

Meeting held on Thursday 27 April 2017
 Venue: Centre City Tower, 7 Hill Street, Birmingham B5 4UA

Members in attendance

Board attendees	
Jonson Cox	Non-Executive Director, Chairman
Martin Lawrence	Non-Executive Director
Tim Waggott	Non-Executive Director
Mark Bayley	Non-Executive Director
Catherine Waddams	Non-Executive Director
Alison Munro	Non-Executive Director
Christine Farnish	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
Tim Griffiths	Director, Water 2020
Colin Green	Director, Water 2020
Jake Wood	Principal, Water 2020
Ynon Gablinger	Principal, Water 2020
Andrew Chesworth	Director, Water 2020
Gordon Hutcheson	Principal, Water 2020
Elinor Mathieson	Principal, Analytics
Rebekah Eden	Director, Programmes and Project Management
Sam Bache	Director, Operations (Finance)
Ian Pemberton	Principal, Strategy and Planning

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 30 March were agreed, subject to one minor amendment.
- 1.2. There were no conflicts of interest to declare by reference to the matters on the agenda.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting:
 - Asset Health: the Board received an update on the information provided by Thames Water on its forensic review following the mains bursts earlier in the year. The Board also noted the ongoing work in relation to Ofwat's own targeted review of asset health and some emerging themes.
 - Business Retail Market: the Board noted the insights emerging after the short period in which the business retail market had been open to competition in England, and the encouraging signs of market engagement and successful switching with successful interaction with the central system. The Board noted the nature and number of switches being recorded by MOSL, and the types of businesses and public sector bodies who had switched.

Q4 Portfolio Report including Q4 Budget Report

- 2.2. The Executive presented the Quarter 4 portfolio report which set out how Ofwat's programmes contributed to the delivery of its strategy and the status of strategic risks and opportunities.
- 2.3. The Board noted the key items highlighted in the Q4 portfolio and budget report considering Ofwat's financial performance in the year to date. The Board discussed the progress within the portfolio against key milestones in the 2016/17 Forward Programme.
- 2.4. 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 for Quarter 1 2017/18. The Board noted the currently reported increased risk of drought in the context of sector resilience more generally.

3. Water 2020

Overview

- 3.1 The Executive presented the overview of the Water 2020 programme seeking approval from Board on a number of aspects of the PR19 methodology consultation, due to be published in July 2017.
- 3.2 The Board received an update on progress on the publication of guidance on the approach to calculating the economic value of the RCV for bioresources, on which Ofwat had consulted in March. The Board noted that it is expected that companies will propose a draft RCV allocation in September 2017, on which Ofwat will comment, and they will propose a final allocation in their business plans in 2018. Ofwat will take a decision on the allocation of RCV as part of the PR19 determinations.
- 3.3 The Board noted progress in finalising the 2014-15 reconciliation adjustment.

Initial assessment of business plans (IAP)

- 3.4 The Board discussed the proposed approach to the initial assessment of business plans (IAP) and the importance of encouraging the provision of high quality, innovative and ambitious business plans. The Board considered the options proposed for the categories that would form the basis of the assessment of plans and the proposed approach to categorisation.

Wholesale cost assessment

- 3.5 The Board discussed the proposed approach to wholesale cost assessment for the PR19 methodology consultation, including its role in incentivising companies to submit efficient plans, and how benchmark analysis would be used to set efficient cost challenges for companies.
- 3.6 The Board agreed the proposed approach to be reflected in the July methodology consultation subject to some points of detail.

Retail cost assessment

- 3.7 The Board discussed the proposed approach to retail cost assessment for the PR19 methodology consultation, including a high level approach to assessing retail expenditure, dealing with inflation risk, and bad debt.
- 3.8 The Board agreed the proposed approach to be reflected in the July methodology consultation subject to some points of detail.

Cost of equity

- 3.9 The Board discussed the proposed approach to the cost of equity in the PR19 methodology consultation.
- 3.10 The Board agreed the proposed approach to the cost of equity to be reflected in the July methodology consultation subject to some points of detail.

Assessing financeability

- 3.11 The Board discussed the proposed approach to assessing financeability, including a high level approach to using a notional capital structure and gearing, and expectations for company assurance on the financeability of business plans.
- 3.12 The Board agreed the proposed approach to financeability to be reflected in the July methodology consultation subject to some points of detail.

Setting tax allowances

- 3.13 The Board discussed the proposed approach to setting tax allowances for PR19.
- 3.14 The Board agreed the proposed approach to setting tax allowances for PR19 to be reflected in the July methodology consultation subject to some points of detail.

4. Finance and Governance

Licence simplification

- 4.1. The Executive provided an update on the work underway on seeking to simplify the main Instruments of Appointment and the proposed approach to taking this work forward.

4.2 The Board noted the key aim to better reflect the current regulatory and wider environment and both current and expected sector priorities. The intention is to:

- take opportunities to use a principles based approach where possible;
- provide greater clarity and simplicity, removing redundant provisions; and
- retain flexibility to adapt into the future.

4.3 The Board noted that this project was not intended to seek to introduce material changes or introduce new obligations. The Board discussed next steps and the proposed timeline in relation to wider engagement with the sector beyond the working group to ensure stakeholders are comfortable with the proposed approach.

4.4 The Board considered a number of issues on the possible shape of the licence in the longer term, reflecting wider changes in the regulatory environment.

5. Strategic Conversation

Onshore Oil and Gas: Fracking

5.1. The Board noted and discussed the paper presented for information on the development of fracking in the UK, the implications for the sector and the potential issues for Ofwat, which are rather limited with principal responsibility for oversight of the activity and environmental considerations resting with other regulators such as the Oil and Gas Authority and the Environment Agency / Natural Resources Wales.

5.2. The Board agreed that it was appropriate to maintain a watching brief in this area.

6. Board Evaluation

6.1. The Board discussed the themes emerging from the Board effectiveness review and the overall positive results, alongside a number of areas for further consideration:

- whether greater clarity was needed on the issues that should come before Board, and at what level of detail;

- whether greater clarity was needed on the Terms of Reference of the various Committees;
- the provision of timely and robust post-evaluation reviews for all major projects and programmes;
- ensuring adequate time between Committee and Board meetings to enable more structured reporting back to the main Board; and
- providing a continuous or regular cycle of training to support the induction for new Board members on relevant policy and governance topics and ongoing refreshers for established Board members.

7. Board away day in July

- 7.1. The Board discussed and agreed the framework for the agenda for the Board away day planned to be held in July 2017.

8. Any Other Business

- 8.1. There was no other business and the Chairman closed the meeting.

Jenny Block
Board Secretary
27 April 2017