

Meeting held on Thursday 22 November 2018  
 Venue: Bloomsbury House, 21 Bloomsbury Street, London WC1B 3HF

## Attendance

<b>Board attendees</b>	
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
Aileen Armstrong	Executive Director
David Black	Executive Director
John Russell	Executive Director
Jenny Block	General Counsel and Board Secretary
<b>Other attendees</b>	
Lisa Commane	Senior Director, Business Improvement
Claire Forbes	Senior Director, Corporate Communications
Emma Kelso	Senior Director, Customers and Casework
Alena Kozakova	Chief Economist
Keith Mason	Senior Director, Thames Tideway Tunnel
Trevor Bishop	Director, Strategy Hub
Carl Pheasey	Director, Strategy Hub
Andrew Chesworth	Director, PR19
Justine Dade	Senior Associate, PR19
Alison Fergusson	Associate Director, PR19
Ynon Gablinger	Director, PR19
Tim Griffiths	Director, PR19
Peter Jordan	Associate Director, PR19

Georgina Mills	Director, PR19
Anita Payne	Director, PR19
Jonathan Read	Director, PR19
Sophie Shaw	Director, Legal, PR19
Martin Malinowski	Principal, PR19
Mathew Stalker	Principal, Market Outcomes and Enforcement
Mandy Taylor	Principal, Legal
<b>External attendees</b>	
Sir John Armitt	Chair, National Infrastructure Commission
James Richardson	Chief Economist and SRO, Regulatory Review, National Infrastructure Commission

\*Catherine Waddams left the Board meeting at noon due to prior commitments.

## 1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 25 October 2018 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's Report

- 2.1. The Chief Executive gave an update on the internal and external environments highlighting the following:
  - Water resources update: the Board noted the relatively stable position with some areas of concern and that two companies were progressing applications for “winter refill” drought permits. The next couple of months were important in terms of future prospects for the likelihood of protective measures being needed next summer in the event of a dry summer. The Board noted the positive role that Water UK could play. A further update will be provided in December. The Board also recorded their thanks to Trevor Bishop for his contribution to Ofwat and wished him every success in his new role.
  - Project Oscar: the Board noted developments on this confidential project and updates on a range of related issues.

- The Board discussed in detail the proposal to issue a special licence fee of £2.8m in January for the outstanding amount against the current year's total budget. The Board asked the Executive to ensure that value for money considerations and efficiency were at the forefront of our spending decisions, and that funds were also focused on relieving the pressures in the organisation in the context of PR19 and other key projects.

### **3. PR19**

#### **Overview**

- 3.1. The Executive presented an overview of the PR19 programme.
- 3.2. The Board noted the forward plan for the next Board meetings prior to IAP decisions in January 2019.

#### **Cost assessment – business plan cost efficiency**

- 3.3. The Executive presented the proposed efficiency challenge to base costs (which include operating and maintenance costs and exclude enhancement costs), having regard to, for example, catch up efficiency, frontier shift efficiency and real price effects. The Board considered and agreed the recommended option for the level of the efficiency challenge for base costs, noting that in the context of all that companies had to achieve, it was nevertheless important to ensure an appropriate level of protection for customers and appropriate incentives for companies.

#### **Cost assessment – enhancement expenditure**

- 3.4. The Executive presented the proposed approach to assessing material elements of enhancement expenditure for the IAP to enhance the capacity or quality of service beyond current levels, although this work was not fully complete. The Board noted the Executive's current early view of allowances for proposed enhancement expenditure by companies.
- 3.5. The Board considered and agreed the proposed approach in relation to one key enhancement scheme for the purposes of the IAP and considered the range of schemes more generally. In particular, the Board discussed and noted the issues raised in relation to the range of strategic supply options in the South East of England.

### **Outcomes – performance commitments**

- 3.6. The Executive presented its recommended approach on a number of key issues relating to Performance Commitments (PCs). The Board considered and agreed the proposed approach for setting the performance commitment levels for leakage reduction and per capita consumption (PCC), as well as on the three performance commitments where we had encouraged companies in the Final Methodology to propose commitment levels to be at least the forecast upper quartile for each year of the price control.
- 3.7. The Board also discussed the approach to setting the target for the other common performance commitments set out in the Final Methodology.

### **Outcomes – outcome delivery incentives**

- 3.8. The Executive presented its recommended approach on a number of key issues relating to Outcome Delivery Incentives (ODIs).
- 3.9. The Board considered and agreed with the approach presented by the Executive.

### **Risk and Return**

- 3.10. The Executive presented key issues emerging from the IAP in relation to the risk and return assessment. The Board discussed and commented on the issues presented, including the voluntary mechanisms put forward by companies in their business plans to share outperformance with customers and the provisional assessment of company claims for company specific adjustments to the cost of debt.

### **Resilience**

- 3.11. The Executive presented an overview of how the PR19 IAP assesses 'resilience in the round', setting out the emerging view on how the sector is performing against our expectations on resilience; and providing early thinking on a range of options Ofwat has to address the challenges and opportunities the sector faces.
- 3.12. The Board discussed and provided comments on the range of issues raised, including how PR19 might secure targeted improvements, and on the broader approaches Ofwat might adopt to promote the continued improvement in companies' approach to resilience across the board in the medium term.

## **Severn Trent Water's wastewater outcome delivery incentives cap**

- 3.13. The Executive presented its proposed final decision on Severn Trent's application to amend its wastewater ODI cap in light of responses received on the draft decision.
- 3.14. The Board agreed with the proposed approach and delegated the final decision on Severn Trent's application to David Black to be taken on the basis of the principles agreed and in light of all submissions received.

## **4. National Infrastructure Commission**

- 4.1. The Board was pleased to welcome Sir John Armit, Chair and James Richardson, Chief Economist, of the National Infrastructure Commission (NIC). Sir John outlined the role and objectives of the NIC and the areas of focus of its work, and the Board shared its perspective, particularly in relation to resilience and the regulatory framework in the context of the water sector.
- 4.2. The Board welcomed the Commission's openness to working collaboratively on the issues at the heart of the NIC's work, including the review of certain aspects of the regulatory regime recently announced by HM Treasury. The Board noted the importance of considering the regulatory envelope not just in the context of the economic regulators, but also the other regulators with core responsibility across the water sector, notably the Environment Agency and Drinking Water Inspectorate.
- 4.3. The NIC noted with interest the approach that Ofwat proposed to take to motivate and support improvements in addressing the challenges of water supply and demand in key areas of the country.

## **5. Market Outcomes and Enforcement**

### **Isles of Scilly – NAV application**

- 5.1 The Executive presented the proposed approach to Ofwat's consultation on the application to vary South West Water's (SWW) Instrument of Appointment to include the Isles of Scilly (IoS) from November 2019. It was expected that the consultation would be published in February 2019.
- 5.2 The Board discussed the proposed approach to the assessment and consultation and noted the extensive work that had already been undertaken on the underlying issues by a number of key stakeholders. The Board noted the policy issues that were

being considered in the context of the NAV application as well as in the context of PR19. The Board also considered the key risks and mitigations. The Board agreed to delegate authority to the Senior Director, Customers and Casework to issue the consultation and to make the final decision on granting the variation, following a more detailed assessment of SWW's application, taking into account the consultation responses received, and subject to there being no substantial objections at that stage. Moving forward was also subject to relevant changes in legislation being in place.

## **6. Update from Committee Chair**

### **Remuneration and People Committee**

6.1 The Chair of the Committee reported on the October meeting at which the Committee discussed and received an update on the following matters:

- the Business Improvement Programme and specifically the response to the Heartbeat survey, the update on bullying and harassment, health and wellbeing and People workstream more generally. The Committee was particularly interested in the regular monitoring of stress and the initiatives within the PR19 programme but from which wider Ofwat hoped to benefit. The Committee were keen to see that this level of focus was maintained throughout a demanding period across the office;
- the Non-SCS pay remit;
- the proposal on the 2018/19 SCS pay award to be discussed at a special RemCo meeting on 29 November; and
- the high-level findings of the Graduate Challenge to review the strengths and weaknesses of the current resource pool and matrix working system. The Committee had commended the graduates for an excellent piece of research and the Board echoed their thanks.

## **7. Any Other Business**

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

**Jenny Block**  
**Board Secretary**  
**22 November 2018**