

January 2019

Trust in water

Board leadership, transparency and governance – principles

About this document

This document sets out the final 2019 **board leadership, transparency and governance principles**.

These principles are intended to apply to the largest regulated water companies in England and Wales and to licensed infrastructure providers.¹ It may not always be proportionate for smaller companies (new appointments or NAVs) to meet the principles. However we still expect them to demonstrate exemplary governance and to meet the principles where they can.

With effect from 1 April 2019, these revised principles superseded both the regulated company and holding company principles which have applied since 2014. For the avoidance of doubt, companies with a pre-existing licence obligation to meet the board leadership, transparency and governance principles issued by Ofwat were required to meet the objectives as set out in this document from 1 April 2019. All companies will have a new licence condition which requires them to meet the objectives, as set out in this document, from 1 August 2019.

Revisions made to version of this document published in January 2019

We have made minor updates to the version of this document which was published in January 2019 to:

- reflect that meeting the objectives is now a licence requirement;
- align the language used for the objectives in the 2019 principles document with the language used in the licence;
- clarify our expectations in relation to the guiding provisions; and
- make it clear that the 2019 principles replace both the regulated company and holding company principles from 2014.

¹ In this document, when we refer to “companies” we mean those companies holding appointments as water and/or sewerage undertakers under the Water Industry Act 1991 and any licensed infrastructure providers for a project specified under the Water Industry (Special Infrastructure Projects) (English Undertakers) Regulations 2013.

1. Introduction

1.1 Background

We introduced [board leadership, transparency and governance principles](#) in January 2014. They aimed to give companies ownership and drive noticeable improvements in their governance arrangements. They also emphasised the importance of strong board leadership and the special responsibilities attached to regulated water companies providing an essential public service.

In July 2018 we [consulted](#) on consolidating and updating the principles and on introducing a licence obligation for all companies to meet the principles. Recent developments in the sector and wider economy reinforced the important role of effective corporate governance and strong board leadership in driving high standards and securing the proper discharge of regulated water companies' functions.

Following our consultation, we [concluded](#) on revising the principles in January 2019. This document sets out the final principles and how the new framework for board leadership, transparency and governance will work in practice.

1.2 The framework

The board leadership, transparency and governance framework is made up of four overarching objectives, which are each accompanied by guiding provisions.

Companies are required by their licences to meet the objectives and explain in an effective, accessible and clear manner how they have done so. Under this framework, companies are responsible for delivering the objectives. Company boards must take ownership for delivering the objectives and actively consider how best to do so.

We would normally expect companies to adopt the guiding provisions in the course of meeting the objectives. While the provisions are not rigid requirements, company boards should consider and reference them when explaining how they are delivering the objectives.

For the avoidance of doubt we recognise that all provisions will not necessarily be met in all cases. There may be limited (temporary or more permanent) circumstances where a company's approach is not in line or even conflicts with a provision, or where they temporarily do not adopt a provision. Where this is the case,

companies should fully explain how their arrangements overall successfully deliver the objectives.

The provisions are not exhaustive and companies should continually consider the best way to deliver the objectives, particularly as expectations from customers and other stakeholders change over time and best practice evolves.

We will review how companies have met the objectives by taking into account the provisions, past issues and best practice in the sector and beyond to assess whether companies' substantive behaviours in the round are delivering the objectives. While companies are responsible for meeting the objectives, we would expect to have dialogue with companies where they may fall short.

For clarity, nothing in these principles overrides or is intended as an interpretation of directors' duties as set out in the Companies Act 2006.

2. Objectives and provisions

2.1 Purpose, values and culture

The Board of the Appointee² establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Provisions

- i. The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.
- ii. The board makes sure that the company's strategy, values and culture are consistent with its purpose.
- iii. The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.
- iv. Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.

2.2 Standalone regulated company

The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.

Provisions

- i. The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.

² In the case of Tideway, the term 'Infrastructure Provider' is used instead of 'Appointee'

- ii. Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.
- iii. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.

2.3 Board leadership and transparency

The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

Provisions

Regulated companies publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders:

- i. An explanation of group structure;
- ii. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);
- iii. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;
- iv. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and
- v. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.

2.4 Board structure and effectiveness

The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

Provisions

- i. Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.
- ii. Independent non-executive directors are the largest single group on the board.
- iii. The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.
- iv. There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.
- v. There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.
- vi. To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.
- vii. There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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