

Water today, water tomorrow

# Rules of procedure for the Water Services Regulation Authority (Ofwat)



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**OFWAT**

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# Rules of procedure for the Water Services Regulation Authority (Ofwat)

## Introduction

1. The Water Services Regulation Authority (Ofwat) came into being on 1 April 2006 under provisions of the Water Act 2003. The Board has approved these rules of procedure and the relevant accompanying annexes in accordance with Schedule 1A of the Water Industry Act 1991.

## Interpretation

2. These rules shall be read and interpreted together with the provisions of the Water Industry Act 1991 and any other relevant legislation as amended or re-enacted from time to time. If there is any conflict between these rules and any relevant statutory provision, the statutory provision shall prevail.

## Definitions

3. In these rules, the following words shall have the meanings that are given to them below:

<b>Board Member</b>	Means an individual appointed from time to time by the Secretary of State to hold office as a member of Ofwat.
<b>Board Secretariat</b>	Means one or more Ofwat employees nominated from time to time to provide administrative support and assistance to the Board and its Members.
<b>Board Secretary</b>	Means the person from time to time appointed to the role of Board Secretary of Ofwat.
<b>Chairman</b>	Means the person from time to time appointed to the role of Chairman of Ofwat by the Secretary of State. In the case of all or part of a Board meeting at which the Chairman is absent or has declared himself to have a relevant conflict of interest in relation to any matter, any reference to the Chairman shall be taken to be a reference to the Replacement Chairman.
<b>Committee</b>	Means an Ofwat committee established by the Board in accordance with these rules.
<b>Committee Member</b>	Means a person appointed from time to time to serve on an Ofwat committee established by the Board in

	accordance with these rules.
<b>Replacement Chairman</b>	Means the Board Member who is appointed in accordance with these rules to chair all or part of a Board meeting at which the Chairman is absent or has declared himself to have a relevant conflict of interest in relation to any matter.
<b>Reserved Matter</b>	Means a matter which is reserved to the Board for decision by the Board (as listed in Annex C) and has not been delegated by Board, except in any case in which either paragraph 45 or 46 applies.
<b>WIA91</b>	Means the Water Industry Act 1991 (as amended or re-enacted from time to time),

4. Unless the context requires otherwise, in these rules:
- the masculine gender includes the female gender, and vice versa;
  - the singular includes the plural, and vice versa; and
  - the use of the word ‘including’ shall be read without limitation.

## **Role and responsibilities of Board Members**

5. The Board has adopted the following principles.
6. The Board will operate on the principles of collective responsibility, support and respect. Normally, decisions will be taken by consensus. Board Members should normally speak with one voice in public on Ofwat issues
7. All decisions will be recorded. Minority views will not normally be made public, but if a vote is necessary, the outcome of this will be recorded in Board minutes.
8. The collective responsibilities of Board Members include:
- the discharge of Ofwat’s duties under the WIA91 and any other relevant legislation;
  - establishing the policy and resource framework for the operation of Ofwat and its overall strategic direction within that framework;
  - ensuring that the highest standards of corporate governance are observed at all times;

- ensuring that Ofwat operates within the limits of its statutory authority and that Ofwat employees operate within the limits of delegated authority; and
- generally overseeing the discharge by the Executive of Ofwat's day to day business.

## **Frequency of Board meetings**

9. Board meetings will normally be held ten times a year. Board meetings will normally be held at Ofwat's offices in Birmingham or at another convenient location.
10. A Board meeting may be convened by the Chairman or Chief Executive or on request from at least two non-executive Board Members.

## **Notice of Board meetings**

11. Board meetings will normally be convened well in advance with a minimum of five clear working days' notice. A Board meeting may exceptionally be called at less than five clear working days' notice. Such shorter notice will be valid only if ratified at the Board meeting called at short notice. Notice of a Board meeting will be given to Board Members in writing (including by fax or email). Failure to receive notice of a Board meeting will not invalidate that Board meeting or any business transacted at that meeting.

## **Agenda and papers**

12. The agenda and papers for Board meetings will normally be circulated five clear working days in advance of the Board meeting. Papers may be distributed by fax or email. Non-receipt of papers does not invalidate a Board meeting or any business transacted at that Board meeting.
13. Having consulted with the Chairman where appropriate, the Board Secretary may decide that no papers or information should be provided to a Board Member regarding a matter where the register of interests indicates that the relevant Board Member has a potential conflict of interest which would make provision of such papers or information inappropriate.
14. Papers may be tabled at the Board meeting with the Chairman's permission.

## Quorum

15. The quorum for Board meetings is four Board Members (including at least two non-executive Board Members, one of whom will normally be the Chairman). Should the need arise, Board Members may attend Board meetings by telephone or video link. Board Members attending by telephone or video link will be considered to be present at the Board meeting.
16. If the Chairman is not present at a Board meeting, he will indicate who will act as the Replacement Chairman. If the Chairman has not given such an indication, or if the Chairman has declared himself to have a conflict of interest in relation to any matter, the other Board Members present will elect a non-executive Board Member to act as Replacement Chairman for the purposes of the Board meeting or (in the case of a conflict of interest) the relevant part of it.
17. A Board Member is not counted towards the quorum for an item in respect of which he has a conflict of interest and is not entitled to take a decision (see below).
18. All attendances and absences by Board members for all or part of a Board meeting will be recorded in the minutes of the meeting.

## Conflicts of interest

19. Each Board Member must at all times comply with the procedures on conflicts of interest, which have been approved by the Board and are set out in Annex A.
20. Each Board Member must disclose any conflict of interest. If a Board Member is in doubt as to whether a particular matter amounts to a conflict of interest, he should disclose it.
21. If a Board Member becomes aware that there may be a conflict of interest during the course of a Board meeting he must disclose the relevant interest that gives rise to the potential conflict immediately.
22. If any Board Member other than the Chairman discloses a potential conflict of interest, he may either:
  - absent himself from any discussion and decision relating to the matter to which his interest relates; or

- ask the Chairman to determine how to proceed.
23. When asked how to proceed by a Board Member who has disclosed a potential conflict of interest in relation to any matter, the Chairman shall in his discretion determine whether the interest disclosed by the Board Member amounts to a conflict of interest.
24. Where the Chairman determines that a Board Member does have a conflict of interest in relation to any matter, he may decide that the Board Member:
- must absent himself or herself from any discussion or decision relating to the matter;
  - may be present during any discussion or decision but may not participate in the discussion or decision; or
  - may be present and participate in the discussion, but may contribute to it only statements of fact.
25. In no case may a Board Member whom the Chairman has determined to have a conflict of interest in relation to a matter either vote on a decision concerning that matter or contribute more than statements of fact to any discussion of the matter.
26. If the Chairman discloses a potential conflict of interest then, subject to any contrary decision of the Board (excluding the Chairman), paragraphs 23 to 25 shall apply as if the Chairman has asked for determination on how to proceed, with the Chief Executive making all decisions that would otherwise be made by the Chairman under those paragraphs.
27. All decisions as to whether a potential conflict of interest should be disclosed, whether it amounts to a conflict of interest, and how a Board Member should proceed in the case of a conflict must be made having regard to the terms, and the spirit and purpose, of the procedures on conflicts of interest at Annex A.
28. In the event that a Board Member receives a written paper in relation to any matter as to which he believes that a conflict of interest may arise, he must disclose his interest in the matter to the Board Secretary at the earliest opportunity and return the paper to the Board Secretariat with an indication of the extent to which it has been read.



29. Any decision made under the above conflict of interest provisions shall be recorded in the minutes of the Board meeting together with any additional information that the Board considers appropriate (including for example, the extent to which the relevant Board Member participated in a discussion or had access to papers).

## **Decision making**

30. Decisions by the Board will normally be made by consensus rather than by formal vote. Failing consensus, decisions will be made by a vote when:
- the Chairman feels that there is a body of opinion among Board Members present at the meeting which disagrees with a proposal or has expressed reservations about it and no clear consensus has emerged; or
  - a Board Member who is present requests that a vote be taken and this is supported by at least one other Board Member; or
  - the Chairman in his discretion considers that a vote is appropriate.
31. When a vote is taken, a decision will be by simple majority. In the case of a tied vote, the Chairman will have a casting vote in addition to his original vote.

## **Procedure for obtaining Board approval between Board meetings**

32. During the normal course of Ofwat's business certain matters may arise between scheduled Board meetings that require urgent Board approval or discussion and cannot be postponed until the next convened Board meeting.
33. Where a Board Member or Ofwat employee considers that it is necessary for the Board to approve or discuss an item before the next convened Board meeting he will inform the Board Secretary.
34. The Board Secretary will inform the Chairman and the Chief Executive of the request and the item at issue. The Chairman and the Chief Executive will consider the request and inform the Board Secretary whether or not they both agree to it.
35. Where the Chairman and the Chief Executive both agree to the request, they will jointly determine whether it is appropriate for the item to be decided or discussed via email or at a Board meeting called at short notice.



36. The Chairman and the Chief Executive may determine that an item can be decided by email without the need for a Board meeting at short notice unless any other Board Member objects.
37. In the case of email approval, in order for a recommendation to be approved:
  - at least four responses must be received from Board Members; and
  - at least two responses must be received from non-executive Board Members; and
  - a majority of all responses received from Board Members must be in favour of the recommendation.
38. If the Chairman and the Chief Executive decide that a Board meeting at short notice is appropriate they will instruct the Board Secretariat to convene a Board meeting at short notice.
39. If the Chairman is unavailable or has declared himself to have a relevant conflict of interest then the views of a substitute non-executive Board Member will be sought on the issues in paragraphs 34 to 36 and 38 above. Similarly, if the Chief Executive is unavailable or has declared herself to have a conflict of interest then the views of a substitute executive Board Member will be sought on the issues in paragraphs 34 to 36 and 38 above.
40. The Board Secretariat will telephone, email or fax all Board Members without exception to outline the purpose and the proposed time of the Board meeting and to ascertain the availability of Board Members to attend in person or by telephone or video link.
41. The Board meeting at short notice will be convened at the earliest convenient time the quorum rules will permit, but Board Members may be present in person or by telephone or video link. Except in exceptional circumstances or in the event that he has a relevant conflict of interest such that he could not be present at such a Board meeting, the Chairman must be present at the Board meeting.
42. The Board Secretariat will provide a formal agenda and papers for discussion as soon as practicable before the Board meeting at short notice.
43. In so far as is practicable, all Board Members (whether attending or not) will be given an opportunity before such a Board meeting to comment on the

items in person or by telephone or email to the Chairman or the Chief Executive.

44. Copies of the minutes of such a Board meeting will be presented for approval in the usual way.
45. If the matter is exceptionally urgent and the Chairman considers that it would not be practicable to call a Board meeting at short notice or to obtain the necessary approvals from Board Members by email, the Chairman (or, in his absence or if he has a relevant conflict of interest, the Chief Executive) may take the required decision. He will notify all Board Members at the earliest possible opportunity and report the decision at the next Board meeting.
46. With regards to any financial transaction, in an emergency situation where a financial transaction is urgently required to safeguard any of Ofwat's operations or to protect its assets, the Chairman (or, if the Chairman is unavailable or has a relevant conflict of interest, the Chief Executive) may approve such transaction on behalf of the Board. He will notify all Board Members at the earliest possible opportunity and report the decision at the next Board meeting.

## Minutes

47. The Chairman will be asked to agree the minutes before they are presented to the Board for approval at the following Board meeting. Once approved by the Board, the minutes will be published on Ofwat's website. Confidential material will be excised.

## Reserved matters

48. The matters set out in Annex C are reserved to the Board for decision by the Board, except in a case in which either of paragraphs 45, 46 and/or 50 apply. This does not preclude the Chairman or Board itself deciding that other matters should come to Board for discussion or decision.
49. Where it is a question of judgment as to whether a matter is a Reserved Matter, or where there is doubt over whether a non-reserved matter should be referred to the Board, any Ofwat employee or Committee Member becoming aware of the matter should inform the Chief Executive. The Chief Executive in consultation with the Chairman (or, in his absence or if he has a relevant conflict of interest, another non-executive Board Member) will exercise her judgment as to whether the matter is a Reserved Matter and/or whether the matter should in any event be referred to the Board.

## Delegations

50. The Board may delegate the discharge of a function (including, for the avoidance of doubt, what would otherwise be a Reserved Matter), but the exercise of a delegated power should be in accordance with policies agreed by the Board.
51. The Board may vary, revoke or add to any existing delegations.
52. Any delegation made by the Board may be limited or made subject to any condition - for example, the Board may delegate a function only for a limited period of time or in relation to a particular matter. Any delegation made by the Board may permit a function to be sub-delegated, subject to any limit or condition that the Board may impose. The nature and scope of new and amended delegations from the Board will be recorded in the minutes.
53. The Board delegates to each Committee the discharge of those functions which fall within the terms of reference of that Committee, other than any matter which has not been delegated.
54. Unless the Board imposes a condition to the contrary, a Committee may delegate the discharge of a function delegated to it by the Board subject to any conditions imposed by that Committee. The Committee will keep a list of such sub-delegations.
55. The Board delegates to the Chief Executive, in consultation with the Chairman as appropriate, the discharge of all functions of Ofwat other than:
  - without prejudice to paragraph 50 any Reserved Matter; and
  - any matter delegated to a Committee.
56. The Chief Executive, in consultation with the Chairman, may delegate to one or more Ofwat employees the discharge of some of the functions delegated to her by the Board. The Chief Executive will keep a list of such sub-delegations.
57. The Board authorises the Chief Executive to sign contracts or other documents on behalf of Ofwat and to delegate this authority to one or more Ofwat employees, subject to the rules on Reserved Matters.
58. The Board may itself discharge a function even though it has delegated the discharge of that function.

59. The Board may also instruct Ofwat employees, or any Committee, as to how to exercise a delegated authority.
60. Unless otherwise determined by the Board, the Chief Executive shall be responsible for implementing, executing and delivering (as the case may be) the actions needed to give effect to each decision made by the Board.
61. For the avoidance of doubt the Chief Executive is the qualified person for the purposes of section 36 of the Freedom of Information Act 2000.

## **Committees**

62. The Board may establish standing Committees and ad hoc Committees.
63. The Board will appoint members to any Committee it establishes. Members can be Board Members, Ofwat employees or external persons. A Committee will include at least one non-executive Board Member.
64. The Board may at any time amend the terms of reference, membership, chairman, quorum, frequency of meetings, reporting arrangements and administrative support or any other arrangements of any Committee.
65. The Board may take advice or consider recommendations from any Committee in accordance with the Committee's terms of reference.
66. There will be a Committee known as the Audit Committee to consider matters relating to risk management and internal financial control of Ofwat. The terms of reference of the Audit Committee are set out in Annex D.
67. There will be a Committee known as the Remuneration Committee to review and approve the pay awards and consider other matters relating to the pay and conditions of Ofwat employees. The terms of reference of the Remuneration Committee are set out in Annex E.
68. <sup>1</sup>

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<sup>1</sup> Previously, paragraph 68 and Annex F of the rules of procedure referred to a New Company Appointments Committee. However, Board closed down that Committee at its meeting on 20 September 2012.

69. There will be a Committee known as the PR14 Programme Board Committee to provide challenge, support and advice to the Senior Reporting Officer. The Committee will also monitor whether key elements of the PR14 delivery programme are being efficiently delivered. The terms of reference of the PR14 Programme Board Committee are set out in Annex H.
70. There will be a Committee known as the Open Water Committee to provide challenge, support and advice to Ofwat's Choice and Trading Arrangements Programme and any relevant successor programme or project ('CTA Programme'). The Committee will also monitor whether key elements of the CTA Programme are being efficiently delivered. The terms of reference of the Open Water Committee are set out at Annex I.
71. There will be a Committee known as the Casework Committee to make certain final decisions on strategic cases. The terms of reference for the Casework Committee are set out at Annex J.
72. There will be a Committee known as the Nominations and Governance Committee to review, and make recommendations on, the structure, size, and composition of the Board (including identifying and nominating for approval candidates to fill certain Board vacancies). The Committee shall also review succession planning for the Board, the members of the Executive Team and other senior roles, be engaged in the appointment of any member of the Executive Team and monitor and make recommendations to the Board on Board governance issues. The terms of reference for the Nominations and Governance Committee are set out at Annex K.
73. The members of each Committee, insofar as not already being subject to the same or equivalent requirements by virtue of being Board Members or Ofwat employees, shall comply with the procedures on conflicts of interest at Annex A and the Code of Conduct at Annex G. For these purposes each reference in those Annexes to a Board Member shall be read as including reference to a member of a Committee.
74. The provisions on conflicts of interest of paragraphs 19 to 29 above shall apply to the proceedings of each Committee as if each reference:
- to the Board was a reference to the Committee;
  - to a Board Member was a reference to a member of the Committee;
  - to the Chairman was a reference to the Chairman of the Committee;
- and

- to the Chief Executive was to a member of the Committee elected by the other Committee Members to act as the Chief Executive for the purpose of paragraph 26.

## **Code of conduct**

75. Board Members must comply with the Code of Conduct, which has been approved by the Board and is set out in Annex G. The Code of Conduct is published on Ofwat's website.

## **Reviewing the Board's performance**

76. The Board will review its own performance and that of its Committees regularly. A summary of its findings will be included in Ofwat's annual report and accounts.

## **Revising the rules of procedure**

77. These rules of procedure will be reviewed as and when required by the Board and may be varied, revoked or added to by the Board as appropriate, with the exception of Annex B (register of disclosable interests), which will be maintained by the Board Secretary. No rule of procedure may, however, be suspended, varied, revoked or added to or amended where this would contravene any statutory provision.

**Approved by the Board on 20 September 2012.**

## **Annex A: Procedure for conflicts of interest for the Water Services Regulation Authority (Ofwat)**

### **1. Introduction**

- 1.1 This procedure sets out principles for the management of conflicts of interest, and potential conflicts of interest, arising in relation to Board Members.
- 1.2 This procedure is designed to:
- (a) so far as possible, prevent conflicts of interest from arising; and
  - (b) ensure that any conflicts of interest that do arise are managed in such a way that the independence and integrity of the decisions of Ofwat are neither compromised nor perceived as being compromised.
- 1.3 While this procedure expressly addresses those conflicts of interest that can be readily anticipated, it is not possible to provide a comprehensive list of all of the conflicts of interest that might arise. Therefore:
- (a) this procedure must be interpreted with regard to its spirit and purpose and in particular with a view to meeting the objectives set out at paragraph 3 below;
  - (b) Board Members must comply with this procedure in spirit as well as in letter; and
  - (c) if there is any doubt as to whether a matter amounts to a conflict of interest, it should be presumed to be a conflict of interest until a decision is made to the contrary by an appropriate person.
- 1.4 For the purposes of this procedure, a conflict of interest is any interest or duty that is held by a Board Member – whether or not financial in nature – that a fair-minded and informed observer, having considered all of the relevant facts, would conclude gave rise to a real possibility of bias in relation to a matter which that Board Member is required to consider or decide.
- 1.5 A matter which would otherwise constitute a conflict of interest need not be treated as such if each party which is likely to be affected by the matter that is under consideration has been given a full explanation of the Board Member's relevant interest and has agreed, clearly and unequivocally, to waive any



objection to the Board Member's participation in the process of considering or deciding upon that matter.

## **2. Scope**

- 2.1 This procedure applies to Board Members.
- 2.2 Some parts of this procedure require Board Members to ensure certain conduct by, or to make declarations in relation to, their spouses, partners and dependant children.
- 2.3 Provisions similar to those set out in this procedure are also binding on Ofwat employees under the Ofwat staff handbook, so as to ensure so far as possible that the entire advisory and decision-making process of Ofwat is not affected by conflicts of interest.

## **3. Objectives of the procedure**

- 3.1 The objectives of this procedure are:
- (a) to protect the Board corporately and each Board Member individually against the breach of any law, including, for example, offences of insider dealing (the use or disclosure of privileged information to make a financial gain) under the Criminal Justice Act 1993;
  - (b) to protect the Board corporately and each Board Member individually against impropriety or the appearance of impropriety, including risk to its and their reputations; and
  - (c) to protect Ofwat against any conflicts of interest that may be detrimental to the exercise of its functions, by:
    - ensuring so far as possible that Board Members make decisions free from any inappropriate external influence, whether personal or financial, whilst recognising that it is precisely their position and expertise external to the Board that enables some of the Board Members to make valuable contributions to its work; and
    - adhering to the principle that Board Members should not (otherwise than as permitted by any separate agreement to provide services to Ofwat outside the scope of their duties as a Board Member) make a personal profit as a result of their

membership of the Board or an Ofwat committee, such as by using confidential information for personal gain.

#### **4. Prohibited interests**

- 4.1 Subject to paragraph 4.6A of this Annex below, no Board Member may at any time have any interests of the type specified in this section (the prohibited interests).
- 4.2 The prohibited interests are any equity or other financial interest in, and any employment, consultancy, directorship or other remunerative agreement with:
- (a) any water or sewerage undertaker appointed for an area in England or Wales, or any affiliate of that undertaker;
  - (b) any actual or prospective holder of a new appointment within the area of an undertaker, or any affiliate of that company; or
  - (c) any actual or prospective holder of a licence to supply water within the area of an undertaker, or any affiliate of that company.
- 4.3 Each Board Member must ensure that no spouse, partner or dependant child of his or hers has at any time a prohibited interest in the form of any equity or other financial interest.
- 4.4 If any Board Member has a prohibited interest, he or she must immediately notify the Chairman and the Chief Executive.
- 4.5 If a Board Member is aware that his or her spouse, partner or dependant child has a prohibited interest in the form of any equity or other financial interest, that Board Member must immediately notify the Chairman and the Chief Executive.
- 4.6 Where a Board Member notifies the Chairman and the Chief Executive of any prohibited interest, he shall be excluded from any further participation in the activities or decision-making of the Board or Committee, at least until such time as that interest has been terminated.
- 4.6A In exceptional circumstances, Board may decide that what would otherwise be a particular prohibited interest should not be classified as a prohibited interest for the purposes of these rules of procedure, for a particular period. Board may vary or revoke any such decisions at any point.

## Register of interests

- 4.7 The Board Secretary shall maintain a register to be known as the register of Board Members' disclosable interests (the **Register**).
- 4.8 The Register shall be set out at Annex B, shall be a public document, and shall be amended from time to time by the Board Secretary so that it remains accurate and up to date.
- 4.9 The purpose of the Register is to ensure transparency in relation to any interests of Board Members – or of their spouses, partners and dependant children – that have the potential, or might be perceived as having the potential, to give rise to a conflict of interest.
- 4.10 The Register must contain, in relation to each Board Member, details of any of the following held or carried on by that Board Member:
- (a) company directorships;
  - (b) memberships of any limited liability partnership;
  - (c) other public appointments;
  - (d) charitable appointments (including trusteeships, and positions with not-for-profits NGOs or pressure groups);
  - (e) employment or consultancy activities;
  - (f) memberships of or offices held within any professional body; and
  - (g) any equity or other financial interest in, or any remunerative agreement with, a contractor (or another significant supplier of goods or services) to any water and/or sewerage undertaker, prospective water and/or sewerage undertaker or actual or prospective holder of a water supply licence in England and Wales.
- 4.11 Registration of the interests set out at (a) and (b) above is required for past and present interests . Registration of the interests listed at (c)-(g) is required for current interests.
- 4.12 The Register must also contain details of any employment, consultancy, directorship or other remunerative agreement held or carried on past or present by a spouse, partner or dependant child of a Board Member with:

- (a) any water or sewerage undertaker appointed for an area in England or Wales, or any affiliate of that undertaker;
  - (b) any actual or prospective holder of a new appointment within the area of an undertaker, or any affiliate of that company; or
  - (c) any actual or prospective holder of a licence to supply water within the area of an undertaker, or any affiliate of that company.
- 4.13 The Register must further contain details of any other matters that have the potential, or might be perceived as having the potential, to influence the judgment of any Board Member in relation to his or her participation in the normal activities or decision-making of the Board. This shall include indirect influences by way of personal or familial connections, as well as direct influences in the form of financial and legal relationships.
- 4.14 It is the duty of each Board Member to declare to the Board Secretary and to the Chairman any matter that is required to be included in his entry on the Register.
- 4.15 If a Board Member is in doubt as to whether a particular matter should be declared, he or she should declare it, and the Board Secretary (in consultation with the Chairman if appropriate) shall decide whether it is a matter that is required to be included on the Register.
- 4.16 A Board Member shall make a declaration of his or her interests for the purposes of the Register immediately on taking up appointment as a Board Member or Committee Member, and shall subsequently declare any new matter that is required to be included on the Register or otherwise notified to Ofwat as soon as possible.
- 4.17 Board Members may be required at any time to confirm to the Board Secretary that their current entries on the Register are accurate and up to date, and the Board Secretary shall ask them to do so at least once in each year.
- 4.18 Each Board Member must sign a form to confirm the accuracy of his or her entry on the Register if requested to do so by the Board Secretary.

## **5. Board meetings**

- 5.1 Board Members must comply with the further requirements as to the disclosure of conflicts of interest arising at Board meetings, as set out in paragraphs 19 to 29 of the rules of procedure.

## **6. Subsequent appointments of Board Members**

- 6.1 Board Members are also subject to the requirement to secure the prior approval of the Chairman and the Department for Environment, Food and Rural Affairs (Defra) if, within two years of ceasing to be a Board Member, they wish to accept an appointment with:
- (a) any water or sewerage undertaker (or one of its affiliates);
  - (b) a major contractor or supplier to an undertaker;
  - (c) a new appointee;
  - (d) the holder or prospective holder of a water supply licence; or
  - (e) any firm closely connected to the water industry.
- 6.2 The purpose of this is to maintain public trust in the work of Ofwat and in particular to avoid:
- (a) any suspicion that the advice and decisions of a Board Member might be influenced by the hope or expectation of future employment with a particular firm or organisation; and
  - (b) any risk that a firm might gain an improper advantage over its competitors by employing someone who, in the course of their work, has had access to technical or other information which those competitors might legitimately regard as their own trade secrets or to information relating to the proposed developments in government policy and procedure which may affect that firm or its competitors.
- 6.3 Any approval of an appointment under paragraph 6.1 above given by the Chairman may be subject to conditions, which may include the imposition of a waiting period before it can be taken up.

## **7. Audit**

- 7.1 Information held on the Register will be subject to audit, a summary of which will be published in Ofwat's annual resource accounts.

## **8. Interpretation**

- 8.1 In this Annex, an "equity and other financial interest":
- (a) shall be deemed to comprise shareholdings, debt securities, debentures, bonds, options, rights or future rights to shares, and other securities; but
  - (b) shall be deemed to exclude such interest which is managed through Unit Trusts, equivalent managed funds or Blind Trusts and any interest in gilts or other Government securities.
- 8.2 A "Blind Trust" is an arrangement by which an individual gives a stockbroker or another professional investment manager absolute discretion to manage his or her investments and under which that individual:
- (a) is not consulted before any dealing in those investments takes place;
  - (b) does not instruct the investment manager with regard to any specific securities; and
  - (c) is not informed of changes in specific investments or the state of the portfolio other than in an aggregated form or as required for tax return purposes.
- 8.3 In this Annex, a "remunerative agreement" shall not be taken to include any employer's pension scheme in respect of which employer pension contributions ceased to be made prior to the time at which a Board Member was appointed.
- 8.4 In this Annex, a "prospective holder" means a company which the relevant Board Member has been notified has submitted a formal relevant application to Ofwat.

**Approved by the Board on 10 May 2010.**

## **Annex B: Register of Board Members' disclosable interests for the Water Services Regulation Authority (Ofwat)**

### **Jonson Cox (Chairman), appointed 1 November 2012**

Chairman of UK Coalfield Resources PLC (which was previously UK Coal Plc) (from November 2010 (current)<sup>2</sup>)

Chairman of Harworth Estates Ltd (current)

Chairman of Board Health and Safety Review Committee for RWE Npower Plc (current)

Non-Executive Director of Wincanton Plc (current)

Less than 1% stake in Syrinix Ltd (current)

Provision of advice as a consultant to potential investors in companies in the Infrastructure and banking sector between 2003 and 2013 (such advice has not been given in relation to the water sector post appointment as the Board Chairman)

Group Chief Executive for Anglian Water Group Plc (January 2004 to March 2010)

Chief Executive Officer and Chairman for Anglian Water Services Ltd

Chairman of Morrison Plc

Chief Executive Officer of Valpak Ltd (2002 to 2003)

Non-executive Director of 24 Seven Ltd (2001 – 2002)

Chief Operating Officer of Railtrack Plc (2000 to 2001)

Executive Director of Kelda Group Plc (1994 to 2000)

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<sup>2</sup> The Peel Group is an investor in Coalfield Resources PLC. Peel Water Networks Ltd, a regulated water company, is a member of the Peel Group. In the context of Coalfield Resources, Jonson Cox maintains a business relationship with John Whitaker, the Chairman of the Peel Group and Steven Underwood, the CEO.



Deferred Pension from Kelda Group Plc (current)

Managing Director of Yorkshire Water (1996 to 2000)

Chair and Managing Director of Yorkshire Environmental Services (1992 to 1996)

Chair of Alcontrol BV between 1994 to 1997

**Wendy Barnes (Non-Executive Director), appointed 7 February 2012**

Manager and Executive Director with United Utilities (North West Water) 1989 - 2003

Non-Executive Director at Foreign and Commonwealth Office Services

Non-Executive Director of the MET Office

Non-Executive Director of BMT Group Ltd

Director of the Finance and Enterprise Committee at Chester Cathedral

Director of the 12 Lansdown Crescent Management Company

Shareholder in Practiq Consulting Ltd who provide consultancy services to a renewable energy company

Deferred pension from United Utilities

Husband employed by North West Water/United Utilities between 1980 and 2003 with a current pension from United Utilities

**Penny Boys (Non-executive Director), appointed 1 April 2006**

Member and then Deputy Chairman of the Horserace Betting Levy Board (2006-2011).

Non-executive member of the Competition Commission Council (current)

Member of Independent Selection Panel for Network Rail Members (current)

Member of the National House Builders Council Consumer Committee (current)

**Christopher Burchell (Non-Executive Director), appointed 1 May 2013**

Managing Director of Southern Railway

Fellow of the Chartered Institute of Logistics and Transport

Fellow of the Institution of Railway Operators

**Martin Lawrence (Non-Executive Director), appointed 1 May 2013**

Managing Director, Energy Sourcing and Customer Supply EDF Energy

Director of EDF Trading

Council member of Energy Institute

Board member of Energy UK

Chairman of Association of Electricity Producers (2009-2012)

Director of EDF Energy Customer Field Services (Metering) Ltd

Director of EDF Energy (Cottam Power) Ltd

Director of EDF Energy (Energy Branch) plc.

Director of EDF Energy (West Burton Power) Ltd

Director of EDF Energy Round 3 Isle of Wight Ltd

Director of Eggborough Power (Holdings) Ltd

Director of High Hedley Hope Wind Limited

Director of Kirkheaton Wind Ltd

Director of EDF Energy Customers plc.

Director of Sutton Bridge Financing Ltd

Director of SEEBOARD Energy Ltd

Director of SEEBOARD Energy Gas Ltd

Director of EDF Energy 1 Ltd

**Robin F. Paynter Bryant (Non-Executive Director), appointed 24 January 2012**

Director of the Trinity Column Limited

Partner of The Trinity Column Partners LLP

Previously a Non-Executive Director of Prime International Investments Group Ltd

Non-Executive Director of Go Modern Ltd

**Catherine Waddams (Non-Executive Director), appointed 1 May 2013**

Professor in Norwich Business School

Member of the ESRC Centre for Competition at the University of East Anglia

Joint Academic Director of the Centre for Regulation in Europe

Member of the Consumer Expert Panel of the Office of Rail Regulation

**Regina Finn (Chief Executive), appointed 9 October 2006**

Non-executive Director, Mutual Energy Limited

Non-Executive Director of the Channel Island Competition and Regulatory Authority.

**Sonia Brown (Senior Director of Markets and Economics), appointed 1 March 2012**

None.

**Keith Mason (Senior Director of Finance and Networks), appointed 1 April 2006**

None.

**Updated by the Secretary to the Board on 1 October 2013**

## **Annex C: Matters reserved to the Board of the Water Services Regulation Authority (Ofwat)**

The following matters are reserved to the Board for decision by the Board.

### **Ofwat policy**

(a) Approval of:

- Ofwat's strategy and forward programme;
- decisions on the draft and final determinations at price reviews and substantial effect determinations;
- decisions to make market investigation references to the Competition Commission;
- decisions to commence significant litigation (for the avoidance of doubt, this includes becoming a party to proceedings); and
- decisions to appeal any significant judgment that has been given against Ofwat.

(b) Approval of decisions which raise new major issues of principle or are particularly sensitive. The following illustrative but not exhaustive list contains examples where relevant decisions will be reserved to Board (insofar as they raise new major issues of principle or are particularly sensitive)<sup>3</sup>:

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<sup>3</sup> On 16 July 2013 Board delegated making final decisions in strategic cases to the Casework Committee (please see Annex J for the Casework Committee's Terms of Reference), some of which might otherwise have been covered by this section (b), including for example final enforcement orders under WIA91, final decisions of infringement under the Competition Act 1998, and (in both cases) linked financial penalties. Paragraph 14 of the Casework Committee's Terms of Reference notes that, "For the avoidance of doubt, Board has delegated to the Committee any decision which might

- the approach to draft and final determinations at price reviews and substantial effect determinations;
- significant enforcement action (other than to impose financial penalties);
- the approach to and decisions on interim determinations;
- the approach to and decisions on appointment modification references to the Competition Commission;
- decisions to defend significant litigation;
- infringement decisions and 'no grounds for action' decisions following investigations under the Competition Act 1998;
- super complaints;
- the approval of charges schemes;
- recommendations to the Secretary of State about granting or terminating appointments;
- granting new appointments;
- granting and revoking water supply licences;
- modifications to a condition of appointment or water supply licence; and

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otherwise come to Board under Annex C, section (b) of the Board's Rules of Procedure, provided that decision falls within the remit of the Committee. However, that does not prejudice the Committee's discretion to voluntarily refer any such decision back to the Board, where the Committee deems that to be appropriate".

- investigations into company performance.

## **Organisational issues**

Approval of:

- (c) The annual budget.
- (d) The annual report.
- (e) The annual accounts.

## **Management issues**

Approval of:

- (f) The appointment of the Chief Executive and the terms and conditions of service.
- (g) Any overall Office strategy regarding human resource policies and procedures.
- (h) Major changes to Ofwat's structure.
- (i) Strategic monitoring of Ofwat's health and safety policies.

## **Approval of contractual and other obligations with third parties.**

- (j) The principles underlying any contracts not in the ordinary course of business.
- (k) Any major capital projects above £200,000.
- (l) Material contracts in the ordinary course of business above £200,000, for example acquisition or disposal of fixed assets.
- (m) Any Memorandum of Understanding or formal agreement that Ofwat may enter into with a third party including those with a Government department or other UK regulatory body.

## **Corporate governance**

- (n) Approval of any changes to Ofwat's rules of procedure including this Annex and all Annexes (except Annex B) and any changes to the terms of reference of any Committee.
- (o) Formal annual reviews of the Board's own performance and that of its committees.

## **Communication**

- (p) Where time allows, approval of key messages in major external statements, responses or other significant communications, such as in response to a statement made by UK Ministers, Welsh Assembly Government or a report of a Select Committee.

## **Statutory**

- (q) Anything that by law is reserved to Ofwat's Board.



## **Annex D: Terms of reference of the Audit Committee of the Water Services Regulation Authority (Ofwat)**

1. The Board has established a committee called the Audit Committee to support it in its responsibilities for issues of risk, control and governance and associated assurance by:
  - reviewing the comprehensiveness of assurances in meeting the Board and accounting officer's assurance needs;
  - reviewing the reliability and integrity of these assurances; and
  - providing an opinion on how well the Board and accounting officer are supported in decision taking and discharging their accountability obligations (particularly in respect of financial reporting and risk management).
2. The Audit Committee acts only in an advisory capacity and has no executive powers.

### **Membership**

3. The members of the Audit Committee will comprise at least two non-executive Board Members and may include one independent external member.
4. A non-executive Board Member will Chair the Audit Committee.
5. The Board will appoint the members of the Audit Committee for a term of not more than three years, which is renewable.

### **Meetings**

6. The Audit Committee will normally meet three times a year. The Chairman of the Audit Committee may convene additional meetings as he deems necessary.
7. A meeting of the Audit Committee will be deemed quorate if two of its members, including at least one of the non-executive Board Members, are present.
8. The Chief Executive (Accounting Officer), the Director of Corporate Services and Programme Management (Finance Director), the Head of Internal Audit

(or a representative of any external provider of internal audit services) and a representative of external audit will normally attend Audit Committee meetings.

9. The Audit Committee may ask any other Ofwat employee to attend to assist it with its discussions.
10. The Audit Committee may ask any or all of those who normally attend but who are not members of the Audit Committee to withdraw to facilitate open and frank discussion of particular matters.
11. The Accounting Officer may ask the Audit Committee to convene further meetings to discuss particular issues where the Audit Committee's advice is wanted.
12. The Audit Committee will be provided with a secretariat function organised by the Board Secretariat.

## **Access**

13. The Head of Internal Audit (or a representative of any external provider of internal audit services) and the representative of external audit will have free and confidential access to the Chairman of the Audit Committee.
14. Minutes will be taken of each meeting of the Audit Committee. The Audit Committee will formally report back in writing, via its minutes, to the Accounting Officer and the Board after each meeting.
15. The Chairman of the Audit Committee will report its work regularly to the Board and shall provide an annual report in writing, timed to support finalisation of the accounts and the statement on internal control.

## **Responsibilities**

16. The Audit Committee will advise the Board and the Accounting Officer on the following.
  - The strategic processes for risk, control and governance and the statement of internal control.
  - The accounting policies, the accounts and the annual report, including the process for review of the accounts prior to submission for audit,

levels of error identified and management's letter of representation to the external auditors.

- The planned activity and results of both internal and external audit.
  - Whether the management response to issues identified by audit activity, including external audit's management letter is adequate.
  - Assurances provided by management relating to the corporate governance requirements for Ofwat.
  - Proposals for tendering for either internal or external audit services or for the purchase of non-audit services from contractors providing audit services.
  - Anti-fraud and corruption policies, whistle-blowing processes, and arrangements for special internal investigations.
  - Whether Ofwat employees operate within the limits of delegated authority.
17. The Audit Committee will also periodically review its own effectiveness and report the results of that review to the Board.

## **Information requirements**

18. For each meeting the Audit Committee will be provided with the following.
- A report summarising any significant changes to the risk register.
  - A progress report from the Head of Internal Audit (or a representative of any external provider of internal audit services) summarising:
    - work performed (and a comparison with work planned);
    - key issues emerging from internal audit work;
    - management response to audit recommendations;
    - changes to the periodic plan;
    - any resourcing issues affecting the delivery of internal audit objectives; and

- a progress report from the external audit representative summarising work done and emerging findings.

19. As appropriate the Audit Committee will be provided with:

- proposals for the terms of reference of internal audit;
- Ofwat's internal audit strategy and the periodic audit plan;
- the Head of Internal Audit's (or a representative of any external provider of internal audit services) annual opinion and report;
- quality assurance reports on the internal audit function;
- Ofwat's draft accounts;
- Ofwat's draft statement on internal control;
- a report on any changes to accounting policies;
- external audit's management letter;
- a risk management report;
- report on any proposals to tender for audit functions;
- a report on co-operation between internal and external audit; and
- details of internal governance and/or internal delegations.

**Approved by the Board on 10 May 2010.**

## **Annex E: Terms of reference of the Remuneration Committee of the Water Services Regulation Authority (Ofwat)**

1. The Board has established a Remuneration Committee to consider matters relating to the pay and conditions of employment.

### **Membership**

2. The Members of the Remuneration Committee will be two non-executive Board Members and the Board Chairman.
3. A non-executive Board Member will chair the Remuneration Committee.
4. The Board will appoint the members of the Remuneration Committee for a term of not more than three years, which is renewable.

### **Meetings**

5. The Remuneration Committee will normally meet twice a year. The Chairman of the Remuneration Committee may convene additional meetings as he deems necessary.
6. A meeting of the Remuneration Committee will be deemed quorate if two Remuneration Committee Members are present.
7. The Chief Executive and Director of Corporate Services and Programme Management will normally attend Remuneration Committee meetings except for its discussions of matters directly affecting their personal remuneration.
8. The Chairman or Chief Executive may ask the Remuneration Committee to convene further meetings to discuss particular issues where the Committee's advice is wanted.
9. The Remuneration Committee will be provided with a secretariat function organised by the Head of Human Resources.

## Reporting

10. Minutes will be taken by each meeting of the Remuneration Committee. The Remuneration Committee will formally report back in writing, via its minutes, to the Board.
11. The Chairman of the Remuneration Committee will report its work regularly to the Board.

## Responsibilities

12. The responsibilities of the Remuneration Committee are to<sup>4</sup>:
  - decide on the annual pay award for the members of the Senior Civil Service (SCS) and other Ofwat staff;
  - follow the guidance on pay and related matters issued by HM Treasury and the Cabinet Office;
  - decide on the payment of any performance bonuses;
  - consider new and existing SCS posts and decide on the job weight and salary levels (this will follow the Cabinet Office Job Evaluation of Senior Posts (JESP) system);
  - consider any other issues relating to the pay and conditions of employment.

**Approved by the Board on 10 May 2010.**

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<sup>4</sup> Paragraph 12, penultimate bullet point of the Nominations and Governance Committee's Terms of Reference (set out in Annex K) notes that the responsibilities of the Nominations and Governance Committee include, "to the extent deemed to be appropriate by the Chair of the Remuneration Committee, be engaged in the Remuneration Committee's evaluation of new proposed SCS posts and any existing SCS roles where those roles have been significantly revised, and in its decision on the job weight and salary levels"

## **Annex F:** <sup>5</sup>

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<sup>5</sup> Previously, paragraph 68 and Annex F of the rules of procedure referred to a New Company Appointments Committee. However, Board closed down that Committee at its meeting on 20 September 2012.

## **Annex G: Code of conduct of the Water Services Regulation Authority (Ofwat)**

### **Introduction**

1. Board Members will at all times abide by this code of conduct. References in this code of conduct to Board Members should also be taken to refer to Committee Members and other attendees at Board meetings and, where relevant, to Ofwat employees generally.
2. The highest standards of propriety requiring integrity, impartiality and objectivity will be maintained in relation to the stewardship of public funds and the management of Ofwat.
3. Board members in carrying out their responsibilities must comply with the current Civil Service Code<sup>6</sup> as if it applied to them.
4. Board Members are required to maximise value for money through ensuring that the Board operates in the most efficient and economical way, according to the principles of good regulation and within available resources. The Board will seek to ensure an external element of validation of Ofwat's and its own performance where appropriate.
5. The Board is accountable to Parliament for the activities of Ofwat, its stewardship of public funds, and the extent to which key performance targets and objectives have been met. In order to promote accountability, Board Members will seek to carry out their functions transparently and to follow best practice.

### **Confidentiality**

6. Board Members and employees are subject to a general duty of confidentiality in relation to the conduct of the affairs of Ofwat. This duty continues to apply post holding office.
7. The Criminal Justice Act 1993 (CJA) makes it a criminal offence for an individual who has information as an insider to deal in securities (including

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<sup>6</sup> The current version is available at <http://www.civilservice.gov.uk/about/values/cscode/CS-Values.aspx>.



shares, debentures, warrants and options) on a regulated market. A Board Member or Ofwat employee who gains access to price sensitive information through their duties will be considered an insider under CJA. A Board Member or Ofwat employee who has unpublished price sensitive information on any company and either deals in the securities themselves, arranges for someone to deal in the securities on his or her behalf or passes the information on to someone or encourages someone else to deal will be committing an offence.

8. Particular care should be taken to avoid disclosing to any person (or otherwise acting on) any discussions relating to price sensitive decisions that have not yet been made public.
9. Even where disclosure would not breach the insider dealing rules, a Board Member or Ofwat employee will ensure that he does not disclose outside Ofwat information received during the course of his duties where such information has been provided on a confidential basis.

## **Relationship with Government**

10. The Secretary of State is responsible for appointing the Chairman and Board Members. The Board will consist of a Chairman and at least two other Board Members appointed by the Secretary of State. The Secretary of State may also remove Board Members from office on the basis of any of the circumstances of incapacity or misbehaviour. Ofwat's decisions are taken independently of Ministers, taking account where relevant of published ministerial guidance.
11. Communications between the Board and Ministers will normally be through the Chairman, and as appropriate the Chief Executive, except where the Board has agreed that an individual Board Member should act on its behalf. Nevertheless, an individual Board Member has the right of access to Ministers on any matter which he believes raises important issues relating to his duties as a Member of the Board. In such cases, the agreement of the rest of the Board Members should normally be sought.
12. The main point of contact between Ofwat and Defra, the Welsh Assembly, Environment Agency and other Government departments on day-to-day matters will normally be the Chief Executive or other members of staff.

## **Criminal and civil liability**

13. Although any legal proceedings initiated by a third party are likely to be brought against Ofwat as a corporate entity, in exceptional cases proceedings (civil or, in certain cases, criminal) may be brought against the Chairman or other individual Board Members. For example, a Board Member may be personally liable if he makes a fraudulent or negligent statement, which results in loss to a third party. A Board Member may also be liable for breach of confidence under common law or under insider dealing legislation if he misuses information gained by virtue of his position.

## **Accountability to Parliament**

15. Ofwat is responsible for providing Parliament with such information as may be requested concerning its policy decisions and actions. The Chairman or Chief Executive will aim to respond positively to any request to appear before an elected body. Appearance before Select Committees is an essential part of demonstrating its accountability. Ofwat is under a specific duty under section 192B of the WIA91 to present its annual report to Parliament. Accounts are subject to audit by the National Audit Office. A copy of the statement of accounts will be published.

## **Concerns about propriety**

16. Ofwat employees may raise any concerns that they have about the propriety of the Board, or any Board Member or Ofwat employee, confidentially with the Chair, or another Board Member, or the Director of Corporate Services and Programme Management, who will be under a duty to investigate and will guarantee anonymity. If an issue of propriety is raised with the Director of Corporate Services and Programme Management, then he is under an obligation to inform the Chairman and/or Chief Executive about the issue unless both those individuals are the subject under discussion, in which case the Interim Director of Corporate Services and Programme Management is under an obligation to inform another executive or non-executive Board Member. If the employee remains dissatisfied he or she can raise the concern with Defra. Ofwat employees are able to make such complaints without going through the normal management structure. This is in accordance with recommendation 53 in the 'Report of the Committee on Standards in Public Life' (the Nolan Report).

## **Role of Board Members**

17. The collective responsibilities of Board Members include:

- the discharge of Ofwat's duties under the WIA91 (as amended) and any other relevant legislation;
- establishing the policy and resource framework for the operation of Ofwat and its overall strategic direction within that framework;
- ensuring that the highest standards of corporate governance are observed at all times;
- ensuring that Ofwat operates within the limits of its statutory authority and that Ofwat employees operate within the limits of delegated authority; and
- generally overseeing the discharge by the Executive of Ofwat's day to day business.

## **Gifts and hospitality**

18. Board Members are required to comply with relevant current Ofwat guidance on the policy for accepting entertainment, gifts and hospitality.
19. Board Members will inform the Director of Corporate Services and Programme Management of all offers of gifts, hospitality or other benefits (other than those with a value of £15 or less) received in the course of carrying out their duties. He will record the offer on the register referred to in paragraph 20 of this Annex and give guidance to Board Members on whether they can or cannot accept any offer. This process is not intended as a censoring mechanism. Rather, it seeks to avoid unnecessary Board representation at events and functions and that there can be no suggestion of actual or perceived bias towards any particular stakeholder.
20. The Director of Corporate Services and Programme Management will keep a register of all declarable gifts and hospitality (both given and received by Board Members and senior staff). This register will not be published but will be available for public inspection on request.

## **Exit restrictions**

21. On termination of office, Board Members will return all property (including, but not limited to, documents and software, credit cards, computer equipment, keys and security passes) belonging to Ofwat. The duty of confidentiality owed by Board Members continues to apply after they have left office.

## Public speaking and journalists

22. Board Members should normally speak with one voice in public on Ofwat issues. If a different approach were to be followed, this would first have to be discussed by the Board. A Board Member should inform the Chairman (or Chief Executive in the absence of the Chairman or in the case that the Board member is the Chair) before making public statements on Ofwat business.
23. Particular care should be taken about any invitation to speak publicly, including speaking to journalists, in the capacity as a Board Member. Care will also be taken in the publication of any articles. In any such instance, Board Members should consult the Chief Executive, or in her absence the Interim Director of Policy and Communications, or his equivalent, as appropriate. Personal views may be expressed so long as it is made clear that the Board Member is speaking or writing in a purely personal capacity and stating his own private opinion. In general, Board Members are not restricted from access to the media in their personal, non-Ofwat capacity, or in pursuit of a professional interest, for example as performers, experts, critics, or commentators.
24. If a Board Member resigns because of disagreement with a Board decision, he may state the basis for the disagreement but may not publicly disclose the views of other Board Members. Nominated Board Members (other than those who disagreed with a decision) may be required to explain and articulate specific decisions.

## Attendance at conferences and stakeholder events

25. All invitations to attend or speak at industry or stakeholder events should be referred to the Chief Executive, or in her absence the Director of Policy and Communications, or his equivalent, for advice. Care will be taken to ensure there is appropriate Board representation at events, and that Board Members are properly briefed in advance of attending.

## Political activities

26. To comply with Ofwat's status as independent of government, it would be inappropriate for any Board Member to engage in active politics. This includes:
  - membership of the House of Commons, of the Welsh Assembly or of the European Parliament;

- seeking adoption or selection as candidates or prospective candidates for those bodies;
- membership of or candidacy for local authorities other than parish councils; and
- acting as a party spokesman in the House of Lords.

There are other situations which merit special consideration. For instance, in the case of a former elected representative who had lost office, the main factor would be whether such a person intended to seek re-election or adoption as a candidate at the next opportunity. Or in the case of a person holding office in a party political organisation, the main consideration would be whether this was regarded as a step towards selection as a candidate. Board Members should in case of doubt consult the Chairman.

## Expenses

27. Expenses are only recoverable if the expenditure is reasonably and necessarily incurred on behalf of Ofwat. Receipts will, wherever practicable, accompany claim forms. Claims should be submitted to the Finance Department (or its equivalent) as soon as possible after they have been incurred. Board Members should refer to the relevant current Ofwat guidance
28. A laptop and printer will be supplied to those Board Members who need them in order to receive Ofwat papers and related work. These will remain the property of Ofwat.

## Travel

29. When on Ofwat business, Board Members are entitled to travel normally by standard class, or first class if required for work purposes, where available within the UK, and to claim expenses accordingly. Travel and accommodation may be arranged through the Board Secretariat.

## Data protection

30. For the purposes of the Data Protection Act 1998 (as amended), Board Members give their consent for all purposes to the holding, processing and accessing of personal data about them held by Ofwat.

## Principles of public life

31. Board Members will abide by the seven principles of public life<sup>7</sup> as follows:

**Selflessness:** Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

**Integrity:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

**Objectivity:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

**Accountability:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

**Openness:** Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

**Honesty:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

**Leadership:** Holders of public office should promote and support these principles by leadership and example.

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<sup>7</sup> The seven principles of public life were endorsed in 'Spending Public Money: Governance and Audit Issues', Cm 3179, March 1996.

## **Annex H: Terms of reference for the PR14 Programme Board Committee of the Water Services Regulation Authority (Ofwat)**

### **Introduction**

1. The Board has established a committee called the PR14 Programme Board Committee (“Committee”) to:
  - Provide challenge, support and advice to the relevant Senior Reporting Officer or its equivalent (“SRO”).
  - Monitoring whether key elements of the PR14 delivery programme (“Programme”) are being efficiently delivered.
2. The Committee acts only in an advisory capacity and has no executive powers.

### **Membership**

3. The members of the Committee will comprise of at least two non-executive Board members and the Board Chairman, the Chief Executive Officer (or its equivalent), the SRO, another executive Board member, and the Committee may include one independent external member.
4. The Board Chairman will chair the Committee. In the absence of the Board Chairman, one of other non-executive Board members will chair the meeting.
5. The Board will appoint the members of the Committee for the duration of the price review project (which will include any appeals to the Competition and Markets Authority). The Committee will cease to exist at the end of the price review project.

### **Meetings**

6. The Committee will normally meet once a month. However, the Chairman of the Committee, or in his absence any member of the Committee, may convene meetings of the Committee as he deems necessary.
7. If any member of the Committee (other than an independent external member) cannot attend a meeting of the Committee, that member may nominate a substitute member. Any substitute member for a non-executive Board member

must be another non-executive Board member. Any substitute member for an executive Board member (or for the SRO) must be another non-executive Board member, an executive Board member, a member of the Executive Team, or a member of the PR14 Delivery Board.

8. A meeting of the Committee will be deemed quorate if two of its members (or substitute members), including at least one of the non-executive Board members (or substitute non-executive Board members) and the SRO (or its substitute member), are present.
9. The Committee may ask any Ofwat employee or delivery partner representative to attend to assist it with its discussions.
10. The Committee may ask any or all of those asked to attend a Committee meeting who are not members of the Committee to withdraw to facilitate open and frank discussion of particular matters.
11. The Committee will be provided with a secretariat function organised by the Board Secretariat.

## Reporting

12. Minutes will be taken of each meeting of the Committee. The Committee will normally formally report back in writing, via its minutes, to the Board after each meeting.
13. In addition, the Chairman of the Committee will report its work to the Board as appropriate.
14. The Committee may decide its own procedures, provided those procedures are not inconsistent with the Board's rules of procedure and with these terms of reference.
15. In line with the procedures followed by Board and its other Committees, the Committee will conduct an annual effectiveness review, which may involve using a short questionnaire. This will form part of the annual reporting to Board.

## Responsibilities

16. The responsibilities of the Committee are to:
  - Provide challenge, support and advice to the relevant SRO;



- Monitoring whether key elements of the PR14 delivery programme are being efficiently delivered. In particular, this will involve assessing whether:
  - The Programme is aligned to Ofwat's strategic objectives;
  - The Programme's scope is clear, documented and adhered to;
  - The Programme plan(s) are in place and are being used to manage work;
  - Planning is at the appropriate level, and in appropriate detail for the phase / point in time;
  - Effective risk management processes are in place.
  - Stakeholders are identified, understood and updated as appropriate for their level of influence;
  - Stakeholders are communicated with, and are 'bought in' to the changes;
  - Programme / organisation interdependencies are understood;
  - External interdependencies are understood and managed appropriately;
  - The right people with the right skills are in place to deliver; and
  - The programme is resourced / budgeted appropriately.

## **Information requirements**

17. For each meeting the Committee will be provided with the following:

- 'Level 0' milestone plan;
- 'Level 1' rolling 6 month plan; and
- Programme assurance report.

18. As appropriate the Committee will be provided with the following:

- Work stream highlight reports.

## **Annex I: Terms of reference of the Open Water Committee of the Water Services Regulation Authority (Ofwat)**

### **Introduction**

1. The Board has established a committee called the Open Water Committee ('Committee') to:
  - provide challenge, support and advice to the Choice and Trading Arrangements Programme and any relevant successor programme or project ("CTA Programme"), which includes work directly linked to the Open Water Programme; and
  - monitoring whether key elements of the CTA Programme are being efficiently delivered.
2. The Committee acts only in an advisory capacity and has no executive powers

### **Membership**

3. The members of the Committee will comprise of at least two non-executive Board members, the relevant Senior Reporting Officer ('SRO'), and may include one independent external member.
4. A non-executive Board member will chair the Committee. In the absence of the Committee's Chairman, one of other non-executive Board members will chair the meeting.
5. The Board will appoint the members of the Committee for a term of not more than three years, which is renewable.

### **Meetings**

6. The Chairman of the Committee, or in his absence any member of the Committee, may convene meetings of the Committee as he deems necessary.
7. If any member of the Committee (other than an independent external member) cannot attend a meeting of the Committee, that member may nominate a substitute member. Any substitute member for a non-executive Board Member must be another non-executive Board Member. A substitute member for an executive Board member (or the SRO) may be a non-executive Board Member, an executive Board member, or a member of the Executive Team.

8. A meeting of the Committee will be deemed quorate if two of its members (or substitute members), including at least one of the non-executive Board Members (or substitute non-executive Board Members), are present.
9. The Committee may ask any Ofwat employee to attend to assist it with its discussions.
10. The Committee may ask any or all of those asked to attend a Committee meeting who are not members of the Committee to withdraw to facilitate open and frank discussion of particular matters.
11. The Committee will be provided with a secretariat function organised by the Board Secretariat.

## Reporting

12. Minutes will be taken of each meeting of the Committee. The Committee will normally formally report back in writing, via its minutes, to the Board after each meeting.
13. In addition, the Chairman of the Committee will report its work to the Board as appropriate.
14. The Committee may decide its own procedures, provided those procedures are not inconsistent with the Board's rules of procedure and with these terms of reference.
15. In line with the procedures followed by Board and its other Committees, the Committee will conduct an annual effectiveness review, which may involve using a short questionnaire. This will form part of the annual reporting to Board.

## Responsibilities

16. The responsibilities of the Committee are to:
  - Provide challenge, support and advice to the CTA Programme. In particular, this will involve commenting on Ofwat's approach to the following:
    - Market design;
    - Market operator;
    - The Water Bill, including for example relevant codes, rules, and guidance;

- New charging arrangements (including the Costs Principle, and its successor arrangements); and
- Relevant changes to companies' Licences.

Monitoring whether key elements of the CTA Programme are being efficiently delivered. In particular, this will involve assessing whether:

- The CTA Programme is aligned to Ofwat's strategic objectives;
- The CTA Programme's scope is clear, documented and adhered to;
- The CTA Programme plan(s) are in place and are being used to manage work;
- Planning is at the appropriate level, and in appropriate detail for the phase / point in time;
- Effective risk management processes are in place;
- Stakeholders are identified, understood and updated as appropriate for their level of influence;
- Stakeholders are communicated with, and are 'bought in' to the changes;
- CTA Programme / organisation interdependencies are understood;
- External interdependencies are understood and managed appropriately;
- The right people with the right skills are in place to deliver; and
- The programme is resourced / budgeted appropriately.

## **Annex J: Terms of reference of the Casework Committee of the Water Services Regulation Authority (Ofwat)**

### **Introduction**

1. The Board has established a committee called the Casework Committee ('Committee') to make certain final decisions in strategic cases.

### **Membership**

2. The members of the Committee will comprise of at least two non-executive Board members, and may include executive Board members, one Ofwat employee (who is not a Board member), and/or one independent external member (where this is legally possible). The one independent external member may be defined as an individual or in a more general way (such as simply being a member or employee of a particular organisation). In addition, the one independent external member and the one Ofwat employee (who is not a Board member) may be defined as a Committee member for the purposes of all, or only some, relevant Committee decisions or all, or only some, types of such decisions.
3. A non-executive Board member will chair the Committee. In the absence of the Committee's non-executive Board member, one of other non-executive Board members will chair the meeting.
4. The Board will appoint the members of the Committee for a term of not more than three years, which is renewable.

### **Meetings**

5. The Chairman of the Committee, or in his absence any member of the Committee, may convene meetings of the Committee as he deems necessary.
6. If any member of the Committee (other than an independent external member or an Ofwat employee who is not a Board member) cannot attend a meeting of the Committee, that member may nominate a substitute member. Any substitute member for a non-executive Board Member must be another non-executive Board Member. A substitute member for an executive Board member may be a non-executive Board Member, an executive Board member, or a member of the Executive Team.
7. A meeting of the Committee will be deemed quorate if two of its members (or

substitute members), including at least one of the non-executive Board Members (or substitute non-executive Board Members), are present.

8. The Committee may ask any Ofwat employee to attend to assist it with its discussions.
9. The Committee may ask any or all of those asked to attend a Committee meeting who are not members of the Committee to withdraw to facilitate open and frank discussion of particular matters.
10. The Committee will be provided with a secretariat function organised by the Board Secretariat.

## Reporting

11. Minutes will be taken of each meeting of the Committee. The Committee will normally formally report back in writing, via its minutes, to the Board after each meeting.
12. In addition, the Chairman of the Committee will report its work to the Board as appropriate.
13. The Committee may decide its own procedures, provided those procedures are not inconsistent with the Board's rules of procedure and with these terms of reference.
14. In line with the procedures followed by Board and its other Committees, the Committee will conduct an annual effectiveness review, which may involve using a short questionnaire. This will form part of the annual reporting to Board.

## Responsibilities

15. The responsibilities of the Committee are to:
  - Make certain final decisions in strategic cases

For the purpose of the Committee's terms of reference, a "strategic" case is one formally labelled as a "strategic case" by the Executive, the Committee, and/or Board.

The relevant final decisions which come under the ambit of the Committee are final decisions relating to strategic cases other than decisions which have to come to Board under Annex C, section (a) of the Board's Rules of Procedure.

As a result, relevant final decisions which come under the ambit of the Committee include the following for example:

- final enforcement action under WIA91;
- final decisions to impose financial penalties under section 22 WIA91;
- final decisions under sections 40/40A (bulk supply agreements), section 42 (water main requisitions), and section 56 (non-domestic supplies);
- final decisions to defend significant litigation;
- final decisions of infringement, non-infringement, “no grounds for action”, commitments, financial penalties, and interim measures under the Competition Act 1998;
- final decisions under new legislation which are equivalent to, or have replaced in some form, any of the above listed final decisions.

For the avoidance of doubt, Board has delegated to the Committee any decision which might otherwise come to Board under Annex C, section (b) of the Board’s Rules of Procedure, provided that decision falls within the remit of the Committee. However, that does not prejudice the Committee’s discretion to voluntarily refer any such decision back to the Board, where the Committee deems that to be appropriate.

## **Annex K: Terms of reference of the Nominations and Governance Committee of the Water Services Regulation Authority (Ofwat)**

1. The Board has established a committee called the Nominations and Governance Committee ('N&G Committee') to:
  - review, and make recommendations on, the structure, size, and composition of the Board (including identifying and nominating for approval candidates to fill certain Board vacancies);
  - review succession planning for the Board, the members of the Executive Team and other senior roles;
  - be engaged in the appointment of any member of the Executive Team; and
  - monitor and make recommendations to the Board on Board governance issues.

### **Membership**

2. The members of the N&G Committee will comprise of up to three non-executive Board members and the Chief Executive.
3. The Board Chairman will chair the N&G Committee. In the absence of the Board Chairman, one of other non-executive Board members will chair the meeting. The Board Chair shall not chair the N&G Committee when it is dealing with matters relating to the chairmanship of the Board.
4. The Board will appoint the members of the N&G Committee for a term of not more than three years, which is renewable.

### **Meetings**

5. The Chairman of the N&G Committee, or in his absence any member of the N&G Committee, may convene meetings of the N&G Committee as he deems necessary. However, the N&G Committee will normally meet at least once a year.
6. A meeting of the N&G Committee will be deemed quorate if two of its members, including at least one of the non-executive Board Members, are present.
7. The N&G Committee may ask any Ofwat employee to attend to assist it with its discussions.
8. The N&G Committee may ask any or all of those asked to attend a N&G Committee meeting who are not members of the N&G Committee to withdraw to facilitate open and frank discussion of particular matters.
9. The N&G Committee will be provided with a secretariat function organised by the Board Secretariat.



## Reporting

10. Minutes will be taken of each meeting of the N&G Committee. The N&G Committee will formally report back in writing, via its minutes, to the Board after each meeting.
11. The Chairman of the N&G Committee will report its work regularly to the Board.

## Responsibilities

12. The responsibilities of the N&G Committee are to:
  - regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board compared to its current position and make recommendations to the Board with regard to any changes;
  - be responsible for engaging, where appropriate, in the relevant Secretary of State's process for filling Board Chairman and non-executive Board members vacancies as and when they arise (or re-appointing the Board Chairman or non-executive members), including assisting the Secretary of State in preparing a job specification for the appointment of a Board Chairman;
  - Identify and nominate for the approval of the Board Chairman and the Chief Executive candidates to fill Board vacancies (other than vacancies relating to the roles of a Board Chairman or a non-executive Board member), and be engaged in the appointment of any member of the Executive Team who will not fill a Board vacancy;
  - review annually the time required from non-executive Board members;;
  - review succession planning for the Board, the Executive Team, and other senior roles including the key roles of the Board Chairman and the Chief Executive, in the course of its work, taking into account the challenges and opportunities facing Ofwat, the skills and expertise that are needed on the Board, the Executive Team, and at the level of other senior roles in the future, and related organisational resilience issues;
  - to the extent deemed to be appropriate by the Chair of the Remuneration Committee, be engaged in the Remuneration Committee's evaluation of new proposed SCS posts and any existing SCS roles where those roles have been significantly revised, and in its decision on the job weight and salary levels; and
  - monitor and make recommendations to the Board on Board governance issues including the establishment of appropriate practices to enable the Board to operate effectively and efficiently.

**Ofwat** (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.



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June 2010

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