

Meeting held on Thursday 15 December 2016
 Venue: 21 Bloomsbury Street, London WC1B 3HF

Members in attendance

Board attendees	
Jonson Cox	Non-Executive Director, Chairman
Catherine Waddams	Non-Executive Director
Alison Munro	Non-Executive Director
Christine Farnish	Non-Executive Director
Martin Lawrence	Non-Executive Director
Mark Bayley	Non-Executive Director
Cathryn Ross	Chief Executive
John Russell	Executive Director
Richard Khaldi	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
Tim Griffiths	Director, Water 2020
Adam Cooper	Director, Retail Market Opening
Amanda Rooney	Senior Associate, Retail Market Opening
Stephen St Pier	Associate Director, Strategy and Policy
Rebekah Eden	Director, Programmes and Project Management
Liz Herridge	Delivery Director, Operations
Apologies	
Tim Waggott	Non-Executive Director
Aileen Armstrong	Executive Director

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 24 November were agreed.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting:

- Asset health: notably the causes and impact of the recent mains pipe bursts in the Islington, Blackheath and Stoke Newington areas of London. The Board noted the severity of these incidents and the significant disruption it had caused to people's lives. The Board also noted the importance of proactive engagement with customers throughout these incidents and the need to keep the regulator up to date in these circumstances. It was expected that Thames Water would undertake a detailed and transparent 'lessons learned' exercise with independent input and would share its conclusions and resulting action plan with us. In light of broader issues in this context, and noting equally that there should be no disproportionate emphasis on one incident or one company, the Board agreed that it would be appropriate to undertake a wider review of asset health in the context of our ongoing work on resilience.
- Impact of RPI increase: The Board noted that the November RPI had gone up to 2.2% which would impact on bills in April. Nevertheless, this was in the context of an overall decrease of 5% in real terms over the period and was not out of line with the RPI estimate factored into the PR14 price review of 2.8%. This RPI increase was about 100bp higher than the increase in CPI.
- SPS Wales and legislative developments on Silk Commission report: the Chief Executive noted the changes agreed in the House of Lords to the Wales Bill and the impact on regulation of water and sewerage services. The Board discussed the potential impacts on customers.
- Company results: the Board discussed the key themes arising from companies' results, for example, modest real revenue increases for most companies; a mixed picture on operating profits; a positive net cash flow before financing for all companies except Thames Water (it was becoming more common to have a positive net cash flow at the half year); and that dividends were up for all except Anglian Water. The Board noted the position on pensions and welcomed Severn

Trent's acknowledgement that its deficit was an issue within its own responsibility.

- Cyber heatmap: the Board welcomed the proposed heatmap of cyber and information security risks and that this would be included in CE reports in future. The Board noted that the Executive considered that while Ofwat had sufficient mitigation in place to manage these risks, the situation would be kept under constant review.
 - Contract approval: the Board approved a call-off contract for the provision of legal services to continue to support the Water 2020 programme.
- 2.2. The Board discussed other potential changes in company structures and related regulatory proposals, as well as the Government's intention to expand the scope of the regulatory regime in England to cover the Isles of Scilly and related regulatory issues.
- 2.3. The Board discussed the ongoing importance of the various joint working initiatives under the auspices of the UKRN.

3. Water 2020

Licence changes – Consultation responses and next steps

- 3.1 The Board discussed the responses to the formal section 13 consultation on licence modifications.
- 3.2 The Board noted that all companies who had responded to date had accepted the proposed changes, the vast majority with no comments. The Board noted the comments that had been made and how the Executive proposed to deal with them. A number of the comments would be considered in the context of wider work on the methodology for PR19. Only one company's written response was outstanding, although it had indicated informally that it would accept the proposed changes.
- 3.3 The Board supported the intention to proceed to make the formal modifications to company licences from January 2017, taking account of any necessary differences between companies, and for the changes to the licence to be made by April 2017. It welcomed the constructive engagement from companies on these licence modifications.

4. Strategy and Planning

Ofwat in 2022

- 4.1 The Board discussed the paper presented on the potential shape of Ofwat and the water sector in 2022 and what we should do now to prepare for the future. The paper considered in particular how the demands of customers were likely to evolve, how retail markets may operate, the various interdependencies and the need for resilience across the different types of networks. The environmental agenda was also of central importance. The Board also considered the importance of innovation and how Ofwat might encourage companies to think innovatively in relation to new infrastructure and customer services.
- 4.2 The Board agreed that we needed to improve our understanding of the range of customer experiences, concerns and aspirations as well as behavioural insights and stay at the forefront of sector thinking on resilience.
- 4.3 The Board noted the importance of weaving this thinking into Ofwat's forward plan and strategic priorities, as well as the importance of learning from our wider networks, including other regulators and those within and beyond the water sector community, such as the scientific community. Market monitoring activities should create a deep understanding of potential issues and responses using a wide range of information and engagement tools.
- 4.4 As an organisation, Ofwat should further develop its medium to long-term capacity to plan, forecast, manage risks and prioritise.

Ofwat priorities and draft forward programme

- 4.5 The Board discussed the draft forward programme and agreed with its structure and broad themes and made a number of recommendations on language and tone. The Board also agreed with the refreshed Ofwat strategic priorities.
- 4.6 The Board delegated to the Chief Executive the publication of the draft for consultation subject to no material amendments being made. The final Forward Plan and 5 year business plan would be circulated to the Board for comment by correspondence with final publication delegated to the Chief Executive.

Brexit and the potential impacts on the water industry

- 4.7 The Executive updated the Board on the Government's current, and publicly stated, intention to trigger Article 50 of the Lisbon Treaty early next year.
- 4.8 The Board noted a number of potential opportunities arising from Brexit, including the potential impact over time on environmental legislation with the scope for post-Brexit arrangements to allow for greater UK discretion in how the standards are applied, and the outcomes delivered. This would likely underscore the importance of considering resilience in a broad sense to include environmental, corporate and financial resilience, as well as resilience through infrastructure development.
- 4.9 The Board discussed the potential impact of the loss of EIB funding which at present was expected to have modest implications for the PR19 allowed cost of debt. The Board noted that should EIB funding cease, alternative sources of funding for water companies from UK and international capital markets are readily available. The Board agreed that it was important to monitor the implications of macroeconomic changes for companies' costs and revenues.
- 4.10 The Board noted that affordability will remain an issue given the economic uncertainty post-Brexit and that this should be monitored closely. It was important to keep listening carefully to customers' views. The Board agreed that companies should remain focused on delivering for customers and the environment despite these uncertainties; and be prepared to manage risk themselves rather than seek to transfer it to customers.
- 4.11 Ofwat would continue to engage with Government on Brexit related policy developments and to think about opportunities that could result from being outside the EU.

5. Retail Market Opening

- 5.1. The Executive gave an update on developments since the November meeting, and the Board noted the good progress made over the last month consulting on or completing the final elements of the regulatory framework. The key outstanding tasks are developing a final position on transition, which would be put to consultation in mid-December, with the statutory transition scheme itself being finalised in advance of the marking opening.
- 5.2. The Board noted the proposed consultation on principles for a code of practice for third party intermediaries and the importance of there being a coherent, unified

approach to such intermediaries across all sectors and of keeping pace with market developments. The Executive noted that it was considering seeking more explicit powers in this area, which the Board supported.

- 5.3. The Board noted that the initial results of the Open Water customer awareness survey showed little improvement in terms of customer awareness and that a follow up survey, which was likely to be more informative, would be undertaken next year. The Board asked for some insight into which type of business companies were targeting and how different business models were developing and getting traction in the market.
- 5.4. The Board noted the progress made in terms of handover of the activities of the dedicated RMO programme to other Ofwat programmes.

Assurance Letter 3 – overview and approach to letter

- 5.5. The Board noted the requirements of the third Assurance letter and the changes that Government was prepared to make to all letters to take account principally of the timing of submission of the letters and market opening. The Executive noted that Ofwat's internal auditors were undertaking an audit of relevant parts of the Ofwat letter to provide additional assurance to the Board in January 2017.
- 5.6. To facilitate the work required to submit the final assurance letter to Defra on receipt of MOSL's and companies' letters, the Board suggested the Chief Executive encourage early submission where possible.

6. Update from Committee Chair

Thames Tideway Tunnel Committee

- 6.1. The Chair reported on the November meeting at which the Committee discussed the proposal to integrate Thames Water's Counters Creek Flood Alleviation Scheme with the Thames Tideway Tunnel (TTT).

Audit and Risk Assurance Committee

- 6.2. The Chair of the Committee reported on the December meeting at which the Committee discussed the proposed timetable for approving the annual report and accounts.

- 6.3. There were a number of other items where the discussion focussed on seeking an appropriate balance in terms of process and compliance, and suitable delegations. It had been agreed that the Executive would consider these issues and report back to the Committee in March 2017.

7. Any Other Business

- 7.1. The Chair noted that Board evaluation would be undertaken next year, including evaluation of the performance of the core Committees; the Audit and Risk Assurance Committee and the Remuneration Committee.
- 7.2. The Chair updated the Board on a number of developments within companies in terms of executive and non-executive appointments.
- 7.3. The Chair also congratulated the Executive on an excellent all staff learning event. The drive and enthusiasm of all Ofwat people was very evident.
- 7.4. There was no other business and the Chairman closed the meeting.

Jenny Block

Board Secretary

15 December 2016