

Meeting held on Thursday 24 May 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
Emma Kelso	Senior Director, Customers and Casework
Lisa Commane	Senior Director, Business Improvement
Alena Kozakova	Chief Economist
Tim Griffiths	Director, PR19
Georgina Mills	Director, PR19
Jacob Wood	Associate Director, PR19
Martyn Andrews	Director, PR19
Graham Knowles	Principal, PR19
Colin Green	Director, PR19
Giles Stevens	Director, Strategy Hub
Freddie Levett	Senior Associate, Strategy Hub
Sarfraz Nawaz	Director, Finance (Operations)

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 26 April 2018 were approved.
- 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:
 - EFRA Committee: the Board noted that written submissions were required by 6 June and it was expected that we would be invited to give oral evidence shortly afterwards.
 - NIC water infrastructure report: the Board noted the ongoing liaison between Ofwat and the NIC in relation to the recommendations directed to the water sector, and Ofwat's engagement also with Defra. The Board supported the high level conclusions in relation to resilience and agreed with the view that optimal solutions were most likely to emerge through looking beyond company boundaries. It was important to draw together all dimensions of the issues, including effective demand management as well as the role that upstream markets might play.
 - Company results: the Board noted the year end results of Severn Trent Water and United Utilities.
 - Heartbeat survey results: the Board noted the results of the annual survey and the steps being taken by the Executive to address the points raised.
 - Thames Water enforcement case: the Board noted the brief update provided by the Executive.
 - Project Connect update: the Board discussed at a high level the feedback from stakeholders on the recent consultation on PR19 (sharing of gains from financial outperformance, stress testing for financial resilience, policies on dividends and executive performance pay) and the diversity of views.

- 2.2 The Board delegated approval of the new travel and accommodation contract to the Chief Executive following confirmation of details of price matching relative to online solutions.

3. PR19

PR19 Overview

- 3.1. The Executive presented an overview of the PR19 programme.
- 3.2. The Board noted the emerging evidence on bill pressures from meeting water supply needs and discussed the timing of companies meeting Environmental Plan obligations. The Board also noted the significant scope for bill reductions from cost of capital reductions and Ofwat's efficiency challenge.
- 3.3. The Board noted the update provided on companies' submission of performance commitment definitions and special cost factor claims for PR19. The Board noted the significant difference between companies in the approach and the large number of special cost factor claims.
- 3.4. The Board also noted the approach taken to reflecting changes in new accounting standards for leases which would not increase overall costs.

PR19 Delivery Partner

- 3.5. The Executive presented the outcome of the procurement process for the PR19 delivery partner.
- 3.6. The Board noted the rigorous approach that had been undertaken to promote a competitive and robust procurement process, the detailed assessment and the credibility of the final bids. The Board also discussed the importance of ensuring there were stringent mechanisms in place contractually and operationally for managing potential conflicts of interest. The Board approved the award of the contract for the Delivery Partner for PR19 to PwC, and delegated signing of the contract to John Russell, subject to receipt of HM Treasury approval.

Assurance for PR19 delivery

- 3.7. The Executive presented the proposed approach to assurance for the delivery of PR19 which incorporated comments from the Audit and Risk Assurance Committee discussion on 15 May.

- 3.8. The Board considered the key risks and how Ofwat is planning to manage these risks through incorporating an effective and proportionate corporate assurance approach through five pillars for assurance: 1) programme; 2) policy; 3) data, modelling and analysis; 4) legal; and 5) ways of working. The Board noted that this approach built on the lessons learned from PR14, but took account of the differences in the approach since PR14.
- 3.9. The Board noted the approach to undertaking additional assurance through three lines of defence: internal assurance; independent/corporate assurance; and external assurance. In particular, the Board noted the importance of independent challenge to guard against “group think”. In that regard, the Board noted the critical role that Customer Challenge Groups (CCGs) and other stakeholders had to play.

Initial Assessment of Business Plans (IAP) – internal methodology

- 3.10. The Board received for information an overview of the proposed IAP internal methodology which would provide: a clear structure and hierarchy within the internal methodology framework; assessment guidelines; and a grading and aggregation approach in order to drive consistency and coherence, reduce complexity for assessment teams and reflect lessons learned from PR14. The overall initial assessment would be taken in the round, accounting for linkages between test areas and other inter-dependencies.

Information to Board for decision making – PR19

- 3.11. The Board noted the potential issues that will require particular focus from the Board during the IAP process and the key issues which could be taken to Board decision.
- 3.12. The Board discussed the importance, in reaching Ofwat’s final decisions, of their oversight of high value, strategically important issues of policy, and on their role to check and challenge the approach taken by the Executive.

IAP Red Run introduction

- 3.13. The Board received for information an introduction to the “red run”, or mock IAP process, explaining: the purpose of the “red run”; what will be covered; the characteristics of the mock companies; the timelines for the red run and the development of the internal methodology; how the red run will work at the June Board meeting; and the next steps.

Direct Procurement for Customers (DPC) – long term delivery

- 3.14. The Board received for information an overview of our proposed approach to the oversight of companies where they use direct procurement to develop new assets, including our proposed approach to making licence changes to implement DPC and Ofwat's on-going involvement with DPC projects beyond PR19. The Board noted the focus of the approach being to ensure that we are safeguarding the interests of customers whilst ensuring company ownership of these projects.

Water Resources Management Plans 2019 – second assessment

- 3.15. The Board received an update on the findings from Ofwat's second assessment of companies' draft water resources management plans (WRMPs).
- 3.16. The Board noted the headline messages from both assessments and the potential bill impact of some of the more material options identified by some companies. The Board noted with some concern the relative lack of ambition, and the lack of a co-ordinated regional approach being taken by water companies on key issues. The Board also noted the strategic next steps set out in the paper.

4. Strategy Hub

Initial findings – Freeze and Thaw incident

- 4.1. The Executive presented key findings from our investigation into how companies performed in the freeze/thaw incident in February/March and our approach to the proposed recommendations for further action.
- 4.2. The Board considered and provided its comments on the proposed recommendations. The Board acknowledged that it was good to see that some companies looked after their customers well and staff worked hard in difficult circumstances to repair problems. Despite this the Board expressed its serious concern about the failure of some companies to communicate adequately with customers on the ground, in particular vulnerable customers, with too little proactive communications, and in some cases, their general lack of readiness for events like this as well as the poor cross industry co-ordination. It was important that key messages were communicated to those companies who had fallen short and that Ofwat was ready to take action if companies did not address the issues we identified appropriately.

- 4.3. The Board noted the important role that water companies have to play in Resilience Forums and that some companies ought to have taken far more initiative in communicating with these groups and emergency services.

5. Business Improvement

Annual Report and Accounts 2017-18

- 5.1 The Executive presented the draft Annual Report and Accounts 2017-18. The Chair of the Audit and Risk Assurance Committee (ARAC) reported on the special ARAC meeting at which the Committee reviewed the draft annual report and accounts, enabling members to highlight key issues.
- 5.2 The Board discussed the key messages contained within the draft report and the proposals made by the ARAC.
- 5.3 The Board was briefed on a discussion we were having with the NAO in relation to one of our accounting policies.
- 5.4 Subject to a review of the Chairman's and Chief Executive's forewords, sustainability report and the performance summary, the Board delegated to the Audit and Risk Assurance Committee to discuss at its meeting on 6 June and make the decision on whether to give the final recommendation to the Accounting Officer to sign the Annual Report and Accounts.

6. Board Away Day in July

- 6.1 The Board discussed the framework for the agenda for the Board away day planned to be held in July 2018.

7. Updates from Committee Chairs

Remuneration and People Committee

- 7.1 The Chair of the Committee reported on the April meeting at which the Committee discussed and received an update on the following matters:

- key findings from the lessons learned exercise for the F3 and CA&I programmes and key areas for the new Business Improvement programme to focus on;
- the results of the Committee's effectiveness review;
- the proposed approach to pay and reward for the 2018-19 Non-SCS pay remit;
- the proposed recommendation for implementing the SCS pay award for the 2018-19 pay remit; and
- revised objectives for the Senior Leadership Team.

Audit and Risk Assurance Committee

7.2 The Chair of the Committee reported on the May meeting at which the Committee focused on the annual report and accounts 2017-18. The Committee also discussed the assurance approach to PR19 delivery; the combined programme closure report for the F3 and CA&I programmes from the perspective of risk and assurance management. The Committee noted the draft annual internal audit report 2017-18 from Grant Thornton and the proposed approach to the internal audit plan 2018-19 from the new internal auditors, Mazars.

8. Any Other Business

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

Jenny Block
Board Secretary
24 May 2018