

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
Aileen Armstrong	Executive Director
David Black	Executive Director
Jenny Block	General Counsel and Board Secretary
Other attendees	
Keith Mason	Senior Director, Thames Tideway Tunnel
Claire Forbes	Senior Director, Corporate Communications
Alena Kozakova	Chief Economist
Tim Griffiths	Director, Water 2020
Andrew Chesworth	Director, Water 2020
Elinor Mathieson	Principal, Analytics
Jon Ashley	Associate Director, Water 2020
Dena Barasi	Principal, Water 2020
Angela Maher	Principal, Corporate Communications, Water 2020
Rebekah Eden	Director, Programmes and Project Management
Graham Knowles	Principal, Strategy and Planning
Giles Stevens	Director, Strategy and Planning
Priya Sinha	Director, Strategy and Planning
Liz Herridge	Delivery Director, Operations

Mike StJohn-Green	The National Archives
Marcia Jackson	The National Archives

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 25 May were agreed, subject to a 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 the following:
 - We were pleased to host nearly 60 attendees at our event for company non-executive directors on 12 June. We had two good interactive sessions on Board leadership, transparency and governance and our approach to PR19. One representative also provided insights on his experience of business retail market opening.
 - Thames Water: the Board received an update on a number of matters.

3. Water 2020

Overview

- 3.1 The Executive presented an overview of the Water 2020 programme, focusing on the high level plan for the development of the final methodology in December 2017, proposed Board engagement through to December 2017, and the high level plan to January 2019 including the initial assessment of business plans.
- 3.2 The Board noted the timescales for the development of the final methodology and the forward plan.

Illustrative scenarios

- 3.3 The Board received for information an illustration of potential impacts of some of the key drivers of the final determinations i.e. the cost of capital, totex efficiency, and the level of incremental investment.
- 3.4 The Board noted the summary of stylised scenario modelling and that it was based on a number of simplifying assumptions which focused on wholesale activities. The Board noted the stylised modelling was not intended to suggest the possible bills for 2020-25, but aimed to help Board understand the relative bill impacts of different scenarios. Board noted the scenarios also impact on quality of service.

How outcome delivery incentives (ODIs) are working so far

- 3.5 The Board received for information an update on how the ODI regime had been working to date in practice by reference to a specific company / ODI case study. The paper considered whether the rewards that the company was receiving were based on performance commitments that were sufficiently stretching and whether the reward rate was appropriate. The Board then considered the safeguards in place for customers during this price control period.
- 3.6 The Board discussed these issues by reference to the proposed modifications to the outcomes framework proposed for PR19.
- 3.7 The Board noted that the proposal to set 14 common performance commitments will make it easier for customers, CCGs and Ofwat to compare the degree of stretch in companies' proposed performance commitments at PR19. This is supported by the proposals that companies must justify their performance commitment levels in relation to a number of challenges including against forecast upper quartile performance. Having more comparative information for companies will also improve our ability to compare reward rates across companies which will enable more effective challenge.
- 3.8 The Board strongly encouraged the Executive to seek to ensure that in structuring the way incentives work, companies should aim to continuously improve as far as possible. Company Boards should also ensure that the incentives they create support this culture of continuity of performance.
- 3.9 The Board also challenged the Executive to consider further as the price review progresses how Ofwat can use the performance improvements incentivised by ODIs in this price control period to drive improvements in other companies' behaviour in terms of both the level and the rate of change to benefit all companies'

customers during the next price control period. It was particularly important that rewards under the ODI regime should not be awarded for reaching a standard that should be met in any event.

Methodology consultation communications handling

- 3.10 The Board received an update on the approach to communications and stakeholder engagement for the methodology consultation due to be published in July.
- 3.11 The Board noted the timeline of key stakeholder activities that were in place both leading up to publication of the methodology and until the consultation closed on 30 August.
- 3.12 The Board encouraged our communications to draw out a clear narrative on what Ofwat proposed be different compared with the last price review.

4. Strategy and Planning

Approach to resilience

- 4.1. The Executive provided further detail on the approach to 'resilience in the round' with customers at the heart of delivery and Ofwat's consideration of resilience across corporate, financial and operational dimensions. There will be a follow-up paper and event in September communicating to stakeholders our expectations for how 'resilience in the round' translates into practice.
- 4.2. The Board noted the context in which the complex theme of 'resilience in the round' sits within the water sector and the opportunities and risks that this presents for customer outcomes, as well as the significant role that Ofwat has to play in motivating the right behaviours.
- 4.3. The Board noted the variety of ways in which we approach resilience across our work programmes and in particular that resilience is a key theme in the PR19 methodology consultation. That document would also set out proposed updated draft resilience planning principles for consultation.
- 4.4. The Board discussed a number of key areas of risk to resilience in the sector. In terms of opportunities, the Board noted the importance of companies:
 - taking a systems based approach to planning and managing their service delivery;

- driving and embracing innovation and smart resilience;
- considering how best to protect ecosystems that underpin both clean and wastewater service resilience, consistent with the sector's biodiversity duties which apply to public authorities in general, which includes Ofwat and companies;
- using behavioural insights and customer engagement to influence customers' behaviour on critical issues such as demand management and tariffs; and
- considering how best to harness the power of markets to support resilience and improve co-ordination across company boundaries.

4.5 The Board noted the importance of wider stakeholder participation in these discussions, including via CCGs Chairs, with Ofwat also setting the efficiency challenges generated by measures to improve resilience.

Publication of the Ofwat vision dashboard

4.6. The Board discussed the objectives for communicating a public-facing Ofwat dashboard, a tool we can use to:

- provide clear and accessible information about Ofwat's performance to all interested stakeholders;
- contribute to a joined up and coherent picture of our individual performance and our contribution to the sector (bearing in mind that Water UK's Discover Water sector dashboard presents an overview of sector performance as a whole); and
- encourage comment, debate and challenge about our performance.

4.7. The Board considered the proposed approach to publication. It encouraged the Executive to consider the proposed content further by reference to the approach taken by other regulators.

Strategic Conversation: Fake news, gifs and hashtags – the future of regulatory communications

4.8. The Board noted and discussed the paper presented for information on the rapid changes in the communications landscape and what this meant for Ofwat as an economic regulator. This included the need for us to be agile in communicating in

shorter form, and to be able to react with more immediacy, and the importance of communicating our values authentically.

5. Market Outcomes and Enforcement

MOE quarterly update

- 5.1 The Board received for information the first quarterly overview of the MOE Programme.
- 5.2 The Board noted the developments in the business retail market since April 2017 and discussed the main policy issues: credit arrangements, price transparency and TPIs. In relation to TPIs, various groups are developing or looking to develop codes of conduct which reflect Ofwat's principles and this is ongoing. Retailers are keen to ensure that the TPIs they are dealing with subscribe to suitable codes of practice or commit to act in accordance with the principles we have published for voluntary codes of conduct. On price transparency, we are monitoring developments closely, particularly for SMEs.
- 5.3 In relation to the NAV market, the Board noted that we are considering what follow-on actions are appropriate following receipt of the Frontier Economics report. Work is already underway to consider how we might address possible issues on charging and our application process. The Board noted that we have a Forward Programme commitment to engage stakeholders on this in Q2 of this financial year.
- 5.4 The Board noted the proposed consultation on our draft Code for Adoption Agreements at the end of June 2017 and that the Executive intended to bring the outcomes of the consultation and the final draft Code to Board in September 2017.
- 5.5 The Board that we were managing a high volume of cases, licence applications and enquiries. On casework, the Board noted that by encouraging companies to step up, and better communicating our precedent cases, Ofwat had continued to limit the numbers of non-strategic cases referred by customers. This enables Ofwat to focus on any new strategic cases where there is greater potential for significant customer detriment. The Board noted that there were a number of potential cases in the pipeline.

6. Compliance, Assurance and Improvement

Board teach-in session: Managing Cyber Security Risks and Handling Sensitive Information

- 6.1. The Board was pleased to welcome Mike StJohn-Green, a consultant in Cyber Security and Information Risk Management and Marcia Jackson, The National Archives. The expert advisers provided a teach-in session to Board on cyber security and handling sensitive information.
- 6.2. The Board found the session highly informative and extremely relevant in light of recent events and were grateful for the clarity of the presentation.

Lessons learned report on closed programmes

- 6.3. The Board received for information a report on lessons learned on our delivery in the context of the recent closed programmes: Retail Market Opening, Casework and Business Transformation, including the actions identified and how learning will be embedded across Ofwat.
- 6.4. The Board noted the key themes that were identified from the lessons learned workshops: the importance of early engagement with internal and external stakeholders, how better to ensure efficiency and proportionality in project and programme management, the importance of ensuring good identification of programme independencies, and further embedding resilience and agility in Ofwat's resourcing.
- 6.5. The Board also reflected on the profound extent of the change that had been achieved throughout the organisation and the ongoing need for this to be embedded but also continuously refined.

7. Update from Committee Chairs

Audit and Risk Assurance Committee

- 7.1 The Chair of the Committee reported on the June meeting at which the Committee discussed and provided their recommendation to the Accounting Officer to sign off the Annual Report and Accounts and issue them for certification. The Committee also discussed the Departmental Security Health Check Annual Report; deep dive reviews on information management and the approach to assurance for the PR19

methodology and its delivery; the ARAC Chair's annual report; and review of ARAC effectiveness.

7.2 The Chair noted in particular that the Committee had discussed the importance of assessment of risks to focus on those that were particularly important for the organisation.

7.3 The Board received a copy of the ARAC Chair's annual report and comments were invited by correspondence.

Thames Tideway Tunnel Committee

7.4 The Chair reported on the Committee's May meeting which considered an application from Tideway to enable a future connection of the Thames Tideway Tunnel with Thames Water's Counters Creek Flood Alleviation Scheme.

8. Any Other Business

8.1. The Chairman noted that Sir Ian Byatt had presented to staff a retrospective on 25 years of water regulation which had been well received with an interesting discussion on key trends.

8.2. The Chair of the Remuneration Committee noted the recent lunch he had hosted for our graduates which had been both enjoyable and interesting.

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

Jenny Block

Board Secretary

29 June 2017