playing field issues. Board also noted the need to ensure that all market participants are involved in conversations around establishing a level playing field.

6. PR14 – recommendations ahead of publication of June draft determinations

- 6.1 The Executive provided Board with an assessment of Northumbrian Water's and Dŵr Cymru's resubmitted business plans. In particular, the Executive highlighted the amendments made by each company to their original business plans that were submitted in December 2013.
- 6.2 The Executive also highlighted that the assessment of these plans is ongoing, and that both companies had areas of their plans that remained to be resolved. Given that the intention is to issue draft determinations as soon as is practicable, the Executive highlighted to Board the key areas where there remained a risk that Ofwat would need to intervene via the draft determinations to protect the interests of customers.
- 6.3 The Board discussed both of the resubmitted plans, and in particular focussed on the areas of the plans that each company had issues to address.
- 6.4 Consistent with the approach taken for the companies who prequalified as enhanced, the Board agreed to delegate authority to the Chief Executive and Chief Regulation Officer to determine the quantum of any interventions on each company's plan and to finalise the draft determinations for both companies based on the discussion that had taken place.

6.5 It was agreed that this delegated authority would remain in place apart from in the event that any Board member wished to discuss a particular issue, or that any material issues were to arise from the ongoing assessment of either company's business plan. If this were to happen, it was agreed that the relevant issues would return to Board for further discussion, with a short-notice Board meeting to be convened if necessary.

6.6 The Board also requested that a summary of the draft determinations be circulated to Board members covering each company's revenue requirements, 'K' factors and average bills over the period.

7. PR14 – Consultation on charging rule guidance

7.1 The Executive set out to Board the high level messages it intended to include in the forthcoming consultation on wholesale retail charges for the 2015/16 year.

7.2 The Board discussed and agreed to the high level messages, and noted that there will be substantive discussions to be had on more general principles of charging in due course.

8. Programme update

8.1 David Lancefield provided an update on the progress of the Programme and update Board on the ongoing work around various issues including stakeholder engagement and Programme resilience.

9. Memorandum of Understanding between Ofwat and the Competition and Markets Authority

9.1 The Executive presented to Board a draft Memorandum of Understanding (MoU) between Ofwat and the Competition and Markets Authority (CMA).

9.2 The Board discussed the draft MoU, and noted the importance Ofwat attaches to the use of its concurrent powers in in helping to shape the competition landscape.

9.3 The Board agreed to delegate authority to the Chief Executive to agree the final wording of the MoU with the CMA and sign-off the MoU, subject to there being only non-material changes to the draft presented to Board.

10. Memorandum of Understanding between Ofwat and the UK Regulation Network

- 10.1 The Executive presented to Board a draft MoU between regulators and the UK Regulation Network (UKRN).
- 10.2 The Board discussed the draft MoU, noting that there have also been discussions around a Government consultation aimed at placing a statutory duty on regulators to co-operate with each other.
- 10.3 The Board noted the contents of the draft MoU, and agreed to delegate authority to the Chief Executive to agree the final drafting and sign-off of the MoU.

11. Business Transformation Programme

- 11.1 The Executive updated the Board on progress of the Business Transformation Programme.
- 11.2 The Board noted the update.

12. Quarter 4 performance summary and risk report

- 12.1 The Executive updated Board on the organisation's quarterly performance and current position on strategic risks at the end of quarter 4.
- 12.2 The Board noted the update and discussed the need for the Executive to consider the risks to the delivery of the revised Strategy. The Executive agreed to present those risks to Board so as to understand the corporate risk.

13. Delivery Partner incentive payment

- 13.1 The Executive made a recommendation to the Board on the level of the first incentive payment for the PR14 Delivery Partner.
- 13.2 The board discussed and agreed with the recommendation, highlighting the need to have a full justification for the proposed level.

14. Update from Audit and Risk Assurance Committee

- 14.1 As Chair of the Audit and Risk Assurance Committee, Wendy Barnes provided Board with an update on key points discussed by the Audit and Risk Assurance Committee at its 25 March meeting, and also provided an update from the extraordinary meeting held on 14 May to discuss the draft end of year accounts.
- 14.2 In particular, with regards to the draft end of year accounts, Wendy Barnes highlighted two two issues identified by the NAO as part of their audit.
- 14.3 The first relates to the Chairman's accommodation allowance. Board agreed that the Chairman had been poorly served by the organisation's failure to gain the relevant approval, and recorded an apology to Mr. Cox on the organisation's behalf. The Board also recorded its thanks to Mr. Cox for resolving the issue.
- 14.4 The second business case relates to ex gratia payments made to three staff leaving Ofwat which were beyond Ofwat's delegations. It was noted that HMT approval had been obtained retrospectively for two out of the three payments, but that one had not been approved. Steps had been taken to ensure that such payments are not made without approval in future.

15. Annual report and accounts

- 15.1 The Executive presented Board with a draft of the annual report and accounts for the 2013-14 year. The Executive also provided Board with draft letters to the Secretary of State and Welsh Minister setting out how Ofwat's work aligned with the key priority areas of the UK Government's strategic policy statement for Ofwat and the Welsh Government's social and environmental guidance to Ofwat.
- 15.2 The Board provided general comments on the annual report and account.
- 15.3 The Board agreed that the Audit and Risk Assurance Committee would consider this again and would be circulated to Board members for final comments. The Board also agreed to delegate authority to sign-off the letters to the Secretary of State and Welsh Minister to the Chairman and Chief Executive.

16. Chief Executive's Report

16.1 The Board received an update on key issues. These included:

- Companies' codes on corporate governance; and
- A potential market investigation reference to the CMA from Ofgem

16.2 Further to discussions at a previous Board meeting, the Executive provided Board with an update on the engagement with Thames Water to agree customer redress for breach of its licence in relation to the reporting of sewer flooding information. The Board agreed to delegate responsibility to the Chief Executive to finalise agreement with Thames Water.

17. Any Other Business

17.1 The Board welcomed Elizabeth Hillman as Ofwat's General Counsel. The Board also welcomed Rachel Wright as the new Board Secretary, and the Board expressed its thanks to Dan Mason for his continued Board secretariat services.

Dan Mason
20 May 2014