

Meeting held on Thursday 25 April 2019
 Venue: Ofwat, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA

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
Andrew Chesworth	Director, PR19
Alison Cullen	Associate Director, PR19
Tim Griffiths	Director, PR19
Simon Harrow	Senior Associate, PR19
Amit Kamal	Principal, Finance and Governance
Kate Kendall	Director, Finance and Governance
Martin Malinowski	Principal, PR19
Elinor Mathieson	Principal, Finance and Governance

Laura Nell	Director, Finance and Governance
Anita Payne	Director, PR19
Bart Schoonbaert	Director, PR19
Sophie Shaw	Director, Legal, PR19
Andrew Lilico	Executive Director, Europe Economics

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 21 March 2019 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:
 - Sector Vision and Ofwat Strategy: the Chief Executive thanked the Board for their input and support in the development of the vision and strategy to be launched for wider stakeholder discussion and engagement in early May. We will be launching a new microsite to host the vision and strategy discussion and to encourage contributions from the broadest cross-section of interested parties.
 - NED event: the Board discussed the event held on 1 April for company non-executive directors and the feedback received. It had been well attended and there were a number of positive themes and suggestions to take forward in developing the next event early next year.
 - Sector resilience: the Board asked to be kept regularly updated on company readiness for possible longer spells of dry weather over the spring and summer months.
 - Southern Water enforcement: the Board received a brief update on the case.
 - Aquaflo Utilities Limited: the Board received an update on the revocation of the company's licence on its entry into administration and the operation of the

business retail market interim supply arrangements which ensured that customers continued to receive a seamless service. The Board discussed the wider lessons to be learned and asked to be kept informed of progress in addressing some of the issues identified.

- Quarterly Portfolio Review: the Board discussed the Quarter 4 review, including the update on strategic risks and risk management, and the proposals put forward by the Executive to refresh the report more generally, better capturing progress against meeting Ofwat's strategic outcomes. The Board noted the aim also to ensure a more consistent way of presenting information across all Ofwat committees, as well as the Board.
- New appointment: The Board congratulated Lisa Commane, Senior Responsible Officer, Business Improvement, on her appointment as non-executive trustee on the board of MHA, alongside her role with Ofwat. This is a non-remunerated role.

3. PR19

Overview

- 3.1. The Executive provided an update on the PR19 programme highlighting that the slow track and significant scrutiny companies submitted their revised business plans on 1 April, responding to the actions set out in the initial assessment of company plans (IAP) published in January.
- 3.2. The Board noted the timing of the slow track and significant scrutiny draft determinations and expected focus of future Board meetings.

Cross cutting issues from revised business plans

- 3.3. The Board received for information an update on key cross cutting themes emerging by reference to companies' revised business plans, focusing on cost efficiency and outcomes.
- 3.4. The Board noted submissions made by several companies on the overall level of stretch required by Ofwat, having regard to outcomes, cost efficiency and the cost of capital. The Board considered the comments made on cost allowances for base and enhancement expenditure and considered the proposed approach to setting the efficiency challenge in draft determinations.

- 3.5. The Board considered the overview of company responses to required actions in relation to their performance commitments and outcome delivery incentives. The Board noted the next steps to come back to Board with recommendations to ensure appropriate customer protections for each company for draft determinations, and on high value/strategically important interventions in the proposed performance commitment levels and outcome delivery incentives.

Company specific issues from revised business plans

- 3.6 The Executive presented an initial company-specific overview of revised business plans submitted by slow track and significant scrutiny companies, including the nature of the company responses to the challenges set at the IAP stage, as well as an indication of the company-specific issues likely to arise during the preparations of draft determinations that could require further consideration by the Board. The Executive provided an overview of the approach to engagement with companies during this period.

Update on the cost of capital

- 3.7 The Executive presented an update on its ongoing review of the cost of capital assessment. The Board considered carefully the emerging thinking with respect to the components of the overall Weighted Average Cost of Capital (WACC) figure.
- 3.8 The Board noted the next steps to present outcomes of the financial modelling in June which will feed into proposed draft determinations for slow track and significant scrutiny companies. The Board also noted that the final WACC recommendation for final determinations, reflecting updated market data and company representations in response to our draft determinations, will be provided to the Board in Autumn 2019.

4. Finance and Governance

Board leadership, transparency and governance

- 4.1 The Executive presented the next steps in introducing a licence obligation to meet the board leadership, transparency and governance objectives published in January 2019.
- 4.2 The Board noted the current position and discussed the approach for dealing with outstanding issues and concerns. The Board agreed that Ofwat should launch a licence modification process for all companies in May.

Financial resilience: consents

- 4.3 The Board discussed the proposed approach to the assessment of requests for consents to financial arrangements that would otherwise be prohibited under the ring-fencing protections in companies' licences. The Board discussed and agreed the approach to dealing with existing intercompany loans from regulated companies to their parent companies.

5. Board effectiveness review

- 5.1 The Chairman provided an update on the independent Board effectiveness review.

6. AOB

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

Jenny Block

Board Secretary

25 April 2019