

Meeting held on Thursday 26 October 2017
 Venue: Bloomsbury House, 21 Bloomsbury Street, London WC1B 3HF

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
David Black	Executive Director
Aileen Armstrong	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
Emma Kelso	Senior Director, Customers and Casework
Lisa Commane	Senior Director, Operations
Tim Griffiths	Director, Water 2020
Martin Malinowski	Principal, Water 2020
Jon Ashley	Associate Director, Water 2020
Dena Barasi	Principal, Water 2020
Jas Oberoi	Principal, Water 2020
Jake Wood	Principal, Water 2020
Ynon Gablinger	Director, Water 2020
Bart Schoonbaert	Principal, Water 2020
Colin Green	Director, Water 2020

John Kennedy	Principal, Water 2020
Pietro Crocioni	Director, Water 2020
Alex Whitmarsh	Principal, Water 2020
Alison Fergusson	Principal, Water 2020
Alison Cullen	Principal, Water 2020
Gurpreet Sahota	Principal, Water 2020
Apologies	
John Russell	Executive Director

1. Opening Items and Declarations

- 1.1. The Chairman noted the apologies from John Russell.
- 1.2. The minutes of the Board meeting held on 21 September were approved.
- 1.3. 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:
 - Sector legitimacy – the Board noted the importance of Ofwat’s role in the context of the wider external discussions on the legitimacy of the sector, as well as its limits in light of our statutory responsibilities. There are considerable opportunities for the sector to step up and take ownership and responsibility with respect to the matters raised and for Ofwat to continue to lead and support such activity.
 - Portfolio report – the Board noted the report and the milestones reached in the year to date, as well as the current budgetary position.
 - MOU with the EA – the Board noted the proposed existence of the MOU with the EA on a joint research project.

- Security of information – the Board noted the critical importance of careful handling and management of sensitive information and considered the measures in place to ensure Ofwat manages the inherent risks, including of human error, appropriately.

3. Water 2020

Water 2020 overview and other issues

- 3.1 The Executive set out an overview of cross cutting issues on the draft methodology and gave an update on other issues on the programme including an update on water resources and bioresources market information and the work commissioned on retail costs and bad debt.
- 3.2 The Board considered and agreed the proposed approach to the environment and to aspects of the proposals in relation to direct procurement for customers for the methodology, subject to some points of detail.

Introduction to the overall balance of risk and return

- 3.3 The Executive set out the overall context for the balance of risk and return and the decisions to be taken under subsequent items on the agenda in response to comments received on the consultation.

Approach to outcomes

- 3.4 The Executive highlighted three issues related to outcomes: how the level would be set for common performance commitments, the proposed approach to leakage and the scope of common performance commitments.
- 3.5 The Board noted and agreed the proposed approach to the above issues subject to some points of detail.

Approach to customer and developer measures of experience

- 3.6 The Executive presented the proposed approach to the Customer Measure of Experience and Developer Services Measure of Experience seeking the Board's agreement to the approach.
- 3.7 The Board discussed the inclusion of social media complaints and whether reductions in and better handling of complaints should be financially incentivised.

- 3.8 In relation to the developer services experience measure, the Board discussed whether the measure should be used to promote competition in developer services and whether we should include a subset of the existing Water UK metrics of performance in the metric.
- 3.9 The Board agreed the proposed approach subject to points of detail and noted that the detailed design of customer and developer services measures of experience will be informed by the pilot phase during 2018-19.

Approach to cost assessment

- 3.10 The Executive presented recommendations on three issues:
- the operation of the cost sharing incentive;
 - indexation of the retail controls; and
 - the cost adjustment mechanism in respect of unconfirmed environmental requirements.
- 3.11 The Board discussed the incentive on companies to deliver outperformance in period and the proposed cost sharing incentive. The Board were reassured that the proposed ODI and totex framework provided sufficient incentive for companies to deliver what was required by customers.
- 3.12 The Board agreed with the proposed recommendations subject to some points of detail and further consideration of elements of the cost sharing incentive.

Initial view on the cost of capital

- 3.13 The Board noted the initial view on the cost of capital that would be reflected in the methodology published in December. The Board discussed the potential impacts on customers and financeability. The Board agreed with the proposed approach subject to some points of detail.

Approach to the Initial Assessment of Business Plans (IAP)

- 3.14 The Board considered two aspects of the IAP: the balance of incentives and the assessment methodology. The Board agreed with the proposed approach subject to some points of detail.
- 3.15 The Board noted the approach to company business plan presentations to the Ofwat Board.

Duration of retail control

- 3.16 The Board noted the proposed options for the duration of retail price controls. The Board considered the relative benefits of a three and five year control and the balance of costs and benefits.

Wholesale form of control

- 3.17 The Board considered the recommended option and proposed approach to long term risk sharing for water resources, and the recommended option for the bioresources forecasting accuracy incentive. The Board noted the importance of companies not being over or under compensated for incorrectly forecasting bioresources volumes. Board agreed to the proposal subject to some points of detail.

Approach to affordability and vulnerability

- 3.18 The Board noted how we are challenging companies to address affordability and vulnerability and our preferred approach to assess companies' approaches. The Board approved the proposed approach to common metrics on affordability and vulnerability.
- 3.19 The Board strongly supported the cross sector work on vulnerability that we had been doing with Ofgem.

Proposals for in-period ODIs

- 3.20 The Executive set out the proposed draft determinations for Anglian, Severn Trent and South West Water that are planned to be issued shortly and asked Board to approve the 2016/17 reward and penalty amounts.
- 3.21 The Board delegated the sign-off of the final determinations to the Senior Responsible Owner, Water 2020, subject to there being no material changes to the proposed decision following consultation (including there being no new major issues of principle or particularly sensitive issues raised by respondents).

4. Finance and Governance

Company monitoring framework

- 4.1. The Executive presented an overview of their consideration of the assessment of companies against the company monitoring framework (CMF). Our assessments are due to be published by 30 November.
- 4.2. The Board discussed the approach taken in reaching the proposed conclusions, the importance of setting a high bar for achieving the Self Assured category, and agreed with the final categorisations proposed. The Board also discussed the communications and engagement process for this year's results.

5. Market Outcomes and Enforcement (MOE)

MOE update

- 5.1. The Board received for information an overview of work across the MOE programme.
- 5.2. The Board noted the opportunities in the new business retail market and the early evidence of developments to date. It also noted the further work to be undertaken in relation to the NAV sector. There has been an upturn in the number of non-strategic cases referred to Ofwat and the Board noted the steps the Executive proposed to take to make more information available to address common issues leading to requests for determinations.
- 5.3. The Board noted that a more detailed review of the MOE programme would come to December Board.

6. Update from Committee Chairs

Remuneration and People Committee

- 6.1 The Chair of the Committee reported on the September meeting at which the Committee received an update on a number of projects, including health and wellbeing, the new HR system, and the Non-SCS pay remit and SCS pay for 2017/18.

Audit and Risk Assurance Committee

- 6.2 The Chair of the Committee reported on the October meeting at which the Committee discussed strategic risks and opportunities; the internal audit service re-procurement; business continuity plans; assurance on the Alternative Delivery Model; and assurance on the PR19 delivery partner procurement.

7. Any Other Business

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

Jenny Block

Board Secretary

26 October 2017