

Meeting held on Thursday 21 March 2019  
 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
Emily Bulman	Director, Market Outcomes and Enforcement
Andrew Chesworth	Director, PR19
Richard Collard	Graduate Associate, Strategy Hub
Andy Duff	Director, PR19
Tim Griffiths	Director, PR19
Shaun Kent	Principal, Market Outcomes and Enforcement
Martin Malinowski	Principal, PR19
Georgina Mills	Director, PR19

Sarfraz Nawaz	Director, Finance (Operations)
Anita Payne	Director, PR19
Carl Pheasey	Director, Strategy Hub
Jonathan Read	Director, Strategy Hub
Sophie Shaw	Director, Legal, PR19
Stephen StPier	Director, PR19

## **1. Opening Items and Declarations**

- 1.1. The minutes of the Board meeting held on 28 February 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:
  - Planning for EU Exit: The Executive updated the Board on preparations being made by companies and government for EU exit, including risk management and mitigation with respect to possible impacts on the sector.
  - Southern Water enforcement: The Board received a brief update on the progress of this case and noted that it was now being designated as a strategic case.
  - Retail exit: The Board received an update on plans to support an exit from the retail market through the Interim Supply process which was likely to occur in the next couple of weeks. The Board delegated authority to the SRO, Market Outcomes & Enforcement or the Chief Executive (depending on availability) to revoke the licence at the appropriate time and asked that the team come back to Board to discuss what we learned from this process. The Board was particularly concerned to understand the steps Ofwat can take to protect customers.

- Board leadership, transparency and governance: The Executive updated the Board on progress in obtaining indicative consent from companies to the new licence condition to meet the four new objectives.
- Financing consents casework: The Board noted the progress made.
- Pension contributions: the Board noted the increase in Ofwat's employer pension contributions recently mandated by HM Treasury.
- The Unit: The Board was pleased to note that we had received approval from HM Treasury to raise our CSR settlement for 2019/20 to include budget for a new cross-regulator unit to facilitate the development of large-scale regional and national water resources infrastructure projects. This was a significant milestone and would greatly facilitate progress on this key initiative in the next financial year.

### **3. PR19**

#### **Overview**

- 3.1. The Executive presented an overview of the PR19 programme. The Board discussed the proposed approach to performance related executive pay and its expectation that performance targets are stretching. The Board also agreed it was appropriate to signal that Ofwat may review and comment on evidence of best practice in terms of performance-related executive pay policies in future. The Board noted the key steps to be taken with respect to the draft determinations for slow track and significant scrutiny companies at future Board meetings.
- 3.2. The Board noted that the delivery partner had provided excellent support to date.

#### **Fast track companies – draft determinations**

- 3.3. The Executive presented the draft determinations for fast track companies highlighting key features and matters for decision, for example, the outcome delivery incentive and performance commitment package, the assessment of financeability and the proposed bill profile. The Executive noted that decisions on the form and nature of the control had been made as part of the PR19 methodology.

- 3.4. The Board considered all relevant aspects highlighted for each fast track company. The Board noted the further limited interventions proposed for each company.
- 3.5 The Board discussed and agreed the revenue allowances by control and the bill profiles, and authorised the Executive to finalise and publish the draft determinations based on the Board's decisions.

### **Update on the cost of capital**

- 3.6 The Board received for information an update on the ongoing analysis of the components of the Weighted Average Cost of Capital ("WACC") assessment. The Board noted the key issues relevant to setting the WACC for slow track companies' draft determinations in July 2019.
- 3.7 The Board noted the views set out by other economic regulators on the WACC since Ofwat's initial assessment was set out in December 2017. The Board agreed it was appropriate to refresh our initial views taking account of new data since December 2017 and also to consider company representations and methodological developments from other regulators. An updated set of recommendations would be provided to the Board for Draft Determinations and again for Final Determinations.

## **4. Business Improvement**

### **2019-20 Budget and Licence Fees**

- 4.1 The Board discussed and approved the proposed budget including funding for the new strategic water resources unit and the total annual licence fee envelope for 2019-20.
- 4.2 The Board delegated authority to the Chief Executive to set the final programme budget allocations in line with the final 2019-20 Forward Programme. The Board asked that the Executive revert to Board before seeking to invoice any additional licence fee for 2019-20.
- 4.3 The Board also commented on and approved the final version of the Forward Programme to be published on 28 March 2019.

## 5. Strategy Hub

### Vision for the sector: Social and environmental value

- 5.1. The Executive presented the emerging recommendation that the Vision for the sector should state an ambition that water companies deliver public value, as they carry out their core functions, which would in turn be reflected in Ofwat's strategy for 2020 and beyond. It noted that water companies are in a position to add much more value than they currently do and while some companies are embracing this need, others have yet to do so. This should enhance the proposition to investors, and there were many examples where a positive business case could be made.
- 5.2. The Board discussed how social and environmental value might be defined; the case for including these concepts in the Vision for the sector as a whole; and early thoughts on the implications for Ofwat's role from 2020. The Board noted the importance of managing the cost to customers and the need to ensure the sector can continue to attract investment.
- 5.3. The Board noted the next steps to publish a discussion document for stakeholders in the Spring which would summarise Ofwat's current thinking on a Vision for the sector and Ofwat's strategy.

### Innovation

- 5.4 The Executive presented a paper setting out the challenges for the sector in terms of innovation, with a widespread view that the industry in England and Wales is slow to adopt new technology and ways of working, and does not have the right culture for effective innovation and collaboration. The paper set out a range of possible interventions that Ofwat might bring forward to address this.
- 5.5 The Board agreed that Ofwat should do more to enable innovation and further interventions should be considered, including the possibility of funding through customer bills through the next price review period.
- 5.6 The Board agreed with the need to continue to engage with companies and other stakeholders to understand their view on the barriers to innovation and the potential options, and discussed the suggestions put forward. The Board noted the next steps to come back to Board with more concrete recommendations for additional measures to support innovation and further details on how they may operate in practice.

## **6. Market Outcomes and Enforcement**

### **Market policy update**

- 6.1 The Executive presented the proposed approach to driving more meaningful improvement in the functioning of the main markets Ofwat regulates (business retail and developer services) in light of the current position regarding the development of competition. The Board noted with concern evidence of continued poor performance on the part of some (but not all) wholesalers. It supported more concerted action to tackle ongoing market frictions, effectively targeted, in whatever way the Executive thought appropriate with more robust intervention if required. The Executive was asked to report on progress within the next six months.
- 6.2 The Executive also presented its emerging thoughts on the second year of operation of the business retail market and the proposed approach to the State of the Market Report. The Board noted the key messages on the basis of the initial assessment of developments. The Board noted the next steps to come back to Board in June with a confirmed approach to the State of Market Report for publication in July 2019.

## **7. AOB**

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

**Jenny Block**  
**Board Secretary**  
**21 March 2019**