

Meeting held on Thursday 22 March 2018
 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
Rachel Fletcher	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
Emma Kelso	Senior Director, Customers and Casework
Lisa Commene	Senior Director, Operations
Tim Griffiths	Director, Water 2020
Ynon Gablinger	Director, Water 2020
Peter Hetherington	Principal, Water 2020
Colin Green	Director, Water 2020
Bart Schoonbaert	Principal, Water 2020
Laura Nell	Director, Finance and Governance
Stephen St Pier	Director, Finance and Governance
Andrew Chesworth	Director, Water 2020

Elinor Mathieson	Principal, Finance and Governance and Water 2020
Jamie Tunnicliffe	Director, Investor Relations
Tom Handysides	Principal, Strategy and Planning
Giles Stevens	Director, Strategy and Planning

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 22 February 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.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments highlighting the following:
 - Ofwat's Forward Programme for 2018/19: the Board noted the changes to the programme since consultation, in part to reflect comments received, but also new activity that Ofwat had initiated, in particular our review of water companies' handling of the freeze-thaw. The Board also noted the work on prioritisation undertaken by the Executive to ensure that we had the resources to deliver the Forward Programme within budget.
 - Update on Freeze-Thaw Review: the Board noted the importance of Ofwat's review questions and their urgency. Questions had already been put to companies on their handling of the recent incident and Ofwat intends to report by mid-June.
 - World Water Day 2018: the Board noted the theme for 2018 of 'The answer is in nature' – exploring nature-based solutions to the water challenges we face. In that context, Ofwat was sharing on social media information about catchment management, the need for resilience and our environmental commitments for PR19.
- 2.2. The Board noted that the National Infrastructure Commission (NIC) was planning to conduct a review of regulation across several sectors, reflecting one of the

themes arising from the government consultation on priority studies the NIC should undertake in 2016.

- 2.3. The Board received an update on Ofgem's price review proposals which were published in early March.

3. Water 2020

Water 2020 Overview

- 3.1. The Executive presented an overview highlighting the transition of the Water 2020 programme which ends in March to the PR19 programme, as Ofwat moves from the development of the methodology to delivery of the price control.
- 3.2. The Board noted the key changes in the scope of the programme and the overall timeline for key stages of the process.
- 3.3. The Board received an update on the development of cost models and noted the proposed consultation on the potential cost models. The Board also noted the expectations of a step change in efficiency in the sector, and the work that was being done to support this.

Water resources management plans 2019 (English Companies)

- 3.4. The Board received an update on the emerging findings from Ofwat's assessment of English company draft water resources management plans (WRMPs) and discussed the key themes including: resilience; trading and third parties; reductions in abstraction licences; and regional groups.
- 3.5. The Board noted that while companies have taken up our challenge to reduce leakage by 15% by 2025, there is no real ambition beyond this period. There is also very little ambition on reducing per capita consumption and the management of drought resilience. There are a large number of infrastructure options in the 2020-25 period, but regrettably limited regional options or development of water trading. The Board noted their concerns with companies' proposals.
- 3.6. The Board also noted concerns about the quality of assurance applied to the WRMP submissions, with some plans requiring significant revisions following the submission of board assured plans and one plan having to be re-submitted to the EA. The Board noted that the Executive will be following up with companies so

that feedback can be taken on board ahead of finalising their business plans and to support preparation of their PR19 business plans.

Overview of Initial Assessment of Business Plans

- 3.7. The Board received for information an overview of the work being undertaken on the initial assessment of business plans (IAP) and proposed Board engagement – this will include the development of the trial IAP process. The Board noted the high-level timelines for the IAP review.

4. Finance and Governance / Water 2020

Overview and context of response to the Secretary of State's letter

- 4.1. The Board considered the proposed letter from the Ofwat Chairman to the Secretary of State (SoS) regarding the legitimacy challenges facing the sector. It noted the importance of Ofwat's role in both defining and setting what change is required, going to the heart of concerns about fairness and trust, and also in prompting a wider debate amongst stakeholders about the water service provider of the future and what this means for regulatory and legislative frameworks.
- 4.2. The Board noted the widespread support in principle from the sector to addressing these challenges. The following matters link into different elements of the programme of work within Ofwat called Project Connect.

Financial resilience

- 4.3. The Board received an update on the work being undertaken on financial resilience, including ring-fencing, as well as measures to promote better governance and transparency in the consumer interest.
- 4.4. The Board noted the proposed timing of Ofwat's work on updating our Board leadership, transparency and governance principles.
- 4.5. The Board discussed the proposed next steps that will be drawn out in the response to the SoS and noted the key milestones.

Financial resilience – PR19 Initial Assessment of Business Plans

- 4.6. The Board considered the recommended approach to the assessment of financial resilience in the initial assessment of business plans, which builds on company

long term viability statements, where companies are required to determine scenarios appropriate to their circumstances and to provide evidence to support their choices.

- 4.7. The Board discussed and agreed the proposal to publish additional guidance to clarify expectations in a number of areas including financial resilience and the minimum scenarios companies should consider.

Benefit sharing – PR19 Initial Assessment of Business Plans

- 4.8. The Board considered the proposal to modify our PR19 methodology, setting out for companies our expectations of benefit sharing from financial outperformance, including that highly geared companies should propose outperformance sharing mechanisms, failing which Ofwat would consider imposing a suitable mechanism. We would continue to encourage companies to adopt their own voluntary sharing mechanisms for outperformance in relation to embedded debt.
- 4.9. The Board noted the importance of transparency about companies' dividend policies in their business plans and on matters relating to executive pay.
- 4.10. The Board agreed the recommended approach.

5. Update from Committee Chair

Audit and Risk Assurance Committee

- 5.1 The Chair of the Committee reported on the February meeting and noted in particular the two internal audit reports on PR19 delivery and the Retail Market Opening programme; strategic risk management; Ofwat's progress in implementation of the General Data Protection Regulation; lessons learned from ADM; and the deep dive review on the Portfolio Delivery strategic risk.

6. Review of Committee members appointments

- 6.1. The Board reviewed and approved the reappointment of the Casework Committee members with effect from 1 April 2018 for a term of three years.
- 6.2. The Board also confirmed the appointments to other Board Committees.

7. Any Other Business

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

Jenny Block

Board Secretary

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