

Meeting held on Thursday 28 February 2019
 Venue: Bloomsbury House, 21 Bloomsbury Street, London WC1B 3HF

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
Aileen Armstrong	Executive Director
David Black	Executive Director
John Russell	Executive Director
Jenny Block	General Counsel and Board Secretary
Other attendees	
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
Dena Barasi	Associate Director, PR19
Tim Griffiths	Director, PR19
Georgina Mills	Director, PR19
Jasminder Oberoi	Principal, PR19
Anita Payne	Director, PR19
Jonathan Read	Director, PR19
Sophie Shaw	Director, Legal, PR19
Jay Bevington	Partner, Deloitte UK

1. Opening Items and Declarations

- 1.1. The Chairman welcomed Jay Bevington from Deloitte who attended the Board meeting as an observer for the purposes of the Board evaluation.
- 1.2. The minutes of the Board meeting held on 24 January 2019 were approved subject to some minor amendments.
- 1.3. 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:
 - Business retail market: The Board discussed the measures that Ofwat might take to mitigate any potential risks to customers arising from retailers experiencing financial difficulties, both when granting licences and in the event difficulties begin to emerge. The Board also considered what further action Ofwat and the wider industry should take to address certain of the ongoing frictions in the market, for example, in relation to poor quality data, but also the apparent ongoing low levels of wholesaler co-operation with companies operating in the business retail, new connections and NAV markets.
 - Company focus: the Board received an update in relation to a range of issues affecting certain water companies and noted the progress that was being made.
 - Board leadership, transparency and governance: The Board noted the progress made on introducing a licence condition committing water companies to meet the four core objectives in the revised BLTG principles, and in particular were pleased to note that already twelve companies had provided their agreement in principle to such a condition.
 - Competition and Markets Authority proposals: The Board discussed the proposals for reform of the competition and consumer protection regimes set out in the CMA Chair's letter of 21 February 2019 to the Secretary of State, BEIS and their potential implications for the water sector.

- IT resilience: the Board noted the work to resolve the recent IT issues experienced, some of which had been for reasons unconnected with Ofwat systems, and that no data had been compromised. The Board also noted the work being undertaken on Ofwat's future IT strategy to improve resilience generally.
- Alternative Delivery Model: The Board was provided with an update on the ADM contract with PwC.

3. Strategy Hub

Vision for the sector and Ofwat's strategy

- 3.1. The Executive presented the developing thinking on a vision for the sector and Ofwat's strategy for 2020 and beyond. The proposed vision is being developed following extensive engagement both internally and with a variety of different external stakeholders and members of the public. The Board discussed the main themes emerging, and how these may translate into a vision for the water sector. It provided feedback on what a vision for the sector should achieve, including beyond the role of Ofwat itself.
- 3.2. The Board provided advice on the framing of the strategy and developing the narrative. The Board agreed that we should be reflecting on how best to use the full suite of our regulatory tools to improve customer outcomes in the sector, using market intelligence to remain at the cutting edge and having a greater ability to adapt the way in which we engage with companies. The strategy would be informed further by a range of ongoing regulatory reviews and the Board noted it would be important to incorporate consideration of how we continue to work well with other regulators and government.
- 3.3. The Board noted the next steps to come back to Board in March for a further discussion of elements of the vision and strategy and that a discussion document would be published in the spring to further develop our thinking and inform external engagement over the summer.

4. PR19

Overview

- 4.1. The Executive presented an overview of the PR19 programme highlighting stakeholder reactions to the publication of the initial assessment of business plans

on 31 January 2019. The Board noted the timing of draft determinations and expected focus of future Board meetings.

The Customer Measure of Experience (C-MeX) for PR19

- 4.2. The Executive presented an overview of the proposed approach to C-MeX for the shadow year.
- 4.3. The Board discussed whether the C-MeX design for the shadow year should include a Net Promoter Score (NPS) element. The Board agreed to include NPS in the C-MeX financial incentive and to monitor volatility and customer understanding of this measure during the shadow year. The Board agreed to revisit this issue prior to making a final decision for the 2020-25 period. The Board also agreed to monitor companies' progress in the quick resolution of complaints during the shadow year.
- 4.4 The Board considered the proposed recommendation to exclude company 'Do Not Contacts' customers (DNCs) from Ofwat surveys for the purposes of the regulatory regime. It was agreed that our intention should be to include DNCs in surveys for PR19, 2020-2025 but that the SRO, PR19 Policy should decide whether to incorporate this for the shadow year taking account of practical considerations.
- 4.5 To enable companies to understand their relative rankings during the shadow year, the Board asked the Executive to ensure their position in the C-MeX ranking is available to all companies.

The Developer Services Measure of Experience (D-MeX) for PR19

- 4.6 The Executive presented an update following the previous Board meeting where the Board considered and provided a steer on the strategic issues associated with the design of the D-MeX incentive.
- 4.7 The Board considered the proposed options for changing the level of the financial incentives for 2020-25 (there being no financial impacts during the shadow year) and the overall approach for D-MeX. It was noted that any such change would be the subject of further consultation as part of a consultation on D-MeX design later in 2019.
- 4.8 The Board agreed the Executive's proposed recommendations on the overall design of the incentives ahead of the shadow year which begins in May 2019. The

Board was clear that the sector should take responsibility for improving the quality of the quantitative metrics.

4.9 The Board discussed and agreed the overall plan for finalising D-MeX.

5. Update from Committee Chairs

Remuneration and People Committee

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

- the Business Improvement Programme;
- an initial top level view of the results of the most recent Pulse survey where it was heartening that on most metrics we appeared to be trending upwards, and particularly notable given the busy time the survey was undertaken; and
- initial views on Ofwat's refreshed People strategy: the Committee expressed a keen interest to be involved in the development of this aspect of Ofwat's strategy work. The Committee urged the Executive to focus on a few initiatives likely to have the greatest impact, and to seek to develop measures that can be tracked to monitor our progress and success. The Committee suggested there may be opportunities to work with the UKRN and other regulators, through shared training schemes for example, to facilitate this.

Audit Risk and Assurance Committee

5.2 The Chair of the Committee reported on the February meeting at which the Committee discussed the revised strategic risks and opportunities register. The Committee noted the progress with embedding the risk management framework and discussed whether the current set of strategic risks was sufficiently comprehensive.

5.3 The Committee discussed the proposed approach to the 2018-19 Annual Report and Accounts and reviewed the draft Governance Statement and the nine month financial statements.

5.4 The Committee also discussed the assurance paper presented on readiness for phase 3 of PR19 (draft and final determinations) and lessons learned from the IAP process. This indicated that a very thorough and comprehensive approach to assurance was being taken forward.

- 5.5 The Committee noted the internal audit progress report presented by Mazars and the two internal audit reports completed. It was particularly pleased to note the substantial assurance given on Ofwat's core financial controls.

6. Board effectiveness

- 6.1. The Chairman thanked Jay Bevington, Deloitte for observing the meeting in the context of Deloitte's review of Board effectiveness and for meeting with all Board members and wider groups within Ofwat as part of the review.

7. AOB

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

Jenny Block

Board Secretary

28 February 2019