

Meeting held on Thursday 28 July 2016
 Venue: 21 Bloomsbury Street, London WC1B 3HF

Members in attendance

Board attendees	
Jonson Cox	Non-Executive Director, Chairman
Christine Farnish	Non-Executive Director
Catherine Waddams	Non-Executive Director
Alison Munro	Non-Executive Director
Tim Waggott	Non-Executive Director
Mark Bayley	Non-Executive Director
Cathryn Ross	Chief Executive
Aileen Armstrong	Executive Director
Richard Khaldi	Executive Director
John Russell	Executive Director
Rachel Wright	Board Secretary
Other attendees	
Keith Mason	Senior Director, Thames Tideway Tunnel
David Black	Senior Director, Water 2020
Rob Powell	Director, Operations
Iain McGuffog	Director, Strategy and Policy
Tim Griffiths	Director, Analytics
Giles Stevens	Director, Analytics
Andy Duff	Principal, Analytics
Elinor Mathieson	Principal, Analytics
Thomas Handysides	Principal, Strategy and Policy
Trevor Bishop	Principal, Strategy and Policy
Apologies	
Martin Lawrence	Non-Executive Director

1. Opening Items and Declarations

- 1.1. The minutes of the previous Board meeting were agreed subject to minor comments.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting:
- the developments on the Retail Market Opening programme;
 - the Board dinner with Consumer Council for Water which occurred on the 27 July;
 - an update on people changes in key stakeholders including Dr Thérèse Coffey MP, who has been appointed as the Water Minister, and Andrea Leadsom MP who has been appointed as Secretary of State for Environment, Food and Rural Affairs; and
 - risks and opportunities for the water and wastewater sector following the UK vote to leave the European Union.

3. Retail Market Opening

- 3.1 The Executive provided an update on the programme for delivering retail competition for business customers in April 2017, highlighting that the risk rating for MOSL has been revised to amber from red, recognising the progress which had been made in the testing phase of the IT systems.
- 3.2 The Board discussed the activities being taken to increase awareness and transparency for market opening beyond existing industry stakeholders, including new entrants and customers.

Assurance letters

- 3.3 The Executive gave an update on the requirements of the assurance letter to be sent to Defra by Ofwat in October 2016. The Executive confirmed that this would be presented to the Board at its September meeting.

- 3.4 The Executive confirmed that at the September Board meeting it would also in that context present the certification statements on Ofwat's achievements of past milestones and the key risks that are likely to be raised in the company and MOSL assurance letters.
- 3.5 The Board discussed the timing for considering water company assurances ahead of Ofwat signing its assessment of company and MOSL assurance letters.
- 3.6 The Board noted the update.

4. Strategy and Planning: Quarter 1 portfolio report and Ofwat dashboard

- 4.1. The Executive presented the quarterly report charting the organisation's performance, strategic risks and opportunities.
- 4.2. The Board discussed the strategic risks for the organisation and considered these in the context of the challenges facing the sector in future, including the impact of Brexit.
- 4.3. The Executive confirmed the next portfolio report would be presented at the October Board meeting.
- 4.4. The Board noted the update.

5. Finance and Governance

Monitoring and assuring delivery

- 5.1. The Executive presented Ofwat's monitoring and assurance delivery framework which sets out company performance information.
- 5.2. The Board noted the importance of comparative information to allow stakeholders to understand progress across the sector and to improve the level of trust and confidence in water and wastewater services.
- 5.3. The Board considered the burden on business of the reporting, but that in this instance it was outweighed by the value of transparency to inform stakeholder and customer understanding of progress being made in the sector.

- 5.4. The Board noted the update.

Sector strategic dashboard

- 5.5. The Executive presented an update on the development of the sector strategic dashboard ahead of a Board discussion with WaterUK at its September meeting.
- 5.6. The Board discussed the role of the dashboard in its current form as a tool to inform stakeholders of developments in the sector, and noted stage two of the project.
- 5.7. The Board discussed the importance of including clear definitions and measures in the dashboard to ensure it is useful for stakeholders across the sector.
- 5.8. The Board noted the update.

Variable assurance framework

- 5.9. The Executive presented and invited views on the approach being taken to the Company Monitoring Framework (our variable assurance framework) assessment. This is considering the reliance that can be placed on companies' assurance of the quality of the information they provide.
- 5.10. The Board discussed how to we had defined our expectations of companies and how we had ensured that companies understood them. The Executive confirmed that this had been included in previous consultations and publications in 2015.
- 5.11. The Board noted that it would discuss and agree our proposed final decisions on company categorisations at its October Board meeting.

Changes of ownership and control

- 5.12. The Executive presented a proposal on how we will consider issues relating to changes of controlling shareholdings of companies.
- 5.13. The Board discussed Ofwat's powers in relation to changes of control or ownership.
- 5.14. The Board discussed the need for a framework for managing changes in control or ownership, recognising the challenges that each case could bring.

- 5.15. The Board noted the proposed approach to issues relating to changes in control of companies.

6. Compliance and assurance

Q1 Budget report

- 6.1. The Executive presented the budget report covering the period from April to June 2016.
- 6.2. The Board noted the budget update for Quarter 1.

7. Business transformation: Ofwat Blueprint

- 7.1. The Executive shared Ofwat's new Blueprint which is published on Ofwat's website.
- 7.2. The Board welcomed the Blueprint as a tool for setting out what Ofwat does and how it works.

8. Casework

Quarterly update

- 8.1. The Executive presented an overview of the work of the casework programme from April to June 2016, including an update on the number of applications received for water supply and sewerage licences in preparation for business retail market opening in 2017.
- 8.2. The Board noted the update.

Developer services

- 8.3. The Executive presented an update on progress made by the sector on engaging with developers as customers, noting that average performance measures for water and wastewater services to developers had increased between Q1 and Q4 of 2015-16.

- 8.4. The Board discussed how developer services are considered across Ofwat's portfolio of work going forward, particularly in relation to business retail market opening in April 2017.
- 8.5. The Board noted the update.

9. Water 2020

Licensing

- 9.1. The Executive presented an overview of company responses to the package of proposed changes to licences.
- 9.2. The Board noted the update.

Cost of Debt

- 9.3. The Executive set out their preferred approach to setting the cost of debt at PR19 for consultation.
- 9.4. The Executive gave a summary of the issues arising in setting the cost of debt.
- 9.5. The Board discussed the use of a true-up mechanism compared to a rolling benchmark in setting the cost of debt.
- 9.6. The Board discussed the importance of good treasury management and the positive impact this has on customers.
- 9.7. The Board discussed innovative approaches to setting the cost of debt and encouraged more innovation in this area across the sector. The Board noted the importance of incentives as a tool for setting the cost of debt.
- 9.8. The Executive confirmed the next steps for the consultation.

PR16 Review of Business Retail Price Controls

- 9.9. The Executive presented the proposed process and timetable for the price control review for 2016, highlighting that the draft determinations are expected to be issued on 15 September 2016.

- 9.10. The Board discussed the impact of price controls on smaller business customers, noting that there would be a high evidential bar required of companies who wish to increase margins for smaller customers.
- 9.11. The Board agreed to meet to assess the proposed draft determinations in August.

Residential Retail Review

- 9.12. The Executive gave an update on the Residential Retail Review project following the publication of the emerging findings.
- 9.13. The Executive set out the themes within the responses from stakeholders to the emerging findings.
- 9.14. The Executive proposed the areas for change in the assessment following the emerging findings and further evidence received.
- 9.15. The Board agreed to discuss the final report in August.

Rachel Wright
Board Secretary
28 July 2016