

Minutes of Board meeting

Meeting held on Thursday 25 November 2021 (hybrid meeting)
Venue: Bloomsbury House, 21 Bloomsbury Street, London WC1B 3HF

Board members / standing attendees

Jonson Cox	Non-executive Director, Chairman
Mark Bayley	Non-executive Director
Nicola Bruce	Non-executive Director
David Jones	Non-executive Director
Seema Kennedy	Non-executive Director
Jonathan Kini	Non-executive Director
Alison Munro	Non-executive Director
David Black	Interim Chief Executive
Aileen Armstrong	Executive Director
John Russell	Executive Director
Lisa Commane	Executive Director
Jenny Block	General Counsel and Board Secretary

Other attendees

Claire Forbes	Senior Director
Keith Mason	Senior Director
Emma Kelso	Senior Director
Paul Hickey	Managing Director, RAPID
Tim Griffiths	Director, PR24 and Beyond
Juliet Young	Director, PR24 and Beyond
William Godfrey	Director, PR24 and Beyond
Andrew Chesworth	Director, Financial Resilience, Policy and Outcomes
Andy Titchen	Principal, PR24 and Beyond
Martin Malinowski	Principal, PR24 and Beyond
Jamie Tunnicliffe	Director, Investor Relations
Sophie Shaw	Director, Legal
James Jenkins	Senior Associate, Environment, Policy and Outcomes
Fayza Benlamkadem	Principal, Environment, Policy and Outcomes
Hannah Johnson	Graduate Associate, Environment, Policy and Outcomes
Harry Armstrong	Director, Regulatory Policy, Policy and Outcomes

Marc Hannis	Principal, Innovation Fund, Policy and Outcomes
Carl Pheasey	Director, Government Engagement, Policy and Outcomes
James Hawthorne	Principal, Government Engagement, Policy and Outcomes
Sofia Isidoro	Graduate Associate, Government Engagement, Policy and Outcomes
Sally Irgin	Director of Enforcement, Regulatory Enablers
Jane Jellis	Director, Legal
Elinor Mathieson	Associate Director, Financial Resilience, Policy and Outcomes
Rebekah Eden	Director, Company Performance and Price Reviews
Georgina Mills	Director, Markets and Charging, Policy and Outcomes
Shaun Kent	Principal, Markets and Charging, Policy and Outcomes
Sean Mills	Graduate Associate, Markets and Charging, Policy and Outcomes

1. Opening Items and Declarations

- 1.1 The minutes of the Board meeting held on 28 October were approved subject to a minor amendment.
- 1.2 There were no interests to declare by reference to the matters for discussion at the meeting.

2. Interim Chief Executive's Report

- 2.1 The contents of the Interim Chief Executive's report were noted and discussed. The Board received updates in particular on the EA and Ofwat investigations into and flow to full treatment permit compliance at wastewater treatment works, and the broader context within which these investigations arose, including the passage of the Environment Act 2021 in early November.
- 2.2 The Board thanked the team for the daily updates during COP26.

3. Risk and return for PR24

- 3.1 The Executive presented a paper setting out background on how we approach setting allowed returns and the issues that may arise for PR24.
- 3.2 The Board discussed the proposed approach to engagement on important points of principle which will shape how we set allowed returns for PR24 and how we aim to best align interests of investors and management with customers' interests in PR24 and beyond.

- 3.3 The Board noted the proposed next steps, including to: (i) publish a discussion paper in December, followed by engagement with stakeholders, including analysts, investors and companies, in December and January; (ii) return to Board in the spring with proposals for the draft methodology which will be published in summer 2022.

4. Net Zero principles

- 4.1 The Executive provided an update to the Board on our evolving thinking on the sector's net zero plans, including on: (i) the benchmarking of industry targets by reference to the government's net zero targets; (ii) action to address both operational and embedded emissions; (iii) the role of the GHG Management Hierarchy, under which offsets are used as a last resort; and (iv) how we might approach funding of the investments needed to achieve net zero to best promote innovation and cost efficiency.
- 4.2 The Board discussed the proposed approach and its potential significance for PR24 and long-term planning, including next steps on how we will best reflect the transition to net zero in our cost assessment approach to base and enhancements costs.

5. Innovation fund

- 5.1 The Executive presented a paper providing an update to the Board on progress in relation to the innovation fund, highlighting insights gained during the pilot period so far, and noting the principal decisions that needed to be made in relation to the fund for years 3-5.
- 5.2 The Board noted the success of the fund to date and the positive impacts seen through the competitions so far. The Board agreed that, consistent with the original aims of the innovation fund to be a long-term initiative aiming to do more to build innovative capacity across the sector, the fund should continue for years 3-5 as originally set out in the PR19 final determinations.
- 5.3 The Board delegated to John Russell, SRO for the innovation fund, the decision on the award of the delivery partner role for the next phase of the initiative through to the end of AMP7.
- 5.4 The Board noted the next steps to return to Board with policy proposals for years 3-5 of the fund in early 2022, and also to share more detailed insights from the pilot period and discuss the future of the fund beyond 2025, later in 2022.

6. UK and Welsh Government – Strategic Policy Statements

- 6.1 The Executive presented an overview of developments with respect to the UK and Welsh Governments' reviews of their respective Strategic Policy Statements (SPSs), and highlighted potential implications for Ofwat.
- 6.2 The Board discussed the UK government's aims and agreed the approach to further discussions with Defra. The Board also discussed the approach to ongoing discussions with the Welsh Government in relation to the Welsh Government strategic policy statement.

7. Interventions in poorly performing companies

- 7.1 The Board discussed what we had learned as an organisation from the steps we had taken to date to address declines in company performance and financial resilience, and the level of engagement required at every level in such circumstances, including working with other regulators.
- 7.2 The Board also noted the progress made and immediate steps being taken in several areas to develop our insights to drive improvements in company performance where needed.

8. Business Retail Market

- 8.1 The Executive gave an update to the Board summarising key findings from the Year 4 State of the Market report, against the background of the impact of the pandemic. Evidence continues to indicate that competition is not yet effective for smaller customers, including by comparison to larger customers. The Board noted the ongoing market frictions and the steps being taken to address them.
- 8.2 The Board commented on proposals with respect to our upcoming review of the business market retail price caps and on the focus of that review. The Board also noted the proposed approach to consult on specific adjustments to business market retail price caps to reflect excess bad debt, which arose following measures introduced to combat the Covid-19 pandemic, as previously agreed.
- 8.3 The Board noted the next steps, including to publish a scoping statement for the REC review in December 2021 alongside the State of the Market report for 2020-21.

9. Update from Committee chairs

Major Projects Committee

9.1 The Chair of the Major Projects Committee reported on the meeting held in October at which the Committee:

- received an update on progress of the Thames Tideway Tunnel project, and noted the increasing focus on system commissioning and testing and then handover on completion;
- discussed proposed settlement agreements between Tideway and some of its Main Works Contractors (MWC);
- received an update on the development of the HARP project including the revised timetable for delivery of the project;
- an update on the assessment of value for money (VfM) of DPC and sensitivity modelling on United Utilities' DPC Project – HARP; and
- discussed a proposal to provide guidance to the industry on expectations for commercial arrangements for DPC projects, and how this interacts with the regulatory framework underpinning DPC.

People Committee

9.2 The Chair of the People Committee reported on the recent meetings of the Committee at which the Committee:

- received an update on the progress made in delivering the People Strategy, focusing on Leadership and EDI;
- discussed talent management and succession and how to build these into the shape and structure of Ofwat's future talent framework;
- received an update on recruitment; and
- discussed the final SCS pay arrangements for 2021/2022.

10. AOB

10.1 The Board noted the forward plan for Board meetings.

10.2 There was no other business and the Chair closed the meeting.

Jenny Block

Board Secretary

25 November 2021