

Minutes of Board meeting

Meeting held on 14 December 2023 (in person / hybrid)
Centre City Tower, 7 Hill Street, Birmingham B5 4UA

Board members / standing attendees

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| Iain Coucher | Chair |
| Mark Bayley | Non-executive Director |
| Alison Munro | Non-executive Director |
| Nicola Bruce* | Non-executive Director |
| David Jones | Non-executive Director |
| Seema Kennedy* | Non-executive Director |
| Jonathan Kini* | Non-executive Director |
| David Black | Chief Executive |
| Chris Walters | Executive Director, Senior Director of Price Review |
| Helen Campbell | Executive Director, Senior Director of Sector Performance |
| Jenny Block | General Counsel and Board Secretary |

Other attendees for relevant items

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| Keith Mason | Senior Director, Thames Tideway and Major Projects |
| Emma Kelso | Senior Director, Markets and Charging |
| Mark Wiltsher | Senior Director, Communications |
| Lynn Parker | Senior Director, Casework, Enforcement & Customers |
| Jas Bilen | Senior Director, Corporate Enablers |
| Kate Kendall | Interim Senior Director, Major Projects and Markets |
| Tim Griffiths | Director, Price Review |
| Andrew McGeoghan | Director, Price Review |
| Andrew Chesworth | Director, Price Review |
| Jenny Humble | Principal, Price Review |
| Sophie Shaw* | Director, Legal |
| Juliet Young | Chief Economist |
| Lucy Lee* | Interim Director of Finance and Procurement |

Apologies

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| Paul Hickey | Senior Director, RAPID and Environmental Planning |
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*Dialled in (Nicola Bruce joined the meeting from item 5 onwards. Seema Kennedy and Jonathan Kini left after item 5.)

1. Opening Items and Declarations

- 1.1 The Chair congratulated Jas Bilen on his appointment as Chief Operating Officer and Senior Director, Corporate Enablers.
- 1.2 The minutes of the Board meeting held on 16 November 2023 were approved. A summary of progress against action points was noted.
- 1.3 There were no interests to declare by reference to the matters for discussion at the meeting. A Board member updated the Board with a new interest for the register of interests.

2. Chief Executive's Report

- 2.1 The Chief Executive presented his report which covered key developments since the last Board meeting which the Board noted and discussed. The Board received updates on a range of matters, in particular on the following:
 - the appointment of the new Secretary of State and Water Minister and initial meetings to be held;
 - the Chair and Chief Executive's appearance before the EFRA Select Committee in relation to Thames Water; and
 - an update on our open enforcement cases, including on the next stage in our enforcement cases into companies' management of their sewage treatment works and wider networks.
- 2.2 The Board gave its approval to enter into a contract for the redesign of the 17th floor of the Birmingham Office, and delegated approval to David Black to sign the contract and approved the budget for the 17th floor refurbishment.

3. Update from Committee chairs

Major Projects Committee

- 3.1 The acting chair of the Major Projects Committee reported on the recent meeting held in November at which the Committee considered:
 - DPC proposals contained in companies' business plans for PR24;
 - A proposed major projects roadmap on the evolving role of Ofwat and RAPID in delivering the expected pipeline of projects over AMP8 and beyond and related potential governance arrangements to support this increased future pipeline of projects; and
 - an update on the Thames Tideway Tunnel project.

Audit and Risk Assurance Committee

3.2 The chair of the Audit and Risk Assurance Committee reported on the recent meeting held in December where the Committee received updates on a number of matters, including:

- the approach and timetable for the preparation of the annual report and accounts for 2023-24;
- the assessment of our strategic risks and opportunities;
- a summary of the Departmental Security Health Check results;
- progress made on the approach to assurance for the PR24 programme; and
- recent internal audit reports.

4. PR24

Quality assessment

- 4.1 The Executive presented the initial results from the quality assessment of PR24 company business plans as part of the Quality and Ambition Assessment (QAA). The Executive also set out the approach to the assurance undertaken on the quality assessment.
- 4.2 The Board discussed the initial views and focussed on a number of the key areas that were likely to have a material impact on the 'in the round' assessment of companies' plans, including deliverability, consistency with the strategic planning frameworks, financeability and financial resilience.
- 4.3 The Board discussed the grades applied in and across the quality test areas and how they interacted. In particular, the Board considered carefully the boundaries of the quality test area grading, the best and poorest performing companies for quality test areas, based on this initial assessment. The Board provided a steer on areas where further consideration was required to reflect the aims of the quality assessment.
- 4.4 The Board noted that the team was part way through its assessment and the results presented were draft and that work was ongoing to check consistency across test areas. The Board noted that this ongoing scrutiny could change the initial assessments of quality presented.
- 4.5 The Board noted the next steps set out in the paper and that it would receive the full 'in the round' assessment for each company for decision in January.

Base cost assessment

- 4.6 The Executive presented to the Board for discussion a paper setting out the initial analysis undertaken on the modelled base cost allowances for PR24 draft determinations.

- 4.7 The Board discussed the potential for certain sector-wide cost adjustments and provided its steer on the proposed recommendations set out in the paper. The Board sought assurance that the proposed approach to assessing base expenditure would lead to sufficient PR24 base cost allowances that would allow companies to maintain asset health.
- 4.8 The Board noted the next steps set out in the paper to do further work on the proposed sector-wide adjustments, and to return to Board in early 2024 with a final view of base cost allowances for PR24 draft determinations, including on the assessment of cost adjustment claims and unmodelled base costs.

Balance of risk and return

- 4.9 The Executive presented a paper on the key aims in setting the price review with respect to the overall balance of risk and return and the aim that investors in efficient companies would have a reasonable chance of earning the base allowed return such that there is a 'fair bet'. The Board discussed the challenges of calibrating the incentive package alongside the allowed return, noting the need to attract debt and equity finance in the context of the significant growth in investment required, together with the need to drive improved performance.
- 4.10 The Board noted the next steps to come back to Board with final recommendations for Board's consideration on the overall balance of risk and return in March 2024.

5. Communications

Communications strategy

- 5.1 The Executive presented a paper outlining the proposed approach to Ofwat's communications strategy, highlighting the context and overall objectives. The strategy aimed to reflect the challenges the sector faced and would reflect our renewed focus on driving the direction of the sector, its performance and the delivery of the sector's significant infrastructure needs. A particular focus would be increased key stakeholder engagement.
- 5.2 The Board discussed and agreed the core themes for the communications strategy and positioning set out in the paper. The Board noted and agreed the proposed timeline for the development of this work.

PR24 and Enforcement communications

- 5.3 The Board noted and agreed the key objectives/messages for our communications and stakeholder engagement in relation to PR24 and enforcement as set out in the paper.

6. Budget and Forward Programme 2024-25

- 6.1 The Board Secretary outlined the proposed draft 2024-25 Forward Programme prior to publication for consultation in mid-January 2024. The Board agreed to provide any comments on the approach and key messages set out in the draft Forward Programme by email.
- 6.2 Subject to taking into account any comments received from the Board, the Board delegated sign off of the consultation on the draft Forward Programme to the Chief Executive and Board Secretary. The Board also delegated sign off of the final Forward Programme to the Chief Executive and Board Secretary, subject to no substantive changes being required following consultation.

Draft Budget and Licence Fees 2024-25

- 6.3 The Board discussed and approved the proposed draft budget and total annual licence fees for 2024-25 with a view to publication for consultation in the draft Forward Programme. The Board noted that the proposed overall budget would ensure that we remain within the Comprehensive Spending Review control total set for the year.
- 6.4 The Board noted the next steps to present the budget to the Board for final approval in March 2024 following the conclusion of the budget setting process and further discussion with the Audit Committee in March 2024.

7. AOB

- 7.1 The Board Secretary noted that in addition to the Boardroom Apprentice who will start in January 2024, we are also expecting to take two observers for our Audit and Risk Assurance Committee and People Committee under the UKRN Next Gen NEDs scheme who will also start in the New Year.
- 7.2 The Board was pleased to note the confirmation of Jonathan Kini's second term as a member of Ofwat's Board.
- 7.3 The Board noted the forward plan for Board meetings.
- 7.4 There was no other business and the Chair closed the meeting.

Jenny Block
Board Secretary
14 December 2024