

Meeting held on Thursday 28 June 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
Andy Chesworth	Director, PR19
Ynon Gablinger	Director, PR19
Jamie Tunnicliffe	Director, PR19 (Investor Relations)
Alison Fergusson	Associate Director, PR19
Bart Schoonbaert	Associate Director, PR19
Jacob Wood	Associate Director, PR19
Martin Malinowski	Principal, Analytics (PR19)

Andy Titchen	Principal, Analytics (PR19)
Peter Jordan	Associate Director, PR19
Stephen StPier	Director, Finance and Governance and PR19
Sophie Shaw	Director, Legal, PR19
Ronan Palmer	Director, Strategy Hub
Giles Stevens	Director, Strategy Hub
Thomas Handsides	Principal, Strategy Hub
Mark Anderson	Principal, Corporate Communications (PR19)
Elinor Mathieson	Principal, Finance and Governance
George Farrington	Associate Graduate, Strategy Hub
Annelise Bunce	Senior Associate, Strategy Hub

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 24 May 2018 were approved subject to some minor amendments.
- 1.2. The Board noted that the Chair had recused himself from the discussion and decision relating to the “Back in Balance” proposals (item 3 below) following the sale of the Cory Group, whose main board he also chaired, to a consortium involving companies with minor interests in UK water companies affected by the decision. Jonson had resigned from his role as Chair of the Cory Group and as a main board director on completion. While there was no suggestion of any actual conflict of interest, in light of his ongoing very limited association with the Cory Group, the Chair was concerned to ensure there was no possible question externally about the way Ofwat conducted its decision-making process by reference to any possible perception that may arise. The Board agreed that Tim Waggott would chair the meeting for this item.
- 1.3. There were no other possible 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:

- June NED event: the Board discussed the feedback from the NED event that had been held on 12 June and the key themes that emerged from discussions with company Board members.
- EFRA Committee: the Board noted that the Chief Executive would appear before the Committee on 11 July alongside the CEOs from the Environment Agency (James Bevan) and CC Water (Tony Smith).
- Water resource planning meeting: the Chief Executive reported on the meeting on long-term infrastructure planning with representatives from Defra. It was the first meeting of this group and there was a clear motivation and commitment to working together to find new, more effective ways to address long-term planning issues, having regard to the difficulties with the current framework.

3. PR19 / Connect

Putting the sector back in balance – consultation

- 3.1. The Executive outlined the responses received to the consultation published in April 2018.
- 3.2. The Board discussed the substantive issues raised in consultation responses and arising from Ofwat's wider engagement with the sector and with wider stakeholders. The Board noted and discussed in particular:
 - the impact assessment presented with the updated policy proposals including investor perceptions, the potential impacts on customer bills and possible financial impacts, noting these would not occur until 2025;
 - approaches taken in other regulatory contexts to similar issues; and
 - proposed revisions to the original proposals to reflect stakeholder feedback.
- 3.3. The Board agreed the policy and next steps set out in the paper.
- 3.4. The Board also discussed the communications plan and agreed that a short note summarising Ofwat's decision and where we have moved from our original proposals (published in April 2018), should be published as soon as possible to allow companies more time to include proposals in their business plans. This

would be followed in July by our formal decision document setting out the rationale for our decision and our response to the issues raised by respondents.

PR19 Red-run session

- 3.5. The Board and Executive ran an exercise, a “Red Run”, which sought to test presentation and outputs required in the IAP process which would run from September 2018 to January 2019. This was with a view to gathering feedback from the Board on how materials were presented and how discussions should be focused. The Board considered a number of key areas of strategic importance, the presentation of comparative test assessments and key linkages across test areas.

4. Connect

Customers at the Heart

- 4.1. The Board received an update following the publication of the Chief Executive’s letter to water company CEOs in April 2018, setting out how Ofwat intended to take forward both specific proposals and more general discussions with the industry and wider stakeholders to put the sector back in balance. Among these initiatives is the intention to explore a common commitment for companies to put customers at the heart of everything they do.
- 4.2. The Board considered the following:
- our understanding of the issues at stake;
 - the range of options identified for addressing them and how they would be assessed;
 - the approach to taking this matter forward with companies; and
 - how this could feed into Ofwat’s wider review of its strategy and regulatory model.
- 4.3. The Board noted the next steps and intention to launch a conversation with the wider stakeholder community in September/October, reflecting on feedback from conversations with companies, investors and other stakeholders in recent months.

Financial resilience – updating the financial ring fence

- 4.4. The Board discussed the proposed approach to updating the financial ring fence for water companies to bring all company licences up to the highest existing standard following consultation later in the year, and then consider whether additional changes are required to further support resilience and refining Ofwat's internal policy and procedures for ensuring the integrity of the regulated business.
- 4.5. The Board discussed and provided its views on the wider issues that need further development and agreed with the proposed approach.

5. Updates from Committee Chair

Audit and Risk Assurance Committee

- 5.1 The Chair of the Committee reported on the June meeting at which the Committee considered the annual report and accounts 2017-18. The Committee noted the External Auditors' draft completion report on their 2017-18 financial audit. Subject to the Executive reflecting the Committee's comments and the outstanding points from the External Auditors being addressed satisfactorily, the Committee recommended to the Accounting Officer that the accounts could be signed and issued for certification. The Committee agreed a process to deal with any outstanding issues should the need arise.
- 5.2 The Committee also discussed the proposed approach to management of strategic risks and opportunities and the Chair's annual report to the Board on the work of the Committee throughout the year. Finally the Committee discussed the draft internal audit strategy and plan for 2018-19 presented by the new internal auditors, Mazars.

6. Any Other Business

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

Jenny Block
Board Secretary
28 June 2018