

SES Water
Minutes of a Meeting of the Board Meeting
Tuesday 1 June 2021

To be held at SES Water, 66-74 London Road, Redhill RH1 1LJ and via MS Teams commencing at 1.30pm

Present:	J Pelczer	JP	(Chairman)
	M Legg	ML	
	J Woods	JW	
	D Shemmans	DS	
	K Kageyama	KK	
	K Oida	KO	
	I Cain	IC	
	P Kerr	PK	
In attendance:	N Houlahan	NH	
	T Kelly	TK	
	K Thornton	KT	
	J Gilbert	JG	
	J Omura	JO	
	S Brown	SB	
	J Hayes (Independent Audit)	JH	(Item 26 only)
	A Murphy	AM	(Item 27 only)
	T Bishop (WRSE)	TB	(Item 27 only)
	D Lamb	DL	(Item 30 only)

2021 22. Declaration of Interests

JP reminded the Board to continue to update PK of any changes to the register of directors' interests.

2021 23. Minutes

The minutes of the meetings held on 24 March 2021 were agreed and signed by the Chairman, with summarised Board minutes approved for publication on website.

2021 24. Matters arising and rolling agenda (including BSD matters arising)

PK reviewed the matters arising with the Board, noting in particular:

Item 12 – Godstone and Redhill consents – TK confirmed that the Godstone consent matter had now been formally closed off with the Environment Agency (EA) following receipt of their correspondence on the matter and no further concerns had been raised on any Redhill consent matters.

Item 14 - DWI status – NH confirmed that all open responses had been provided to the DWI following recent audits, with no further follow-up required at present, with the DWI year-end reporting due in mid-July.

Item 20 – Whistleblowing – IC confirmed that no whistleblowing matters had been raised since the last Board meeting.

Item 21 – Digital roadmap - JG confirmed that the Board would be presented this roadmap in the July meeting following executive management review.

2021 25. Board Committee Reports

Report from the Health, Safety & Wellbeing Committee

DS provided a report from the Health, Safety & Wellbeing Committee, noting the following key items:

- All significant (Category 1) actions from the DSEAR review have been completed to the Committee's satisfaction, with the other Category 2 & 3 items to be addressed in the following months.
- Potential hazard rates were being monitored, as was wider strategic health and safety action plans.
- The wellbeing sessions being run throughout the Company, initiated in the light of the pandemic, continue to function well albeit it was noted that absences relate to mental health have increased from 16% to 30% of total absences for the business, which was being addressed through such wellbeing forums.

Report from the Nomination Committee

JP provided a report from the Nomination Committee, noting the following key items:

- Formal approval by the Committee and recommendation to the Board of the appointment of KK, following his successful interview with Ofwat. The Board approved KK's appointment as non-executive director and PK noted the website would be appropriately updated on 1 June and Companies' House filing made in June.
- Formal approval by the Committee and recommendation to the Board of the appointment of DS as Chair effective 1 April 2022, following the positive meeting with DS and Ofwat regarding his future role as Board chair.
- Approval by the Nomination Committee and recommendation to the Board of JW's third and final term as a non-executive director and chair of the Remuneration Committee (following DS's transition as chair of the Board effective 1 April 2022). The Board approved this appointment, being mindful of future diversity matters to be addressed by the Board.

ML also noted the feedback provided to JP on his performance during the year, noting that this was positive from all attendees, with clear focus going into the next year on the transition with DS and prioritisation of company activities to meet AMP 7 commitments. JP confirmed he had held individual feedback calls with each Independent NxD on their performance during the year, noting that the feedback was positive from all participants in the feedback exercise.

Report from the Remuneration Committee

DS provided a report from the Remuneration Committee, noting the following key items:

- The recommendation by the executive for the payment of the employee bonus for 31 March 2021 based on a designated percentage of pledges achieved, with an additional Covid-19 bonus amount being allowed for such employees.
- The proposal by the executive for SLT and ELT annual pay increase at 2% in line with overall employee increases, and the specific SLT and ELT company and personal bonuses.
- The proposal by the CEO for payout in relation to the 2018 LTIP, and the progress on the 2019 and 2020 LTIP, noting Ofwat's recent

agreement on the updated 2021 executive pay policy with respect to LTIP.

- The review of the recent gender pay data.
- The agreement of the CEO objectives for next year.

Where applicable, the Remuneration Committee approved the above recommendations from the executive.

Report from the Energy Strategy Committee

ML reported on the recent Energy Strategy Committee, noting the key points of discussion included:

- The upcoming requirement to consider further purchasing of power for the final two years of the AMP, with management to provide a recommendation in July on next steps.
- The proposed capital projects associated with net zero carbon reductions, ensuring payback over the AMP.
- The communication strategy around the net zero carbon website, with TK noting that this would be managed with the Environmental Scrutiny Panel (ESP) in late July. In addition, the draft net zero carbon route map would be circulated to the Board for comment before publication.

Report from the Governance Committee

ML reported on the Governance Committee, noting the key points of discussion:

- The updates in the 2020/21 APR with respect to governance recommendations from Ofwat, including enhanced LTIP disclosure in the updated executive pay policy.
- The successful completion of the 2020/21 Board and Executive training programme, with positive comments being noted on the on-line training modules.
- The need to bring to the Committee aspects of overall environmental social and governance (ESG) matters from a central governance perspective.
- The considered discussion of the role of internal audit in the business, and the proposed enhancement to the internal financial assurance aspects of this area.

Report from the Financing Committee

ML reported on the Financing Committee, noting the key points of discussion:

- The options presented to the Committee to resolve the sinking fund requirement associated with the long-dated bond.
- The proposed completion of the AMP 7 funding programme, with alternative debt products being considered for issuance

Report from the Audit Committee

ML reported on the Audit Committee, noting the key points of discussion

- The review by management of key judgements and estimates in the year, noting in particular the reasonableness of the bad debt assumptions.
- The status of the APR, statutory and regulatory financial statements, citing that no significant accounting changes were present this year.

- The good progress of the PwC audit, with key outstanding matters being completion of their work on going concern, long term viability statement and remaining tests of detail.
- The positive Motts year-end report, assuring the non-financial performance commitments, with useful recommendations for next year.
- The recent results from internal audit, the risk register review and the 2021/22 internal audit programme. ML noted that an independent review of the Company's Drinking Water Safety Plan methodology would be completed in the next few months in response to DWI audit activity in 2020 – and the Committee would be updated in Sep 2020.
- The recent positive progress in the cyber security area by the Company, noting the on-going consideration of cyber assurance products.
- The private session with PwC, who noted the improved strength of the finance team this year following the recent transformation work.
- The review and approval by the Committee, with recommendations to the Board for approval of:
 - The Annual Performance Report, including financial statements.
 - The Board's Annual Statement and Statement of the Directors to Ofwat, including ringfencing certificate.
 - The Assessment of internal controls, including risk register.
 - The most recent Company policies.

The Board approved the above items, with delegated authority to IC, PK and ML to complete the APR and regulatory accounts for filing on or before 30 June 2021.

2021 26. Independent Audit's external review of Board Effectiveness

JH joined the meeting and presented the findings from Independent Audit's review of Board effectiveness for the year, as detailed in her accompanying presentation, noting in particular:

- The overall positive interactions of the Board as observed by Independent Audit, including non-executive involvement and effective monitoring and interventions during the Covid-19 pandemic.
- An improvement in the time allocated to discuss strategic matters, environmental, social and governance issues (ESG) and culture.
- The effective leadership by the chair, the timely setting and agreement of agendas and the overall quality of the Board papers.

JH noted that – as with the majority of Boards she works with – challenges remain on prioritisation and “knowing what you don't know” in terms of how the Board operates, but that the report indicates that in general the appropriate discussion, challenge and support was placed on management by the Board. JH noted that she will work with PK to develop a specific action plan arising from the report, and related disclosure in the 2020/21 APR

On behalf of the Board, JP thanked JH for the report, noting that from his viewpoint a few items arose from the work of note:

- That – internally – the Board does not need to wait until an external report every 2 years to obtain and act on feedback and discuss key matters. Open dialogue is encouraged at each meeting and forums exist to provide more immediate feedback to the Board.
- Ensuring that the short-term vs long-term balance of priorities is always going to be difficult, and the Board should be made aware of anything that may not be helpful for management to pursue.

JW agreed with the above comments, noting the recent Board focus on purpose, culture and employee engagement activities has been beneficial. JW requested that JH provide some further insight in terms of how other Boards address the short-term vs long-term focus issues.

ML and DS also noted the usefulness of the report, with DS noting the importance of obtaining specific views and actions so that improvements can be made, and ML emphasising the importance of the Board to look outwards for input into best practice across the sector on various topics.

JH then left the meeting.

2021 27. Water Resource South East (WRSE) update

AM and TB joined the meeting.

TK, AM and TB provided an update on regional resilience planning for WRSE as detailed in the accompanying presentation, noting:

- The timeline, expectation and expected content of the regional plan. This included details on the interaction with the Company's specific planning requirements, the regional consultation period and final regional plan sign-off dates.
- The sharing and reconciliation process between regional plans that will be required.
- Details of WRSE baseline positions and impacts of various activities to create water resource surpluses or address deficits in the region, including the planned SES Water impacts.
- Linkage to environmental and water efficiency plans in the region.

TB concluded by emphasising the significant deficit in the region to be addressed – especially in the post-2040 period, and the active solutions being considered, including transfers, construction projects and catchment management. TB noted that – positively – SES Water is forecast to have a water surplus that can be used for exporting from 2040 onwards, but there is still a heavy reliance across the region on drought measures and resilience plans that needs to be addressed.

The Board thanked AM and TB for their update, with JP noting the recent focus by the Company on innovation in the areas of demand management and leakage to address regional water resource matters and ensure the Company's plays their part in the regional challenges. JP also noted other innovative options seen elsewhere – such as desalination vessels anchored off-shore and connected to on-shore water portals– which TB said is another avenue for exploration across the region.

AM and TB then left the meeting.

2021 28. Regulatory update

PK reviewed regulatory matters as detailed in his accompanying paper, highlighting:

- Recent interactions with senior directors at Ofwat, including DS and JP's meetings with Jonson Cox. JP noted Jonson Cox's positive response to focus on long-term resilience matters in the upcoming PR24 discussions, and a refocus on smaller company issues. PK also noted his upcoming meeting with Ofwat in June to cover AMP 7 dividend policy and governance matters. In response to a question by KK, PK and JP provided an overview of the Company's interactions with Ofwat.
- The latest view from the sector on the Competition and Markets Authority (CMA) findings.
- The approach for the Company in signposting Covid-19 related impacts on PCs in the upcoming year-end data submissions.
- The Company's initial preparation and high-level timetable for PR24, with PK noting the recent PR24 consultation issued by Ofwat with a 22 July deadline. PK noted he would update the Board and – if needed – conduct separate meetings to gather feedback on the Company's proposed response to this consultation.

2021 29. Ordinary dividend

PK presented his paper requesting approval of the payment of a final ordinary dividend in June 2021 (of £1.742m, comprising £1.442m and £0.3m dividends from the appointed and non-appointed businesses respectively) in respect of the year-ended 31 March 2021.

PK noted that management recommended that this final ordinary dividend be paid to ESH, given that:

- overall, the Company has performed well, to the benefit of its stakeholders, through the very difficult circumstances of the pandemic, responding well operationally and consistently delivering high quality water to its customers.
- in the round, actual performance for the year-ended 31 March 2021 is good in the current circumstances and considering expected delivery in the areas noted in the Company's dividend policy – namely delivering customer service, achieving performance commitments, adhering to community commitments and taking care of our employees.
- while all performance commitments were not achieved this year, this is not felt to materially detract from the overall good performance in the year.
- while financial performance (based on unaudited year-end results) is poor for the year (with profit after tax (PAT) at c£3.1m compared to a budget of c£7.0m), it has been adversely impacted by lower non-household revenues and substantial bad debt charges, which have been due in part to Covid-19. Therefore, such financial performance is not expected to be representative of longer-term profitability. However, it should be noted that ordinary dividends (both interim and final) in respect of the year-ended 31 March 2021 would be c£3.1m, at PAT levels for the year.
- there are sufficient distributable reserves and available cash within the Company.
- sufficient liquidity exists under 2021/22 budget, with financial ratios being met.
- the shareholders remain supportive, ensuring the company continues to act in the public interest.

ML noted that detailed consideration had been given to the above matter ahead of the Board meeting, and both DS and JW also agreed with the points noted, emphasising that the continued support of the shareholders across the Company for the benefit of customers, employees and other stakeholders has been key, not only in managing through the pandemic but also in continuing with key investments, such as the new billing system.

The Board therefore approved payment of this final ordinary dividend, noting it was also within Ofwat's allowed rate of return for the Company and in line with the Company's AMP 7 dividend policy.

2021 30. Monthly Reports (including year-end March Board report)

DL joined the meeting.

IC opened by providing the Board a summary of the performance in the year-to-date, noting:

- The continued focus by management on key post year-end priorities, including the health, safety and wellbeing agenda, "together again" pandemic plans pending government lockdown changes and several "foundation" items such as performance focus on CMEX, DMEX, vulnerable customers and stability of the IT platforms across the business.
- KT provided an update of retail performance, noting the ongoing work on call center stability, the voids recovery plan and training and preparation for implementation of the new billing system.
- TK continued with a review of wholesale operations, noting the improving softening performance across the treatment sites, the timetable for completion of Elmer works and the plans to address resilience across the network with the completion of the key resilience works on the A22 now scheduled for summer 2023 (allowing time to properly plan and communicate the works with the local community). TK noted that while this would mean the Year 2 performance commitment target for the risk of supply failure would not be achieved, overall, this resilience performance commitment would be now delivered by Yr 3 of the AMP, two years ahead of schedule. TK also noted his expectation that we should be fully softening at all sites during the second half year.
- SB provided an update on people, noting that a deepdive on the people strategy would be provided at the July Board meeting, and emphasising the continued focus on wellbeing across the business during the more recent lockdown.
- NH noted that recent positive UKAS (UK Accreditation Service) audit of the lab that would be detailed in the May Board report.
- PK noted that financial performance was on budget after the first month.

2021 31. Capex approvals

TK presented the accompanying paper requesting Board approval for two budgeted capital projects – Langley Park to How Green Strategic Resilience Main and Bough Beech Phase 3, both of which were approved by the Board.

2021 32. Shareholder Update

No further comments were raised by the shareholders.

2021 33. CEO/NED private session

A closed session was held with the IC and the non-executive directors.

2021 34. Any Other Business

No other business was noted.

2021 35. Date of Next Meeting

Wednesday 21 July 2021

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(Chairman)