

Meeting held on Thursday 26 January 2017
 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
Martin Lawrence	Non-Executive Director
Tim Waggott	Non-Executive Director
Mark Bayley	Non-Executive Director
Cathryn Ross	Chief Executive
John Russell	Executive Director
Richard Khaldi	Executive Director
Aileen Armstrong	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
Alena Kozakova	Chief Economist
Tim Griffiths	Director, Water 2020
Colin Green	Design Director, Water 2020
Mark Anderson	Principal, Corporate Communications
Trevor Bishop	Principal, Strategy and Planning
Adam Cooper	Director, Retail Market Opening
Amanda Rooney	Senior Associate, Retail Market Opening
Ruth Gibson	Principal, Strategy and Planning
Nicci Russell	Director, Strategy and Planning
Sam Bache	Director, Operations (Finance)
Rebekah Eden	Director, Programmes and Project Management

Patrick Ellis	Director, Alternative Delivery Models
Brigitte Gaylor	Senior Associate, Casework
Elinor Mathieson	Principal, Analytics
Omer Tauqir	Grant Thornton – Internal Auditor
Eifiona Williams	Welsh Government
Paul Harrison	Welsh Government
Apologies	
Christine Farnish	Non-Executive Director

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 15 December were agreed.
- 1.2. There were no conflicts of interest to declare by reference to the matters on the agenda. Non-Executive Directors noted a number of matters that they considered should be noted in the public register of disclosable interests.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting:
 - The passage of the Wales Bill through its final Committee stages;
 - Issues arising in the North West with respect to United Utilities' approach to surface water drainage charges;
 - The proposed new Market Outcomes and Enforcement programme which would have oversight of the new competitive business retail market in England from 1 April 2017. The Board noted the importance of working closely with other regulators to capture insights; and
 - Key themes from the UK Government's Industrial Strategy: while this contains no specific actions for regulators, or changes to regulatory policy, the success of independent economic regulation in attracting investment was noted. The Board noted the intended introduction of a Housing Infrastructure Fund (£2.3bn) to target infrastructure and utilities, and the importance placed on the resilience of

infrastructure which was highlighted by reference to, among others, the water sector but also the energy and transport sectors.

Q3 Portfolio Report including Q3 Budget Report

- 2.2. The Board noted and discussed the key items emerging from the Q3 portfolio and budget report considering Ofwat's financial performance in the year to date. The Board discussed proposed next steps with respect to strategic priorities and business planning, and progress within the portfolio against key milestones in the 2016/17 Forward Programme.
- 2.3. The Board considered a summary of the current levels of our strategic risks and opportunities and interdependencies across the portfolio and reviewed the key milestones in Quarter 4.

3. Water 2020

Overview

- 3.1 The Board discussed the overview of the Water 2020 programme which focused on the core elements of the PR19 methodology document including the Risk Based Review or Initial Assessment and form of control, due to be published in July 2017.
- 3.2 The Board discussed the different elements of the price control and their relative importance. The Board indicated it would be useful to understand more about the areas of water network plus and wastewater network plus, which drive significant expenditure.
- 3.3 The Board considered initial views with respect to the approach to the Initial Assessment of company business plans. The Board recognised that the Initial Assessment would play an important role and that it was important to set ambitious targets for companies to deliver what customers need in terms of customer service, affordability, resilience and innovation.
- 3.4 The Board asked the Executive to take account of the forthcoming NAO cross-sector report on vulnerability.

PR19 communications and narrative

- 3.5 The Board discussed the proposed approach to communications and engagement. The Board also discussed the proposed narrative for PR19.
- 3.6 The Board agreed the crucial role that effective engagement across all our stakeholders had to play in PR19, and with the importance of a clear narrative to communicate our proposals and to set expectations, while not compromising the consultative nature of this next phase of work or fettering our discretion.
- 3.7 The Board supported the four core themes of customer service, affordability, long term resilience and innovation and considered it important to set ambitious expectations for the sector under each of these themes.

Introduction to the Form of Control

- 3.8 The Board discussed in general terms the main different forms of the wholesale price controls, which had already been decided upon, and the different incentive mechanisms that each provided, to be developed further in the coming months, for example:
- the options and approach to developing a volume metric that will form the basis of the average revenue cap in relation to bioresources;
 - the options for appropriate revenue adjustment mechanisms to incentivise companies to forecast capability requirements effectively and, where resource markets deliver more efficient third party water resources, to adjust revenues to protect customers from inefficient investment; and
 - options for the treatment of income from the provision of services to developers to ensure efficient service provision.
- 3.9 The Board was interested to note the impact of different forms of control on incentives.

Water Resource Management Plans

- 3.10 The Board received an introduction on the water resource management planning process operated by Defra and the Welsh Government. The Board noted that WRMPs will play an important role in setting the tone and content of Business Plans for water supply services and resilience. The Board noted the importance of our effective participation in the process to develop these plans.

- 3.11 The Board discussed the relative importance of leakage and demand management and the role of effective inter-company water trading.

4. Retail Market Opening

- 4.1 The Executive provided an update on developments since the December Board 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 were: completion of the market codes and the statutory transition scheme in February. Work was continuing across the organisation on handover from this phase of the programme to enduring operations.
- 4.2 The Board discussed the progress of the shadow market operations and MOSL and company readiness. The Board noted the results of the customer awareness survey and the national awareness campaign that had just been launched and which would run until early April, raising awareness of the opening of the water market. The campaign would focus communications on micro, small and medium sized businesses, where current awareness is low, communicate the potential customer benefits of renegotiating a current deal or shopping around for a new one, and signpost how customers can learn more and check their eligibility to enable informed decision making.

Assurance Letter 3

- 4.3 The Board discussed the third Assurance Letter to be provided by Ofwat to the Secretary of State, and which is split into elements that relate to Ofwat's own programme of work and those that relate to market participants and MOSL. This final Assurance Letter is due for submission on 10 February as part of the Framework set out by Defra.
- 4.4 The Board noted the assurance provided by the Executive and supplemented by our Internal Auditors who agreed that Ofwat's own readiness could be rated green, i.e. that no issues had been identified and that Ofwat was on track for being ready for market opening. The Board approved the Ofwat Readiness statements in Section 1 of the final letter.
- 4.5 The Board confirmed the delegated authority to the Chairman, Chief Executive and the Chair of the Audit and Risk Assurance Committee as required under the Assurance Framework, to sign off the letter following our review of company and MOSL readiness letters.

Market Codes Consultation Responses

- 4.6 The Board discussed the core market Codes that provide the key building blocks of the regulatory framework for the new retail market, setting out the relationship between wholesalers and retailers and on which Ofwat had consulted at the end of 2016.
- 4.7 The Board discussed the responses to the consultation on the final form of these Codes and that the majority of respondents had confirmed that the Codes were ready for Market Opening.
- 4.8 The Board noted the work being undertaken to finalise the Codes, including the main changes proposed. The Board approved the issue of the codes with delegated authority to the Chief Executive to sign off publication of the final version of the codes.

5 Strategy and Planning

The UK and Welsh Strategic Policy Statements

- 5.1 The Board discussed the draft Strategic Policy Statement that had been issued for consultation by the Welsh Government and the strategic priorities and objectives emerging from discussions on the draft UK Strategic Policy Statement. The Board noted the strong and positive relationships Ofwat had with both governments and the constructive engagement to date as well as the opportunity both statements represented.
- 5.2 The Board appreciated that the Strategic Policy Statement for Wales reflected different views on the part of the Welsh Government on the role of competition and of markets.
- 5.3 The Board was delighted to welcome representatives of the Welsh Government to discuss the draft Strategic Policy Statement for Wales.

6 Compliance and Assurance

Annual Board risks and opportunities review

- 6.1 The Board reviewed Ofwat's strategic risks and opportunities and agreed that our risk appetite should remain as 'open', although 'cautious' with respect to the risks associated with our own compliance.
- 6.2 Despite significant changes in the external environment and forthcoming business retail market opening in England, the Board agreed that the expression of our strategic risks and opportunities remained appropriate. Minor adjustments to the strategic risks were agreed to provide greater clarity. The Board agreed that the risk entitled 'Corporate governance and organisational capability' should be refocused on 'Corporate governance' and that organisational capability risks should be considered as part of our 'Portfolio delivery' risk.

2017-18 Budget and Licence Fees

- 6.3 The Board discussed and approved the proposed budget and annual licence fees envelope for 2017-18. The Board noted in particular the steps being taken to manage the risks of under- and overspend in the coming financial year.
- 6.4 The Board delegated authority to the Chief Executive to set the final 2017-18 budget, licence fees and programme budget allocations up to the maximum value of the approved budget. The Board also delegated to the Chief Executive any future decision about whether to raise a special licence fee for the £0.48m uninvoiced central contingency.

7 Business Transformation

Alternative Delivery Model

- 7.1 The Board received an update on the Alternative Delivery Model project and noted the emerging options being considered to aid the development of the business case.

8 Casework

Quarterly update on the Programme

- 8.1 The Board noted the update on the Casework programme activities.
- 8.2 The Board noted the decision to create a new programme – the Market Outcomes and Enforcement Programme (MOE) – which would absorb the work of the Casework programme on intervening, using our casework tools, on behalf of customers and expanding it to cover all aspects of enduring operations arising from the Retail Market Opening programme including engagement with customers through the Open Water brand and website.
- 8.3 The Board noted the Executive’s initial view of the key points raised in responses to our consultation on refreshed Competition law guidance. The Board noted that the refreshed guidance would be discussed again at its next meeting.

9 Update from Committee Chair

Remuneration and People Committee

- 9.1 The Chair of the Committee reported on the December meeting at which the Committee discussed an overview of the proposed new organisational delivery programme, Fit for the Future, and focussed on health and wellbeing, our graduate development programme and the final conclusions on staff pay and reward.

10 Strategic Conversation: Macro-Economic Trends

- 10.1 The Board received a presentation on macro-economic trends and considered the main factors that could influence the direction of the UK economy over the next price review period and the potential impact on Ofwat’s strategy and on the performance of Ofwat’s functions in line with its duties.
- 10.2 Among the factors the Board discussed were the impacts of the EU exit vote, changes in the wider global economic and political climate, as well as issues affecting local communities and regions from a societal and economic perspective. The Board considered in particular potential impacts on customers and on the companies we regulate, including the potential impacts on investment

and investor returns and M&A activity. All of these factors would have implications for Ofwat and the way in which it may regulate the sector in the coming years.

11 Any Other Business

11.1 There was no other business and the Chairman closed the meeting.

Jenny Block

Board Secretary

26 January 2017