

Minutes of Board meeting

Meeting held on Thursday 28 April 2022 (in person)
 Location: Room 4, 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	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
Juliet Young	Director, Company Performance and Price Reviews
Grace Garner	Principal, Company Performance and Price Reviews
Enrico Russo	Principal, Company Performance and Price Reviews
Abbas Amin	Graduate Associate, Company Performance and Price Reviews
Tim Griffiths	Director, Company Performance and Price Reviews
Will Godfrey	Director, Company Performance and Price Reviews
Sophie Shaw	Director, Legal
Jamie Tunnicliffe	Director, Investor Relations
Peter Jordan	Principal, Company Performance and Price Reviews
Jeevan Jones	Principal, Company Performance and Price Reviews
Daniel Mitchell	Principal, Company Performance and Price Reviews
Simon Harrow	Principal, Company Performance and Price Reviews

Everardo Quezada	Principal, Company Performance and Price Reviews
Andy Titchen	Principal, Company Performance and Price Reviews
Martin Malinowski	Principal, Company Performance and Price Reviews
Harry Armstrong	Director, Regulatory Policy, Policy and Outcomes
Joseph Sadio	Associate, Insight and Impact
Emma Howard Boyd	Chair, Environment Agency
Sir James Bevan	Chief Executive, Environment Agency

1. Opening Items and Declarations

- 1.1 The minutes of the Board meeting held on 17 March 2022 were approved subject to some minor amendments.
- 1.2 There were no interests to declare by reference to the matters for discussion at the meeting.

2. Chief Executive's Report

- 2.1 The contents of the Chief Executive's report were noted and discussed. The Board received updates in particular on:
 - Impacts of inflation on companies and wider cost of living pressures, particularly for vulnerable customers;
 - Government consultations on a range of measures and targets relating to the environment;
 - The range of Ofwat's ongoing work in relation to the environment;
 - Ofwat's research work in relation to sewage in homes;
 - Ongoing work with specific companies in relation to financial resilience;
 - Progress on projects relating to infrastructure development;
 - Progress in relation to Ofwat's innovation fund; and
 - Ofwat's ongoing engagement in Wales.

Quarterly Portfolio Report

- 2.2 The Board received and noted an update on the progress made and assessment of our activities in Q4 2021-22 across our portfolio. The Board also considered and discussed the strategic communications quarterly report.

3. PR24 Overview

- 3.1 The Executive set out an overview of the papers for discussion at the meeting, outlining key proposals for the PR24 methodology and providing an overall perspective

on the structure and building blocks of key elements of the draft methodology. The Executive set out the key developments to the PR19 approach.

- 3.2 The Board discussed and agreed the overall approach and, with respect to each of the following papers, to delegate to the Executive decisions that might otherwise be reserved to it where the issues are not of strategic importance in light of the key goals of PR24 and / or are of a particularly technical nature, after taking into account the broader guidance provided by the Board.
- 3.3 The Board noted that as part of simplification of the price review, we propose to use tools outside the price control to incentivise performance in areas that are not included in the price review including through leveraging reputational incentives, licence conditions, charging rules and enforcement action, and supported by our monitoring regime. The Board thanked the team for the high quality and clarity of the papers.

4. Promoting high quality and ambitious business plans

- 4.1 The Executive presented to the Board for discussion key proposals for our approach to business plan incentives to be included in the PR24 draft methodology.
- 4.2 The Board discussed the areas of companies' business plans we intend to focus on, and the package of reputational, financial and procedural incentives we plan to offer to encourage high quality and ambitious plans. The Board agreed that we should have incentives for water companies to improve outcomes for customers by encouraging companies to demonstrate that they are delivering the right outcomes at the right time, to provide accurate information on cost and service levels, submit plans requiring limited intervention and engage fully with our price review process.
- 4.3 The Board agreed with the proposed framework for promoting high quality and ambitious business plans and with the proposed package of business plan incentives for PR24.

5. Approach to outcomes incentives

- 5.1 The Executive presented to the Board a paper outlining key proposals for the incentives to improve outcomes for customers and the environment in the PR24 draft methodology with the aim of putting in place a simpler and more powerful framework.
- 5.2 The Board discussed and agreed the proposed approach.

6. Approach to expenditure assessment

- 6.1 The Executive presented a paper setting out our proposed approach to expenditure assessment at PR24, seeking the Board's views on the five principles proposed for cost assessment, and how we are approaching the assessment in each area.
- 6.2 The Board discussed and agreed the key principles and high level approach to setting sufficient and efficient cost allowances and related incentives and areas of focus.

7. Risk & Return strategy

- 7.1 The Executive presented a paper setting out the proposed approach to risk and return for the PR24 draft methodology which would outline our strategic aims and high level approach.
- 7.2 The Board discussed the challenges in setting an appropriate level of return, including challenging macroeconomic conditions and upward pressure on customers' bills. The Board agreed the proposed approach.

8. Environment Agency

- 8.1 The Chair welcomed Emma Howard Boyd, Chair and Sir James Bevan, Chief Executive of the Environment Agency to the Board meeting. The discussion covered:
- The central environmental challenges facing the water sector and shared vision for addressing these in both the short and longer term;
 - Building on our collaborative working to date, how the EA and Ofwat could work more closely together ensuring information and insights are appropriately shared, including to ensure appropriate and timely interventions when companies are not performing;
 - Continuing our work on reforming the WINEP to facilitate innovative, outcomes-based solutions, so that we might enable more efficient environmental outcomes at PR24 and go on to develop greater confidence in a range of nature based and catchment level solutions at PR29; and
 - Building confidence in the level of sustainability reductions, e.g. in terms of reductions in abstraction, whilst enhancing focus on demand management, integrating our collective response to these challenges and working to build and maintain customer trust.
- 8.2 The Chair thanked the Chair and CEO of the EA for a thorough and wide-ranging discussion.

9. Update from Committee chair

Major Projects Committee

9.1 The Chair of the Major Projects Committee reported on the recent meetings of the Committee on 17 March and 20 April at which the Committee discussed:

- The progress of the Portsmouth Havant Thicket project and Thames Tideway Tunnel project;
- The status and progress on the United Utilities HARP project, including discussion of the outline business case for the project;
- Anglian Water's Middlegate water treatment works DPC project; and
- The proposed policy approach for DPC projects at PR24.

10. AOB

10.1 The Board discussed the forward plan for Board meetings.

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

Jenny Block
Board Secretary
28 April 2022