



**Ofwat Board
Meeting held on 24 September 2015**

Members in attendance

Chairman:

Jonson Cox

Non-Executive Directors:

Chris Burchell

Martin Lawrence

Christine Farnish

Catherine Waddams

Robin Paynter Bryant

Chief Executive

Cathryn Ross

Executive Directors:

Keith Mason

Richard Khaldi

General Counsel

Elizabeth Hillman

In attendance:

Rachel Wright (Board Secretary)

Claire Forbes (Senior Director, Corporate Communications)

Bev Messinger (Senior Director, Operations)

Sam Williams (Director)

Giles Stevens (Director)

Rob Thorp (Principal)

Jamie Tunnicliffe (Director)

Martyn Andrews (Director)

Elinor Matthieson (Principal)

Apologies:

Sonia Brown

1. Declarations of interest

- 1.1. Wendy Barnes declared she was finishing her role with ISS, MOD, at the end of September 2015 and has taken up two new roles, NED at OCS Group and Trustee at Plymouth Marine Laboratories

2. Opening items including minutes

- 2.1. Minutes agreed subject to minor changes and will be published on the website.

3. Chief Executive's Introduction

- 3.1. The Chief Executive gave her introduction to the Board meeting highlighting the internal and external risks and opportunities to delivering the strategy, specifically:
 - NAO report into economic regulation in the water sector;
 - The importance of independent regulation;
 - The journey to PR19, including the key policy questions around licence modifications; Regulatory Capital Value; and, company monitoring.
- 3.2. The Board discussed the recent conversation between key stakeholders and Government on water resources, flooding and system operation.
- 3.3. The Board discussed the upcoming publication of an NAO report into economic regulation in the water sector, and had particular concerns around some of the figures included in the report.

4. Budget bi-monthly update

- 4.1. The Executive presented the bi-monthly update.
- 4.2. In future the Executive will provide an update at the start of each Board meeting, and a detailed portfolio analysis of the budget, programme status and risks and opportunities matrix each quarter.
- 4.3. The Executive highlighted the current underspend and proposed contingency projects.
- 4.4. The Board noted the importance of ensuring we continue to get value for money as we utilise the underspend and contingency.

5. Financial monitoring and assurance framework

- 5.1. The Executive presented the financial monitoring framework, noting the background and purpose of the framework.
- 5.2. The Executive outlined the responses received to the July consultation which set out our proposals for a regular financial monitoring report.
- 5.3. The pilot financial monitoring report has been prepared and is ready to be published. The pilot report is based on 2014/15 regulatory accounts information. The first report will be published in 2016, based primarily on 2015/16.
- 5.4. The Board discussed the concerns raised in the consultation responses about publication of any financially sensitive information in relation to stress testing
- 5.5. The Board agreed that companies should undertake stress testing and provide assurances to Ofwat.
- 5.6. They discussed the use of other tools, such as scenario testing and the use of independent auditors to verify the financial resilience of companies.

6. Water 2020

- 6.1. The Executive presented the proposed scope, in line with the key aims and purpose, of the December consultation document.
- 6.2. The Executive illustrated how the December document fits into a wider plan for Water 2020 and discussed the timescales towards PR19.
- 6.3. The Board discussed the key questions the consultation document seeks to address which build on the consultation responses received to the July publication 'Towards Water 2020'.
- 6.4. The Board endorsed the proposals for the outline content of the December consultation document.
- 6.5. The Executive presented a proposed framework and approach in relation to promoting markets within the future regulatory design for Water 2020.

- 6.6. The Board discussed where in the value chain there was scope for markets to reveal more information and create value.
- 6.7. The Board supported the approach to markets presented by the Executive for the consultation document, which included promoting markets in the sludge treatment and disposal activities and in water resource activities.
- 6.8. The Executive presented the key design considerations associated with the approach to access prices which any upstream entrants would need to pay the incumbent company to participate in the market. The Executive also discussed the proposals for our approach to the RCV, including RCV recovery, allocation and approach to asset stranding. This will be discussed in detail at the October Board.
- 6.9. The Board noted the proposals.

7. Retail Market Opening

- 7.1. The Executive provided an update on progress to deliver the retail market for non-household customers in April 2017.
- 7.2. The Executive highlighted the milestones and critical path to the market opening date on 1 April 2017 and confirmed that the programme was on track.
- 7.3. The Board discussed the freezing of market codes on 30 September 2015 but recognised that there was on-going work across the programme that could have implications for the codes and hence it was not possible to confirm a full freeze on codes.
- 7.4. The Executive introduced the market licensing framework and the protection for customers through the Guaranteed Standards Scheme (GSS) work streams within the Retail Market Opening programme.
- 7.5. The consultation on GSS will close on 2 October and the proposals will be presented to Board for decision in its October Board meeting.
- 7.6. The proposals for the consultation process and notices on Water Supply and Sewerage Licence (WSSL) changes will be presented to Board at its October meeting for a decision.

- 7.7. The Executive updated the Board on the assurance letters Ofwat is required to send to the Secretary of State as part of the agreed Assurance Framework for the Retail Market Opening programme.
- 7.8. The Board discussed the principles of the letters and the framework of assurances that it requires in order to sign the letters when required as the programme progresses.
- 7.9. The Executive agreed to send the form of the assurance letters to Board offline to consider. If the Board agrees then, subject to any non-material changes, Ofwat will in due course send letters in this form to the Secretary of State as part of the assurance framework.

8. Accommodation proposals

- 8.1. The Executive invited the Board to comment on its proposal for the London accommodation at Bloomsbury Street, in advance of entering into a new lease.
- 8.2. The Board were supportive of the proposal.
- 8.3. The Executive will return to the Board in due course for approval of a new lease.

9. Developing our digital and social media

- 9.1. The Executive presented its new digital and social media strategy, including Ofwat's new website and visual identity, highlighting the minimal, in-house approach to its development to minimise the cost.
- 9.2. The Board noted the developments which will be launched in October.

10. Thames Tideway Tunnel update

- 10.1. Jonson Cox, as Chairman, updated the Board on the correspondence between Sir Ian Byatt, Cathryn Ross and himself on the Thames Tideway Tunnel.
- 10.2. Members of the Thames Tideway Tunnel Committee confirmed that Sir Ian's Byatt's original letter in response to the project licence award consultation (open from 17 July to 14 August 2015) was discussed at the

Committee's meeting on 21 August 2015 when it considered awarding the licence to the preferred bidder Bazelgette Tunnel Limited.

- 10.3. The Board considered the concerns raised in Sir Ian Byatt's correspondence.
- 10.4. Jonson Cox confirmed that he would respond in writing to Sir Ian Byatt's concerns.

11. Audit and Risk Assurance Committee update

- 11.1. Wendy Barnes as Chair of the Audit and Risk Assurance Committee gave an update from its most recent meeting on 15 September, noting the good progress being made by the Executive against the internal audit recommendations.

12. Casework Committee

- 12.1. Catherine Waddams as Chair of the Casework Committee gave an update from its most recent meeting on 23 September, confirming that a legacy case involving Iggesund had been determined.

13. AOB

- 13.1. There were no items of AOB.

Following the meeting the Board held a workshop of Ofwat's risk strategy and appetite.

Rachel Wright

24 September 2015