

Minutes of Board meeting

Meeting held on Thursday, 20 October 2022 (in person)
Westferry House, 11 Westferry Circus, Canary Wharf, London E14 4HD

Board members / standing attendees

Iain Coucher*	Chair
Alison Munro	Non-executive Director
Mark Bayley	Non-executive Director
Nicola Bruce	Non-executive Director
David Jones*	Non-executive Director
Jonathan Kini	Non-executive Director
Seema Kennedy	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
Andrew McGeoghan	Director, Company Performance and Price Reviews
Juliet Young	Chief Economist
Jeevan Jones*	Principal Economist, Company Performance and Price Reviews
Andrew Chesworth	Director, Company Performance and Price Reviews
Tim Griffiths	Director, Company Performance and Price Reviews
Mark Anderson	Director, Corporate Communications
Gwen Roberts	Director of Wales
Sophie Shaw*	Director, Legal, PR24
Jamie Tunnicliffe	Director, Investor Relations

* Joined the meeting virtually.

1. Opening Items and Declarations

- 1.1 The minutes of the Board meeting held on 22 September were approved. The minutes also record the Board's prior agreement, in between meetings, to delegate to the Major Projects Committee any decisions required to be made in respect of the Havant Thicket project. The Board had also approved entry into a call-off contract for technical support in relation to Thames Tideway Tunnel.
- 1.2 The Board noted its confirmation that all current members of the Audit and Risk Assurance Committee should remain in place for a year, pending reappraisal of Committee membership.
- 1.3 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 on the following:
 - The drought situation and ongoing cost of living pressures;
 - Progress on Ofwat's ongoing enforcement investigations, next steps and timing of future milestones;
 - Ofwat's budget position at the end of Q2; and
 - Progress in updating our programme of work by reference to our strategy.
- 2.2 The Board approved the expenditure under our hardware contract.
- 2.3 The Board discussed progress on the initiative to enable accelerated investment by the sector through PR24 transition funding and the assessment underway of companies' proposals. The Board welcomed the opportunity to drive further investment, provided companies were in a position to deliver and customers' interests were protected. It also noted the importance of value being achieved for customers and the environment from the proposals going forward and the interaction with the EA-led water resource management planning process and the water industry national environment programme for PR24. The Board noted and supported the criteria that were being applied and the process that would be followed. The Board expressed its appreciation for the work undertaken by the team on this initiative and confirmed that the Senior Director, Company Performance and Price Reviews, had authority to make the related decisions in due course.

Quarterly Portfolio Report

- 2.4 The Board received and noted an update on progress made in Q2 2022-23 across our portfolio, by reference to the ambitions in our strategy and our Forward Work

programme for the year and also by reference to the priorities and objectives set out in the UK Government and Welsh Government strategic policy and objectives statements (SPSS).

- 2.5 The Board also noted the update on Ofwat's strategic risks and opportunities, the strategic communications quarterly report, and our enforcement cases and pipeline.

3. Policy decisions for PR24 Final Methodology

PR24 final methodology overview

- 3.1 The Executive presented a paper introducing the set of PR24 papers outlining the key proposals for discussion and the approach to the PR24 final methodology, which is due to be published in December 2022, and which the Board discussed. The papers set out key issues raised by respondents to our consultation on the draft methodology and our proposed response.
- 3.2 The Board noted the core themes of PR24 and the outcomes it aimed to deliver, including to drive a transformation of company performance. It noted the high-level timeline for PR24, including the key milestones between final methodology and the submission of company business plans, and discussed and agreed with the proposed role of the Board in the context of engagement with companies on their plans.
- 3.3 The Board noted the next steps.

Balancing the PR24 package

- 3.4 The Executive presented to the Board for discussion a paper setting out how the individual building blocks of PR24 fit together to create a balanced package that would seek to align the interests of companies and investors with the interests of customers and the environment.
- 3.5 The Board discussed the overall balance of the PR24 package, adjusted in light of comments received, and the proposed changes to the business plan incentives framework. The Board noted its expectation that all companies prepare ambitious, deliverable plans to achieve transformation to meet the challenges the sector faced and hoped that some would be outstanding, setting the benchmark for the industry.

Incentivising outcomes for PR24

- 3.6 The Executive presented a paper outlining key issues relating to incentivising outcomes under the PR24 final methodology, including to allow for policy differences between England and Wales.

- 3.7 The Board discussed the proposed approach to performance commitments and outcomes for the PR24 final methodology and noted the key issues arising, including on the management of outcome delivery risks and the sharing of these risks between water companies and customers.

Approach to cost assessment

- 3.8 The Executive presented a paper setting out the proposed approach to two key areas of cost assessment for the PR24 final methodology: 1) capital maintenance, and 2) proposals for improvements in service. The Executive also set out the proposed approach to regulating new connections services and proposals for the size and focus of the innovation fund at PR24.
- 3.9 The Board discussed how the proposals for the final methodology would allow companies sufficient revenue to maintain good asset health. The Board also considered the proposed approach to setting performance commitment levels at PR24, in particular how we intended to establish the baseline performance level for the beginning of the PR24 period, and how we would establish how much improvement should be expected over the course of the period to 2030 through companies' cost allowances.
- 3.10 The Board considered the proposed approach to regulating new connection services at PR24, and our ongoing drive to promote additional innovation in the sector.

Risk & return – 'early view' allowed return

- 3.11 The Executive presented to the Board for discussion a paper setting out proposals in relation to the allowed return for the PR24 final methodology.
- 3.12 The Board noted the benefits of setting an early view, and the challenges to setting the early view in the context of the recent economic backdrop. The Board also discussed the proposed approach for RCV run-off in the PR24 final methodology.
- 3.13 The Board discussed the assurance processes that are being undertaken to ensure that any 'early view' proposals are robust but fair to companies, investors and customers.
- 3.14 It was noted that any changes to the position set out in the paper prior to publication of the final methodology will be reported to the Board.

Notional gearing

- 3.15 The Executive presented a paper summarising the proposed recommendation for the level of gearing in the notional capital structure to be used in our 'early view' cost of capital for the PR24 final methodology.
- 3.16 The Board discussed the proposals set out in the paper and the application of the framework for the assessment of notional gearing for PR24, and agreed the proposed notional gearing level for the final methodology.

Conclusion/Summary

- 3.17 In considering the range of matters discussed, the Board provided guidance and steers on areas to be further developed or considered. Subject to account being taken of those matters, the Board agreed the approach set out in the papers, including the delegation to the Senior Director, Company Performance and Price Reviews, in consultation with the Chief Executive, to make the necessary decisions for the final PR24 methodology.

4. Stakeholder engagement approach

- 4.1 The Executive presented a paper outlining how our stakeholder engagement approach can be developed, aligned to Ofwat's strategic priorities and direction, as a central part of our regulatory approach.
- 4.2 The Board discussed the aims set out in the paper for our stakeholder engagement strategy and the role of the Board.
- 4.3 The Board discussed and agreed the areas of focus set out in the paper for the short and longer term.

5. AOB

- 5.1 The Board noted the forward plan for Board meetings.
- 5.2 There was no other business and the Chair closed the meeting.

Jenny Block
Board Secretary
20 October 2022