

Meeting held on Thursday 14 December 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
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 Commene	Senior Director, Operations
Giles Stevens	Director, Market Outcomes and Enforcement
Mark Anderson	Principal, Corporate Communications, MOE
Stephen Beddoes	Principal, Market Outcomes and Enforcement
Trevor Bishop	Director, Strategy and Planning
Ronan Palmer	Director, Strategy and Planning
Pietro Crocioni	Director of Economics, Water 2020
Chris Bollington	Senior Associate, Market Outcomes and Enforcement

External Attendees	
Rachel Fletcher	Observer
Simon Cocks	CEO, Affinity Water (WRSE)
Alex Plant	Regulatory Director, Anglian Water (WRE)

* Attended by phone until item 4

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 23 November were approved, subject to some minor amendments.
- 1.2. There were no conflicts of interest to declare by reference to the matters on the agenda.
- 1.3. The Board welcomed Rachel Fletcher to the Board meeting as an Observer and looked forward to her arrival as Chief Executive in the New Year.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting the following:
 - Legitimacy: the Board welcomed the constructive discussions within industry on the issues raised about the sector's legitimacy, but noted that there was work still to do. In the broader context of reflecting on the challenges for the sector, the Board noted the ongoing work considering the implications of a possible "systems operator" model.
 - Company interim results: the Board received an update on recently published company results.
 - MOU: the Board approved the revised MOU with CCWater and delegated authority to the Chief Executive to sign this on Ofwat's behalf.

3. Market Outcomes and Enforcement

Strategy, direction and story so far

- 3.1 The Board discussed the proposed direction for the Market Outcomes and Enforcement (MOE) programme and commended the considered and holistic approach to the programme strategy. It considered in particular the indicators of success for the programme from both a qualitative and quantitative perspective. The Board noted the valuable information that was being revealed from the early operation of the business retail market and the potential for benefits to customers more widely in areas where competition had not been introduced.
- 3.2 More generally in relation to the wider work of the programme, both in relation to the functioning of markets and enforcement, a core objective is to maintain and build trust and confidence that customers know we will promote their interests through our effective regulation and that we will maximise the potential of competitive markets to drive the best outcomes for customers where appropriate.
- 3.3 Within the context of our regulatory model, the Board agreed that it was important to strike the right balance through effective prioritisation, being ready to use the full range of our powers to address issues that arose.

Emerging themes for annual 'state of the market' report

- 3.4 The Board discussed and provided comments on the proposed approach to Ofwat's first non-domestic retail State of the Market report, an early view on emerging findings and the key messages. In parallel, the programme is working to address some of the emerging issues through policy projects.
- 3.5 The Board noted that overall market outcomes so far are in line with expectations. Evidence to date indicates there have been bill savings for switchers through lower prices and there are signs of value added services in relation to water efficiency, billing and metering. There has been an increase in complaints, but this is not unexpected given the increase in market activity. The Board noted evidence of the poor quality of some customer data held by companies, improvements made to date, and the need for the sector to continue to work constructively to address this.
- 3.6 The Board also noted that we will continue to monitor and gather evidence on the market to inform our work. Important information on the market will be revealed for example by the switchers customer insight survey, and our data request to

retailers and self-supply customers. We are also receiving feedback from key customer groups.

4. Strategic Conversations

Water Resources South East (WRSE) and Water Resources East (WRE)

- 4.1 The Board was pleased to welcome Simon Cocks, CEO of Affinity Water and Chair of WRSE and Alex Plant, Regulatory Director of WRE, Anglian Water.
- 4.2 The Board discussed the work undertaken by both groups (WRSE and WRE) for the forthcoming round of water resources management plans and their approach to producing their regional strategies.
- 4.3 The Board also discussed how regional groups should evolve in the future, including issues such as the scope of their remit and governance/institutional arrangements.

Regulation at a cross-roads

- 4.4 The Board discussed how economic regulation is being affected by fundamental changes in the context in which we regulate. The Board also discussed three proposed dimensions of changes that could shape the future of regulation and bring opportunities for Ofwat.
- 4.5 The Board noted the importance of being open to change and recognising the changing dynamics of the external environment which also presented opportunities to achieve more for customers. It is important consistently to have in mind what we are trying to achieve and consider what is working well and what needs to be changed.
- 4.6 The Board also noted that economic regulation naturally evolves and that there will always be delicate judgements and trade-offs to be made. Flexibility and our ability to use the broadest range of tools remains critical in these changing times.

5. Board Rules of Procedure

- 5.1 The Board reviewed the proposed revised Board Rules of Procedure which highlighted key areas where it was recommended changes be made, although none brought about material substantive changes.

- 5.2 The Board agreed to the proposed changes to the Rules of Procedure subject to some suggestions for minor modifications.

6. Update from Committee Chair

Audit and Risk Assurance Committee

- 6.1 The Chair of the Committee reported on the December meeting at which the Committee discussed risk management; the decision on the joint internal audit service procurement; a review of the Committee terms of reference; and deep dives on the strategic risks: 'Understanding and engaging effectively with our external environment' and 'Securing active stakeholder participation'.
- 6.2 The Board noted the substantial assurance received on the recent internal audit on our financial systems and payroll and asked to record their thanks to the Finance team for this excellent result.

7. Any Other Business

- 7.1 The Chairman and the Board thanked Cathryn Ross for her service to Ofwat over many years, including her tenure as Chief Executive. The Board wished her well in her new role.
- 7.2 There was no other business and the Chairman closed the meeting.

Jenny Block

Board Secretary

14 December 2017