

Meeting held on Thursday 27 June 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
Christine Farnish	Non-Executive Director
Alison Munro	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
Ynon Gablinger	Director, PR19
Tim Griffiths	Director, PR19
Jane Jellis	Director, Legal
Amit Kamal	Principal, Strategy Hub
Shaun Kent	Principal, Market Outcomes and Enforcement
Angela Maher	Principal, Corporate Communications

Georgina Mills	Director, Market Outcomes and Enforcement
Paul Oxley	Principal, Market Outcomes and Enforcement
Anita Payne	Director, PR19
Margaret Pyne	Principal, Market Outcomes and Enforcement
Bart Schoonbaert	Director, PR19
Stephen StPier	Director, PR19
Sophie Shaw	Director, Legal, PR19

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 6 June 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 Executive gave an update on the following matters:
 - Southern Water enforcement case: the Board received initial feedback on the points raised following publication of the draft proposal to impose a financial penalty on the company;
 - Thames Hampton burst: the Executive provided an update on the initial assessment being undertaken jointly with Defra on the incident;
 - Proposed national water use awareness campaign: the Board noted the status of the current proposals, and agreed that Ofwat should continue to work with the sector to actively explore the feasibility of a standing, long-term national water efficiency campaign, funded by water companies. The Board noted the positive role that a national body with expertise in behavioural change might have on driving change in the sector and among wider society; and
 - the Comprehensive Spending Review.
- 2.2. The Board confirmed the reappointments to membership of Ofwat Committees.

3. Strategy Hub

Water resources

- 3.1. The Executive provided an update on the current dry weather position highlighting Ofwat's concerns and the activities that we and others are undertaking in this area and in relation to dry weather more generally.
- 3.2. The Board noted the different roles of the various bodies concerned and the role Ofwat played in drought preparedness to ensure that water companies are preparing appropriately. This includes contributing sector knowledge to help make sure gaps in the overall approach to dry weather preparedness are addressed, as well as through its substantive duties, for example, to make sure that water companies properly carry out their statutory functions; and to further the long-term resilience of water companies' systems as regards environmental pressures, population growth and changes in consumer behaviour.
- 3.3. The Board noted the next steps, including pushing for concerted collaboration across the sector to improve communications, which will impact on both customers' awareness and preparedness for dry weather and drought.

4. Market Outcomes and Enforcement

Publication of State of the Market Report

- 4.1. The Executive presented an overview of Ofwat's second annual State of the Market Report highlighting key findings and key messages on the basis of Ofwat's assessment of developments. The report draws on available evidence to undertake an objective assessment of the business retail market in its second year of operation. The report will focus on: an assessment of customer outcomes delivered by the market; and progress in addressing market frictions.
- 4.2. The Board confirmed that it was important to reinforce the work already undertaken to convey Ofwat's disappointment with progress made by industry to address market frictions to date. Industry needed to step up both their effort and pace in resolving these frictions swiftly.
- 4.3. The Board considered the next steps and agreed that Emma Kelso, SRO Markets and Enforcement, should be responsible for approving the State of the Market Report for publication.

Future protections for business retail customers

- 4.4. The Executive presented the proposed recommendation to implement the key consultation proposals for price and non-price protections for customers in the business retail market.
- 4.5. The Board considered the points raised by respondents to the consultation. The Board noted the difficult balance to be struck in terms of protecting the interests of consumers, and promoting competition, including careful consideration of the impact of the proposals on retailers. It recognised the different factors at play in terms of the ability of customers to benefit from competition in the business retail market, directly or indirectly, including the need to resolve the various market frictions identified.
- 4.6. The Board agreed to proceed as recommended, implementing the proposals for both the future price and non-price protections. The Board also agreed that it would be appropriate to commit to a review of the price protections in the medium term to ensure they remained suitable.

Communications plan

- 4.7. The Board also considered and provided comments on the key messages set out in the communications plan, which reflect on all three reports.

5. PR19

Overview

- 5.1. The Executive presented an overview of the PR19 programme providing a summary of key issues to be discussed in more detail at the meeting. The decisions to be made at this meeting built on the decisions made/steers provided by the Board at previous meetings over the preceding several months.
- 5.2. The Board noted the approach proposed in terms of costs and outcomes that aim to deliver stretching and efficient draft determinations. The Board also noted that the overall level of challenge in the draft determinations will reflect a combination of the challenge to companies across outcomes, cost assessment and the cost of capital. The Board considered the different approaches companies had taken to addressing the challenges posed by Ofwat in the initial assessment of business plans.

- 5.3 The Board received an update on other related matters, including the overall level of Ofwat's proposed interventions as a proportion of the companies' requested revenue and the estimated impact on customer bills.
- 5.4 The Board noted the summary of responses to fast track draft determinations including an overview of company responses and other stakeholders' views.
- 5.5 The Board received an update on trends in some of the parameters on the cost of capital and how this might impact on cost of capital should these trends persist.
- 5.6 The Board noted the overview of the PR19 journey so far which highlighted the key milestones achieved and commended the team for their continued dedication.

Improving incentives to submit efficient and justified cost proposals

- 5.7 The Executive presented proposals to amend incentives to encourage companies to submit efficient and well justified cost proposals. The Board carefully considered the proposed amendments to the cost sharing incentives and agreed to consult on the basis proposed. The Board also agreed to identify those companies with the largest cost gaps, in particular on base expenditure, ahead of draft determinations.

Communications and engagement: July Draft Determinations

- 5.8 The Executive presented the proposed approach to PR19 communications and engagement for the July draft determinations.

Significant scrutiny companies: cost sharing rates

- 5.9 The Executive presented an update on how the significant scrutiny companies had responded to actions set out in the initial assessment of business plans and engaged with Ofwat.
- 5.10 The Board discussed the Executive's views on this issue and agreed that the Executive should return to Board ahead of final determinations with final proposals on the application of lower cost sharing rates to significant scrutiny companies.

Company level summaries – draft determinations

- 5.11 The Executive presented summaries of the draft determinations for each company for decision, highlighting outstanding decisions on interventions to company plans.

The Executive noted that decisions on the form and nature of the controls had been made as part of the PR19 methodology.

- 5.12 The Board carefully considered all relevant aspects highlighted for each slow-track and significant scrutiny company. The Board discussed and agreed the proposals on financeability, bill profile and revenue allowances, and authorised the Executive to finalise and publish the draft determinations based on the Board's decisions.

6 Update from Committee Chair

Remuneration and People Committee

- 6.1 The Chair of the Committee reported on the June meeting at which the Committee discussed and received an update on the following matters:
- the Business Improvement Programme, specifically the work ongoing with respect to employee engagement surveys, and the Future Ofwat project that was formally initiated in April 2019. The IT Strategy and Roadmap, Comprehensive Spending Review and People Strategy are being developed as part of this Future Ofwat project;
 - a recap on the top level view of the results of the Pulse survey that concluded in January 2019 and the steps that are being taken; and
 - next steps for the non-SCS and SCS pay remits.

Audit and Risk Assurance Committee

- 6.2 The Chair of the Committee reported on the June meeting at which the Committee considered the annual report and accounts 2018-19. The Committee noted the External Auditors' draft completion report on their 2018-19 financial audit. Subject to the Executive reflecting the Committee's comments, and in light of the discussion of the External Auditor's audit completion report above, the Committee recommended to the Accounting Officer that the Annual Report and Accounts could be signed and issued for certification.
- 6.3 The Committee also discussed the draft IT Strategy and Roadmap which highlighted that the work is intended to cover our approach comprehensively, including business as usual, responding to any challenges with Ofwat's IT resilience as well as the new opportunities that digital and data present.

- 6.4 The Committee also discussed strategic risks, and the Chair's draft annual report to the Board on the work of the Committee throughout the year.
- 6.5 Finally the Committee discussed two reviews undertaken by Ofwat's Internal Auditors (Mazars): the first an advisory review of the early draft ICT Strategy and Roadmap; and secondly a review of completion of management actions following previous audits.

Chair of ARAC Annual Report

- 6.6 The Chair of ARAC presented to the Board her annual report on the work of the Committee during the 2018-19 financial year. The Chair of the Committee noted in particular their work on Ofwat's strategic risks and the implementation of its risk strategy, and on the assurance of key parts of Ofwat's portfolio of work, in particular the PR19 programme.

7 AOB

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

Jenny Block
Board Secretary
27 June 2019