

Meeting held on Thursday 27 October 2016
 Venue: 21 Bloomsbury Street, London WC1B 3HF

Members in attendance

Board attendees	
Jonson Cox	Non-Executive Director, Chairman
Martin Lawrence	Non-Executive Director
Catherine Waddams	Non-Executive Director
Alison Munro	Non-Executive Director
Christine Farnish	Non-Executive Director
Tim Waggott	Non-Executive Director
Mark Bayley	Non-Executive Director
Cathryn Ross	Chief Executive
John Russell	Executive Director
Jenny Block	General Counsel and Board Secretary
Other attendees	
Keith Mason	Senior Director, Thames Tideway Tunnel
David Black	Senior Director, Water 2020
Claire Forbes	Senior Director, Corporate Communications
Rebekah Eden	Director, Programmes and Project Management
Sam Bache	Director, Operations (Finance)
Tim Griffiths	Director, Water 2020
Stephen St Pier	Associate Director, Water 2020
Jon Ashley	Associate Director, Water 2020
Ian McNicol	Principal, Water 2020
Tom Handysides	Principal, Finance and Governance
Andy Duff	Principal, Finance and Governance
Sally Irgin	Associate Director, Casework
Harpreet Atwal	Principal, Casework
Adam Cooper	Director, Retail Market Opening
Amanda Rooney	Principal, Retail Market Opening

Ronan Palmer	Director, Strategy and Planning
Rowaa Mahmoud	Principal, Strategy and Planning
Apologies	
Richard Khaldi	Executive Director
Aileen Armstrong	Executive Director

1. Opening Items and Declarations

- 1.1. The minutes of the Board call held on 18 August were agreed.
- 1.2. The minutes of the previous Board meeting held on 22 September were agreed subject to minor comments.
- 1.3. Jonson Cox mentioned a change in his interests to be noted.
- 1.4. The Board noted with thanks the work being undertaken by SLT members, particularly by Keith Mason, in supporting the Finance & Governance team in the period to Christmas.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting:
 - The new format for the report: the Board was invited to pass on any comments. The Chief Executive noted that the Strategic Risk Register would be updated for the Board meeting in November.
 - Changes in company ownership: the announcement of the bid by Ancala Fornia Limited for Dee Valley Group plc was noted. The Chairman noted the importance of the regulator having appropriate visibility of proposed transactions in a timely way.
 - Latest developments from Government and the Welsh Assembly: John Russell reported on recent discussions on the government's anticipated Strategic Policy Statement for England and the equivalent anticipated from the Welsh Assembly. The Board discussed the importance of the resilience objective and Ofwat's role in considering carefully how that should be reflected in its future work taking account

of the range of factors that go to resilience across the sector. The Board also noted the recent report on standards in public life and the importance still attached to the independence of economic regulators.

- Pulse survey: the Chief Executive reported on the results of the survey and the significant increase in the Ofwat active advocacy score. The Chief Executive noted that work is already underway on the themes of concern to staff.
- Recruitment: the Chief Executive reported on the recent recruitment of a new director in the business transformation programme.

Q2 Portfolio Report including Q2 budget report

- 2.2. The Board discussed the key items emerging from the Q2 budget report and commented on the revised format.
- 2.3. The Board discussed the increasing use of CCJs to manage debt and that while there were advantages in terms of certainty, this was not necessarily the optimum solution in all circumstances. The Executive noted that we were working closely with other regulators on this issue.

3. Water 2020

Licence changes – towards formal section 13 consultation on licence modifications

- 3.1 The Executive noted considerable progress made through the informal process, working with companies who agreed in principle to the package of changes to develop the detail of licence modifications. This will enable the policy positions published in May 2016 in relation to Water 2020 to be realised. There remain some areas of concern and the Executive noted the current positions taken by companies.
- 3.2 The Board discussed the outstanding issues and the licence modifications proposed in light of the most recent feedback. The Board agreed that it was appropriate to move to the formal statutory consultation and asked the Executive to consider also communications with the investor community. The Board delegated to the Chief Executive signing off the terms of the proposed licence modifications and the consultation document.

Determination of in-period ODIs for 2015-16

- 3.3 The Executive set out the proposed draft determinations for Anglian, Severn Trent and South West Water in relation to the first year of operation with respect to their in-period ODIs and asked the Board for comment. The Board noted the importance of companies liaising closely with their CCGs with respect to the proposed outcomes for next year.
- 3.4 In relation to South West Water, the Board discussed the relevance of SWW's WaterShare initiative in this context and that WaterShare was a 'frontier' scheme at the time of PR14. The Board noted that it appeared to have a particular bearing this year but ongoing performance would need to be carefully monitored.
- 3.5 Going forward, the Board discussed the importance of ensuring that performance commitments and their associated ODIs were framed by reference to performance over and above what might otherwise be expected and the need to ensure they were set by reference to a reasonable return on investment. The Board noted the strong views expressed on ODIs by CCG Chairs with the principle expressed that performance commitments needed to be a lot tougher and more comparable. It was recognised that Ofwat would continue to learn more about the impacts of this mechanism as we worked towards the next price control.
- 3.6 The Board delegated to the Chief Executive issuing the draft determinations and approving the final determinations in light of comments received, subject to there being no material issues.

Wholesale charging rules

- 3.7 The Executive set out the key issues raised in response to the consultation on draft Wholesale Charging Rules and noted that it had been very well received with a number of respondents noting that the draft rules were clear, helpful and well developed. The Board discussed the key issues raised, in particular on the assurance of indicative charges, the publication of the wholesale element of charges under special agreements, and requiring wastewater service charges to be clear and in England, for these charges to be listed separately.
- 3.8 The Board agreed with the views the Executive expressed with respect to addressing these issues and agreed to delegate to David Black finalising and issuing the charging rules on behalf of Ofwat.

4. Finance and Governance

Company Monitoring Framework: 2015-16 variable assurance assessment

- 4.1. The Executive set out the context of their consideration of the assessments made of companies' assurance and the proposed conclusions. This was the first time the assurance framework anticipated in PR14 in full, and further developed through consultation in 2015, had been applied. As expected, there were examples of improvements and some instances of relatively poorer assurance practices.
- 4.2. The Board discussed the approach taken by the project team in its assessment and in reaching the proposed conclusions and it agreed with the categorisations proposed. The Board also discussed the communications and engagement process for this year's results.
- 4.3. It was noted that the assurance process was designed to assist companies, and by drawing attention to the areas that ought to be improved, companies would be better equipped to provide the appropriate level of assurance to their stakeholders. The Board noted the importance of appropriate assurance practices as one factor that will be relevant to companies achieving enhanced status in the context of the 2019 price review.

5. Casework

Quarterly update on Programme

- 5.1. The Board noted the shift of work in the Casework Programme to a greater focus on markets in anticipation of business retail market opening and the breadth of tools at Ofwat's disposal to deal with potential issues arising. The Board noted that the strategy to focus resources on fewer but more significant cases was being realised.

Enforcement Guidance Refresh

- 5.2. The Executive noted that the updated Enforcement Guidance did not involve significant changes. The main areas updated were to update references to reflect Ofwat's vision and strategy and its approach to and use of settlement where appropriate instead of formal enforcement action. All responses to the consultation had been supportive.

- 5.3. The Board agreed to delegate final sign-off of the refreshed enforcement document to the Chief Executive.

6. Retail Market Opening

- 6.1. The Executive provided an update to Board on the current experience of shadow running of the business market and of the second assurance process and the letter submitted to Defra in October.
- 6.2. The Board noted that overall the quality of the assurance letters received from companies had improved in this cycle. The team had followed up with a number of companies and received prompt responses. Ofwat provided the assurance letters to Defra on time and we had received positive feedback about the quality of assurance provided. It is expected that the Government's view of current status would reflect the higher bar inevitably applied given this stage of the process.
- 6.3. The Executive updated the Board on recent discussions with MOSL on the operation of shadow market opening.
- 6.4. The Board thanked the team for their hard work in getting to this point.

7. Strategy and Planning

2017-18 Business Plan and Forward Programme

- 7.1. The Executive presented a paper considering a process for prioritising Ofwat's activities over the coming year and streamlining the process for updating the 5 year forward programme, in the latter case to consider whether there were ways to make this process more efficient.
- 7.2. The Board agreed with the aims set out and the importance of linking our priorities to Ofwat's statutory duties.

8. Strategic Conversation – Looking ahead Ofwat in 2022 and Scenarios for 2050

- 8.1. The Board discussed the range of issues that Ofwat may have to face in 2022 and beyond and the factors that could give rise to both incremental change and more fundamental change in the external environment and regulatory environment for

water and sewerage services. Some of the key themes were the potential amplitude and volatility of change, and in the context of considerations of resilience, the importance of our ability to adapt to radical changes in technology impacting both the demand and supply side of the sector, and further developments in relation to climate change and population / demographic changes.

- 8.2. Consideration of these issues would play into an assessment of the appropriate shape of Ofwat in years to come in terms of skills and capabilities.

9. Updates from Committee Chairs

Audit and Risk Assurance Committee

- 9.1. The Chair of the Audit and Risk Assurance Committee reported on the September meeting at which the Committee reviewed Ofwat's anti-fraud and bribery policy which was approved subject to small changes. The Committee was updated following the 'deep dive' on Ofwat's financial controls. Great progress had been made thanks to the efforts of the team. In relation to information management, it was agreed that there would be quarterly updates to the Board from the SIRO through the Chief Executive's report.

Thames Tideway Tunnel Committee

- 9.2. The Chair of the Committee noted that the main item for discussion was the proposed approach to integration of Thames Water's flood alleviation scheme at Counters Creek with Tideway, which was an ongoing and complex initiative. The Committee also agreed a number of waivers from the application of the SIP Regulations governing procurement for the project.

10. Any Other Business

- 10.1. The Board discussed the agenda for the forthcoming event for company NEDs.

Jenny Block

Board Secretary

27 October 2016